



National Association of State Boards of Accountancy

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October 26, 2012

Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board

[Via e-mail to jamesgunn@iaasb.org](mailto:jamesgunn@iaasb.org)

Re: Invitation to Comment “Improving the Auditor’s Report issued by the International Auditing and Assurance Standards Board”

Dear Members of the International Auditing and Assurance Standards Board:

We appreciate the opportunity to provide a reply to the Invitation to Comment “Improving the Auditor’s Report” (the Invitation) issued by the International Auditing and Assurance Standards Board (IAASB). The National Association of State Boards of Accountancy’s (NASBA) mission is to enhance the effectiveness of the licensing authorities for public accounting firms and certified public accountants in the United States and its territories. In furtherance of that objective, we offer the following comments on the proposed Independent Auditor’s Report (Proposed Report) in the Invitation.

Auditor’s Commentary

NASBA supports changes in the auditor’s report that clarify an auditor’s responsibility in performing audits. NASBA also believes that the nature of any information required to be disclosed about the company, its operations or management should be determined exclusively by the standard setter for financial reporting. We believe any commentary from an auditor should be consistent with this principle.

The introduction to the Invitation states that there is a clear demand for auditors to provide greater transparency about significant matters in the financial statements, as well as the conduct of the audit. The introduction also states that the call came initially from institutional investors and financial analysts looking to auditors to help assist in navigating the increasingly complex financial statements and to point out the areas on which the auditor's work was focused.

The IAASB has stated that the overarching objective of the "Auditor's Commentary" is to provide transparency about matters that in the auditor's judgment are likely to be most important to users' understanding of the audited financial statements.

The auditor has the responsibility for auditing financial statements and reporting on the fair presentation of such financial statements. The role of the auditor is to provide reasonable, but not absolute, assurance that management's information is presented fairly in all material respects with standards for financial reporting.

The IAASB's proposal would have an auditor making a determination of what "is likely to be most important to users' understanding of the audited financial statements or the audit." It is inappropriate to put the auditor in a position of second guessing what is important to users. There are usually many classes of users of financial statements and they do not necessarily consider the same information to be "most important." There are presently no criteria for determining what is "most important to users of financial statements," and we are unsure how IAASB would be able to establish criteria that would be relevant to all potential users.

The IAASB is asking that the auditor help users navigate increasingly complex financial statements. Asking that the auditor provide a "roadmap" to assist the user in analyzing financial statements would significantly change the responsibility of the auditor and blur the distinction between the responsibilities of the auditor and of management. It is inappropriate for the auditor to provide any information about the company or its financial statements that is not required by the financial reporting standard setter. NASBA notes that users have commented that there is a need to preserve the auditors' separate responsibilities from the responsibilities of providers of original information.

The principal commentators requesting an "Auditor Commentary" in audit reports appear to be institutional investors and financial analysts. We believe these users are very capable of understanding financial statements, and are generally seeking insights about the company, its operations or management beyond that required by generally accepted accounting principles. Were the IAASB to yield to the expressed (or implied) desire of institutional investors and financial analysts by requiring the auditor to provide the information contemplated in "Auditor

Commentary,” the auditor may possibly be required to disclose confidential client information and face an ethical dilemma.

Should the auditor disclose such confidential information and thereby violate ethical standards, possibly violate laws, rules or regulations, and misspeak in the report by stating that the auditor has complied with relevant ethical standards? Or should the auditor not provide the confidential information and violate an auditing standard?

The criteria of “what is likely to be more important to a user’s understanding of the financial statements” does not provide clear guidance regarding what to include and what to exclude. We have significant concerns about the ability to clearly define criteria about what should be included in or excluded from Auditor Commentary. An overriding principle should be commentary focused solely on the audit in a manner which avoids ethical dilemmas for the auditor.

Going Concern

Preparation of financial statements on a going concern basis is presently the applicable financial accounting standard -unless the company’s management either intends to liquidate the entity or has no realistic alternative but to do so. The going concern basis continues to be the standard to be used even if management (and the auditor) has significant doubts regarding the ability of the company to continue as a going concern. Financial statements prepared on a liquidation basis are rare.

The Proposed Report under the caption “Use of the Going Concern Assumption” states that “As part of our audit of the financial statements, we have concluded that management’s use of the going concern assumption in the preparation of the financial statements is appropriate.” Because the use of the going concern basis for preparation of financial statements is the standard, a comment by the auditor about the appropriateness of the use of the standard is not needed. We recommend that the sentence be deleted from the Proposed Report.

The Proposed Report under the caption “Material Uncertainties Related to Events or Conditions that May Cast Significant Doubt on the Company’s Ability to Continue as a Going Concern” states that: “Based on the work we have performed, we have not identified material uncertainties related to events or conditions that may cast doubt on the Company’s ability to continue as a going concern . . .”

This statement may be true for some companies, but not for others. There are many companies where uncertainties exist and both the auditor and management must consider whether or not to

include in the auditor's report and in a footnote expressing concern about the ability of the company to continue as a going concern. If, after due consideration, the conclusion is reached that the paragraph is not needed, it would be materially misleading for the auditor to state that "...we have not identified material uncertainties." Accordingly, the entire paragraph should be deleted from the Proposed Report.

There is a significant emphasis on going concern issues in the Proposed Report. The Invitation states that, "The recent global financial crisis has highlighted the importance to financial markets of clear and timely financial reporting [and has] resulted in a greater focus on the assessment of going concern and related disclosures." We note, however, that the IAASB is not proposing any change in the auditing standard that addresses the auditor's consideration of the ability of the client to continue as a going concern.

We recommend that the inclusion of the section "Management's Responsibilities Relating to Going Concern" be reconsidered. For most companies, there is no "substantial doubt" about their continuation as a going concern. Management's responsibilities in other reporting areas are far more important than those relating to going concern.

The section in the Proposed Report entitled "Auditor's Responsibility" includes six condensed examples of what an auditor considers. We suggest that a seventh example be added: the auditor's responsibilities for considering the ability of a company to continue as a going concern.

Involvement of Other Auditors

The "Involvement of Other Auditors" has two separate conditions to consider: The first condition is that the group auditor states reliance on the report of a component auditor (or auditors) in forming an opinion on the fairness of presentation of the financial statements. The second condition is that the group-auditor takes responsibility for the work of component auditors.

Regarding the first condition, we believe that it is appropriate for the name and address of the component auditor to be stated in the report of the group auditor. Users are on notice that they may have to pursue the component auditor, and may be precluded from pursuing the group auditor, if they suffer a loss as a result of conditions at the company audited by the component auditor.

Regarding the second condition, the group auditor issuing the audit report takes responsibility for all audit work performed. Users are, or should be, knowledgeable that the auditor of a company with international operations will use auditors in different countries. Users would look to the

auditor issuing the report for satisfaction if they suffered a loss. Regulators in a disciplinary proceeding will have access to all auditor names.

We believe the current auditing standard regarding identification of other auditors is working. If the IAASB ultimately determines that it is essential to name all of the firms involved in an audit, we suggest that such requirement be limited to audits of public companies. Such information is readily available to users of non-public companies and there is no need to include the information in the auditor's report.

The Proposed Report suggests, as an example, that hours could be used as a measure of the performance of each firm participating in an audit. We believe that using hours as a measure of performance should be eliminated, and replaced by the traditional measures of total assets and or revenues. Using hours does not distinguish partner hours from the hours of other management and staff level positions assigned to the engagement. Also, using hours may be deceptive because efficiently used hours are not distinguished from inefficiently used hours.

Other Information

We agree with the inclusion of the paragraph under the caption "Other Information in the Proposed Report." We believe that few readers of financial statements included in other documents know that the auditor is required to perform the procedures set forth in the paragraph. The addition of this paragraph should be of benefit to the public.

However, we disagree with the wording in the Proposed Report. Auditing standards require (or should require) that the entire document that contains the auditor's report and other information be read in its entirety cover-to-cover by the auditor. We recommend that the wording be changed to be all inclusive of the entire document ("We read the annual report," for example).

Identification of Name of Engagement Partner Responsible for the Report

We believe that the naming of the engagement partner is not necessary. The audit firm establishes the tone needed to maintain audit quality and demands that all persons assigned to the engagement, including the engagement partner, perform in a manner that maintains audit quality.

We suggest that a requirement to name the engagement partner be left to the discretion of each jurisdiction's audit oversight regulator.

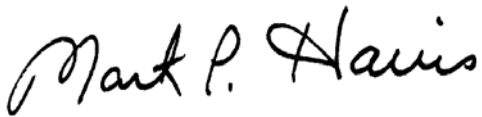
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companies. Such information is readily available to users of non-public companies' financial statements and there is no need to include the name of the partner responsible for issuance of the report in the auditor's report.

We appreciate the opportunity to respond to the Invitation.

Sincerely,

Handwritten signature of Mark P. Harris in black ink.

Mark P. Harris, CPA
NASBA Chair

Handwritten signature of Ken L. Bishop in black ink.

Ken L. Bishop
NASBA President and CEO