

Ref. SEC 112/12 - DN

For the attention of **Mr. James Gunn**
Technical Director
International Auditing and Assurance Standards Board (**IAASB**)
529 Fifth Avenue, 6th Floor
New York, New York, 10017
USA

08 October 2012

Dear Sir,

Invitation to Comment (ITC) Improving the Auditor's Report

We are pleased to have the opportunity to comment on the above Consultation Paper issued by the International Auditing and Assurance Standards Board (IAASB).

The global financial crisis and other related events have undermined investor confidence in corporate financial reporting and challenged the usefulness of the auditor's report and, more broadly, the relevance of the financial statement audit. We support the IAASB's initiative to explore options to enhance the quality, relevance and value of auditor reporting.

As suggested in the ITC, we have only worked on certain issues, the significance of which we deem worth commenting on.

Overall Considerations

1. Overall, do you believe the IAASB's suggested improvements sufficiently enhance the relevance and informational value of the auditor's report, in view of possible impediments (including costs)? Why or why not?

We believe the suggestions presented herein will improve the auditor's communication, making it more informative and significant to users. We also believe that the suggested answers respond to the identified user needs, considering the impediments, especially regarding the limits imposed lest the auditor become a primary source of information of entities. With a few adjustments as described below, this will represent a significant advance.

We believe that such changes should be made in the audit of listed companies and each jurisdiction should consider expanding such changes to other PIEs.

We believe that the above comments also address our views to questions 9 and 18 that we did not provide specific comments.

Finally, in adopting such changes in the audit report proper balance of cost and benefits should be made. More the audit report is expanded, more cost is added to the audit process, since more senior professionals and may be lawyers – in certain sensitive matters – be involved in the preparation and review of the audit report format before it is issued. In addition, Brazil still requires that financial statements be physically published (printed) in two newspapers and expand one or two pages to five pages or more would significantly increase the cost of such release.

2. Are there other alternatives to improve the auditor's report, or auditor reporting more broadly, that should be further considered by the IAASB, either alone or in coordination with others? Please explain your answer.

As provided for in ISA 500, when defining the tests of controls and tests of details, the auditor should determine means available for selecting items for testing that are duly effective for due performance of the audit procedures. Overall, the application of audit procedures by the auditor to 100% of items is unlikely when performing test of details, and this is even more unlikely when performing test of controls. Information that the audit work is conducted on a test basis, thus having items or transactions not tested could give more transparency to the audit process description, based on which we suggest the possibility of this inclusion in the Auditor's Responsibility.

Auditor Commentary

3. Do you believe the concept of Auditor Commentary is an appropriate response to the call for auditors to provide more information to users through the auditor's report? Why or why not? (See paragraphs 35–64.)

We believe that this new section – Auditor Commentary – will allow for the auditor to be more informative and, thus, contribute to the significance of corporate reports.

However, considering the above-mentioned example regarding audit issues included in the illustrative report (Audit Strategy Relating to the Recording of Revenue, Accounts Receivable, and Cash Receipts), we have a perception that this type of information, as it is presented, may give rise to more doubts rather than actually helping. Questions such as: if the inclusion was deemed important by the auditor, is the entity having difficulties with these new systems? When will this matter be resolved? What effects this change had or will have on businesses? In fact, as it is presented the example included herein accounts for a description that does not lead to any conclusions. However, the inclusion of information on identified accounting adjustments, materiality amount used in the audit work, significant internal control aspects that were identified, among others, are more critical and sensitive data, but we understand these should be kept exclusively within the scope of the company and the auditor.

Therefore, we believe that the inclusion of specifics of audit information that are not necessarily more significant or critical such as those abovementioned, does not add relevance to audit reports. Accordingly, we recommend that the Auditor Commentary section be solely restricted to significant judgments related to financial information - based on the auditor's judgment – on which users should concentrate for a better understanding of the overall financial statements.

We understand that such judgments usually represent areas of audit focus, which were significant to the auditor in forming an opinion and, therefore, jointly with the description of any given approach provided by the audit, would already fulfill the role of better informing users on the financial statements and on the audit process involved.

4. Do you agree that the matters to be addressed in Auditor Commentary should be left to the judgment of the auditor, with guidance in the standards to inform the auditor's judgment? Why or why not? If not, what do you believe should be done to further facilitate the auditor's decision-making process in selecting the matters to include in Auditor Commentary? (See paragraphs 43–50.)

We agree. We understand that the AC section should be carefully developed, based on the standard guidance to support the auditors in forming their judgment. In this connection, we believe that the ITC content is still insufficient in terms of guidance. We believe that the standard to be worked on should include:

- clear limits regarding the nature of the subjects to be included;
- to what extent the matters should be addressed;

- for comparative purposes, what items would not be appropriate to include and the underlying rationale, so that auditors can adapt the guidance to the various circumstances that will be experienced;
- careful guidance so as not to make the auditor the original source of the information;
- guidance so that the auditor does not provide independent opinions on each of the matters or even opinions on management decisions.

5. Do the illustrative examples of Auditor Commentary have the informational or decision-making value users seek? Why or why not? If not, what aspects are not valuable, or what is missing? Specifically, what are your views about including a description of audit procedures and related results in Auditor Commentary? (See paragraphs 58–61.)

We believe these aspects have already been addressed in questions 3 and 4 above.

With regard to the inclusion of audit procedures without being connected with a matter demanding significant judgment, as referred to in question 3 above, may increase the information gap. We understand that the mere inclusion of audit procedures applied and the corresponding results in isolated areas of the financial statements may lead to misinterpretation of the audit. In order to give a more complete understanding of how the audit work was performed, presenting a background history of the circumstances – a more comprehensive explanation - would be required. We believe that this is not the demand of investors and analysts or, if so, it should be carefully evaluated.

6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor’s report, including implications for the roles of management and those charged with governance (TCWG), the timing of financial statements, and costs? (See paragraphs 38 and 62–64.)

The impacts on audit process will be a higher volume of hours incurred by more experienced people, and the need to anticipate discussions with TCWG. These discussions will most likely be more extensive, mainly due to the fact that the matters involved will start to be published, and may find some sort of resistance, which may possibly cause strain to the process. We believe there are regulatory and professional impediments to the disclosure of certain AC information, since certain comments may not be significant for issuance of the audit report, which is the auditor’s primary responsibility.

7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest entities (PIEs)), and leaving its inclusion to the discretion of the auditor for other audits is appropriate? Why or why not? If not, what other criteria might be used for determining the audits for which Auditor Commentary should be provided? (See paragraphs 51–56.)

We agree that the AC section must be prepared solely for entities whose users would receive more benefits from this additional information. Based on our understanding, this is the case of listed companies’ users. The matter of extending it to other PIEs, in our opinion, should be decided in each jurisdiction.

We understand it would be appropriate to leave the decision for the inclusion of the AC section in other audit engagements at the discretion of the auditor, as long as duly agreed upon with the entities’ management.

Going Concern/Other Information

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.)

The going concern matter is quite complex and sensitive, especially involving some activities, such as those carried out by banks. We understand that as indicated in ITC the matters (a) use of going concern assumption and (b) existence of significant questions should be clearly separated. Additionally, the disclosures in the audit report should not be larger than the disclosures in the notes

to the financial statements (explanatory information), otherwise the auditor would be identifiable as the primary source of information. We believe that specific guidance for this aspect should be included in the standard.

Although identified as a point that will improve the informative value of the audit report, it seems to us that the nonuse of the going concern assumption is quite rare, thus the auditor may seldom contribute in this connection, in view of what is set forth in the accounting standards (IAS 1): “the financial statements should be prepared based on the assumption that the Company will continue as going concern, unless the management has intention to liquidate the entity or cease its operations, or has no realistic alternative but to discontinue its activities.”

Additionally, this section of the audit report may raise doubts. At first, the fact of concluding positively for adequacy the use of the going concern assumption, and then informing (as applicable) there are significant doubts on the Company's ability to continue as a going concern can make the users confused: after all, is the assumption appropriate or are there significant doubts?

Another challenge to overcome lies in clearly establishing when to include a statement related to the existence of a significant doubt. This is a very sensitive matter and that does demand a review, to some extent, of ISA 570. In terms of current standards, we are doubtful whether the limits on and/or triggers to disclosures in accounting standards are identical (or the same) as those in the audit standard, which is more comprehensive.

The absence of clear understanding and alignment of standards may be a problematic situation, based on which we encourage IAASB to continue coordinating efforts with IASB to avoid different interpretations of the same matter.

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 suggestion of clarifying current responsibilities of the auditor as to other information that usually composes or accompanies financial statements, the entity's annual report and an auditor representation if, in discharging their respective responsibilities, the auditor has knowledge of any significant inconsistencies not solved vis-à-vis the audit financial statements.

Accordingly, IAASB will work on the ISA 720 project to clarify what is other information covered by the standard and the extent of the auditor's work.

The biggest challenge is not to assign greater transparency to a false interpretation that the auditor is providing an opinion or conclusion on whether the other information is complete and accurate

Clarifications and Transparency

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

We support the IAASB suggestion on making it compulsory to disclose the partner in charge of the engagements. We understand this entails greater transparency, and Brazil traditionally makes such disclosure.

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 do not agree with the suggestion of identifying other auditors involved in the audit, either within audit networks or from other firms, considering the current ISA 600 standard. We would, however; support the suggestion, if the shared responsibility, as applied formerly, was somehow reconsidered. We do not believe this disclosure would contribute to transparency. We believe it would rather increase the gap of expectations by creating confusion on responsibility for the audit work. Instead of disclosing the other auditors' work, we believe that an overall description of responsibilities of an auditor of the group would be more appropriate, when applicable.

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 are not quite sure whether the description of the auditor's responsibilities on websites would help in the process. Our doubt stems from the extent of the standards and the fact that the users would have to read and construe all standards to understand the work of the auditor.

Additionally, we have questions as to whether the information on websites will remain displayed after a few years, in case someone needs to read the audit report and consider the attendant responsibilities.

We believe that this suggestion should be carefully considered by IAASB and, in our opinion, we understand that permitting a sole link in an audit report is not appropriate, at least in Brazil. We further believe that certain users or jurisdictions may not have easy access to information made available on the world wide web.

Form and Structure

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 understand consistency in audit reports is critical. The inclusion of paragraphs of emphasis and other matters still creates confusion to readers. The proposed changes will be extensive and the introduction of AC section in listed companies will cause each report to have its own specifics.

The option to leave at the discretion of each jurisdiction to establish different forms without establishing a minimally acceptable profile may be misleading or imply misunderstanding of reports.

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 understand that the proposed changes are applicable for all sizes and in both the public and private sectors, as well as for small-and medium sized entities (SMEs). Although we believe that the AC section for SMEs will present less complex issues compared to large entities, we would not propose a specific audit report standard for SMEs eliminating such section, due to the complexity of issuing two different audit report frameworks. As mentioned in our response to question 7, we believe that the AC section would be more beneficial to listed companies financial reporting users, lying on auditor's discretion to include comments in other types of audit engagements.

Very Truly yours,



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