

August 10, 2011

Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York NY 10036

Re: Request for Comments on International Auditing and Assurance Standards Board (IAASB)
Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*

Dear Ms. Hazel:

We appreciate the opportunity to submit comments to the Auditing Standards Board (ASB) regarding the topics described in the IAASB's Consultation Paper referenced above. Our observations were developed from the perspective of U.S. standard setting by the ASB for audits of nonissuers, under the assumption that the ASB will be considering the issues raised in the Consultation Paper and whether changes should be made to U.S. auditing standards in this area.

We are a regional certified public accounting firm that audits several hundred entities under U.S. generally accepted auditing standards. We perform very few audits under international auditing standards established by the IAASB, and thus have focused our comments on U.S. standards in this area, while understanding the ASB's ongoing interest in harmonizing U.S. and international auditing standards where possible.

We have organized our comments based on the categories of alternatives discussed in Section III of the Consultation Paper.

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

We believe some of the options listed in the section of the Consultation Paper would enhance users' understanding of the audit process, as follows:

- Describing the auditor's responsibilities for the detection of fraud
- Clarification of the terms "material misstatement" and "reasonable assurance"

However, we believe it is important to users that any such changes not unduly extend the length of the auditor's report to the point that its effectiveness is diminished. Attached to this letter is illustrative language, indicated with underlining, that we believe would achieve this goal.

We do not believe the opinion paragraph should be relocated to the beginning of the report. The paragraphs that precede the opinion paragraph, as currently illustrated in the clarified Statement on Auditing Standards (SAS) *Forming an Opinion and Reporting on Financial Statements*, place the opinion in its appropriate context, and consideration of this information prior to reading the opinion is, in our view, important to users' understanding of the opinion. Presenting the opinion before providing such context increases the risk of an expectation gap.

B. Other Information in Documents Containing Audited Financial Statements

For the nonissuers in our client base, the most common circumstances in which other information is included in documents containing audited financial statements are the following:

- The inclusion of required supplementary information pursuant to the applicable financial reporting framework (e.g., Management's Discussion and Analysis (MD&A) for entities preparing financial statements pursuant to the requirements of the Governmental Accounting Standards Board)
- The inclusion of audited financial statements in annual reports of entities such as not-for-profit organizations and financial institutions

In the first instance, SAS No. 120, *Required Supplementary Information*, requires that certain language be included in the auditor's report clarifying the auditor's responsibility for such information. In the second instance, SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*, requires the auditor perform certain procedures, but does not require the auditor's report communicate the auditor's responsibility for such information.

In practice, we have not encountered situations in which users have appeared confused about the auditor's responsibility for this other information. SAS Nos. 118 and 120 were issued in February 2010, and it is our belief that any significant confusion among users in this area would likely have been identified through the due process the ASB followed in developing and issuing these standards. Accordingly, we do not believe any changes in the auditor's report are necessary in this area.

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

We do not believe the inclusion of auditor commentary on matters significant to the audit process or the audited financial statements would achieve the objective of enhancing communication between auditors and the users of audit reports. We do not believe that the majority of users have sufficient expertise regarding the audit process to make effective use of this information, and we are concerned that there is a significant risk such commentary might have the following unintended consequences:

1. Discussion of the significant risks the auditor identified, and the procedures undertaken to address those risks, would at times likely include language reinforcing complex audit concepts such as reasonable assurance, materiality, sampling risk, and the like. Adequate explanation of such concepts to nonauditors would likely require a very lengthy auditor commentary, and we believe would create a significant risk of confusing users regarding the clarity of the conclusions reached by the auditor (i.e., could be perceived as "hedging" the auditor's unqualified opinion).
2. An independent discussion of the auditor's views regarding, for example, the significant accounting policies of the issuer and how they have been implemented, which varies from similar disclosure by management in the financial statements (and, where presented as required supplementary information, in MD&A), is likely to confuse a user regarding these matters. We can appreciate that such a requirement would enhance the likelihood of a dialogue between management and the auditor that would reduce such differences; however, we believe

maintaining the distinction in responsibilities between management and the auditor is critical to reduce the likelihood of confusing users. With limited exceptions, the financial accounting standard setters have not mandated management communication of such matters beyond the requirement to disclose significant accounting policies in the notes to the financial statements. Requiring the auditor to comment on such matters, absent a similar requirement in the applicable financial reporting framework, would result in significant potential for confusion among users regarding the respective roles of management and the auditor regarding the financial statements.

Should outreach by the ASB indicate a need among users, we would not be opposed to a provision that required supplementary information be subjected to the auditing procedures employed in the audit of the financial statements, and that the auditor's opinion therefore include such required supplementary information. However, as noted above, SAS No. 120 was issued in February 2010, and we suspect that any significant user confusion that would be mitigated by such a requirement would have been identified during the due process that resulted in issuance of that pronouncement.

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

We believe the promulgation of reporting requirements for those charged with governance is properly the purview of financial reporting framework standard setters rather than the ASB. Accordingly, we do not believe the ASB should issue any such requirements.

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

The AICPA's attestation standards currently provide guidance for providing assurance on certain other information not within the current scope of the financial statement audit, for example:

- An entity's internal control over financial reporting that is integrated with an audit of its financial statements
- MD&A

In our experience, such assurance is only provided when required by laws and regulations, such as Section 112 of the Federal Deposit Insurance Corporation Improvement Act and related regulations. Accordingly, there appears to be little demand for auditor assurance regarding this information. Should users indicate more interest in such assurance in the future, such that engagements under these attestation standards become more prevalent, it may be appropriate for the ASB to reconsider whether the benefits of requiring such assurance reporting outweigh the costs of doing so; however, such does not currently appear to be the case.

We appreciate the opportunity to submit these observations for the ASB's consideration, and look forward to its continued deliberations in this area.

Sincerely,



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Illustrative Auditor's Report Modifications to Incorporate Certain Clarifications Described in the Consultation Paper

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, whether caused by error or fraud. Reasonable assurance is a high level of assurance, but is not absolute assurance. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users made on the basis of the financial statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's Signature]

[Auditor's City and State]

[Date of the Auditor's Report]