



October 8, 2012

Mr. James Gunn  
Technical Director, Professional Standards, IAASB  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

**Re: Invitation to Comment: *Improving the Auditor's Report***

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to respond to the above referenced Invitation to Comment (ITC) regarding improving the auditor's report. We commend the International Auditing and Assurance Standards Board (IAASB) on its work in developing this ITC and putting forth proposals for consideration on ways to enhance the quality, relevance and value of auditor reporting.

The AICPA is the world's largest member association representing the accounting profession, with nearly 386,000 members in 128 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. Among other things, the AICPA sets ethical standards for the profession and U.S. auditing standards (GAAS) for audits of nonissuers, including private companies, nonprofit organizations, and federal, state and local governments. Therefore the focus of our response is on auditor reporting for nonissuers under GAAS.

As noted, we support the efforts to enhance the relevance of auditor reporting and believe there are areas where possible improvements should be explored. We believe however, that exploration of possible improvements to financial reporting, including auditor reporting, should involve all members of the financial reporting supply chain, including the financial reporting standard setters, management, those charged with governance and the auditor. In this regard, we support the efforts already under way by the IAASB to reach out to the appropriate standard setting bodies to provide a coordinated effort to increase the transparency and relevance of financial reporting.

While we support the efforts to enhance the relevance of auditor reporting we believe that the focus of any changes to auditor reporting should:

- a. address information and expectations gaps;
- b. maintain or enhance audit quality;
- c. define reporting requirements that are clear as to management's responsibility as the original source of entity specific information. Management's responsibility in this regard should be preserved so as not to blur the distinction of the roles of the auditor and management. Our comments have been developed with this framework in mind.

We believe that many of the proposed changes are directionally important and will result in more clear and relevant reports for users of financial statements. We are concerned

that certain of the proposed changes, for example requiring Auditor Commentary in all audit reports, would have limited practical relevance for many users of audited financial statements of nonissuers in the U.S. and therefore, from a cost/impediments perspective should not be required for audits of those entities.

The appendix to this letter provides our more detailed responses to the specific questions presented in the ITC.

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Thank you for the opportunity to present our views on the ITC. If you have any questions regarding the comments in this letter, please contact Linda Delahanty at +1-212-596-6063, [ldelahanty@aicpa.org](mailto:ldelahanty@aicpa.org).

Respectfully submitted,

A handwritten signature in black ink that reads "Darrel R. Schubert". The signature is written in a cursive, flowing style.

/s/ Darrel Schubert  
Chair, Auditing Standards Board

## **Appendix**

### **Responses to Questions in the Invitation to Comment: *Improving the Auditor's Report***

#### **Overall Considerations**

As noted in our cover letter, we support the efforts to enhance the importance and relevance of auditor reporting and believe there are areas where improvement can be made to the auditor's report. We believe however, that there needs to be a broad-based approach to improving the transparency and relevance of the financial reporting process that is focused on closing the information gap and involves all members of the financial reporting supply chain, including the financial reporting standard setters, management, those charged with governance and the auditor.

We believe that auditor's reports for nonissuers in the U.S. are often used by a small number of users (for example, banks) and such users already have ready access to management and owners, and therefore a broader range of information beyond the financial statements. Accordingly, we believe that certain of the proposals in the ITC would have limited practical relevance for nonissuers. We have highlighted where we believe those circumstances are relevant with regard to the suggested report changes. Additionally, the reporting enhancements that are effective with the adoption of the AICPA clarified standards are just now being implemented in practice. We believe certain of these enhancements in the AICPA clarified reporting standards will improve the usability of the reports for nonissuers, particularly in the context of better defining management's and the auditor's responsibilities.

#### **Auditor Commentary**

As noted in our cover letter and our comments included under Overall Considerations, we believe that the concept of Auditor Commentary would have limited practical relevance for nonissuers in the U.S. because many users of nonissuer financial statements often have access to management or owners and as such are obtaining information specific for their needs directly from the company. If the IAASB continues to move forward with the concept of Auditor Commentary, we encourage the IAASB to limit the requirement to audits of listed entities, because it appears from the roundtable discussions and other commentary, the impetus for such change appears to be driven primarily from large institutional investors and investment analysts with a focus on listed entity reporting.

The ITC questions whether it is appropriate for Auditor Commentary to be included in audit reports on public interest entities (PIEs). We believe that there are numerous challenges to defining a public interest entity (PIE) globally, due to the inconsistent definitions between jurisdictions, and therefore, the requirement to include Auditor Commentary should not apply to the broad category of PIEs, but only to listed entities. Such an approach would allow national standard setters and regulators in local jurisdictions to determine whether Auditor Commentary would be meaningful for PIEs as defined in their respective jurisdictions.

## Going Concern

**ITC Question 8** *What are your views on the value and impediments of the suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties have been identified? Do you believe these statements provide useful information and are appropriate? Why or why not? (See paragraphs 24–34.)*

While we agree that the proposed statements are consistent with the current auditor responsibilities under ISA 570 *Going Concern*, we strongly support that any revisions to auditor reporting be accompanied by (a) commensurate changes in management's responsibilities, including the responsibility to assess substantial doubt, and (b) revisions or interpretations for the auditor to develop more consistent application of the standard. We are concerned that requiring more direct reporting by the auditor will not result in improved reporting to users without improvements in the financial reporting framework to provide guidance to management, with respect to their responsibilities to assess the entity's ability to continue as a going concern; and provide adequate disclosures around the appropriateness of using the going concern assumption, as the basis of preparation of the financial statements. We believe the disclosures contemplated in the ITC would result in a continued misunderstanding by the users of financial statements as to the current auditor responsibilities and reporting and the expressed need for "early warnings" on liquidity and other material uncertainties. Such changes may also result in the auditor providing original information about an entity, which would violate one of the stated precepts of the ITC. As a result, we are not supportive of the additional disclosures contemplated in the ITC without a coordinated approach for changes to the underlying financial reporting frameworks, both in terms of what management needs to do to evaluate going concern and what needs to be disclosed by management in the financial statements.

## Other Information

**ITC Question 10** *What are your views on the value and impediments of the suggested auditor statement in relation to other information? (See paragraphs 65–71.)*

We support the inclusion of a clarification in the auditor's report regarding the auditor's responsibility for other information to promote better transparency about those responsibilities as set out in ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*. However, we believe there is a risk that such clarifications may be misinterpreted by financial statement users as conveying an opinion or some other level of assurance (i.e., negative assurance) on this other information. To mitigate this risk, we suggest that the standard report language clearly indicate that the auditor is not providing any other form of assurance on such information, in addition to stating that the other information is not audited and no opinion is expressed on the other information.

We also suggest that the IAASB focus on obtaining preparer and auditor feedback on potential implementation guidance that would be needed to address practical issues related to describing the other information, especially in situations where the auditor's report may be reissued or repackaged for different users.

We understand that the current project to revise ISA 720 may result in enhancements to the auditor's responsibilities regarding other information, and therefore our views with respect to other information is subject to change based on the outcome of that project.

### **Clarifications and Transparency**

**ITC Question 11** *Do you believe the enhanced descriptions of the responsibilities of management, TCWG, and the auditor in the illustrative auditor's report are helpful to users' understanding of the nature and scope of an audit? Why or why not? Do you have suggestions for other improvements to the description of the auditor's responsibilities? (See paragraphs 81–86.)*

We support the enhanced descriptions of the responsibilities of management, TCWG and the auditor as we believe it will provide users with additional transparency in the context of the audit.

**ITC Question 12** *What are your views on the value and impediments of disclosing the name of the engagement partner? (See paragraphs 72–73.)*

We do not believe that the inclusion of the engagement partner's name will add value to the quality of the audit or the report. The partner is acting on behalf of the firm and we do not believe naming the engagement partner would change that person's accountability or the conduct of the audit. We recognize, however, that this practice is common in other jurisdictions and therefore we support leaving this decision to the national standard setter to decide whether the engagement partner's name should be required to be included in the report.

**ITC Question 13** *What are your views on the value and impediments of the suggested disclosure regarding the involvement of other auditors? Do you believe that such a disclosure should be included in all relevant circumstances, or left to the auditor's judgment as part of Auditor Commentary? (See paragraphs 77–80.)*

We believe that disclosures regarding the involvement of other auditors may be useful in the auditor's report provided those disclosures don't detract from the "sole responsibility" principle. If the IAASB moves forward with their proposal to include disclosure about the involvement of other auditors, we believe the IAASB should consider whether there is a need to relook at ISA 600 *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)* to reconcile potential inconsistencies with the current reporting requirements for group audits that do not allow the group auditor to make reference to the audit report of a component auditor.

**ITC Question 14** *What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report? (See paragraphs 83–84.)*

We believe that the auditor's report should stand on its own and include the standardized material within the body of the report. We also note that there would likely be practical difficulties associated with placing auditor reporting material on a website, for example who maintains the information, how users access the information, and

passage of time as information changes but the report is from an earlier time period, that could create confusion for users of the financial statements.

## **Form and Structure**

**ITC Question 15** *What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users? (See paragraphs 17–20.)*

We believe that with the use of headings in the audit report (as set forth in the AICPA clarified standards), each section of the report is easily identifiable and easy to find. We believe that, like extant reporting, the standards should require the elements to be included in the report but we do not believe the IAASB should prescribe the order of those sections. However, we believe that the report should not blur the lines between those areas being reported on as part of the audit of the financial statements that lead to the opinion on the financial statements as a whole, and those areas that do not lend themselves to the opinion on the financial statements. For example, reporting on the other information should be placed after the auditor's opinion and after setting the context of the auditor's responsibilities for the audit and for the other information so as not to confuse the level of assurance the users are expected to take away from the report relating to those matters.

**ITC Question 16** *What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used? (See paragraphs 21–23 and 87–90.)*

We believe that consistency should come from the required elements of the report and not necessarily from the ordering of the elements. We believe that flexibility is needed so that national standard setters can adjust the order of the elements based on local jurisdictional needs. We believe mandating the elements and the use of headings and dividers is more important than the order of those elements within the report.

**ITC Question 17** *What are your views as to whether the IAASB should mandate the ordering of items in a manner similar to that shown in the illustrative report, unless law or regulation require otherwise? Would this provide sufficient flexibility to accommodate national reporting requirements or practices? (See paragraph 17 and Appendix 4.)*

See our response to ITC Questions 15 and 16.

**ITC Question 18** *In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals? (See paragraphs 91–95.)*

We believe that certain of the suggested improvements to the auditor's report, and increased auditor reporting requirements, as contemplated in the ITC, would increase the time and cost of the audit for small and medium size entities disproportionately given their relatively smaller size. As noted in our cover letter, we believe that Auditor

Commentary should be limited to listed entities only. We would encourage the IAASB to consider further outreach beyond this ITC and its related roundtables to focus on the users of financial statements of SMEs to better understand their needs and the potential benefit or impediments they believe exist relating to these proposals.