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United States Government Accountability Office
Washington, DC 20548

October 5, 2012

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017

Subject: International Auditing and Assurance Standards Board (IAASB) June 2012
Invitation to Comment "*Improving the Auditor's Report*".

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IAASB's invitation to comment on methods to improve the auditor's report and the value to the entity's stakeholders.

Similar to the views we expressed in our September 16, 2011 letter to IAASB regarding their May 2011 Consultation Paper "*Enhancing the Value of Auditor Reporting: Exploring Options for Change*", we support the general premise of enhancing the auditor's report to make it more relevant and useful to the reader, reduce the "expectations gap", and improve and enhance management's disclosures. We believe that the following will help make the auditor's report more useful to the reader:

- the enhanced use of "Emphasis of Matter" and "Other Matter" paragraphs to identify specific issues to which the auditor wishes to draw the users' attention,
- a fuller explanation and expanded description of the respective responsibilities of management and the auditors, and
- the greater prominence of the auditor's opinion in the auditor's report

In addition, we support enhanced guidance from accounting standard-setters related to management's Going Concern/Other Information disclosures. Our reasons for supporting these proposed changes are detailed in our responses to the specific questions.

Responses to Specific Questions

The Board is seeking views on a number of areas where the IAASB would like to obtain a better understanding of national auditing standard setters' (NSS) views on the topic of auditor reporting. We provide our specific comments on the areas listed in the Invitation to Comment below.

Auditor Commentary

As an alternative to requiring an expanded auditor commentary, we believe that the IAASB should encourage, but not require, a greater use of “Emphasis of Matter” and “Other Matter” paragraphs, in addition to developing guidance on the use of such paragraphs, including when they might be appropriate. Such paragraphs reference management’s discussion of critical accounting judgments and estimates, and other areas with significant measurement uncertainty, and could be used to call attention to the most significant matters in the financial statements or any other matter that is significant to the users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report. GAO has frequently used “Emphasis of Matter” and “Other Matter” paragraphs to highlight significant uncertainties and risks that are important to the users’ understanding of the financial statements. Further, we believe that issuing guidance on the greater use of “Emphasis of Matter” and “Other Matter” paragraphs would encourage a greater consistency of practice when auditors use these paragraphs, in addition to increasing the usefulness of these disclosures.

Going Concern/Other Information

We do not support the additional requirement, as suggested in the Invitation to Comment, to include an auditor statement in all auditor reports related to the appropriateness of management’s use of the going concern assumption, or whether material uncertainties have been identified, as assertions about the entity’s ability to continue as a going concern are a management responsibility. Instead, we encourage accounting standard setters to consider whether accounting standards related to Going Concern/Other Information should require disclosures concerning management’s going concern assessment, and if necessary, to provide management with enhanced guidance on preparing these disclosures. Such disclosures could be combined with other risks and uncertainties that could affect the going-concern assumption. Consistent with current auditing standards, auditors would evaluate management’s assessment of the entity’s ability to continue as a going concern, and would then evaluate the fair presentation and sufficiency of management’s enhanced disclosures.

Clarifications and Transparency

We support a fuller explanation and expanded description of the respective responsibilities of management and the auditor. However, we acknowledge the view that a user may see an expanded auditor’s responsibility section, with a detailed description of the auditor’s responsibility, as more “boilerplate” audit report language. For this reason, we encourage the IAASB to develop guidance on how the auditor’s report could present a fuller description of the auditor’s responsibilities in relation to specific matters important to the user and improve auditor reporting, without adding such length to the report that it diminishes the effectiveness or value of the auditor’s communication. Such a statement would not change the auditor’s responsibility, but should instead clarify the auditor’s communication with the reader and lead to a fuller understanding of the auditor’s report. As suggested in the Invitation to Comment (paragraph 84), this expanded description of the responsibilities could be positioned in an appendix to the report.

Form and Structure

We are supportive of providing greater prominence to the auditor's opinion within the auditor's report, although we believe it is important that its position does not diminish the significance of the report elements detailing the respective responsibilities of the auditor and management or those charged with governance. Although we realize that the auditor's opinion may be the focal point for readers of the auditor's report, we believe it is important for the users to also understand the responsibilities of the auditors and management to narrow the expectations gap and to make the auditor's report more useful. For many years, GAO has presented the audit opinion prior to describing the respective responsibilities of the auditor and management.

Need for Coordination of Audit Standard-Setters

As stated in our previous comment letters, we strongly encourage the IAASB, the Public Company Accounting Oversight Board, and the Auditing Standards Board to coordinate the development of potential new auditor reporting requirements with a goal of harmonizing the auditor's report to the maximum extent possible, based on common core auditing and reporting requirements. We believe that having different audit reports in the marketplace will create significant confusion to the users of the financial statements and may lessen, rather than enhance, users' understanding of the auditor's report. Only where there is a clear and compelling reason, should the individual standard-setting bodies develop differential standards necessary to meet the unique needs of their respective constituencies. The nature of any differences from core auditing standards and the basis for the differences should also be communicated.

We thank you for considering our comments on these issues as the IAASB considers options to improve the auditor's report and its relevance and usefulness to stakeholders.

Sincerely yours,



James R. Dalkin
Director
Financial Management and Assurance