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Mr. James Gunn  
Technical Director, Professional Standards, IAASB  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

**Re: Consultation Paper: Enhancing the Value of Auditor Reporting: Exploring Options for Change**

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to respond to the questions in the above referenced consultation paper regarding enhancing the value of auditor reporting. We commend the International Auditing and Assurance Standards Board (IAASB) on its work in developing this consultation paper and putting forth options for consideration on ways to enhance the quality, relevance and value of auditor reporting. The focus of our response is on auditor reporting for private entities.

We believe that any proposal should serve to reduce the information or expectations gap, and maintain or enhance audit quality. Auditor reporting should focus on the objective rather than the subjective and the roles and responsibilities of the auditor should remain unchanged, in that the auditor should not be the original source of disclosure. Management's responsibility in this regard should be preserved so as not to blur the distinction of the roles of the auditor and management and not have the auditor compete and potentially contradict management's disclosures. We believe that many of the enhancements to auditor reporting suggested by the Consultation Paper have questionable practical relevance for many users of audited financial statements of private entities in the United States. Any attempt to expand auditor reporting with a one-size-fits-all report seems likely to either over report to a broad group of potential users who do not have the background or knowledge to use the information in a meaningful way or under report to more sophisticated and knowledgeable users.

The appendix to this letter provides our responses to the questions presented in the consultation paper.

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

Respectfully submitted,

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

/s/ Darrel Schubert  
Chair, Auditing Standards Board

## Appendix

### Responses to Questions in the Consultation Paper, “Enhancing the Value of Auditor Reporting: Exploring Options for Change”

#### Issues Identified

#### Questions

1. Do respondents have any comments about the issues identified in Section II regarding the perceptions of auditor reporting today?

We believe the expectations gap and information gap are different depending upon the knowledge and background of the relevant users. Users at any level, however, should understand the nature and limitations of an audit. Financial statement users in the private entity environment have not voiced most of the concerns about the existing auditor’s report; rather, the sources of such comments appear to be investment analysts, pension funds and other advisors of public companies. With that in mind, we question whether the amount of existing information and disclosure currently contained in public company reporting makes it extremely difficult for their users to focus on the important matters. We believe that the auditor should not be providing original disclosures about the entity; rather, that responsibility should remain with management. Without a broader initiative that includes the financial reporting standard setters, we question whether expected improvements can be achieved.

2. If respondents believe changes in auditor reporting are needed, what are the most critical issues to be addressed to narrow the information gap perceived by users or to improve the communicative value of auditor reporting? Which classes of users are, in the view of respondents, most affected by these issues? Are there any classes of users that respondents believe are unaffected by these issues?

We agree that some changes to the structure and the wording of the auditor’s report could be valuable, for example, clarifying the auditor’s responsibilities with respect to fraud. Recently, the IAASB and the ASB jointly sponsored academic research addressing users’ perceptions of the usefulness of the auditor’s report. That research was not designed to assess the effects of significant changes to the auditor’s report. However, collectively the results do suggest that minor changes to the report are not likely to affect those perceptions. We feel strongly that whatever changes are made should not downplay the role of management and the content on which management should have responsibility to report.

3. Do respondents believe that changes are needed for audits of all types of entities, or only for audits of listed entities?

In general, we believe that the parties identified in our response to question 1 perceive the most significant information or expectations gap with respect to public company reporting. Private entities with little public accountability or regulatory oversight are less affected by these issues. However, we caution that developing different reporting models for different types of organizations could

have the unintended consequence of creating more confusion and widening the information or expectations gap.

## **Exploring Options for Change**

### *A. Format and Structure of the Standard Auditor's Report*

#### **Questions**

4. Respondents are asked for their reactions to the options for change regarding the format and structure of the standard auditor's report described in Part A. Do respondents have comments about how the options might be reflected in the standard auditor's report in the way outlined in Appendix 1 of this Consultation Paper?

We believe that changing the structure or format of the report would have little or no effect on the expectations or information gap. Under current U.S. reporting, changes in geography can and have been made. For example, certain audit firms present the opinion in the first paragraph. We believe that that these changes have not created any differences in the perception or understanding of the report.

We do not support an "Opinion only" report as we believe this could increase the information gap as the user is more likely to misunderstand the scope, objectives and inherent limitations of the audit.

We would support an expanded discussion of the auditor's responsibilities as they relate to the detection of fraud. We do caution however, that providing more information in the report and thereby creating a longer report may have the unintended consequence of mistakenly implying that the longer report would reflect a different level of effort on the part of the auditor than that of the current form of report.

We also caution that if more information is required to be included in the auditor's report, including such information may increase the cost of the audit. Therefore, we question whether the benefit of the information would outweigh any additional cost.

5. If the paragraphs in the current standard auditor's report dealing with management and the auditor's responsibilities were removed or re-positioned, might that have the unintended consequence of widening the expectations gap?

We do not support removing or repositioning the paragraphs on management's and auditor's responsibilities. We believe removing these paragraphs could widen the expectations gap.

Do respondents have a view regarding whether the content of these paragraphs should be expanded?

If any expansion of the auditor's responsibilities is considered, we would support some additional wording to clarify the auditor's responsibility for detecting fraud. We also believe that further clarification of management's responsibilities to communicate significant audit areas to the audit committee, board of directors

and those charged with governance, and ultimately the shareholders and users of the financial statements would be helpful.

#### *B. Other Information in Documents Containing Audited Financial Statements*

##### **Questions**

6. Respondents are asked for their reactions to the possibility that the standard auditor's report could include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Do respondents believe that such a change would be of benefit to users?

The audit report should include a statement about the auditor's responsibilities regarding other information in documents containing audited financial statements. Current U.S. auditing standards contains sufficient guidance when reporting on supplementary information.

7. If yes, what form should that statement take? Is it sufficient for the auditor to describe the auditor's responsibilities for other information in documents containing audited financial statements? Should there be an explicit statement as to whether the auditor has anything to report with respect to the other information?

We believe the current form of U.S. reporting for other information provides sufficient guidance.

#### *C. Auditor Commentary on Matters Significant to Users' Understanding of the Audited Financial Statements, or of the Audit*

##### **Questions**

8. Respondents are asked for their views regarding the auditor providing additional information about the audit in the auditor's report on the financial statements.

We do not support providing additional information about the audit in the auditor's report on the financial statements, in particular those areas noted in paragraph 62 of the Consultation Paper. We believe that such additional communications would contain complex audit concepts that would require dynamic two-way discussion so that as questions arise additional context and perspectives can be provided. This important two-way dialogue cannot take place with a general use report thus creating possible greater confusion and widen the expectations gap.

9. Respondents are asked for their reactions to the example of use of "justification of assessments" in France, as a way to provide additional auditor commentary.

We believe the information contained in the "justification of assessments" in France, has been generic in nature and generally has not included any information that would assist the user of the financial statements looking for more information on assessments. We do not believe this expansion of the concept would address the information or expectations gap.

10. Respondents are asked for their reactions to the prospect of the auditor providing insights about the entity or the quality of its financial reporting in the auditor's report.

Auditors should not be the original source of disclosure for the entity, rather this responsibility should be retained by management. We also do not see the value from a cost/benefit standpoint of an auditor's report on the quality of an entity's financial reporting. Such reporting could hinder two-way communication between the auditor and those charged with governance without adding a meaningful benefit to users.

*D. An Enhanced Corporate Governance Model: Role of Those Charged with Governance regarding Financial Reporting and the External Audit*

**Questions**

11. Respondents are asked for their reactions to the options for change relating to an enhanced model of corporate governance reporting, as described in Section III, Part D.

We do not support an enhanced corporate governance model for private entities. If such enhanced reporting is to be considered, it should be promulgated by the applicable financial reporting framework standard setter, not auditing standards setters. We believe that management and those charged with governance should take a more active role in providing additional information to the users.

12. To the extent that respondents support this model, what challenges may be faced in promoting its acceptance? Also, what actions may be necessary to influence acceptance or adoption of this model, for example, by those responsible for regulating the financial reporting process?

We do not support this model.

13. Do respondents believe assurance by the auditor on a report issued by those charged with governance would be appropriate?

This type of reporting may inhibit communication between the auditor and those charged with governance during the course of the audit. What is to be reported on would need to be carefully considered. We believe it would be difficult to put a "fence" around what should be reported and the extent of reporting.

*E. Other Assurance or Related Services on Information Not Within the Current Scope of the Financial Statement Audit*

**Questions**

14. Respondents are asked for their reactions to the need for, or potential value of, assurance or related services on the type of information discussed in Section III, Part E.

We do not see a demand for this type of reporting for private entities. The current U.S. attestation standards provide guidance for providing assurance on certain other information not within the current scope of the financial statement audit.

15. What actions are necessary to influence further development of such assurance or related services?

We do not see a demand for this type of reporting for private entities.

### **Implications of Change and Potential Implementation Challenges Questions**

16. Respondents are requested to identify benefits, costs and other implications of change, or potential challenges they believe are associated with the different options explored in Section III.

We believe that further attempts to develop changed or expanded auditor reporting beyond perhaps minor wording changes to the current form of report to fit all users (one-size-fits-all) is not likely to be productive. Many of the different options explored would not likely yield benefits for private entities but would have cost/benefit concerns. We strongly believe that it would be more useful for the notes to the financial statements to be reorganized to draw users' attention to "key" disclosures so that the responsibility for such reporting remains with management and those charged with governance.

17. Do respondents believe the benefits, costs, potential challenges and other implications of change, are the same for all types of entity? If not, please explain how they may differ.

The cost, benefits and potential challenges are not the same for all entities. The relative costs for smaller entities would be far greater and management's ability will be significantly different from entity to entity.

18. Which, if any, of the options explored in Section III, either individually or in combination, do respondents believe would be most effective in enhancing auditor reporting, keeping in mind benefits, costs, potential challenges, and other implications in each case? In this regard, do respondents believe there are opportunities for collaboration with others that the IAASB should explore, particularly with respect to the options described in Section III, Parts D and E, which envisage changes outside the scope of the existing auditor reporting model and scope of the financial statement audit?

We believe that attempts to expand auditor reporting with a one-size-fits-all report seems likely to either over report to a broad group of potential users who do not have the background or knowledge to use the information in a meaningful way or under report to more sophisticated and knowledgeable users. We question whether a consistent model should be developed for all sizes and types of entities but the depth and breadth of the pieces of that model could be different for different sizes and types of entities and therefore the costs and benefits would differ. The consultation paper does not provide enough information to assess the costs and challenges associated with the suggested options. Proposed changes to the auditor's report should be subjected to a thorough analysis of the costs and expected benefits.

19. Are there other suggestions for change to auditor reporting to narrow the information gap perceived by users or to improve the communicative value of the auditor's report?

The consultation paper discusses very little about academic research. Benefits can be achieved by devising different models of auditor reporting and rigorously testing through sound experimental design their impact/influence on stakeholders. We believe the research should be very focused on each of the different classes of users and not just a broad base of users, the goal of which would be to address specific, known problems. The IAASB should consider investing in additional academic research to find out what such changes may actually accomplish.