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November 22, 2013

Hunter College Graduate Program
Economics Department
695 Park Ave.
New York, NY 10065

International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Improving the Auditor's Report

To Whom It May Concern:

The Fall 2013 Advanced Auditing Class at Hunter College Graduate program in New York City appreciates the opportunity to comment on this important topic.

The class has discussed the above Invitation to Comment and offers the attached response to questions for respondents and feedback.

If you would like additional discussion with us on this topic, please contact Professor Joseph A. Maffia, at 212-792-0404.

Sincerely,

Joseph A. Maffia, CPA

REPORTING ON AUDITED
FINANCIAL STATEMENTS:
PROPOSED AND NEW REVISED
INTERNATIONAL STANDARDS ON
AUDITING (ISAs)

11/22/2013- NEW YORK CITY, NEW YORK

Hunter College Graduate Program in Accounting
Accounting Department
Advanced Auditing Class – ECO 775

Invitation to Comment

Comments to the International Auditing and Assurance Standards Board (IAASB) on Proposed ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements; Proposed ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report, Proposed ISA 260 (Revised), Communication with Those Charged with Governance, Proposed ISA 570 (Revised), Going Concern and Proposed ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report.

Advanced Auditing Class

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The Advanced Auditing class at Hunter College has reviewed ISA 700 (Revised), ISA 260 (Revised), ISA 570 (Revised), Proposed ISA 701, Proposed ISA 705(Revised). We begin by offering the following comments for consideration by the IAASB. Any suggested changes are noted as strike-through(s) and additions have been underlined. We also have included our responses to questions asked by the IAASB in its request for specific comments from respondents. Our responses are based in part on the request for specific comments from respondents.

KEY AUDIT MATTERS

1. Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?

We do not agree to adding a section in the audit report but agree that reporting matters of significance will enhance the usefulness of the auditor's report. We recommend reporting these matters in a supplemental report.

We believe that for those instances when a the subsidiary of a parent company that has an audit performed under the Sarbanes-Oxley Act that certain items such as a material weakness in internal control should be included in the supplemental report of Key Audit Matters. ...

2. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?

No. In order to maintain consistency and transparency in practice, we recommend making it mandatory for auditors to report matters identified in ISA 260 as key audit matters. A list of key audit matters should be created, reviewed and updated periodically. Auditors should report any matters, which are on the list. This revision will promote uniformity among auditors and they will have a clear understanding on what matters they are required to report.

3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?

Yes based on the information provided, we feel as though the proposed requirements and related application material in proposed ISA provides sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of key audit matters to be communicated in the auditor's report.

4. Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

The samples are valuable especially regarding valuation of financial instruments. There are many complexities in the application; Illustration II deals with the auditor's challenge in using entity based models and the outcome of the challenge.

5. Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

We disagree with the approach where an auditor is not required to provide such communication. We recommend making it a requirement for auditors to either report or not reporting KAMs. Auditors require the application guidance for added consistency, making it voluntary result in some auditors reporting KAMs and some will not.

To promote consistency and uniformity auditors should communicate key audit matters. This information is very important for users of the financial statements and lack of reporting it may result in users making uninformed decisions.

6. Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?
- (a) If so, do respondents agree with the proposed requirements addressing such circumstances?
No, we do not believe it is appropriate for auditors to determine that there are key audit matters to report.
- (b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgment, that there are no key audit matters to communicate?

No, auditors should not be required to always communicate at least one key audit matter because there may not be a key audit matter to report.

7. Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

Key audit matters should not be limited to the most recent financial period. If the key audit matter is in prior periods and still exists in the current period then it should be reported.

As mentioned in IAASB Exposure Draft - The Determination of Key Audit Matters When Comparative Financial Information is presented P-65, the IAASB noted the view that “there may be merit in including the auditor’s description of key audit matters for all periods presented. “However, there are likely practical challenges in doing so that could result in further lengthening the auditor’s report and a presentation that could be potentially confusing to users, such as:

- The possible expectation that the auditor would update key audit matters from the prior period, for example to explain the matter’s effect in the current period audit – even if such matter was not determined to be a key audit matter in the current period.
- Whether the inclusion of a key audit matter in a subsequent period relating to a matter that existed in a prior period could call into question the validity of the auditor’s judgment to exclude it as a key audit matter in the prior period.
- The potential consequences when the prior-period financial statements were audited by a predecessor auditor, because the determination of key audit matters in the prior period would have been made by another auditor.

8. Do respondents agree with the IAASB’s decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

No, we recommend not retaining the concepts Emphasis of Matter paragraphs and Other Matter paragraphs. Key audit matters, Communication with Those Charged with Governance and Going Concern may be reported. If Emphasis of Matter and Other Matter are reported, it may confuse users of the financial statements. They may not be able to decide which matters they should take into consideration when making financial decisions.

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?

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.

- (a) Yes, we think the changes proposed in the exposure draft seem very reasonable and appropriate and we do like the idea of getting a representation from management in a going concern situation. Management clearly has the primary responsibility for the preparation and fair presentation of the entity’s financial statements, including adequate disclosures about risks and uncertainties.

10. What are respondents’ views as to whether an explicit statement that neither management nor the auditor can guarantee the entity’s ability to continue as a going concern should be required in the auditor’s report whether or not a material uncertainty has been identified?

Yes, we agree that an explicit statement should be required because this will protect auditors from litigations.

COMPLIANCE WITH INDEPENDENCE AND OTHER RELEVANT ETHICAL REQUIREMENTS

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?

We agree with the proposal to require disclosure of the name of the engagement partner because we believe this requirement will make the engagement partner more accountable for what is being reported. A major risk, which could cause difficulty, is the possibility of legal action being taken against an auditor or partner for incorrect information.

DISCLOSURE OF THE NAME OF THE ENGAGEMENT PARTNER

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?

We did not see any major issue with the disclosure.. We believe that this will make the engagement partner more accountable for what is being reported. A major risk, which could cause difficulty, is the possibility of legal action being taken against an auditor or partner for incorrect information.

OTHER IMPROVEMENTS TO PROPOSED ISA 700 (REVISED)

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?

We agree with the proposal of not to mandate the ordering of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order. The

logic of the flow of the report will depend on the entity under audit, the industry, the size and the circumstances surrounding the audit.

GENERAL RECOMMENDATIONS

1. Add a supplemental report instead of adding a section for key audit matters. The supplemental report should include Communicating Key Audit Matters, Communication with Those Charged with Governance and Going Concern.

3. We believe that a decision should be made that either requires or does not require that KAMs be reported. Auditors require the application guidance for added consistency, allowing them to make judgment calls might create further confusion when deciding to report a key audit matter.

We suggest the following language changes to enhance clarity of the standard:

4. The following was found in (ISA)701-Requirements-Communicating Key Audit Matters 13. If the auditor determines that there are no key audit matters to communicate in the auditor's report, the auditor shall:

- (a) Discuss this conclusion with the engagement quality control reviewer, for those engagements where one has been appointed;
- (b) Communicate in writing this conclusion with those charged with governance; and
- (c) Explain in the auditor's report that this section of the auditor's report is intended to describe the matters communicated with those charged with governance that the auditor has determined, in the auditor's professional judgment, were of most significance in the audit of the financial statements and the auditor has determined that there are no matters to report. (Ref: Para. A47–A48)

The following information was taken from ISA 701 Communication with Those Charged with Governance (Ref: Para. 12) **A46**, “The communication required by paragraph 12 enables those charged with governance to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. As explained in paragraph A37, in some cases, management or those charged with governance may decide to include new or enhanced disclosures in the financial statements relating to the key audit matter, for example to provide more robust disclosures about sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework. If an issue is identified as a “key audit matter” management or those charged with governance is encouraged to **also** include the matters in the financial statement disclosures.”

5. Key audit matters should not be limited to the current period. If there is adverse opinion or no opinion in past year's auditor reports and the key audit matter is in the current period then it should be reported in the current period.

6. From ISA 570 Objectives 9. The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence and conclude ~~regarding about~~ the appropriateness of management's use of the going concern assumption basis of accounting in the preparation and presentation of the financial statements.
- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
- (c) To determine the implications for the auditor's report in accordance with this ISA.

7. Communication with a Subgroup of Those Charged with Governance

12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor ~~shall determine whether the auditor~~ also needs to communicate with the governing body. (Ref: Para. A5–A7)

8. In addition to changes described above, proposed ISA 700 (Revised) incorporates the following suggested improvements noted in the ITC and further enhancements:

- Improved description of the responsibilities of the auditor and key features of the audit (see paragraphs 35–38 and related application material of proposed

ISA 700 (Revised)

- 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. The wording in the illustrative report would effectively be mandated if included in the body of the auditor's report or in an Appendix, with some flexibility for a broader description of the auditor's responsibility on a website, provided it is not inconsistent with the wording prescribed by the requirements in proposed ISA 700 (Revised) (see paragraphs 39–40 and related application material of proposed ISA 700 (Revised)).
- Reference to whom in the entity is responsible for overseeing the Company's financial reporting process – Inclusion of this reference in the auditor's report acknowledges this essential role in the financial reporting process. Proposed ISA 700 (Revised) allows for flexibility in jurisdictions where the roles of "management" and "those charged with governance" may not be as clearly differentiated or when other terms are used for those involved in the preparation and presentation of the financial statements or oversight of the financial reporting process (see paragraph 33 and related application material

In proposed ISA 700 (Revised)

- Other reporting responsibilities – Under extant ISA 700, the auditor was prohibited from combining a discussion of other reporting responsibilities with reporting required by ISA 700 (i.e., such information was required to be presented in a separate section Report on Other Legal or Regulatory Requirements). Because the proposed new sections in the auditor's report (i.e., going concern, other information and key audit matters) relate to areas for which there may be additional reporting responsibilities, the IAASB

believes it is appropriate to allow additional flexibility for national standard setters to determine how best to place the auditor's communication about such matters in the auditor's report in order to be meaningful to users. ~~However, even if presented in the same section as ISA reporting requirements, these other reporting responsibilities will continue to be required to be clearly differentiated from reporting required by the ISAs (see paragraph 41 and related application material in proposed ISA 700 (Revised)).~~

9. We recommend defining "sufficient audit evidence" by coming up with percentages of audit evidence or dollar value of audit evidence, which should be obtained in an audit for example 5%, 10% or \$5M of total revenues.