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Dear Board Members

Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards (PCAOB Rulemaking Docket Matter No. 34)

CPA Australia welcomes the opportunity to comment on the Concept Release on Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards (the Concept Release). CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 132,000 members in finance, accounting and business in 111 countries throughout the world. Our vision is to make CPA Australia the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports developments in auditor reporting that serve the evolving needs of users and safeguard effectiveness in the core function of auditing. Varying degrees of assurance are achieved through engagements such as agreed upon procedures, limited assurance and reasonable assurance. Audit is expected to deliver a reasonable level of assurance over the subject matter and a comprehensive framework exists in most jurisdictions to achieve this, including standards, criteria for auditor registration and other audit quality measures.

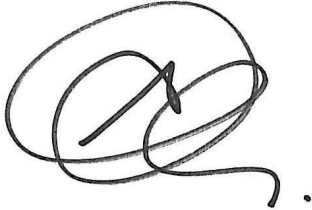
Proposals around auditor reporting on information outside the financial statements and clarification of certain language in the auditor's report are promising and may if sufficiently explored and developed, complement the audit function. In our view users perceive real value in the current form of auditor reporting; where the auditor exercises their expertise independently to reach a clear view, and issues a concise report to express their conclusions. Proposals for an "Auditor's Discussion and Analysis" and expanded use of emphasis paragraphs in the audit report may pose a risk of impacting negatively on this value.

Under the current reporting model, management are responsible for the preparation and presentation of financial and other information, whilst auditors add credibility by providing assurance over that information to users. This setup is fundamental to the effectiveness of the financial reporting supply chain. Issues that exist in the current corporate reporting model are being explored more appropriately in the standards and practice of financial (and non-financial) reporting. This includes examining increased reporting complexity and the comprehensive solutions such as integrated reporting. It is important to dedicate resources within the audit profession, and oversight bodies to developing the capability and frameworks required to meet the assurance needs of evolving financial (and non-financial) reports and disclosures.

We have appended to this letter, our responses to the questions raised.

If you require further information on any of our views, please contact Amir Ghandar, CPA Australia by email at amir.ghandar@cpaaustralia.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to be 'AM', with a small dot at the end of the signature.

Alex Malley FCPA
Chief Executive Officer

cc: A Ghandar

Form and content of the auditor's report (Questions 1 – 4)

The binary approach of the current standard auditor's report is of value to stakeholders. This allows the user to take assurance that the auditor has applied their expertise and judgement to the audit and reached a level of confidence that allows them to form a clear opinion.

Supplementary reporting could require the user to form their own opinion about the additional information and the audit itself. This could have the effect of diminishing the value inherent in the current core audit role. The current auditor reporting model does provide scope for emphasis of additional information without qualifying the opinion where the auditor considers this necessary for the user.

Under the current system, disclosures and other information within financial statements are the responsibility of management and the auditor's role is to provide assurance in respect of that information to users. We strongly believe that these two roles need to be kept separate and we concur with the views of some of the preparers and audit committee members who have indicated that additional information about the company's financial statements should be provided by them, not the auditor. Any proposals to the contrary could seriously prejudice the current position of an auditor in carrying out their core role.

Auditor's Discussion and Analysis (Questions 5 – 12)

Some of the content proposed under this alternative could cause a blurring of roles and responsibilities between those charged with the preparation of financial statements and the auditors. Proposals to expand the auditor's role to analyse and interpret financial information could detract from their primary role of providing assurance to the users of the information as to its integrity. Specifically, this includes discussing their views regarding management's judgements and estimates, accounting policies and practices, and difficult or contentious issues, including "close calls". These matters should be addressed by those responsible for the preparation of the financial statements.

It is understandable that a more transparent audit process could lead to a better understanding of the financial statements, provided relevant information is delivered in a reliable and understandable way. A number of questions arise in considering the proposals surrounding the disclosure of further information about the audit. What level of detail will be appropriate, and who should make this judgment? There are concerns that financial reporting today is increasingly complex, and the AD&A could add to this if not appropriately calibrated. Secondly, recognising auditors' significant legal accountabilities, how can such information be disclosed in a technically precise way while still being understandable by a wide group of users? These competing objectives can lead to standardised and cautious disclosures that don't add value.

Emphasis of Matter Paragraphs (Questions 13 – 18)

The Concept Release points to the French "justification of the auditor's assessment" as an approach similar to this alternative. Whilst some support exists for the French model, we note observations from practice that suggest a tendency for the disclosures being boilerplate.

One of the factors that can give rise to boilerplate disclosures are competing accountabilities and objectives. Auditors are accountable for a core role of providing assurance on financial reports which carries significant legal ramifications. Current auditor reporting is concise and technical for the purpose of delivering on this accountability in a way that does not create further risk through discursiveness in language.

In our view the current approach to emphasis paragraphs adequately addresses the intended purpose of these paragraphs.

Other information outside the financial statements (Questions 19 – 20)

As outlined in the paper, information outside the financial statements, including non-GAAP information and earnings releases, are increasingly prominent in investor decision making. We concur that the capability of providing meaningful assurance on this information is important and would be of value to the users. In addition to developing standards there would be a need for developments in practice and methodology.

As the Concept Release highlights, auditing standards presently describe the auditor's responsibilities regarding other information outside the financial statements, and developments in this area would require separate projects addressing the standards and practice of assurance engagements on other information outside the financial statements.

Clarification of Language (Questions 21 – 22)

As a document, the audit report has significant legal implications for both auditors and management, and their respective responsibilities. Precision in language used is therefore essential and this is achieved through use of professional terminology and standardised text. Clarity over the language used could be achieved through linking to more explanatory and discursive information that supports the audit report, held at another location (for example, a website).

In Australia, a separately headed Independence section has been included in the audit report, which requires the auditor to declare their compliance with independence requirements outlined in regulations/legislation. There is also a requirement in the Australian *Corporations Act* 2001 to furnish to the audited entity an "Independence declaration" which is made publicly available in the entity's annual report. This makes the status of the audit firm clear with respect to independence.