



October 8, 2012

Mr. James Gunn
Technical Director, International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Mr. Gunn:

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide input on the Invitation to Comment, *Improving the Auditor's Report* (the "ITC"), which has been developed by the International Auditing and Assurance Standards Board ("IAASB" or the "Board").

We applaud the IAASB for the progress made in its deliberations related to improving the value of the auditor's report and for the Board's consideration of unprecedented changes to the auditor's report that are intended to enhance auditor reporting. We appreciate the IAASB's efforts to obtain and consider the views of key stakeholders, including investors, preparers, regulators, governments, the business community, and auditors regarding the direction proposed by the Board for the future auditor's report.

While acknowledging that this is a very difficult task, due in part to the diversity of perspectives and complexity of the issues under consideration, we encourage the Board to continue its deliberations to progress meaningful change to the auditor's report as quickly as possible. We recognize that throughout future deliberations, continued consideration of the value and impediments of suggested improvements will remain important.

It is clear that the information sought by users of audited financial statements has evolved over time. As such, reporting to users by auditors, management, and those charged with governance (TCWG) (e.g., audit committee, board of directors) also needs to evolve.

In our evaluation of each of the IAASB's suggested improvements to the auditor's report, we considered whether the suggested improvement:

- Appears to have value to users through either:
 - Enhancing the communicative value of the auditor's report (i.e., narrowing the information gap) by providing useful information to users and focusing them towards the most important areas of the financial statements; or
 - Enhancing the transparency about the audit (i.e., narrowing the expectations gap) by better explaining the nature and purpose of an audit, including explaining what an audit is intended to achieve and how it is executed.

- Preserves the line of responsibility between (i) the auditor (who is engaged to perform an audit and express an opinion that provides reasonable assurance on financial statements) and (ii) management and TCWG (who are the original providers of information included in the financial statements and are responsible for the preparation of the financial statements and for internal controls as they determine is necessary to enable the appropriate preparation of the financial statements).
- Enhances the quality of financial reporting.
- Can be implemented effectively and efficiently, considering potential costs and benefits. In this regard we note that financial reporting, corporate governance, and legal regimes vary considerably among jurisdictions. As a result, some recommendations in the ITC can be implemented without significant change to these regimes in certain jurisdictions. Others, in our view, require change to these regimes as a prerequisite to implementation regardless of whether or not we support the suggested improvement. We have considered these variances in financial reporting, corporate governance, and legal regimes in our responses. In particular, while the views of DTTL member firms have been collectively considered and incorporated into this response, the views outlined herein should not be construed to be the views of any specific member firm. Accordingly, if a specific member firm were to respond to a similar consultation by the standard setter in that member firm's jurisdiction, its response would also consider the financial reporting, corporate governance, and legal regimes specific to that jurisdiction.

Based on our evaluation of the IAASB's suggested improvements to the auditor's report, we support the following aspects of the ITC:

- Auditor Commentary that
 - Identifies and draws attention to those disclosures in the financial statements (including the related notes) that, in the auditor's judgment, may be most important to users' understanding of the financial statements; and
 - Highlights the significance of these matters to the performance of the audit when, in the auditor's judgment, it would be important to users' understanding of the audit.
- The suggested auditor statement that addresses the appropriateness of management's use of the going concern assumption.
- The suggested auditor statement that addresses whether material uncertainties related to going concern have been identified.
- The suggested auditor statement that addresses the identification of material inconsistencies in other information included with audited financial statements, based on the auditor's reading of the other information for such purpose.
- The enhanced descriptions of the responsibilities of management, TCWG, and the auditor.
- The reorganization of the form and structure of the auditor's report, including placement of the auditor's opinion, the Auditor Commentary section, and other information related to entity-specific matters towards the beginning of the report.

- The mandating of the ordering of items in the auditor's report in a manner similar to that shown in the illustrative report unless law or regulation require otherwise.
- The building blocks approach that helps to achieve comparable auditors' reports while still allowing jurisdictions the ability to further tailor auditor reporting requirements in the context of national environments.
- That the suggested improvements are appropriate for entities of all sizes with the exception of Auditor Commentary which, consistent with the IAASB's suggestion, we agree should be left to the discretion of the auditor for audits of entities other than public interest entities (PIEs).

We have addressed these matters and additional comments below in response to the questions raised in the ITC.

RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

Overall Considerations

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

Overall, we believe that many of the IAASB's suggested improvements would enhance the relevance and informational value of the auditor's report. Please see the responses to the questions that follow for our detailed comments related to specific suggested improvements to the auditor's report.

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

While we support the IAASB's efforts to improve the auditor's report and we encourage the Board to continue its deliberations to progress meaningful change to the auditor's report as quickly as possible, we also believe a holistic approach to improving financial reporting that includes management, TCWG and auditors is necessary. The audit is a part of the financial reporting process. We believe that reporting by management, TCWG, and auditors must be considered to maximize the relevance and informational value to users of audited financial statements.

For example, we believe that users would benefit from:

- Expanded, refined, or otherwise improved disclosures by management, particularly in the areas of significant accounting policies, critical accounting estimates, key accounting judgments, internal control, and strategic risks.
- Explicit disclosure by management as to the appropriateness of the use of the going concern assumption and the existence (or not) of material uncertainties relating to the ability of the entity to continue as a going concern.
- Expanded reporting by TCWG on their oversight activities.

We understand, however, that these changes would not be within the mandate of the IAASB. As such, we believe that it will be important for the Board to collaborate with others, including accounting standard setters (e.g., the International Accounting Standards Board [IASB], the Financial Accounting Standards Board [FASB]), regulators (e.g., the International Organization of Securities Commissions [IOSCO]), and others (e.g., investors, preparers), as such collaboration will help to improve the usefulness and quality of financial reporting as a whole. In addition, such collaboration between standard setters, regulators, and others will help to drive more consistency across jurisdictions.

Auditor Commentary

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

Yes, we 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. Specifically, we support the concept of Auditor Commentary through the inclusion of information within the auditor's report that:

- Would identify and draw attention to those disclosures in the financial statements (including the related notes) that, in the auditor's judgment, may be most important to users' understanding of the financial statements; and
- Would highlight the significance of these matters to the performance of the audit when, in the auditor's judgment, it would be important to users' understanding of the audit.

We believe that, in most cases, this information would refer to those disclosures in which the entity has identified and discussed its significant management judgments and estimates, including areas involving significant measurement uncertainty. We believe the type of Auditor Commentary described above preserves the line of responsibility between (i) the auditor and (ii) management and TCWG.

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

Yes, we 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 basis of the auditor's judgment. To effect the provision of the type of Auditor Commentary described in our response to Question 3, and to promote consistency in practice, we believe that robust guidance, including a framework to guide the auditor's decision-making process, will be necessary. As the IAASB develops any related guidance or a framework to assist the auditor in determining those matters that, in the auditor's judgment, may be most important to users' understanding of the financial statements, we believe it would be helpful to incorporate the view expressed in paragraph 45 of the ITC that auditors should consider matters including:

- Areas of significant management judgment

- Significant or unusual transactions

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

We agree that many elements of the illustrative examples of Auditor Commentary have informational or decision-making value to users. Specifically, and consistent with our response to Question 3 above, we believe that those elements of the illustrative examples of Auditor Commentary related to *Outstanding Litigation, Goodwill, and Valuation of Financial Instruments*, that:

- Identify and draw attention to the disclosures in the financial statements related to these matters; or
- Highlight the significance of these matters related to the performance of the audit

while preserving the line of responsibility between (i) the auditor and (ii) management and TCWG, have informational or decision-making value to users.

We understand the reasons behind the Board's consideration of incorporating a description of specific audit procedures and the related results. However, we believe that, in most cases, it would be impracticable to do so in a succinct and meaningful way, particularly as the size and complexity of the audit engagement increase. There are numerous significant issues that an auditor addresses on large, complex engagements involving multiple locations and jurisdictions; and, accordingly, there are a multitude of audit procedures that an auditor performs. Highlighting only a sampling from among the many procedures that may be performed is potentially misleading and will not be reflective of the extensive procedures an auditor performs to obtain sufficient appropriate audit evidence to support the auditor's opinion.

As an alternative to incorporating what could be a very lengthy description of specific audit procedures and the related results, we believe that the Board should consider the following:

- Indicating within the preface to the Auditor Commentary section of the auditor's report that the matters highlighted by the auditor often represent some of the most difficult and subjective areas of the audit; and, accordingly, the auditor tailors procedures to address significant risks that are identified.
- Including a reference within the preface to the Auditor Commentary section to the Auditor's Responsibility section.
- Expanding the Auditor's Responsibility section as described in our response to Question 11.

6. What are the implications for the financial reporting process of including Auditor Commentary in the auditor's report, including implications for the roles of management and TCWG, the timing of financial statements, and costs?

We believe that providing Auditor Commentary that is consistent with our response to Question 3 above may result in better discussion among the auditor, management, and TCWG, particularly with respect to the matters highlighted within Auditor Commentary as some of the most important to users' understanding of the financial statements. Such discussion may create a better basis for management's, TCWG's, and users' understanding of the audit and the financial reporting process as a whole. Please refer to our response to Question 5 for further discussion.

7. Do you agree that providing Auditor Commentary for certain audits (e.g., audits of 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?

Yes. As the demands for Auditor Commentary have come primarily from institutional investors and analysts, we agree that providing the type of Auditor Commentary described in our response to Question 3 for certain audits (e.g., audits of PIEs), and leaving its inclusion to the discretion of the auditor for other audits, is appropriate. Additionally, we agree with the IAASB that users of the financial statements of entities other than PIEs are likely to have access to this type of information through direct interaction with management and TCWG, thereby obviating the need for Auditor Commentary.

Going Concern/Other Information

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

We support the IAASB's suggested auditor statements related to going concern, which address the appropriateness of management's use of the going concern assumption and whether material uncertainties related to going concern have been identified. However, going concern is an area in which existing accounting and financial reporting frameworks differ. Many financial reporting frameworks do not explicitly require management to:

- Assess and disclose that the going concern basis is appropriate. For example, although International Accounting Standard 1, *Presentation of Financial Statements* (IAS 1), requires management to perform an assessment as to whether the going concern basis is appropriate, it does not require an explicit statement be included by management in the financial statements of the basis used to prepare the financial statements and its appropriateness.
- Assess and disclose whether (or not) material uncertainties related to going concern have been identified. For example, IAS 1 requires disclosure of material uncertainties related to going concern that are identified, but it does not require a statement in which no such uncertainties have been identified.

For these reasons, mandatory auditor reporting requirements in this area will likely result in the auditor providing original information in those jurisdictions without the necessary assessment and disclosure requirements imposed upon management; and, as a result, lead to

confusion regarding the line of responsibility between (i) the auditor and (ii) management and TCWG. To preserve this line of responsibility, it will be necessary for the Board to collaborate with the appropriate accounting standard setters (e.g., the IASB, the FASB) within these specific jurisdictions to ensure that explicit requirements are imposed upon management to assess and disclose (i) whether or not the going concern basis is appropriate and (ii) whether or not material uncertainties related to going concern have been identified as a jurisdictional condition to implementing mandatory auditor reporting requirements in this area.

Additionally, we believe that users of audited financial statements would benefit from the inclusion of a preface to the auditor's statement addressing the appropriateness of the use of the going concern assumption that explains the conditions under which the use of this assumption is appropriate within the relevant financial reporting framework.

9. What are your views on the value and impediments of including additional information in the auditor's report about the auditor's judgments and processes to support the auditor's statement that no material uncertainties have been identified?

Similar to our response to Question 5, we understand the reasons behind the Board's consideration of incorporating a discussion within the auditor's report of the auditor's judgments and processes to support an auditor's statement that no material uncertainties related to going concern have been identified. However, we believe that it would be impracticable to do so due to the significance of such judgments and processes on large, complex engagements and the multitude of related audit procedures that the auditor may perform.

10. What are your views on the value and impediments of the suggested auditor statement in relation to other information?

We are supportive of the suggested auditor statement that addresses the identification of material inconsistencies in other information included with audited financial statements, based on the auditor's reading of the other information for such purpose. We believe that the suggested auditor statement in relation to other information will enhance the value of the auditor's report to users of audited financial statements and will minimize the potential for misinterpretation by users that the other information has been audited.

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

We 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 and the roles and responsibilities of management and TCWG. Specifically, we agree that the IAASB's suggested enhancements to the description of the auditor's responsibility to explain more fully the concept of a risk-based audit, including the clarification of certain technical terms in the framework of an ISA audit, will facilitate a fuller description of the auditor's responsibilities.

We believe that enhanced descriptions of the responsibilities of management and TCWG will enhance the transparency about the audit (i.e., narrow the expectations gap) and improve the communicative value of the auditor's report (i.e., narrow the information gap). We also agree with the IAASB that attempts to describe these responsibilities in an auditor's report in a consistent manner globally will be difficult because of the significant jurisdictional variance in the responsibilities of management and TCWG. Therefore, we also believe that such descriptions will likely require significant tailoring by national standard setters.

Additionally, we believe that the Board should consider expanding the Auditor's Responsibility section to explain that, as part of the audit process, when an auditor identifies issues that are complex and subjective, and concludes that a heightened risk of material misstatement is present, an auditor tailors procedures to address the heightened level of risk. The auditor's response may include, but not be limited to, one or more of the following:

- Utilizing auditor's experts within or outside the audit firm to perform certain auditing procedures.
- Performing procedures to identify information that may contradict management's position with respect to the issue (including information from within and outside the entity).
- Evaluating the historical accuracy of management's estimates to determine whether evidence of bias is present.
- Performing sensitivity analyses to determine the potential effect of utilizing different assumptions than those proposed by management.
- Consulting with auditing and accounting experts within the audit firm's network of consultation resources.

12. What are your views on the value and impediments of disclosing the name of the engagement partner?

We believe that disclosure of the engagement partner's name may foster a misperception about how an audit is conducted and is not indicative that, although the engagement partner is responsible overall, the performance of the audit requires the work of many professionals. For example, the audit will often include:

- The work of large engagement teams that include auditor's experts within or outside the audit firm.
- Consultation with accounting, auditing, and other experts within the audit firm's network of consultation resources.

We recognize, however, that disclosure of the engagement partner's name is already required in many jurisdictions. While we agree that disclosure of the engagement partner's name in the auditor's report for all entities may make the identity of the engagement partner more transparent, we are skeptical of the benefit of such transparency to the users of audited financial statements.

We are not convinced that this recommendation will enhance the quality of an audit. Also, there are significant differences in the regulatory and legal implications in various

jurisdictions. Accordingly, we believe that disclosure of the engagement partner's name in the auditor's report is an issue that would be better addressed by national standard setters and national regulators.

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

We believe that the inclusion of a description of the extent of the involvement of other auditors risks undermining the principle of ISA 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*, that there is no divided responsibility and that the group auditor is solely responsible for their report on the group financial statements. ISA 600 imposes significant requirements on the group auditor relating to the group auditor's understanding of component auditors, involvement in the planning by component auditors, and consideration of their findings. For significant components this requires, among other things, significant participation in the component auditor's risk assessment and a review of their documentation.

We also believe a significant barrier exists with respect to developing an appropriate, understandable, and transparent approach to measuring the involvement of other auditors in an audit. For example, an approach based solely on audit hours may not reflect the varying significance of the audit hours of other auditors to the audit engagement as a whole (e.g., audit hours spent addressing an area of heightened risk of material misstatement versus hours spent addressing routine transactional testing).

We understand that some investors have expressed the desire for additional insight regarding the other auditors involved in the performance of the audit. For that reason, the IAASB may consider the following approach:

- Including the standardized description of the auditor's responsibilities in a group audit suggested in the Auditor's Responsibility section of the illustrative auditor's report. This will remind readers that the involvement of other auditors does not reduce the group auditor's responsibility for the direction, supervision, and performance of the group audit engagement and the group auditor's sole responsibility for the group audit opinion.
- To remain consistent with ISA 600, the auditor may consider whether an unusual circumstance exists related to the involvement of other auditors, and if so, the auditor may consider disclosing the involvement of other auditors consistent with the suggested disclosure in the illustrative report.

14. What are your views on explicitly allowing the standardized material describing the auditor's responsibilities to be relocated to a website of the appropriate authority, or to an appendix to the auditor's report?

We are not supportive of 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. To the contrary, we believe it is critical that this material

remain within the auditor's report and be enhanced to more fully explain the concept of a risk-based audit (see our response to Question 11 above).

Form and Structure

15. What are your views on whether the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion and the Auditor Commentary section towards the beginning of the report, gives appropriate emphasis to matters of most importance to users?

We believe the IAASB's suggested structure of the illustrative report, including placement of the auditor's opinion, any Auditor Commentary section, and other information related to entity-specific matters (e.g., Going Concern, Other Information) towards the beginning of the report and before more standardized language related to audits in general (e.g., the description of the respective responsibilities of management, TCWG, and the auditor) gives appropriate emphasis to matters of most importance to users.

16. What are your views regarding the need for global consistency in auditors' reports when ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, are used?

We believe that consistency in auditors' reports, when the audit has been conducted in accordance with ISAs, or national auditing standards that incorporate or are otherwise based on ISAs, promotes credibility in the global marketplace by:

- Making those audits that have been conducted in accordance with globally recognized auditing standards more readily identifiable.
- Facilitating enhanced and more consistent understanding by users of auditors' reports.

Further, we agree with the IAASB that the building blocks approach (whereby jurisdictions are able to build upon an enhanced global foundation that improves auditor reporting) helps to achieve comparable auditors' reports while still allowing jurisdictions the ability to further tailor auditor reporting requirements in the context of national environments. By allowing for this national tailoring, through national law, regulation, or standard setting, we believe the IAASB can achieve the appropriate balance between the need for consistency in auditor reporting and the need for auditors' reports that are relevant in the context of law or regulation in individual jurisdictions.

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

We believe 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, as this would provide sufficient flexibility to accommodate national reporting requirements or practices while promoting global consistency in auditors' reports (see our response to Question 16 above).

18. In your view, are the IAASB's suggested improvements appropriate for entities of all sizes and in both the public and private sectors? What considerations specific to audits of small- and

medium-sized entities (SMEs) and public sector entities should the IAASB further take into account in approaching its standard-setting proposals?

In our view, with the exception of Auditor Commentary (see our response to Question 7 above), the IAASB's suggested improvements are appropriate for entities of all sizes in both the public and private sectors. We agree with the IFAC Small and Medium Practices Committee that:

- Differentiation in auditor reporting by size or type of entity alone is generally not appropriate and runs contrary to the notion that "an audit is an audit."
- The building blocks approach will illustrate proportionate application of ISAs to SMEs.

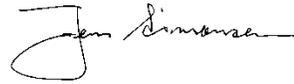
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We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen via email (jsimonsen@deloitte.dk) or at +45 361 03781.

Very truly yours,



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