

Auditor's Reporting Model – Preliminary Overview of Comments

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Key Milestones to Date

- ❑ Concept release issued June 21, 2011
- ❑ Roundtable held September 15, 2011
 - 32 participants and 2 observers (SEC and FASB)
- ❑ Comment period ended September 30, 2011
 - 152 comment letters to date

Comment Letters Received

❑ Preparers, internal auditors and preparer associations	70
❑ Accounting firms and associations of accountants	35
❑ Investors, including investor associations, pension managers, analysts, and large investment companies and advisers	16
❑ Academics	7
❑ Other regulators and standard setters	7
❑ Board members, including audit committee members, and their associations	6
❑ Other individuals and organizations	<u>11</u>
Total	152

Overall Themes from Commenters and Roundtable Participants

- Retain the pass/fail opinion
- General support for change to auditor's reporting model
 - Range of support depends on the type of commenter (e.g., investor, preparer, accounting firm, etc.)

Overall Themes - Investor Associations, Pension Managers, and Analysts

- Support auditors' reporting on their assessments of:
 - Areas of high financial statement and audit risk
 - Significant judgments and estimates used in the financial statements, including sensitivity analysis
 - Quality, not just acceptability, of accounting policies and practices
 - Significant changes in or events impacting the financial statements
- Support other disclosures by auditors, including audit procedures
- Prefer more information from auditors regarding the financial statements and the audit rather than assurance on information outside the financial statements or clarification

Overall Themes - Large Investment Companies and Advisers

- Support auditor's identification of significant areas in the financial statements:
 - A reasonable number of significant areas that would be most helpful for investors' understanding of the financial statements, such as:
 - Significant management judgments, estimates, and areas of measurement uncertainty in the financial statements
 - Significant changes in or events impacting the financial statements
 - Location of disclosure in the financial statements
- Management should be the primary source of financial information
- Some interest in information regarding audit procedures
- Prefer more information from auditors regarding the financial statements rather than assurance on information outside the financial statements or clarification

Overall Themes - Preparers, Internal Auditors and Preparer Associations

- ❑ Management should be the primary source of financial information
- ❑ Oppose “AD&A” and “required and expanded emphasis paragraph” type reporting
- ❑ Costs outweigh benefits for assurance on information outside the financial statements
- ❑ No objection to clarification of language, but do not believe it is necessary

Overall Themes - Board Members, Including Audit Committee Members, and Their Associations

- ❑ Management should be the primary source of financial information
- ❑ Oppose “AD&A” type reporting
- ❑ Mixed views regarding “required and expanded emphasis paragraph” type reporting
- ❑ Some support for assurance on information outside the financial statements
- ❑ Support for certain clarification of language

Overall Themes - Accounting Firms and Associations of Accountants

- ❑ Management should be the primary source of financial information
- ❑ Oppose “AD&A” type reporting
- ❑ Large and regional accounting firms generally support:
 - Objective and factual “required and expanded emphasis paragraph” type reporting
 - Attestation on the Critical Accounting Estimates section of Management’s Discussion and Analysis
- ❑ Small accounting firms generally do not support additional reporting
- ❑ Wide support for clarification of language

Other Commenters

- ❑ Academics
- ❑ Other regulators and standard setters
- ❑ Other individuals and organizations

Additional Themes from Commenters and Roundtable Participants

- Work with other regulators and standard setters towards a coordinated solution:
 - FASB/SEC
 - IAASB/ASB/Others
- Support for additional audit committee reporting
- Consider field testing of contemplated changes to the auditor's reporting model

Frequently Mentioned Concerns about Changing the Auditor's Reporting Model

- ❑ Expanding the auditor's role and the possibility of "dueling information" between preparer and auditor
- ❑ Adversely impacting the audit committee's governance role
- ❑ Impairing the three-way communication between auditor, audit committee and management
- ❑ Risk of additional boilerplate language
- ❑ Maintaining confidentiality of company information
- ❑ Increased costs
- ❑ Potential increase in legal liability of accounting firms
- ❑ Possible adverse effect on auditor independence
- ❑ Little incremental improvement in audit quality

Next Steps

- Complete analysis of comment letters
- Consider related projects by other standard-setters
- Issue a proposal in the second quarter of 2012
 - Objective is to improve auditor communications to investors