



American Institute of CPAs
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November 21, 2013

Mr. James Gunn
Technical Director, Professional Standards, IAASB
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Re: Exposure Draft – Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to respond to the above referenced Exposure Draft regarding improving the auditor’s report.

The AICPA is the world’s largest member association representing the accounting profession, with nearly 394,000 members in 128 countries and a 125-year heritage of serving the public interest. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. Among other things, the AICPA sets ethical standards for the profession and U.S. auditing standards (GAAS) for audits of nonissuers, including private companies, nonprofit organizations, and federal, state and local governments.

This letter provides the AICPA Auditing Standards Board’s (ASB) response to the request for specific comments within the context of reporting by nonissuers under GAAS. The ASB is the AICPA’s senior committee for auditing, attestation, and quality control applicable to the performance and issuance of audit and attestation reports for nonissuers. Its mission is to serve the public interest by developing, updating and communicating comprehensive standards and practice guidance that enable practitioners to provide high-quality, objective audit and attestation services to nonissuers in an effective and efficient manner.

The ASB recognizes that the call for more transparency from the auditor has come primarily from investors and analysts and, as noted in the exposure document, these user groups will be the primary beneficiaries of the IAASB’s work on auditor reporting. The ASB continues to believe that any changes to auditor reporting should

- a. enhance the information provided and address expectation gaps between financial statement users and auditors
- b. maintain or enhance audit quality, and
- c. define reporting requirements that are clear with regard to management’s responsibility as the original source of entity-specific information. Management’s responsibility in this regard should be preserved in order to avoid blurring the distinction of the roles of the auditor and management.

Our comments have been developed with these principles in mind.

We support the efforts to enhance the relevance of auditor reporting and appreciate the flexibility that is provided to national standard setters in the proposals. Because our purview is limited to audits of nonissuers, our response to certain proposals (for example, Key Audit Matters) that would be required for listed entities is intentionally limited.

The appendix to this letter provides our more detailed responses to certain of the specific questions presented in the exposure draft.

Thank you for the opportunity to present our views on the exposure draft. If you have any questions regarding the comments in this letter, please contact Linda Delahanty at +1-212-596-6063, ldelahanty@aicpa.org.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bruce P. Webb".

/s/ Bruce Webb
Chair, Auditing Standards Board

Appendix

Responses to Questions in the Exposure Draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*

Overall Considerations Relating to Key Audit Matters (KAM)

We agree with the direction proposed in the exposure draft that KAM should not be required for audits of other than listed entities.

The ASB believes the concept of Emphasis of Matter paragraphs and Other Matter paragraphs should be retained because there may be instances when the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that the auditor believes is fundamental to the users' understanding of the financial statements or other auditing matters that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Going Concern

IAASB QUESTION 9

Do respondents agree with the statements included in the illustrative auditor's reports relating to: (a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements? (b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))? In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.

As noted in the exposure draft, there are some underlying accounting and disclosure issues surrounding going concern assessments for which clarification or additional guidance from the accounting standard setters is currently being debated and may be necessary in order to achieve the desired enhancements in management and auditor reporting on this critical area. Both the International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) have active projects addressing going concern. The timelines to finalize and implement the revised accounting standards are currently unclear. In addition, there is a possibility that the requirements of International Financial Reporting Standards and U.S. Generally Accepted Accounting Principles may differ, with regard to, among other things, the definition of a material uncertainty or the threshold for disclosures. This would potentially affect when disclosure in the notes to the financial statements of a material uncertainty would be required, as different financial reporting frameworks may take different approaches. Further, the exposure draft notes that the IAASB will need to carefully consider the status and planned actions of the accounting standard setters when finalizing its auditor reporting proposals to determine the best course of action, which may involve deferring finalization of auditor reporting related to going concern.

We believe that with the potential for changes to the accounting requirements related to the preparer's responsibilities for identifying uncertainties that could challenge the use of the going concern basis of accounting, it is premature to revise the current reporting model specified in ISA 570 (Revised). With this in mind, we strongly believe that any consideration for reporting about an entity's ability to continue as a going concern should be delayed until the proposed changes to accounting standards in the various jurisdictions have been vetted and finalized.

As a result, as currently proposed, expanding the statements included in the illustrative auditor's report related to the absence of material uncertainties while that definition is currently being debated by accounting standard

setters could result in an even greater misunderstanding by the users of the financial statements with regard to the current auditor responsibilities. In this regard, we are not supportive of the additional statements in the auditor's report without the completion of the changes to the underlying financial reporting frameworks, both in terms of what management needs to do to evaluate going concern and what management needs to disclose in the financial statements.

Compliance with Independence and Other Relevant Ethical Requirements

IAASB ED QUESTION 11

What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

The ASB believes that the title, "Independent Auditor's Report," affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others. The ASB questions the usefulness of disclosing the sources of independence and other relevant ethical requirements in the auditor's report. We also believe most users of financial statements are not familiar with the nuances of the independence and ethics rules for accountants beyond the notion that if the auditor were deemed not independent then a report would not be provided. We suggest that the IAASB indicate that jurisdictions that believe expanded disclosures are meaningful can adopt those requirements.

Disclosure of the Name of the Engagement Partner

IAASB QUESTION 12

What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?

While we support the efforts to enhance the transparency of the audit process, we do not believe that the inclusion of the engagement partner's name will result in a meaningful enhancement to the quality of the audit or the auditor's report. We believe the risk of unintended consequences, including inappropriate conclusions by investors and other users based on insufficient information, could be damaging to entities, audit firms and individuals. We emphasize that the partner is acting on behalf of the firm and we do not believe naming the engagement partner would change that individual's accountability or the conduct of the audit. Additionally, in the United States there is a much greater potential for litigation against individual auditors and firms, and that issue would need to be fully explored. For these reasons, we believe this decision should be left to the national standard setter to decide whether the engagement partner's name should be required to be included in the report.

Other Improvements to Proposed ISA 700 (Revised)

IAASB ED QUESTION 13

What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

Improved Description of the Responsibilities of the Auditor and Key Features of the Audit

[pars. 35-38 of ISA 700]

We support enhancing the standardized descriptions of the responsibilities of management, those charged with governance, and the auditor, in order to provide users with additional transparency in the context of the audit. However, we strongly encourage the IAASB to consider the other recent proposals from other standard setters that revise the standardized wording for the auditor's responsibilities and independence, in an effort to minimize differences in such standardized descriptions between jurisdictions. We believe these differences, as proposed currently could be confusing to the users of various auditor's reports and, in addition, could be challenging for an auditor to issue a report under dual standards, possibly causing the need to issue two separate opinions on the same set of financial statements.

Provision for the Descriptions of the Responsibilities of the Auditor and Key Features of the Audit to be Relocated to an Appendix in the Auditor's Report, or for Reference to be Made to Such a Description on the Website of an Appropriate Authority

[pars. 39-40 of ISA 700]

With respect to placement of these paragraphs, the ASB believes that the auditor's report should stand on its own and include the descriptions of specific management and auditor responsibilities within the body of the report. We believe it is important to understand the context within which the audit is performed. We recognize, however, that this practice is common in other jurisdictions and, therefore, we support allowing national standard setters to determine the placement of this information.

IAASB ED QUESTION 14

What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?

The ASB agrees with the proposal not to mandate the ordering of the sections of the auditor's report in any way. We believe that with the use of headings in the auditor's report, each section of the report is easily identifiable and easy to find. We believe that, as is the case with extant reporting, the standards should require the sections to be included in the report but we do not believe the IAASB should prescribe the order of those sections. In addition, we believe that consistency should come from the required sections of the report and not necessarily from the ordering of those sections. We believe that flexibility is needed so that national standard setters can adjust the order of the sections based on local jurisdictional needs. We believe mandating the sections and the use of headings and dividers is more important than the order of those sections within the report.