October 8, 2012

International Federation of Accountants
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Response e-mailed to www.ifac.org

RE: Response to the International Auditing and Assurance Standards Board (IAASB) – Invitation to Comment (ITC) – “Improving the Auditor’s Report”

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) appreciates the opportunity to respond to the IAASB’s ITC on “Improving the Auditor's Report.” We applaud the IAASB’s effort in soliciting feedback from diversified stakeholders. Our comments are based on a thorough analysis and discussion, utilizing a core team of governance, compliance and audit experts who serve on The IIA’s Professional Issues Committee (PIC). These individuals consist of Certified Internal Auditors, Certified Public Accountants, Chartered Accountants, audit executives and consultants who have worked in both public accounting and management positions in small, medium and large multinational organizations.

The following are our principal comments regarding the ITC. Detailed responses to the questions posed are summarized in Appendix A.

1. The IIA strongly believes that the role of independent auditors in conducting financial statement audits should not include being a provider of source information about the company. The “information gap” should be filled by those who are elected or hired to do so, namely, those charged with governance (TCWG) and management. We advocate a more active and visible role for internal auditors consistent with The IIA’s vision for the future, in supporting TCWG’s responsibility for disclosures, risk management and controls. The independent financial statement auditors should remain focused on providing assurance on important information provided by those who are the source of disclosures and assertions. The financial statement auditors should remain independent and objective while pursuing assurance responsibilities and not be put in a position to make determinations on the timing of disclosure of certain information before management and TCWG deem it appropriate.

2. We also believe that the regulators should highlight the use of internal audit activities as a complement to the other pillars of quality financial reporting, in particular the corporate governance and external auditor’s responsibilities. TCWG should consider disclosing the process for developing disclosures and assertions, which should include the role of internal audit, while ensuring that internal audit is able to retain its objectivity.
3. We support providing additional information about the financial statement audit that would enhance the users’ understanding of the audited financial statements and enable the users to make informed investment decisions. The volume and relevance of additional information should be balanced with the risk of confusing or diluting the attention of the users and duplicating disclosures provided by management.

4. We believe that the independent financial statement auditors should not be required to communicate insights about the entity or the quality of its financial reporting in their report on the financial statements. However, many of these matters should be discussed by the independent financial statement auditors and also brought to the attention of TCWG and management by both the independent financial statement auditor and the organization’s internal auditors.

The IIA is well-equipped to support those IAASB projects that are related to the core competencies of internal auditing: governance, risk management and control. We value the opportunity to collaborate, share, contribute and learn. We welcome further discussion on any of these recommendations and offer our assistance in the continued development of these projects.

Best Regards,

Richard F. Chambers, CIA, CGAP, CCSA, CRMA
President and Chief Executive Officer

About The Institute of Internal Auditors
The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the International Standards for the Professional Practice of Internal Auditing (Standards). These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 170,000 members across the globe and has 105 affiliates in 165 countries that serve members at the local level.