

October 2, 2012

Mr. James L. Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6th Floor  
New York, New York 10017

Submitted electronically at: <https://www.ifac.org/publications-resources/improving-auditor-s-report>

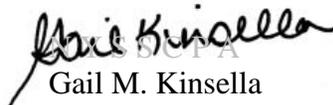
**Re: Invitation to Comment: Improving the Auditor's Report**

Dear Mr. Gunn,

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned invitation to comment (ITC).

The NYSSCPA's Auditing Standards, International Accounting & Auditing and SEC Practice Committees deliberated the ITC and prepared the attached comments. If you would like additional discussion with us, please contact Julian Jacoby, Chair of the Auditing Standards Committee at (310) 736-5467, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

  
Gail M. Kinsella  
President

Attachment

**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON  
IAASB INVITATION TO COMMENT: IMPROVING THE AUDITOR'S REPORT**

**October 2, 2012**

**Principal Drafters**

*From the Auditing Standards Committee:*

**Kamel Abouchacra  
J. Roger Donohue  
Elliot Lesser  
Howard Levy**

*From the International Accounting & Auditing Committee:*

**Renee Mikalopas-Cassidy  
William Stocker**

*From the SEC Practice Committee:*

**Theo Vermak**

### **NYSSCPA 2012 – 2013 Board of Directors**

Gail M. Kinsella, <i>President</i>	Anthony T. Abboud William Aiken	Douglas L. Hoffman Scott Hotalen
J. Michael Kirkland, <i>President-elect</i>	Gregory J. Altman Barbara E. Bel	Eric M. Kramer Elliot A. Lesser
Scott M. Adair, <i>Secretary/Treasurer</i>	Shari E. Berk Robert W. Berliner	Pei-Cen Lin Steven M. Morse
Sherry L. DelleBovi, <i>Vice President</i>	Christopher G. Cahill Harold L. Deiters	Richard E. Piluso Robert R. Ritz
David Evangelista, <i>Vice President</i>	Domenick J. Esposito Adrian P. Fitzsimons	Michael F. Rosenblatt Arthur J. Roth
Suzanne M. Jensen, <i>Vice President</i>	Stephen E. Franciosa Jennifer R. George	Cynthia A. Scarinci John S. Shillingsford
Anthony J. Maltese, <i>Vice President</i>	Rosemarie A. Giovinazzo- Barnickel	Robert E. Sohr Yen D. Tran
Joanne S. Barry, <i>ex officio</i>	Mitchell L. Gusler Timothy Hedley	Richard T. Van Osten F. Michael Zovistoski

### **NYSSCPA 2012 – 2013 Auditing Standards Committee**

Julian Jacoby, <i>Chair</i>	Menachem Halpert	Wayne Nast
Kamel Abouchacra	Jan C. Herringer	Bernard Newman
Robert Berliner	Michael Kayser	William Prue
Sharon Campbell	Elliot Lesser	John Sacco
Michael Corkery	Moshe Levitin	Mark Springer
J. Roger Donohue	Howard Levy	Stephen Tuffy
John Georger	Ralph Lucarello	Robert Waxman
Fred Goldstein	Mark Mycio	Steven Wolpow
	Lawrence Nalitt	

### **NYSSCPA 2012 – 2013 International Accounting and Auditing Committee**

Renee Mikalopas-Cassidy, <i>Chair</i>	John A. Galiski III	John McCurdy
Julia James, <i>Vice Chair</i>	Jan C. Herringer	Michael R. McMurtry
Timothy E. Andrews	Richard Jeffreys	Joseph Montero
Sidney Barclais	Richard C. Jones	Richard Posen
Francesco Bellandi	Leneeqa Jordan	Matthew Redente
Kenneth W. Bosin	Steven Z. Kahn	Bjoh Raj Rijal
Andreas C. Chrysostomou	Lukasz Kwiatkowski	William M. Stocker III
Remi Forgeas	Rosario Manco	George I. Victor
Aryeh Greenberg	Eric Martinez	Jason Wattier

**NYSSCPA 2012 – 2013 SEC Practice Committee**

Michele B. Amato, <i>Chair</i>	Marc A. Engel	Mitchell J. Mertz
Neil W. Ehrenkrantz, <i>Vice Chair</i>	Christopher Gagliardi	Mark Mycio
Charles Abraham	Leon J. Gutman	Rita M. Piazza
Patricia Baldowski	Michael J. Halkias	Arthur J. Radin
John A. Basile	Elliot L. Hendler	John P. Rushford
Douglas J. Beck	Steven Kreit	Stephen A. Scarpati
David Bender	David J. Lamb	Robert E. Sohr
Timothy Boehmer	Steven R. Leidenfrost	Theo Vermaak
Jeffrey M. Brinn	Moshe S. Levitin	George I. Victor
Myungjin Cha	Helen R. Liao	Liren Wei
Anthony S. Chan	Robert P. Marggraf	Philip H. Weiner
Burgman E. Connolly	Thomas P. Martin	Silvia S. Yehezekel

**NYSSCPA Staff**

Ernest J. Markezin  
William R. Lalli

# New York State Society of Certified Public Accountants

## Comments on

### IAASB Invitation to Comment: Improving the Auditor's Report

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments in response to the above-captioned Invitation to Comment (ITC) issued by the International Auditing and Assurance Standards Board (IAASB or the Board).

We have reviewed many of the comments submitted by other respondents to the Board's Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change* (the Consultation Paper), and believe that our views appear to be consistent in most significant respects with those of most other professional accounting organizations and audit firms in the U.S., Canada and the U.K. We acknowledge the difficulties faced in trying to set international standards in light of the many interested parties and the variety of positions; however, given the consistency of responses to the Consultation Paper by the auditing community and the considerable potential for adverse consequences to both auditors and users (as explained below<sup>1</sup>) from adopting many of the proposals, it appears that the views expressed by auditors require further consideration by the Board than is evident in the ITC. Accordingly, we have provided more support for the views of auditors that include details as to the potential adverse consequences in the comments that follow.

Although we have addressed the subject matter of all the questions for respondents presented by the Board and identified as question Nos. 1-18 on pp. 13-15 of the ITC, in most cases, we have not responded directly to each of them individually. Rather, our comments are organized under the five categories in which such questions are grouped in the ITC. For ease of reference, we have designated the categories as Sections 1-5, below, and provided numbered paragraphs. Our comments end with Section 6 containing suggestions if the Board determines that the proposals to which we have objected are of value. In addition, we have prepared a summary of our views in relation to each of the questions for respondents and present that as Exhibit No. 2, which is appended to this letter.

## **1. Overall Considerations (ITC Question Nos. 1 and 2)**

### ***a. General value of and impediments to proposed reporting improvements***

**1.1** The primary objective of the IAASB seems to be to narrow what it terms the "expectations gap" and the "information gap." It is embodied in paragraph 1 of the ITC, *i.e.*, "for auditors to provide greater transparency about significant matters in the financial statements, as well as the conduct of the individual audit ... [and] better meet the information needs of users of audited financial statements." We support the work of the IAASB, and because we see substantial value in improving transparency in the financial reporting process in particular and with regard to the information gap, we believe the standard audit report in use can and should be improved. However,

---

<sup>1</sup> For example, see ¶ 5.1.

we seriously take issue with what appears to be the inappropriate placement of the primary burden of responsibility on the auditor represented by the first part of that statement. Therefore, we suggest that while certain changes from the status quo rightfully should be addressed in auditing standards, others are more appropriately addressed in national regulatory requirements or in accounting standards. We question the value of providing detailed information about the scope and conduct of individual audits to users who do not have the ability to engage in two-way dialog with the auditor such as we see as necessary to enable them to assess such information in any meaningful way.

**1.2** Although we respectfully acknowledge the demands that are noted by IAASB Chairman Professor Arnold Schilder in his introductory statement on p. 1 of the ITC of many users of financial statements and audit reports for greater transparency<sup>2</sup>, we believe that by directing many of these demands to audit standard-setters and auditors as opposed to management and those charged with governance (TCWG), the ITC would unfavorably alter the fundamental purpose and value of the attest function. As we elaborate in the comments that follow, we have what we believe are many compelling reasons for opposing most of these proposals because we believe that audit report is not the most effective place in which to address these users' needs. Accordingly, we hope that the Board will exercise extreme caution in proceeding with this project to avoid a hasty reaction to satisfy user demands in ways such as those proposed in the ITC. We believe adopting these proposals likely would change the role of the auditor fundamentally, and that would be inconsistent with and diminish the value of the attest function as it has evolved over the last 100 years.

**1.3** Our foremost concern is to prevent changes in the audit reporting model that would tend to blur or eliminate the proper distinction among the respective responsibilities most properly borne by management, TCWG and the auditor. We believe an auditor's role should continue to be limited as it always has been—to assess objectively and express an opinion on the fairness of management's assertions embodied in the financial statements—not to clarify, explain or analyze the financial statements for users; nor to advise or assist them in sorting the significant from the insignificant (none of which has anything to do with the attest function). We believe that most of the proposals in the ITC would not be improvements; rather likely have the undesirable effect, among others discussed below<sup>3</sup>, of blurring responsibilities without modifying audit opinions. We believe the proposed Auditor Commentary would be viewed as contradictory to an unqualified opinion and be confusing to many users despite language to the contrary that appears in the illustration in the ITC.

**1.4** We point out that the proposed Auditor Commentary would be a throwback to the old, non-standardized reporting format called the "long-form" report that was virtually eliminated from reporting for unrestricted distribution in the U.S. beginning just after the middle of the last century because of certain perceived risks associated with it that we believe remain just as valid today. Those risks, prudently identified by the U.S. standard-setter in 1957<sup>4</sup>, included (a) the risk of failure to maintain a "clear-cut distinction" between representations of management and the auditor, and (b) the risk that auditor comments or other data contained in the report might easily be misinterpreted by users as "exceptions or reservations, as distinguished from mere explanations."

---

<sup>2</sup> See also Section 4.

<sup>3</sup> See Section 2a.

<sup>4</sup> U.S. Statement on Auditing Procedure (SAP) No. 27, *Long-Form Reports*.

**1.5** In addition, because of the risks to an auditor that are associated with exercising the professional judgment necessary to pick and choose matters to be included or excluded from such a non-standardized report, these reports will undoubtedly be subjected to many levels of pre-issuance reviews, adding substantial costs and delays to the reporting process. Such risks include risks of litigation and of heightened distrust by and, resultantly, impaired communications with, management (as discussed further in ¶ 1.6).

**1.6** We believe there is a remote likelihood that non-standardized reporting under these proposed requirements will serve to pressure the auditor to have greater reporting requirements. We believe that those who find little or nothing to explain or comment upon (because management's disclosures are seen as adequate) likely would be viewed adversely by users of having failed to meet their reporting responsibilities. We further believe that this increased market pressure on the auditor likely will have the undesirable effect of causing their objectivity to be impaired. We are concerned that such reporting will also convert the substance of the auditor's role from that of an independent reporter to one of an overseer, critic, whistleblower and adversary. Consequently, a distrust will be engendered between management and the auditor impairing the working relationship along with the open, unfiltered communications that are necessary to enable effective and timely completion of a financial statement audit. We see all of this as inconsistent with the attest function. Moreover, we believe that public disclosure of matters that currently are disclosed confidentially only to TCWG in order for them to act upon in exercising their oversight function likely are to put undue pressure on them and be viewed as providing a basis for criticism further straining the relationship between them and the auditor as well.

**1.7** Consequently, in our view these proposals would be in conflict with the historical (and still appropriate) sole purpose of the attest function to assess and report independently and objectively on the reliability of management's assertions that include the adequacy of its disclosures.

**1.8** We note that some supporters of enhanced reporting requirements specifically call for a requirement for the auditor to report what was included in communications to TCWG or include those communications in a summary memorandum of significant audit issues. There is often significant judgment involved in what issues are so included. We believe a requirement to include such matters in the auditor's report would introduce a bias in the auditor's judgment that would cause some matters to not be communicated to TCWG or not be included in a summary memorandum so as to avoid disclosure outside the entity. While this would mostly affect the inclusion of "borderline" issues, the reduction in information provided to TCWG and included in a summary memorandum will reduce the effectiveness of some audits resulting in what the ITC refers to as an "impediment."

**1.9** Historically, we have seen numerous examples of legitimate disagreements among experienced and knowledgeable professionals over auditor judgments on matters of audit strategy, risk assessment and other audit scope decisions. Recognizing that auditing is a highly complex discipline that requires years of education, training and experience, seasoned professional judgment, and extensive knowledge of the issuer's business to enable such decisions to be reasonable and appropriate in any given set of circumstances, we are concerned that detailed information about audit risk analyses and other scope determination judgments will not add transparency or other value to audit reports. We believe this because such information likely would be misunderstood by and confusing to users for several reasons; the principal ones being: (a) the complexity of such

judgments in these matters to enable users to assess the quality of an audit or competency of the auditor, (b) the high probability that such disclosures will not be comparable among audit reports, (c) the inherent limitation (of time and space) on effectively communicating such matters, and (d) users' inability to engage in two-way dialog with the auditor such as TCWG can.<sup>5</sup>

**1.10** Similarly, as discussed at greater length in Sections 3 and 4<sup>6</sup> primarily because we believe these changes will accomplish nothing to improve audit quality and will provide little or no information of any significant value to investors and other users, we are opposed to both (a) the proposed new emphasis on going concern matters, and (b) reporting the name of the engagement partner. In addition, we believe disclosure of information involving the use of another auditor should be discouraged rather than encouraged and be solely matters of the reporting auditor's judgment.<sup>7</sup>

**1.11** Accordingly, with the exception of those proposals dealing with clarification of which we are in favor (although to a somewhat more limited extent than proposed<sup>8</sup>) and consistent with the views of many audit firms and professional organizations who commented on similar issues recently presented by the U.S. Public Company Accounting Oversight Board (PCAOB) and by the IAASB in the Consultation Paper<sup>9</sup>, we are unable to support any of the more extreme reporting changes proposed. Among other reasons, this is because we do not believe that these changes would sufficiently enhance the relevance and informational value of the auditor's report. Principally because we believe that the current audit reporting model should remain focused solely on the historical objective of reporting independently on management's assertions, we are opposed to the proposals in the ITC that would change audit reports substantially in this regard.

***b. Alternative recommendations***

**1.12** Despite our recognition of the need to add transparency to the financial reporting process to meet the needs of institutional investors, investment advisors and other users<sup>10</sup>, we firmly believe that users should not look primarily to the independent auditor and audit reporting standards to address those needs. In our view, there are potentially better and more effective alternative ways to address these concerns, all of which, however, would be outside the scope of authority of the IAASB or any other auditing standard-setting body.

**1.13** Such alternatives include, but may not be limited to, the following:

- Regulatory authorities in the various jurisdictions should be encouraged to develop, or cause to be developed, other initiatives containing performance and public reporting requirements with related standards or regulations, for example, following the U.K. model now under

---

<sup>5</sup> ¶ 2.31.

<sup>6</sup> ¶s 3.1-3.5 and 4.2.

<sup>7</sup> See Section 4c.

<sup>8</sup> See Section 4.

<sup>9</sup> See our comment letter to the IAASB dated September 14, 2011.

<sup>10</sup> See discussion of transparency in Section 4.

development, to be consistent with responsibilities deemed appropriate for TCWG for various types of entities characterized in the ITC as “public interest entities” or PIEs<sup>11</sup>.

- In the event that existing regulatory bodies are insufficiently receptive and non-responsive to the preceding suggested actions, existing international authorities should use their influence to cause an international authority to be organized even if only on a voluntary participation basis for such purpose.
- If reliable market research indicates that financial statement disclosures are too complex to be understood by many investors and investment advisors, generally, or that the most significant matters are obscured by the less significant (*i.e.*, the “forest-for-the-trees” syndrome), because of what has often been characterized as “standards overload,” financial accounting standard-setters should be encouraged to consider prescribing ways for management (not the auditor) to improve the clarity of disclosures and to identify the most significant ones. Perhaps some objective criteria could be developed and provided by accounting standard-setters that would help financial statement issuers identify the required disclosures that might be less significant in some circumstances and be reduced or safely eliminated.

## **2. Auditor Commentary (ITC Question Nos. 3-7)**

**2.1** We believe that the Auditor Commentary section of the Proposed Auditor's Report included and as described in the ITC should be excluded from any final standard for these reasons: (a) it would transfer responsibility of reporting financial information from management to the auditor, (b) the proposed discussions of audit procedures would be too vague to provide meaningful information to investors and their advisors, and (c) the substantive reasons set forth below and elsewhere in the letter.

**2.2** The following views are divided into two subsections consisting of those that relate to Auditor Commentary about the financial statements and about the audit:

### ***a. Commentary about the financial statements***

**2.3** In our opinion, there should be no question or dispute that the information in the financial statements is (and should remain) the sole responsibility of management. Management’s responsibility is primary in the financial reporting process. By way of contrast, as set forth in the Board’s auditing standards, “[t]he purpose of an audit is to enhance the degree of confidence of intended users in the financial statements<sup>12</sup>.” Accordingly, the role of the auditor is and should remain secondary.

**2.4** The importance of management’s role in providing information about its financial statements should not be underplayed. We believe, however, that the “Illustration of a Possible Improved Auditor's Report” in the ITC disproportionately minimalizes the primary financial reporting

---

<sup>11</sup> PIE is a term used in the ITC and elsewhere that is, however, not clearly defined by the Board for this purpose either in the IAASB’s general Glossary or in the definitions provided in paragraph 13 of International Standards on Auditing (ISA) 200, *Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*, specifically for purposes of the ISAs.

<sup>12</sup> ISA 200, paragraph 3.

responsibility of management and the significance of the oversight responsibilities of TCWG. The extreme brevity of the paragraph on page 11 of the ITC describing such responsibility (other than with regard to going concern matters<sup>13</sup>), together with that of TCWG, in conspicuous contrast to the extensive and detailed illustrative discussion on the equivalent of a full page that follows, places undue weight on the auditor's responsibilities. We believe the unbalanced emphasis on the auditor's responsibilities and the relative minimalization of those of management and TCWG is misleading because it tends to give an erroneous impression that the auditor's role in financial reporting is primary. This widens both the expectations and information gaps and runs counter to the stated objectives in paragraph 39 of the ITC. We have addressed this imbalance in Section 4<sup>14</sup> and in our alternative illustrative audit report.<sup>15</sup>

**2.5** The first three examples of Auditor Commentary on accounting matters, presented on page 10 of the ITC (in the Illustration of a Possible Improved Auditor's Report), represent certain items deemed by the auditor to be of significance to the financial statements. Clearly, the examples presented relate to a management function--principally to procedures employed to determine appropriate estimated values to be assigned those items. The auditor, by obtaining audit evidence, formulates and expresses an independent opinion that in all material respects the financial statements "present fairly" (or, alternatively, give a "true and fair view"), and that opinion is generally understood to include the auditor's assessment of the appropriateness of management's estimates and the adequacy of the disclosures made (in relation to the requirements of the applicable accounting framework in use). This is the fundamental essence of the attest function (and its proper limitation as well). Therefore, we believe the portions of the sample Auditor Commentary presented in the ITC that simply call attention to (by repeating) disclosures that are made by management are particularly lacking in value to users, and should not be required in the audit report even if the impediments are perceived by some as low.

**2.6** We believe that all disclosures related to accounting matters such as those illustrated in the ITC examples should be required to be presented solely in the notes to financial statements or, if beyond the current requirements of the accounting framework in use, should be addressed by the accounting standard-setters. Until the accounting standards are enhanced relative to such disclosures, management should be encouraged to seek to satisfy the needs of users by making such additional disclosures voluntarily either in the notes or supplementally (*i.e.*, outside the financial statements) such as in the management's discussion and analysis (MD&A) required of U.S. public issuers and PIEs in some other countries.

**2.7** We believe that emphasis (often called "emphasis of matter"<sup>16</sup> or EOM) paragraphs should continue to be used infrequently, as they have been historically, in audit reports, *i.e.*, subject only to auditor judgment when deemed necessary to highlight potentially sensitive matters, but should not be mandated for every report. In addition, we believe that a final audit reporting standard should minimize inflexible requirements and without mandating going concern uncertainty<sup>17</sup> or other

---

<sup>13</sup> See ¶s 3.1-3.5.

<sup>14</sup> ¶ 4.2.

<sup>15</sup> See Exhibit No. 1.

<sup>16</sup> See ISA 706.

<sup>17</sup> ¶ 3.1.

emphasis paragraphs. We also believe that any reporting on legal and regulatory requirements that may be mandated by regulators or others ordinarily should be separate from the standard (and primary) audit report unless otherwise required. As mentioned in paragraphs 43 and A42 of ISA 700, we acknowledge that certain jurisdictions (such as under Companies Act 2006 in the U.K.) currently require certain such additional statements within the opinion.

**2.8** Because we believe it is (and should continue to be) management’s responsibility and not the auditor’s to communicate adequately all matters relative to the financial statements to the extent the auditor deems necessary to assure the users’ understanding, we believe the auditor’s obligation should continue to be limited to assessing the adequacy of management’s disclosures. The auditor’s assessments should be made not only with respect to the requirements of applicable accounting standards, but also to judge whether the disclosures are sufficiently clear, complete and not misleading, and the auditor should be required to report only exceptions that have not been satisfactorily corrected. Since these respective obligations are apparently deemed not widely understood or appreciated by the investment community and other users, we are in favor of expanding the standard audit report to require definitions of key terms and better articulation of the division of responsibility.<sup>18</sup>

**2.9** If the auditor meets their responsibilities with regard to adequacy of management’s disclosures effectively, we believe there ordinarily should be no reason to summarize, supplement, emphasize, repeat or call attention to such a fact, merely for the purpose of making the audit report “more informative.” If there is an information gap relative to matters involving financial statement matters, it is attributable to weaknesses in the disclosure requirements applicable to management, and should be addressed by accounting standard-setters and regulators; not by auditing standard-setters and auditors.

**2.10** Except for the requirement of current standards with specific regard to a going concern uncertainty,<sup>19</sup> auditors generally have limited their use of optional emphasis paragraphs to highlighting potentially sensitive matters that, solely at the auditor’s discretion, are not deemed worthy of an opinion qualification, but are sufficiently important to call to users’ attention. As set forth in ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report*, “[i]f the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.” We believe the ISA 706 requirement for the auditor to use professional judgment without mandating emphasis paragraphs should be retained without modification because it continues to be appropriate and that emphasis paragraphs should remain unnecessary in the majority of cases.

**2.11** It is also our view that discretionary emphasis paragraphs such as are now used in limited circumstances pursuant to ISA 706 would lose their significance as a result of their obfuscation by mandated, but otherwise unnecessary, emphasis paragraphs. We believe unnecessary emphasis

---

<sup>18</sup> ¶ 4.1.

<sup>19</sup> See Section 3.

language would likely cause users to wonder why they should not view it as contradictory to an unqualified opinion and neither serve to narrow the expectations or information gaps nor add transparency<sup>20</sup> in any meaningful way.

**2.12** A real danger in auditors taking responsibility to determine what matters “are most likely” to be of greater significance to financial statement users is that it would burden auditors with enormous exposure to liability and litigation risk. Because of the wide diversity of interests or concerns among different classes of investors and other users, the risk of failure to identify matters that may be important to one or another will likely lead to excessive reporting that will be self-defeating in terms of the objective of providing the intended emphasis. We also observe that, conspicuously, the examples do not illustrate any discussion of the auditing procedures applied to the existence and valuation of year-end receivables or inventory, or the completeness of payables, which are typically among the most significant areas of inherent risk.

**2.13** We oppose mandating the use of emphasis paragraphs about accounting matters as to a wider variety of the types of matters than those previously considered by the auditor on a discretionary basis. Our primary objections to mandatory emphasis paragraphs are that the nondiscretionary use of emphasis paragraphs would likely have the undesirable effect of diluting the auditor’s message and confusing users by diminishing the apparent significance of other matters that are, in fact, more appropriately communicated by the auditor, including the auditor’s opinion.

**2.14** We believe that to mandate the expanded use of emphasis paragraphs would likely:

- Transfer the primary duty of clear and otherwise adequate disclosure of significant accounting matters to the auditor from management (where it belongs),
- Blur the distinction between representations of management and those of the auditor,
- Encourage investors and other users to read only the auditor’s summarized discussions of such matters ignoring management’s more comprehensive and fully detailed discussions,
- Distract users’ attention from other matters because it conveys an impression that all other accounts and transactions are neither important nor worthy of their attention, and
- Be misconstrued by users as a qualification or contradiction of an unqualified audit opinion or as a piecemeal opinion.

**2.15** In summary, because we support the view expressed in paragraph 62 of the ITC “that it is critical that auditors should not be providers of original information about an entity,” we share each of the seven concerns and reservations particularly about an Auditor Commentary that were expressed by other respondents to the Consultation Paper, and are listed in paragraph 63(a)-(g) of the ITC. We believe these all represent significant risks (“impediments,” as termed in the ITC) and compelling reasons, both individually and certainly in the aggregate, for the Board to withdraw its proposal for an Auditor Commentary presented in the ITC.

---

<sup>20</sup> See discussion of transparency in Section 4.

**2.16** The concerns and reservations listed in paragraph 63(a)-(g) of the ITC are briefly summarized as follows:

- (a) Auditors' reports will lack comparability,
- (b) Users could be misled to believe auditors are providing assurance on individual accounts or disclosures: in substance, a "piecemeal opinion" such as was prohibited decades ago is provided (thus widening both the expectations and information gaps),
- (c) Users could be misled to believe auditors are providing assurance on referenced "other information" accompanying the audited financial statements,
- (d) Inappropriate user reliance on auditors' reports as substitutes for reading management's financial statements and disclosures,
- (e) Commentary could become too standardized over time and, therefore, less meaningful and useful than intended,
- (f) Certain information provided by auditors could compete with management's disclosures (*i.e.*, "dueling information"), and
- (g) Liability implications to auditors as a result of providing in auditors' reports confidential information undisclosed by management with potential harm to the reporting entity and its stakeholders.

We realize that (a) and (e) above are somewhat contradictory but we believe that there is significant chance that one or the other will occur or that (a) will prevail at first, and then practice will migrate toward (e).

***b. Commentary about the audit***

**2.17** The ITC proposes that improved transparency<sup>21</sup> would be achieved by "including additional information in auditor's reports to further describe the auditor's responsibilities" and that "benefits cited from providing such additional information include greater transparency of the audit process and an enhanced understanding of the role of the auditor and the nature of audit work." It is unreasonable, in our opinion, to create expectations from any form of written report that is inherently limited by time and space no matter how expanded it is from the current model and that would contain communications of sufficient factual details to enable otherwise uninformed users who do not have direct access to the auditor for a two-way dialog to make meaningful judgments as to such complex matters and to assess audit strategy, risks and other matters of audit scope.

**2.18** As noted in Section 1<sup>22</sup>, auditing is a highly complex professional discipline that requires years of education and training, experience, intimate knowledge of the issuer's business and seasoned

---

<sup>21</sup> See discussion of transparency in Section 4.

<sup>22</sup> ¶ 1.8.

professional judgment to enable appropriate audit scope decisions such as those regarding risk assessments. Historically, we have seen numerous examples of legitimate disagreements on such matters between or among experienced and knowledgeable professionals (including, for example, regulators, expert witnesses and authors of non-authoritative professional guidance).

**2.19** We believe that public disclosure of details of such judgments would not enhance transparency<sup>23</sup> in any meaningful way or serve any other useful purpose, but would diminish the value of an audit report. Without the opportunity for two-way dialogue with the auditor about such matters, such details would likely not contain enough information to enable users to make meaningful assessments and useful judgments and probably would be misunderstood by many. Even if partially mitigated by institutional users employing trained experienced audit advisors to assist in their analyses, we believe it is likely that the inherent limitations on the extent of detailed information that could be communicated effectively in writing would prevent the realization of any meaningful potential benefit, and the costs to such users would substantially exceed any resultant value (see ¶ 2.20).

**2.20** We believe the particular examples of auditing matters presented in the sample report contained in the ITC do not have the potential to add any useful transparency to current reporting. The examples illustrate audit areas for which the auditor may select from a variety of alternate auditing approaches and procedures depending on risk judgments, audit strategy decisions (substantive *v.* controls testing) and client circumstances. Financial statement users could not reasonably and meaningfully assess the probable effectiveness of such judgments as compared to alternatives without all the factual and technical knowledge that is available to the auditor. We believe that this limitation would apply even to those users who either are analysts or who employ analysts with similar training and experience to the auditor's.

**2.21** As further discussed in Section 4,<sup>24</sup> we disagree that a list of typical audit procedures such as would likely be performed in any audit, no matter how detailed, would enhance transparency with respect to any particular audit. Further, despite any extent of descriptive language that could practically be included in an audit report, a user would not likely have the intimate knowledge of the issuer's business to ascertain the actual significance of such procedures in relation to its financial statements. To be meaningful, transparency would have to relate to an issuer's particular circumstances, but it cannot be achieved without a lengthy, detailed and unwieldy description that investors and their advisers likely will not be able to understand and appreciate because of their inability to engage in two-way dialog with the auditor, lack of detailed knowledge of the business and the underlying risks and other circumstances.

**2.22** We are also opposed to public disclosure by the auditor of details of judgments about risk assessments and scope in any circumstances. We believe that public disclosure of detail about audit scope judgments and procedures employed likely would have the undesirable effect of causing many users to form inappropriate inferences of auditor assurance at the financial statement assertion or line item level when the level of assurance should continue to be provided and understood by users to be only at the level of the financial statements taken as a whole. As audit professionals, even we would be unable to determine what value such disclosure would have in any particular

---

<sup>23</sup> See discussion of transparency in Section 4.

<sup>24</sup> ¶§ 4.2-4.3.

instance. Does the auditor’s identification of an area as high risk tell users how effectively that risk was mitigated in the audit process? Or, alternatively, does it raise a suspicion that it remains risky even after the audit is completed and, if so, how would users distinguish the effect of such disclosure from that of an opinion qualification?

**2.23** It is our view that public disclosure of matters that are now or should be disclosed only confidentially to TCWG to act upon in exercising their oversight functions would likely put undue pressure on governance bodies. Thus, certain auditor disclosures might be viewed as providing a basis for criticizing TCWG, and cause a strain on relationships between them and the auditor as a result. If reporting a matter to TCWG would be public, the auditor might tend to have a higher threshold for when a matter is so reported. We do believe that TCWG should be required or strongly encouraged by appropriate regulators (or voluntary membership organizations) to report publicly in a “non-boilerplate” fashion and disclose that they are satisfied with the significant auditor judgments about risk and scope, and describe, in general terms, the basis for their conclusions.

**2.24** On the other hand, we believe that a brief, overall description of the audit process, such as discussed in Section 4<sup>25</sup> and illustrated in Exhibit No. 1, would provide an appropriate level of transparency to which an investor or advisor could relate because it would describe to a practical extent audit objectives in general, as well as limitations with respect to the concepts of reasonable assurance and materiality.

**2.25** In addition, because of the almost endless variety of matters that might be included in an Auditor Commentary, if even a reasonably consistent structure or format were to be prescribed by a future standard, the language to be contained therein would necessarily be non-standardized. Depending upon the writing style preferences and skills of an individual auditor, we also believe that such non-standardized, free-form audit reports, in general (*i.e.*, even as to matters other than audit risk and scope), would not afford any measurable benefits to investors or other users. The reason is because such reports would most likely be misunderstood and extremely difficult for users either to interpret or to make meaningful comparisons between reports on financial statements of different issuers that represent alternative investment opportunities under consideration by users.

**2.26** As also noted in Section 1<sup>26</sup>, it appears that in many respects an Auditor Commentary would be a throwback to an old, and similarly non-standardized reporting format called the “long-form” report that was initially legitimized “officially” in the U.S. in 1957 in SAP No. 27, *Long-Form Reports*, after many years of common use. In 1957, the long-form report was often issued either in addition to or instead of the so-called “short-form” report or “certificate” (as then last prescribed in 1948 in SAP No. 24, *Revision in Short-Form Accountant's Report or Certificate*). The standard short-form report was redesigned to meet consistently the minimum requirements of the reporting standards contained in the nine (later expanded to ten) “generally accepted auditing standards” that were adopted that year. SAP No. 27 provided little or no specific guidance as to form and content of long-form reports except to caution the auditor against certain risks identified in ¶ 2.27 as associated with such reporting. We believe those risks would present themselves again and remain formidable in the event the proposed Auditor Commentary were to be required (or even if made optional) for purposes of reporting without restricting distribution to specified users.

---

<sup>25</sup> ¶ 4.2.

<sup>26</sup> ¶ 1.4.

**2.27** The risks of the then so-called “long-form” public reporting identified in SAP No. 27 included (a) failure to maintain a “clear-cut distinction” between representations of management and the auditor and “support a contention that the auditor has made *factual* representations rather than express an *opinion*... [on] management representations,” and (b) that comments contained in the long-form report might likely be seen by users as “exceptions or reservations, as distinguished from mere explanations.”

**2.28** Over time, despite its legitimization in the U.S. in 1957 with SAP No. 27, the use of long-form reports diminished quickly and substantially thereafter in U.S. practice, particularly as an alternative for what, in contrast, was still called a “short-form” report. However, beginning with U.S. Statement on Auditing Standards (SAS) No. 2, issued in 1974, the short-form report was formally re-designated the “standard” audit report, and, effectively, use of the long-form report was no longer deemed acceptable as its alternative, although it continued to be used only rarely as a type of supplemental report for limited distribution only to a select group of users. We believe its use for wider distribution has virtually vanished from modern practice in the U.S. (most likely in recognition of the risks set forth in SAP No. 27 and other reasons presented elsewhere in this discussion not the least of which was likely a growing concern for the liability risk discussed in ¶ **2.29**, below).

**2.29** Although we recognize as worthwhile the objective of making the standard audit report more informative, we believe that the information provided should be limited to that which can be used to make meaningful judgments. Further, we believe that human nature is such that if audit reports were to become too long and burdened with “boilerplate” language, the probability of them being actually read and achieving effectively any meaningful communication objective would likely diminish significantly.

**2.30** Given the improbability of developing in the short-term, sufficiently rigid standards, at least as to form and general content, if not specific standard language, we see it as sobering (or even alarming for U.S. auditors in view of our nation’s highly litigious culture) to consider the enormous exposure to liability presented by long-form type reporting to the public and in today’s economic and political environment that tends to generate extreme market price volatility. Such risks relate not only to what an audit firm might include, but also to what it might exclude from its report with regard to matters of both auditing and accounting. In fact, we believe the presence of such risks likely would cause audit firms, particularly the large ones, to add multiple layers of review to the audit reporting process in an attempt to manage such risk of liability creating the effects of (a) impairing their ability to issue reports timely, and (b) adding costs incommensurate with any realizable benefits to their clients or to users. We believe such costs would be better spent by issuers in a manner that would add real value to the interests of investors and other users.

**2.31** The financial oversight responsibilities of TCWG generally include, in part, assessing the quality and scope of work performed by the independent auditor for the primary purpose of protecting the interests of investors. In executing their oversight responsibilities, TCWG (generally, audit committees for U.S. public companies) engage in two-way dialog with the auditor in which questions are raised and written communications are clarified and elaborated upon with explanations as may be deemed necessary by TCWG. Public investors and other users do not have such direct access to the auditor.

**2.32** We believe that auditor communications proposed by the ITC for inclusion in an Auditor Commentary (particularly those that are intended to enable an assessment of auditor competency

and audit quality) should be made only to TCWG on a confidential basis; not publically. For reliable assessments of auditor independence, competence and audit quality consistent with the foregoing, we also believe that investors and other users should continue to rely primarily on the audit firms' internal quality control inspections, regulatory practice monitoring programs as well as the oversight activities by TCWG for their best protection.

**2.33**The Board cites increased transparency<sup>27</sup> (for the benefit of investors, their advisors and other users) as its main objective for the ITC proposal. Accordingly, based on the perceived compelling demand among investors and other users for the type of information such as that which an Auditor Commentary might provide if adopted as proposed in an audit standard, we believe it is time to add transparency and accountability to the work of TCWG with a periodic reporting responsibility to the public as to their oversight and assessment of how well management and the auditor are meeting their responsibilities. Once again, such a reporting requirement cannot come from an auditing standard-setter but rather only from a regulator, and could be strongly encouraged by investor pressure and through voluntary membership in an international association.

### **3. Going Concern/Other Information (ITC Question Nos. 8-10)**

#### ***a. Going concern***

**3.1** The Board's ITC proposes that auditors be required to make a statement in every audit report on the propriety of the going concern assumption or basis without regard to the "material uncertainty" (or "substantial doubt" in the U.S.) notion that has historically been embraced by reporting standards<sup>28</sup>. We see this as, in substance, a separate opinion. In our view, the proposed heightened focus on the use of the going concern assumption inappropriately elevates it from a normally expected condition (a "default" value) that is now discussed in audit reports only on an exception basis (*i.e.*, when there is material uncertainty or when the alternative liquidation basis is appropriate), to a level of importance that rises above all other usual accounting conventions. We believe this is largely unjustified because (a) it is only one of many highly significant accounting conventions that is normal, expected and need not be singled out, and (b) such a statement is (and should be) of virtually no value to users when continuation as a going concern is not materially uncertain. In fact, despite many economic weaknesses that are common in many parts of the world today, many financial statement issuers in many places may not be seriously affected, and many effects may be temporary. Accordingly, for those reporting entities that are not experiencing financial difficulties, we believe the disproportionate emphasis in the ITC proposal on going concern matters is unwarranted.

**3.2** The same impediments that have traditionally been seen as applicable to piecemeal opinions likewise would apply to such a reporting practice as a separate opinion relative to the use of a going concern basis. In addition, we believe that such statements, particularly in the U.S., would be fraught with considerable litigation risk to auditors. In general, we believe an auditor's positive assertions about an issuer's financial statements should continue to be limited to those made about overall fair presentation (or a "true and fair view"). Any initiative to strengthen disclosure requirements regarding the propriety of the going concern assumption should be in the form of

---

<sup>27</sup> See discussion of transparency in Section 4.

<sup>28</sup> ISA 570.

financial statement disclosures and should come from the financial accounting standard-setters. Particular focus should be placed on requiring such disclosures in interim financial statements upon which auditors rarely report. However, whether or not the applicable accounting framework requires any management disclosure about the propriety of the going concern assumption or the process by which such propriety is evaluated, it is and should remain the sole responsibility of management to determine the entity's accounting policies, and that includes use of the going concern basis. Auditors should remain responsible only to consider whether they concur with management's judgments and related disclosures and report any reservations they have or exceptions they may take with management.

**3.3** Accordingly, we are firmly opposed to the proposed ITC requirement for the auditor to make any positive statement on the propriety of the going concern assumption or basis. We are likewise opposed to making any other positive statements in an audit report about the propriety of management's accounting policy decisions or the effectiveness with which it has met its financial reporting responsibilities. We are opposed to any requirement to single out and include in audit reports, without regard to specific circumstances, any discussion of management's responsibilities as to going concern evaluations. To the contrary, we are in favor of retaining the *status quo* with regard to going concern matters and continuing to report only when there are material uncertainties or when the alternative liquidation basis is appropriate pursuant to current standards.

**3.4** We are also opposed to including an absolute disclaimer of a guarantee of future performance (or survival) in an audit report as suggested in the sample report presented in the ITC. We believe such a disclaimer would be overly defensive and unnecessary because it is unlikely that any reasonable user would interpret an audit report as containing such an unstated guarantee (especially in the presence of a broader disclaimer of assurance as to future economic or financial performance such as suggested in the preceding paragraph and in the absence of any positive statement on the propriety of the going concern basis). Further, we believe it is likely that such an overt disclaimer would give users a misleading impression that it is non-standard and represents something less favorable than (or contradictory to) an unqualified opinion. We would be in favor of adding a statement to the standard audit report that would say, in substance, that the financial statements are inherently historical in nature and are not necessarily predictive of any future performance.

**3.5** Our views on the auditor providing additional information about their judgments and processes related to going concern questions or issues and to uncertainties that do not rise to the level of substantial doubt are consistent with our views on reporting matters of audit judgment and the use of mandatory emphasis paragraphs in an Auditor's Commentary presented elsewhere in this letter.<sup>29</sup> We are in favor of including language in a discussion of auditors' responsibilities that would generally focus on the inherent limitations on auditors' judgment and processes with respect to accounting estimates and policies of management and only when deemed relevant in the circumstances (specifically with respect to going concern issues).

#### ***b. Other information***

**3.6** We are in favor of expanding the standard audit report to include language in the discussion of auditors' responsibilities that would better inform investors and other users regarding their limited

---

<sup>29</sup> See Sections 2a and 2b.

responsibilities under applicable auditing standards<sup>30</sup> to read and consider whether information accompanying audited financial statements is materially inconsistent with either the financial statements or with knowledge obtained during the audit. However, we believe such language, if mandated, should include a clear disclaimer of assurance as to such other information because it has not been subjected to auditing procedures. Because any exceptions would be expected to be resolved satisfactorily before issuing an audit report, there should be no need for a future standard to provide any guidance for reporting them. As suggested in paragraph 69 of the ITC, we are opposed to requiring the auditor to make any positive statement or conclusion about the absence of any inconsistencies in such information — even if expressed in the form of negative assurance — because we believe that likely would mislead users into assuming incorrectly that such information had been subjected to auditing procedures that we believe would have the undesired effect of widening the expectations gap.

#### **4. Clarifications and Transparency (ITC Question Nos. 11-14)**

##### ***a. Enhanced descriptions of responsibilities of management, TCWG and auditors***

**4.1** As set forth in the ITC, we recognize that investor groups and other users of audited financial statements have expressed their belief that including additional information to expand the current descriptions in audit reports of the respective responsibilities of those involved in the financial reporting process (including those of management, TCWG and the auditor) and also to clarify certain technical terms commonly used in audit reports, *e.g.*, “reasonable assurance,” “present fairly” (“fair presentation” or a “true and fair view”) and “material” would contribute to narrowing the expectations gap and improve auditor reporting. We agree that such additional information likely would improve communication and transparency by enhancing users’ understanding and, contribute positively to narrow both the expectations and information gaps and be of considerable value to users. In our view, a discussion of responsibilities of TCWG should include assessing auditor independence, competency and performance on behalf of investors and other users. We believe enhanced disclosures of auditors’ responsibilities should include those regarding the discovery of material misstatements whether due to error or fraud. Consequently, we support including enhanced descriptions of these respective responsibilities and definitions of key technical terms beyond those currently included within the standard auditor’s report with greater emphasis on those of management and TCWG and less on those of the auditor.<sup>31</sup>

**4.2** Although we support improved transparency through expanded responsibility descriptions and definitions in the audit report, we believe the descriptions of responsibility, particularly with regard to the auditor, should be kept succinct and balanced in relation to those of each other party’s responsibility<sup>32</sup>. This would avoid burdening audit reports with unnecessary and excessive “boilerplate” language that we believe likely would make them unwieldy, difficult to read and detract from the importance of other information within the report. For reasons discussed in Section 3, above<sup>33</sup>, we would also be in favor of reducing the status any discussions in the audit report of

---

<sup>30</sup> For example, see ISA 720.

<sup>31</sup> See ¶ 2.4.

<sup>32</sup> See Exhibit No. 1.

<sup>33</sup> ¶§ 3.1-3.5.

the auditor's and management's respective responsibilities relative to going concern evaluation processes from mandatory as proposed to matters of auditor judgment. If these objectives were to be accomplished in a final standard, we would see no impediments to such enhancements.

**4.3** We believe that it is particularly important not to neglect a description of the responsibilities of management and TCWG. We understand that in many jurisdictions TCWG or management issue separate reports describing their responsibilities for the financial statements. Some who may downplay the inclusion of a description of these responsibilities in the auditors' report may be biased by being accustomed to such separate reporting by TCWG or management. Such reports by TCWG or management are rarely issued by non-PIEs in the U.S., and not even by all PIEs. It cannot be assumed that the entity for which an audit report is issued under ISA will have any report from TCWG or management.

**4.4** If the Board decides that user demand warrants a standardized, more detailed description of the auditor's responsibilities (or of a typical, but not the specific, audit) such as illustrated in the ITC, we believe it should be presented more appropriately outside the auditor's report, preferably on a website maintained by the applicable audit standard-setting body, or in an appendix to the report, so as not to detract from the more significant reported matters. We do not see any need to present a glossary in a supplement because the terms requiring definition are few, and it would be most practical and useful to include them in the body of the report where they would be most likely read.

**4.5** In summary, although we believe certain improvements can and should be made, overall, we do not believe that the current audit reporting model is deficient in any significant way, other than as suggested in the foregoing paragraphs.

***b. Disclosing the engagement partner's name***

**4.6** We understand that some stakeholders have advocated disclosure of the name of the engagement partner, and we recognize that in many jurisdictions around the world, identification of the engagement partner in the audit report is currently required. However, we are unable to discern any value to such disclosure. Despite the arguments put forward by proponents of this practice, we do not believe that such a requirement has any potential to provide any transparency or information that would be meaningful or of any value to users of audited financial statements, and we oppose any global requirement to do so.

**4.7** We hold the foregoing view primarily because an audit is generally performed by a firm that takes full responsibility for determining the methods and procedures used and the quality control environment under which audits are conducted (including the "tone-at-the-top"), the actual conduct of the audit, and the resultant report that is issued. Moreover, although managed by the engagement partner, audits are generally conducted by an engagement team, including but not limited to engagement quality reviewers, various firm specialists, and other partners and professional staff, and firms generally have a quality control policy that effectively provides for resolution at the firm level of any significant disagreements among its professionals on engagement matters. Virtually all engagement team members play an integral role in the audit and in determining the conclusions reached, and all of whom are individually accountable for their compliance with all professional ethics and other applicable professional standards, regulatory requirements and firm policies and procedures, and all are subject to serious consequences for failure to comply.

**4.8** Possible consequences for failure to comply with professional and regulatory requirements could include loss of licenses and livelihoods, damage to one's professional reputation, exposure to professional liability and related monetary penalties and imprisonment. This is the case in the United States and the many other jurisdictions with which we have experience. We realize that it is possible that there are jurisdictions with which we are not familiar where the legal and regulatory system is such that the engagement partner's name being on the report results in added responsibility. We believe a serious impediment to require such a disclosure would be the creation of an unnecessarily exaggerated user impression of the extent of responsibility placed on the engagement partner in relation to the other members of the audit team and, more significantly, the entire audit firm.

**4.9** In paragraph 72 of the ITC, the Board appears to suggest that it would require identification of the engagement partner only to achieve transparency for its sake (without any perceived value added) but that many users have asserted that requiring such disclosure in an audit report would contribute in some significant way to audit quality by increasing the partner's sense of accountability, professionalism and responsibility<sup>34</sup>. We disagree with those user views for two main reasons. First, we believe that an assertion to that effect cannot be objectively and persuasively supported. Second, we believe that, in view of the internal quality controls, regulatory oversight and the other formidable risks and disincentives to poor performance already in place in many (although we recognize, possibly not all) of the world's audit environments, mandatory disclosure of the name of the engagement partner on a global basis would not add to the sense of responsibility and accountability of audit partners or to audit quality in any measurable or otherwise meaningful way.

**4.10** As for the Board's transparency motive, we believe that disclosure of the name of the engagement partner in the audit report would not have any meaning to users of the audited financial statements of PIEs because these partners, and their backgrounds, experience and other qualifications are virtually unknown outside of their firm and perhaps various other professional colleagues with whom they are directly acquainted, *e.g.*, in connection with professional association activities, except in such rare instances in which the partner has been named in some adverse publicity concerning his or her professional activities. Therefore, for PIEs, we believe that investors and other users should rely primarily on effective performance of the oversight role by TCWG (which we believe should be subject to greater regulatory control than is currently the case<sup>35</sup>) and that any decision to mandate identification of engagement partners in audit reports should come from regulators in each jurisdiction. We believe that such a disclosure requirement likewise would be of no value with regard to non-PIEs because, in many instances, the engagement partner is known by, or the name is readily available upon inquiry to, lenders or other users.

***c. Involvement of other auditors***

**4.11** We believe that the proposed disclosures regarding the involvement of other auditors should be discouraged rather than encouraged by the operative standard because such disclosure is inherently

---

<sup>34</sup> For a more extensive discussion of our views, principally from an audit quality and accountability standpoint, about identifying engagement partners in audit reports and about other auditors participating in an audit, see our January 4, 2012, letter to the PCAOB regarding its Release No. 2011-007 (Rulemaking Docket Matter No. 29) available online at [http://pcaobus.org/Rules/Rulemaking/Docket029/018b\\_NYSSCPA.pdf](http://pcaobus.org/Rules/Rulemaking/Docket029/018b_NYSSCPA.pdf).

<sup>35</sup> ¶ 1.12.

inconsistent with the requirement of ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, for the group or other reporting auditor to take full responsibility for the work of others. If such disclosures are to be made, we believe, as with other emphasis paragraphs, that they should be relatively rare and solely a matter of the reporting auditor’s judgment based on an evaluation of several established criteria. For example, such factors may include the extent of oversight or direct supervision and other quality controls exercised by the principal or group auditor over the others, the extent of knowledge and understanding of the principal auditor about the activities of the entity whose financial statements (or portion thereof) are audited by others, and an assessment of the related risks, the relative materiality of the amounts and disclosures audited by the participating firms and the extent of public interest in the primary reporting entity. We believe such disclosure should be clear that its intent is not to divide responsibility but that all responsibility for the audit and the report is borne by the group or other reporting auditor.

**4.12** We believe that current audit performance standards should be made more robust and that additional practice guidance should be developed and issued by the appropriate authorities to obtain reasonable assurance that group auditors will (a) apply adequate oversight and other quality controls over the work of others, and (b) make reporting decisions and other relevant judgments that are appropriate to the circumstances. We do not believe, however, that any perceived weaknesses in such practices can be properly addressed only in reporting standards by requiring additional disclosures in audit reports.

**4.13** Despite the apparent demands of investor groups for more disclosures, we have significant reservations about their value due to inherent practical limits on the extent and depth. We are concerned with this proposal due to a high probability we perceive of user misconceptions based on such limited information that auditors that perform less than 100% of the audit procedures themselves are necessarily of a lesser quality, and that the greater number of participating auditors, the lower the audit quality<sup>36</sup>. We view these probable misconceptions as a serious impediment to this proposal.

**4.14** As stated in Section 4b<sup>37</sup>, with respect to naming the engagement partner, we believe that investors and other users should rely primarily on effective performance of the oversight role by TCWG, firm quality controls and regulatory practice monitoring activities, with regard to the use of other auditors.

## **5. Form and Structure (ITC Question Nos. 15-18)**

### ***a. Suggested report structure/order***

**5.1** Other than as stated elsewhere herein, we see no compelling reason to revise the format or order or content of the standard audit report in any substantive way. On the contrary, we generally believe that expanding the content and reorganizing the format to the extent and manner proposed in the ITC would diminish the understandability, readability and, effectiveness of a typical audit report and diminish the value to users. We believe a requirement to comment on matters that do not affect the audit opinion (and should be or are reported by management), and the self-interest created by the

---

<sup>36</sup> See f/n no. 35.

<sup>37</sup> ¶ 4.9.

pressure on auditors to report more rather than less because of the risk of being evaluated, at least in part, based on the weight of the report, would likely have the effect of diluting the value of the auditor's objectivity and independence and the attest function, in general.

**5.2** We believe that the Board's suggestion to have the auditor's opinion placed at the beginning of the report, without first setting forth the basis thereof, *i.e.*, at least what is commonly called a "scope" paragraph, lacks any substance and would not contribute to achieving the goals of (a) improving transparency, (b) narrowing the expectations gap, (c) providing improved communications so as to enhance the understanding of investors and other users, or (d) otherwise adding information of any value to users. More significantly, we believe organizing the report in this manner likely would have the adverse effect of inappropriately minimizing the importance of other matters in the eyes of users as their placement approaches the end of the report. We do believe that providing captions such as are illustrated in ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, tend to make audit reports easier to read and understand and allow users to locate more readily those portions of the report in which they are most interested (*e.g.*, the opinion paragraph). Adding such captions would be of value to users, and would be without any discernible impediments.

**5.3** Exhibit No. 1 to this letter contains an illustration of an improved auditor's report that is consistent with the foregoing views.

***b. Global consistency***

**5.4** As explained in paragraphs 15 and 23 and Appendix 4 of the ITC, we understand that the Board's "building block" approach is designed to provide a basic foundation to encourage reasonable structural consistency on a global scale but within the limits that are inherent in national and regional preferences, and that allows for variations in reporting as may be deemed appropriate for different types of entities or circumstances. We agree in principle with the Board's building block approach for auditor reporting, but do not favor any rigid, universal standard. We believe a recommended format or template with a preferred order for a standard audit report can provide the proper balance between trying to establish global consistency and allowing for tailoring as may be needed to accommodate national laws, regulations or standards and for circumstantial variations based on limited and guided auditor judgment.

***c. Applicability to entities of all sizes, public or private***

**5.5** We believe an auditor's report ultimately should reflect the needs of its users, and we support the view that enhanced reporting that would help users better understand both what an audit is (and what it is not) should apply to all audit reports without regard to the nature of the entity. With the principal exception of those discussed in Section 4 above with regard to clarification, we are opposed to making applicable substantially all of the proposed requirements for reporting on any issuers, we are largely in favor of the same reporting model for all entities. If some or all of the proposals that we have objected to become mandatory, we believe their applicability should be limited only to PIEs because we believe public investors and other users of financial statements of PIEs have substantively different needs than users of the financial statements of others.

**5.6** With respect to those proposals that relate to financial statement matters (as opposed to auditing matters), we observe that users of reports on financial statements of privately held or other small entities ordinarily have direct access to management and are in the position to request additional information or analysis from issuers. We believe this probable condition should be given substantial consideration in minimizing those proposed requirements that might otherwise be made applicable to non-PIEs. We also point-out that particular private parties could demand or negotiate for the voluntary application of the full standards that apply to PIEs. Likewise, local legislation or

regulation could require the application of the full standards under specified criteria in addition to those set-forth in the ITC.

## **6. Suggestions If the Board Determines That Some or All of the Proposals to Which We Have Objected Are of Value**

**6.1** If the Board determines that some or all of the proposals that we have objected to are of value, we suggest, where possible, such as with auditor discussion and analysis, the reporting not be required by ISA but rather be defined as a separate service for which the entity can engage the auditor in addition to the audit. Regulators would then be able to use these ISA defined services as a “tool-kit” and determine which should be required in what circumstances in addition to the audit. Even when not required by regulators, private parties could demand or negotiate contractual provisions requiring the additional services be performed in conjunction with audits.

**6.2** If the Board determines that it must set standards regarding auditor commentary about the financial statements, rather than leaving it to accounting standard-setters, we suggest that the Board recognize in the ISA that this information should preferably be included by management as financial statement disclosure rather than being part of the auditor’s report. The ISA would set forth the disclosure that management should have in the financial statements. To the extent that the disclosure is required by the accounting framework, the ISA requirement would be moot as other requirements of ISA already would cover what the auditor would need to do. To the extent that the accounting framework does not require the disclosure required by the ISA, then the auditor would be required to include it in the audit report, unless management voluntarily included the disclosures in the notes (perhaps as a note 1) to the financial statements.

**6.3** If the Board determines, despite our objections, that auditor’s report discussion of the going concern assumption not be limited to circumstances in which there is material uncertainty, we suggest that rather than a positive assertion of the appropriateness of the going concern assumption, the description of management’s and the auditor’s responsibilities include discussion of their respective responsibilities with regard to going concern assessment. Such a description would imply (just as the standards currently imply) that the lack of an EOM regarding a going concern material uncertainty meant that management had made an assessment that there was no such material uncertainty and that the auditor concurred. We still object to this for the same reasons that we object to the positive assertion but believe that the impediments are lower.

## Illustrative Audit Report

### Independent Auditors' Report on Financial Statements

#### The Financial Statements We Audited

We have audited the accompanying balance sheet of X Company (the Company) as of December 31, 20XY and 20XX, and the related statements of income, retained earnings, and cash flows for the years then ended. The financial statements are inherently historical in nature and, accordingly, are not necessarily predictive of any future performance.

#### Basis for Our Opinion

We conducted our audits in accordance with [*insert, as appropriate, "International Standards on Auditing" and/or a reference to other applicable auditing standards in use*] and all independence and other applicable ethical requirements. Among other things, the auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

#### Audit Opinion

In our opinion, the financial statements referred to above present fairly [*or provide a "true and fair view"*], in all material respects, the financial position of the Company as of December 31, 20XY and 20XX, and the results of its operations and its cash flows for the years then ended in conformity with [*insert, as appropriate, the accounting framework in use*].

#### Respective Responsibilities of Those Engaged in the Financial Reporting Process

**Responsibilities of management.** Management is responsible for the preparation and fair presentation of the financial statements, including disclosures, in accordance with [*insert, as appropriate, the accounting framework in use*]. Management's responsibilities include adopting sound and appropriate accounting policies, making accounting estimates that are both supportable and reasonable in the circumstances, for identifying and ensuring that the company complies with the laws and regulations applicable to its activities, and for the design, implementation and maintenance of effective internal controls over financial reporting as it deems necessary to safeguard the Company's resources and reasonably assure itself that the financial statements are free from material misstatement, whether due to fraud or error. Accordingly, management's overall responsibility for the financial reporting process is primary.

**Responsibilities of the [*insert, as appropriate, "Audit Committee," or otherwise identify TCWG*].** The [*insert, as appropriate, "Audit Committee" or the name of another governance body*] is responsible to conduct oversight activities with respect to the financial reporting process as necessary to protect the interests of the Company's investors and other users in the reliability of its financial statements [*insert, if appropriate, and accompanying disclosures*]. Those responsibilities include overseeing and assessing how well management meets its responsibilities and assessing auditor independence, competency, strategy and performance.

**Responsibilities of auditors.** Our responsibility as independent auditors is to conduct our audits in accordance with applicable professional standards and to express an opinion on the financial statements based on our audit. An audit conducted in accordance with the ethical and other professional standards involves maintaining our independence under all applicable rules and regulations and performing procedures to obtain audit evidence deemed sufficient to support management's assertions embodied in the amounts and disclosures in the financial statements to enable the expression of an opinion. The nature, timing and extent of the procedures selected depend on our judgment, as auditors, including our assessment of the risks of material misstatement of the financial statements, whether due to error or fraud, that are inherent in the financial reporting process, whether principles selected and used, and reasonableness of significant estimates made, by management, as well as evaluating the overall financial statement presentation and adequacy of disclosures.

## Illustrative Audit Report (continued)

Our evaluations of management's estimates and related processes and selected policies [*only if warranted by the circumstances, insert " , including matters relative to the appropriate use of the assumption underlying the financial statements that the Company will continue as a going concern for a reasonable time"*] are subject to limitations inherent in the applicable estimation processes and to auditors' judgment and procedures employed. Our responsibilities also include communications with [*insert, as appropriate, "Audit Committee" or the name of another governance body*] regarding certain significant matters including but not limited to those relating to audit scope and findings.

An audit in accordance with the applicable standards also includes obtaining an understanding and assessing the effectiveness of internal controls employed by the reporting entity to prevent and detect misstatements solely as a basis for designing audit procedures that in our judgment are appropriate in the circumstances but not for the purpose of expressing an opinion thereon.

*[If other auditors are used to a significant extent (in the judgment of the reporting auditor), insert appropriate language to describe the extent of participation by, and oversight ( including direct supervision) and other quality controls, maintained over, other auditors.]*

*[If applicable, insert "Our responsibility for information contained in this [identify the document containing the financial statements) but presented outside the financial statements is limited to reading and considering whether such information appears materially inconsistent with either the financial statements or with knowledge we obtained during our audit. However, we have not audited this information and do not express an opinion or any other form of assurance on it."]*

### Emphasis of Matter(s)

*[Use this section solely at auditor's discretion to emphasize particularly sensitive matters (including if, deemed appropriate, with regard to going concern uncertainties) in accordance with applicable current reporting standards.]*

### Definitions of Key Terms Used in this Report

**Material.** Misstatements, including omissions, are considered material if, individually or in the aggregate, they could be reasonably expected to influence the economic decisions of intended financial statement users.

**Present fairly ("fair presentation or "true and fair view").** Financial statements prepared based on the application of the principal qualitative characteristics of appropriate accounting standards are generally understood to present fairly the financial position, performance and changes in financial position of an entity. The term is generally used in audit reports together with the expression "in all material respects" (*i.e.*, free from material misstatements or disclosure omissions), with the selected accounting framework under which they are prepared. Embodied in the notion of fair presentation is a basic requirement that transactions and events be reported in accordance with their economic substance whenever at variance from their legal form.

**Reasonable assurance.** Reasonable assurance is a high level of assurance, but it is not absolute assurance, nor is it a guarantee that an audit conducted in accordance with applicable professional standards will always detect a material misstatement when it exists.

### Report on Other Legal and Regulatory Requirements

*[Form and content of this section, if any, will vary depending on the nature of other applicable reporting responsibilities.]*

[Signature]

[Date]

**Summary of Views of the New York State Society of Certified Public Accountants (NYSSCPA) (continued)**

NYSSCPA VIEWS	BASIS FOR NYSSCPA VIEWS
<p><b>Q1.</b> <i>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?</i></p>	
<p>No. Overall (with few minor exceptions), we do not believe the IAASB’s suggestions would improve or enhance the relevance and value of an auditor’s report.</p>	<p>The overall effects of the suggestions would inappropriately:</p> <ul style="list-style-type: none"> <li>• Place financial reporting burdens on the auditor that rightfully belong to others,</li> <li>• Blur or eliminate distinctions among responsibilities of management, TCWG and those of the auditor,</li> <li>• Fundamentally alter the nature and diminish the value of the attest function and audit opinions,</li> <li>• Put reporting pressures on the auditor that would diminish their objectivity, strain working relationships with management and TCWG and limit the auditor’s ability to act independently,</li> <li>• Result in inconsistent reporting that would not be comparable and would be of little value to and likely be misunderstood by users, and</li> <li>• Add unnecessary costs to and cause delays in issuing reports.</li> </ul>
<p><b>Q2.</b> <i>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.</i></p>	
<p>Yes. However, substantially all of our suggested alternatives would be outside the scope of authority of the IAASB or any other auditing standard-setting body.</p>	<p>Suggested alternatives include:</p> <ul style="list-style-type: none"> <li>• Regulatory controls over the oversight activities of, with public reporting responsibilities for, TCWG, and</li> <li>• Enhancing financial accounting standards and other reporting requirements that are applicable to management such that they will prescribe better disclosures to narrow the information gap.</li> </ul>
<p><b>Q3.</b> <i>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?</i></p>	
<p>No. We do not support the inclusion in an audit report of any of the content of an Auditors’ Commentary that is proposed in the ITC. Most particularly (for different reasons</p>	<ul style="list-style-type: none"> <li>• An unqualified audit opinion is intended to mean (among other things) that management’s disclosures have been evaluated by the auditor and found to be adequate to meet the needs of users, and any supplemental explanatory or emphasis disclosure by the auditor would tend to be viewed as contradictory to and detract from such an implied conclusion.</li> </ul>

**Summary of Views of the New York State Society of Certified Public Accountants (NYSSCPA) (continued)**

NYSSCPA VIEWS	BASIS FOR NYSSCPA VIEWS
noted at right),	
we object to the inclusion of (a) information intended to supplement management’s financial statement disclosures, including mandated emphasis paragraphs, (b) matters discussed with TCWG, and (c) details about audit risks and other scope or strategy decisions and other matters of auditor and management judgment.	<ul style="list-style-type: none"> <li>• Excessive use of emphasis paragraphs would tend to be counterproductive by diluting any intended emphasis on matters that might warrant it as set forth in ISA 706.</li> <li>• Without direct access to the auditor that would enable two-way dialog with the auditor as TCWG have, or the training, seasoned judgment and intimate circumstantial knowledge of the auditor, users will be unable from a written report that is inherently subject to practical limits as to content to sufficiently understand and evaluate critical audit judgments and other matters reported to TCWG.</li> </ul>
<b>Q4.</b> <i>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?</i>	
See response to <b>Q3</b> .	
<b>Q5.</b> <i>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?</i>	
No. While certain elements of the illustrative Auditor’s Commentary may have value to users, such information should come from management or TCWG; not auditors.	See responses to <b>Q1</b> and <b>Q3</b> .
<b>Q6.</b> <i>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?</i>	
See <b>Q1</b> .	
<b>Q7.</b> <i>Do you agree that providing Auditor Commentary for certain audits (e.g., audits of public interest</i>	

**Summary of Views of the New York State Society of Certified Public Accountants (NYSSCPA) (continued)**

NYSSCPA VIEWS	BASIS FOR NYSSCPA VIEWS
<p><i>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?</i></p>	
<p>No. We do not support the inclusion of an Auditor Commentary in audit reports for any entities; however, if it were to be required, we believe such a requirement should apply only to reports issued for PIEs.</p>	<p>Public investors and other users of financial statements of PIEs have substantively different needs than other users. If a requirement to include Auditor Commentary were adopted, it would likely be of sufficient value to warrant its cost only to such users who do not have direct access to management.</p>
<p><b>Q8.</b> <i>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?</i></p>	
<p>Auditors should comment on going concern matters only when continuation is threatened by circumstances as currently provided by ISA 570.</p>	<ul style="list-style-type: none"> <li>• The IAASB proposal would result in the equivalent of a separate (or prohibited “piecemeal”) opinion on the going concern assumption,</li> <li>• Heightened focus on the going concern assumption would elevate it inappropriately from a normally expected condition (a “default” value), now discussed in reports only on an exception basis, to a level of importance above all other typical accounting conventions,</li> <li>• Virtually no value to users when continuation as a going concern is not materially uncertain, and</li> <li>• Many financial statement issuers in many places may not be seriously affected by current economic weakness, and many effects may be temporary.</li> </ul> <p>See also <b>Q9</b>.</p>
<p><b>Q9.</b> <i>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?</i></p>	
<p>Auditors should not report negatively on inapplicable matters. (See <b>Q8</b>.)</p>	<p>To maximize the probability that they will be read and understood by users, audit reports should be kept as brief and uncluttered as possible and not be laden with language explaining why the irrelevant does not apply. The presence of material uncertainties</p>

**Summary of Views of the New York State Society of  
Certified Public Accountants (NYSSCPA) (continued)**

NYSSCPA VIEWS	BASIS FOR NYSSCPA VIEWS
	about the going concern assumptions should not be treated as a rebuttable presumption.
<b>Q10.</b> <i>What are your views on the value and impediments of the suggested auditor statement in relation to other information?</i>	
We are in favor of a statement clarifying the auditor’s limited responsibility for such information.	Such disclosure would narrow the expectations gap by reducing or eliminating user misunderstandings and would protect the auditor from inappropriate exposure to liability.
<b>Q11.</b> <i>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?</i>	
No. The illustration provided places insufficient emphasis on the responsibilities of management and TCWG in relation to those of the auditor. We support enhanced language regarding such responsibilities but prefer a more balanced approach with other suggested improvements such as illustrated in Exhibit No. 1.	<ul style="list-style-type: none"> <li>• Management’s role in providing information about its financial statements is primary and should not be underplayed,</li> <li>• Too little is known by many users about the role of TCWG,</li> <li>• The auditor’s role is secondary and overemphasis from excessive detail is likely to be misleading, and</li> <li>• Excessive detail about audit procedures is likely not to be understood by, or be of value to, users.</li> </ul>
<b>Q12.</b> <i>What are your views on the value and impediments of disclosing the name of the engagement partner?</i>	
Although we believe such information should be available elsewhere, we are opposed to any auditing standard proposal that would require identification of the engagement partner in an audit report.	<ul style="list-style-type: none"> <li>• Although there is no reason the name of the engagement partner should be kept secret, disclosure in audit reports would overemphasize the responsibilities of the engagement partner in relation to those of the firm and, therefore, be misleading,</li> <li>• Disclosure would add unnecessary detail to audit reports and would not contribute to audit quality or provide any other potential substantive value to users.</li> </ul>
<b>Q13.</b> <i>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</i>	

**Summary of Views of the New York State Society of Certified Public Accountants (NYSSCPA) (continued)**

NYSSCPA VIEWS	BASIS FOR NYSSCPA VIEWS
<i>relevant circumstances, or left to the auditor’s judgment as part of Auditor Commentary?</i>	
<p>Information regarding the use of other auditors should be disclosed relatively rarely and only at the judgmental discretion of the reporting auditor in a way that clearly indicates that the reporting auditor assumes all responsibility for the scope and performance of the audit as required by ISA 600.</p>	<ul style="list-style-type: none"> <li>• Disclosure of involvement of other auditors tends to create potentially misleading user impressions of lesser audit quality and should be discouraged rather than encouraged, and</li> <li>• Any perceived pattern of audit quality deficiencies involving the use of other auditors should be addressed with more robust performance rather than reporting standards.</li> </ul>
<p><b>Q14.</b> <i>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?</i></p>	
<p>We are in favor of including standardized material describing the auditor’s responsibilities (and definitions of key technical terms) in the report rather than elsewhere but only to a practical extent in less detail than illustrated in the ITC. (See <b>Q11</b>.)</p>	<p>Information about the relative responsibilities of those involved in the financial reporting process would enhance users’ ability to understand the auditor’s responsibilities and reports and see no need to separate them from the reports if kept succinct enough so as not to detract from other significant matters. However, if detailed procedural disclosures such as are illustrated in the ITC were to be prescribed, they would detract from more significant matters and would, therefore, best be disclosed as supplements such as on a web site or in an appendix.</p>
<p><b>Q15.</b> <i>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?</i></p>	
<p>We are opposed to placing the opinion first (and to including an Auditor Commentary at all) but prefer the order we have illustrated in Exhibit No. 1.</p>	<p>We see no benefit to placing the opinion first. Further, expanding the content and reorganizing the format to the extent as proposed would severely diminish the understandability and readability of a typical audit report and its effectiveness and value to users. A requirement to comment on matters that do not affect the audit opinion (and should be or are reported by management), and the self-interest created by the pressure to report more, rather than less, likely would have the effect of diluting the value of the auditor’s objectivity and independence and the attest function in general.</p>

**Summary of Views of the New York State Society of  
Certified Public Accountants (NYSSCPA) (continued)**

NYSSCPA VIEWS	BASIS FOR NYSSCPA VIEWS
<p><b>Q16.</b> <i>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?</i></p>	
<p>We agree with the “building block” approach to maximize global consistency as may be practical but do not favor a rigid, universal standard.</p>	<p>A recommended format or template with a preferred order for a standard audit report can provide the proper balance between trying to establish global consistency and allowing for tailoring as may be needed to accommodate national laws, regulations or standards and for circumstantial variations based on limited and guided auditor judgment.</p>
<p><b>Q17.</b> <i>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?</i></p>	
<p>See <b>Q15</b> and <b>Q16</b>.</p>	
<p><b>Q18.</b> <i>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?</i></p>	
<p>Although we are opposed to most of the IAASB's suggestions, the improvements in auditor's reports that we do support should be applied to all entities. (See also <b>Q1</b>.)</p>	<p>Enhanced reporting that would help users better understand both what an audit is and what it is not should apply to all audit reports without regard to the nature of the entity.</p>