

IAASB – Invitation to Comment – Improving the Auditor’s Report

Please note we have addressed the ITC questions and answered each below.

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 some of the changes suggested represent worthwhile improvements. With respect to the “expectation gap”, we believe the following changes are relevant and cost effective: describing the roles and responsibilities of the parties involved in an independent audit of financial statements, the concept of independence, the nature and limitations of an audit, including the relationship of a financial statement audit to management reported information outside of the financial statements. With respect to the “information gap”, we believe the Auditor of the financial statements is not in a position to cost effectively provide relevant information as part of the Auditor’s report (as used herein, Auditor refers to the independent Auditor of financial statements, unless the context suggests otherwise). Rather, the “information gap” should be filled by TCWG (those charged with governance); TCWG are best positioned to understand, anticipate, evaluate and directly respond to relevant constituencies. Note that there are numerous constituencies (shareholders, investors, regulators, lenders, competitors, etc.) all with different circumstances driving their desires or needs for information and each having a different level of commitment to the entity being audited. Please note that requiring Auditor Commentary could cause the Auditor to assume the responsibilities of management or TCWG by determining how much of the entity’s disclosed or undisclosed competitively sensitive information and not-yet public information should be disclosed or provide source information. The Auditor should retain his/her independent, **objective**, assurance responsibilities and not be put in a position to make determinations on the timing of disclosure of certain information before management and TCWG deem it appropriate.

In general, there would be greater confusion and relationships could be strained or deteriorate when roles and responsibilities are not clear and/or the roles of the Auditor and management overlap. The proposals relative to the Auditor Commentary would unnecessarily exacerbate tensions since the Auditor could end up with responsibilities which overlap those of management and TCWG, in addition to maintaining its financial statement audit responsibilities. Additionally, the IAASB should ensure whatever actions are taken promote clear, open dialogue with Auditors, to avoid degradation of audit quality.

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.

An alternative to satisfy the “information gap” which should be evaluated by the IAASB in coordination with other regulatory organizations is expanded disclosures required of TCWG, including the audit committee, in areas where there are material discussions on accounting judgments and estimates, pertinent market or non-financial information, or the completeness of disclosures in the financial statements. Internal audit can at the request of TCWG take an active and visible role in assisting TCWG and management as they discharge their responsibilities for disclosures, risk management and controls. Articulation of the governance process assuring

financial reporting reliability and relevant disclosures, including internal audit's role and utilization, could add to the comfort sought by outside stakeholders and users of the financial statements. Additionally, the information stakeholders seek can be reported via other established reporting frameworks, such as that suggested by the Global Reporting Initiative (GRI).

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.)

While we believe an “information gap” may indeed exist, filling that gap should not be the responsibility of the Auditor. Rather the Auditor should remain in the role of providing assurance on information provided to shareholders by management. While it is expected that users of financial statements (including shareholders) are intelligent, knowledgeable people, who bear personal responsibility to be financially literate, it is reasonable to require the entity, through TCWG, to more clearly disclose key processes, estimates, judgments, governance, and oversight for financial reporting. With respect to the disclosures of the Auditor, we support disclosure of relative responsibilities of the Auditor and management, including the nature of an audit, the Auditor's ability to detect financial statement fraud and the Auditor's responsibilities relating to fraud under professional standards, and inherent limitations of a financial statement audit. Further, we agree with the additional paragraph to indicate the Auditor has read specified information for the purpose of identifying whether there are material inconsistencies between such specified information and the audited financial statements, management's disclosures and/or information and evidence obtained during the financial statement audit.

It is extremely important that the “information gap” be closed via means other than the Auditor guessing at what information will close that gap. Information which is deemed relevant and useful should be clearly defined by investors and TCWG should evaluate which of that information is worthy of accurate and complete disclosure which can be cost efficiently provided. TCWG and management should decide what information to disclose in the financial statements and/or related attachments, and may potentially include information disclosed by the Auditor to TCWG and management. Given the number and diversity of potential investors and the lack of direct communication with the Auditor, together with legal risks to the Auditor, it is likely a redundant and lengthy list of disclosures would be provided, at greater cost, rendering the information no more valuable than what is provided by management today. Adding an Auditor's Commentary could put Auditors in direct contradiction with ethics and independence requirements (one because the Auditor is not allowed to disclose confidential information and the other because the Auditor should not be the source of information). The Auditor Commentary also is highly subjective, would likely confuse rather than inform readers and runs the risk of becoming boilerplate or watered down which would create a new and larger “expectation gap.” In general, inclusion of subjective information by an Auditor to the public is not appropriate. If the Auditor Commentary is required and not highly defined in an objective manner, it is likely differences in disclosures will result. Those differences may imply more about differences in Auditors than differences in companies, however a user of such disclosures will be unable to discern the source of differences, creating greater confusion and potentially creating unintended consequences.

However, we would support clearly defined **objective disclosures** which could be added to enhance readability of Auditor Commentary. Examples of items which could warrant specific Auditor mention include the following (in each case, the Auditor's report should refer to

management's disclosure which would be expected to be adequate unless otherwise noted by the Auditor):

1. If the entity is a part of a larger enterprise.
2. If accounting practices in an area material to the entity are undefined, evolving or there are significant divergences in practice.
3. Areas of significant leverage or exposure (derivatives, off balance sheet commitments, contingencies, etc.) which are not included in the gross figures displayed on the balance sheet.
4. Disclosures by the entity are deemed by the Auditor to be inadequate.
5. Material, unusual transactions impacting the financial statements.

Lastly, there must be a consideration of costs and benefits related to assurance provided. It would be reasonable to expect that if additional disclosures were required of the Auditor, audit fees would rise. TCWG should consider who is paying the costs and who is deriving the benefits. There are many users of financial statements and related information who may seek to influence IAASB's views on assurance; some of those users may not be concerned with or consider the costs of such assurance.

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.)

No. Asking the Auditor to prioritize which risks are most important requires judgment akin to "beauty is the eye of the beholder." That is, no one other than a user can determine which areas suit the users' needs. If Auditor Commentary is to be required, it should be clear what items are required to be included in the Auditor Commentary, and such commentary should refer to disclosures made by management or TCWG, unless the Auditor needs to supplement when management's disclosure is deemed by the Auditor to be inadequate. Please see response to number 3 above.

We do believe an Auditor should have clear, robust and timely reporting to TCWG. It is TCWG who should evaluate and decide what to disclose in the financial statements or other disclosures.

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.)

Please see response to number 3 above.

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.)

We believe the risks and costs of having Auditors provide Auditor Commentary outweigh the potential benefits. Please see our response to number 3 above.

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.)

For the reasons stated above, we do not agree that Auditor Commentary should be provided; if it is required to be provided, we believe Auditor reports should be similar as to form for reports of all Auditors, PIEs and others.

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.)

Going concern is an inherent assumption in the creation and audit of financial statements; while the addition to the Auditor’s report is unnecessary, the addition of a paragraph stating responsibilities of management and the Auditor does further describe the nature of an audit and may help close the “expectation gap.”

9. What are your views on the value and impediments of including additional information in the auditor’s report about the auditor’s judgments and processes to support the auditor’s statement that no material uncertainties have been identified? (See paragraphs 30–31.)

With respect to material uncertainties related to management’s going concern assumption, it should be management’s responsibility to state any such uncertainties. The Auditor should audit management’s assertion and not be put in the position of stating a separate assertion. Additional commentary about Auditor’s judgments and processes is not appropriate; reasons include: difficult for the Auditor to know how much to disclose to appease various investors, risk to the Auditor of providing information, variations among individual Auditors.

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

This is a good and necessary addition to the Auditor's report. We suggest the IAASB consider adding to the sentence "...for the purpose of identifying whether there are material inconsistencies among the audited financial statements, management's disclosures and/or information and evidence obtained during our audit."

Clarifications and Transparency:

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.)

Yes, this seems to be an appropriate way to close the “expectation gap.”

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

While we do not have a strong view on this matter, we believe adding the name has little, if any, added benefit. While there may be a perception that this provides a more personal accountability and thus a more rigorous audit by the signer, in practice most signers feel their personal responsibility and accountability (also there may be personal, legal liability pressures) when signing a firm name, in lieu of their personal name. One would think a user would have greater respect for a recognized firm, with its experiences, resources and capabilities driving the behaviors of all the auditors involved in an independent audit of financial statements. We recognize there are different regulations impacting the disclosure of the engagement partner; perhaps the IAASB should allow local regulations to define whether the individual engagement partner's name is disclosed.

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.)

The additional information should only be provided if there is a sharing of responsibility for the audit. Otherwise, such information is likely to be misunderstood by readers of the report.

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.)

Again, so long as information to close the "expectation gap" is shared, we are not overly concerned with how this is accomplished. Given that this "expectation gap" seems to persist, adding the responsibilities of the parties involved in a financial statement audit to the Auditor's report would be useful until the gap is closed.

Form and Structure:

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.)

The format and order of the report is appropriate, except that the Auditor Commentary section should not be required (unless management fails to disclose information necessary for a reader to obtain appropriate information).

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 support standardization where it can be accomplished.

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.)

We support standardization where it can be accomplished.

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 support standardization where it can be accomplished, for all entities reporting under a common set of standards.