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October 28, 2013

International Auditing and Assurance Standards Board

**RE: Exposure Draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)**

Members of the Board:

BlackRock, Inc. ("BlackRock") appreciates the opportunity to comment on the Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* (the "ED"). BlackRock is a global investment manager, overseeing approximately $4.1 trillion of assets under management at September 30, 2013. BlackRock and its subsidiaries manage approximately 3,400 investment vehicles, including registered investment companies, hedge funds, private equity funds, exchange-traded funds and collective investment trusts, in addition to separate accounts. Certain of BlackRock's wholly-owned subsidiaries operate as U.S. registered broker/dealers, a U.K. registered life insurance company, a U.S. registered bank trust company and numerous investment advisory companies registered in jurisdictions throughout the world.

As an investment manager, BlackRock is in the position to provide commentary on the ED from the perspectives of: a) a corporate preparer, b) an investment fund preparer and c) a user (i.e., BlackRock's research analysts). For purposes of this response, our comments primarily reflect those of our analysts as users of both financial statements and auditors' opinions.

**Overview**

We applaud the International Auditing and Assurance Standards Board ("IAASB" or the "Board") for undertaking this project, the goal of which is to enhance auditor communications and information useful to users of financial statements. Overall, we support the concept of communicating key audit matters and believe that much of the framework proposed will result in useful information to users of financial statements. We wish to emphasize that certain entities, such as investment companies, have inherently less complex business models for which there normally may be no key audit matters. In order to avoid "boilerplate" language, we encourage the Board to clarify that routine matters discussed with those charged with governance ("TCWG") and comprehensively disclosed in the financial statements may not require identification as a key audit matter because, while they may require substantial audit effort, they do not require significant auditor judgment or give rise to significant audit issues.

We are concerned that some investors may misinterpret the communication of a key audit matter as indicative of an issue with respect to the quality of the financial statements or as a qualification in the auditor's report (even though the proposed auditor's report would state that the opinion on the financial statements is not modified with respect to any of the key audit matters described). We suggest that additional language be added to the key audit matters section of the auditor's report to explain that key audit matters are not necessarily indicative of a financial statement deficiency.

From a preparer's perspective, we believe there will be additional time and expense associated with interacting with and providing information to the auditors in connection with their required assessment and reporting of key audit matters and their documentation of matters that are key audit matters. We encourage the Board to emphasize the importance of reporting only on the key audit matters and accordingly, we support the related documentation requirements in the IAASB's proposal that focus on the auditor having documentation to support the judgments about such reported matters. We do not believe that the auditor should be required to document why all other audit matters that might have been key audit matters were not included as key audit matters in the auditor's report.

We continue to recommend that the description of key audit matters in the auditor's report exclude audit procedures performed or an indication of the outcome of the auditor's procedures and significant auditor judgments. Such information may lead a user to believe that the auditor is expressing a "piecemeal" opinion on individual matters or accounts in the financial statements, and any audit procedures enumerated may be taken out of context or misunderstood given their necessarily abbreviated description.

We support clarification of management's conclusion that the going concern basis of accounting is appropriate, either by having management include an explanation in the financial statements of the going concern basis of accounting and their conclusion that the going concern basis of accounting is appropriate, or by including such a statement in the auditor's report. In the former case, it should not be necessary for the auditor to repeat management's going concern footnote disclosure. In the latter case, the auditor should make the statement in their report only after having received a written representation from management which would be referenced in the auditor's report.

We encourage the IAASB and the PCAOB to work together to standardize, to the extent possible, the form and content of the auditor's report in order to increase comparability and ease of use for users who may be readers of reports subject to both sets of standards.

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The following comments primarily reflect those of our analysts and are in response to certain questions set forth in the ED.

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 are supportive of a new section in the auditor's report describing matters the auditor determined to be of most significance in the audit. As users of financial statements, we find value in identifying key audit matters, particularly matters resulting from changes in principles or areas that involve significant judgment, which therefore may require further analysis and discussion with management in order to be properly understood and reflected in analyst models.

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In substantially all situations where an auditor would disclose information not contained in the financial statements, we believe it is likely that management would elect to disclose such information in the financial statements rather than having it summarized by the auditor in the auditor's opinion (in effect, resulting in an auditor disclosing management information). However, for those situations where management may elect to not make such disclosures, such as situations involving auditor judgments (e.g., disclosure of significant control weaknesses that did not rise to the level of a material weakness or auditor consideration of going concern status), we recommend that the IAASB provide additional factors that should be considered by the auditor prior to making such disclosures. Those factors to be considered could include whether deficiencies and uncertainties were remediated prior to issuance of the auditor's report and whether the disclosures would result in making confidential information public or disclosing information that could result in a competitive disadvantage to the company. If such disclosures could result in making confidential information public or in a competitive disadvantage to the company, it would be appropriate to consider whether such disclosure is necessary in light of the overall financial statement presentation.

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?**

   We support making the determination of which key audit matters to communicate based on matters communicated with TCWG. This framework should help ensure that management and TCWG have the opportunity to enhance management disclosures and to provide additional context in the financial statements. It also should help ensure that auditor disclosure of information will not blur the responsibility of management for the preparation and fair disclosure of financial information. We are concerned about the natural propensity to over-disclose, and therefore to include other matters that may not be the most significant. By starting with matters communicated to TCWG, it will help ensure the proper focus and better transparency to users of financial statements.

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?**

   We generally find the guidance describing what to include in the descriptions of key audit matters to be useful. However, we do not believe that a description of the audit procedures performed or an indication of the outcome of the auditor's procedures and significant auditor judgments would provide information that would facilitate an understanding of the financial statements. We are concerned that providing additional information about the results of audit procedures may lead a user to believe that the auditor is expressing a "piecemeal" opinion on individual matters or accounts in the financial statements. For example, the "Valuation of Financial Instruments" and "Revenue Recognition Relating to Long-Term Contracts" sample paragraphs appear to disclose conclusions on specific audit procedures. Furthermore, we are concerned that it may be difficult to succinctly convey the nature of audit procedures in a manner that provides the user with an understanding of the full scope of those procedures, and the quantitative and qualitative factors considered in reaching their decision.

We recommend that the Board clarify that highlighting audit procedures should be infrequent; however, if they are included, only the most significant procedures should be identified and then only when they are important to understanding why a matter was identified as a key audit matter. However, additional guidance should be provided to underscore these concepts if the Board elects to retain the option for auditors to communicate the results of specific audit procedures.

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?**
   **(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 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?**

Certain preparers of financial statements have relatively simple financial statements with few required estimates or judgments, and thus few potential key audit matters. For example, investment funds in many jurisdictions are required to have independent custodians or depositaries with a duty of continuous oversight of the fund's assets (e.g., EU depositary rules for alternative investment funds ("AIFs") or undertakings for collective investment in transferable securities ("UCITS")) which in practice means these funds might have only one potential key audit matter: investment valuation, for which independent quotes were available in active markets. In this case, the matter normally would be discussed with TCWG and comprehensively disclosed in the financial statements, including the level of precision or imprecision around the determination of fair value (i.e., Level 1, 2 or 3 in the fair valuation hierarchy). In such a case, it would not provide any additional value to identify fair valuation as a key audit matter, and we encourage the Board to underscore that this situation may be recurring in certain specialized industries or in other types of companies with a relatively simple operating model.

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 (e.g., there would be an expectation that prior period matters would be updated even if not key in the current period, whether the inclusion of a matter might call into question why it was not included in the prior period)?**

We are generally supportive of limiting key audit matters to only the most recent financial statement period. The requirement should not include an update of prior period matters. However, we believe that key audit matters related to prior periods

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should be communicated in the auditor's report if they were not previously communicated in a public filing (e.g., an initial public offering containing audited financial statements for multiple periods) or if prior period financial statements have been re-audited because the previously issued auditor's report could no longer be relied upon.

**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?**

**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.**

We agree with the statements in the illustrative auditor's reports relating to the appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements, as well as to disclosures identifying a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern. However, we suggest that management's conclusion that the going concern basis of accounting is appropriate may be conveyed either by having management include an explanation in the financial statements of the going concern basis of accounting and their conclusion that the going concern basis of accounting is appropriate, or by including such a statement in the auditor's report. In the former case, it should not be necessary for the auditor to repeat management's going concern footnote disclosure. In the latter case, the auditor should make the statement in their report only after having received a written representation from management.

**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?**

We do not believe the statement is necessary.

**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 are ambivalent about identifying the engagement partner by name in the audit opinion. We view the audit firm, not the singular audit partner, as responsible for the conduct of the audit, and believe there is a risk that unsophisticated readers of financial statements may hold an individual personally responsible for matters beyond the scope of his or her responsibilities. We do not believe naming the signing partner will change his or her conduct, adherence to professional standards, or oversight of the engagement. However, if the name is disclosed, we support inclusion of a "harm's way" exemption.

**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 the law, regulation or national auditing standards do not require a specific order?**

We have no preference on the order of presentation. However, we encourage the PCAOB and the IAASB to work together to standardize, to the extent possible, the form and content of the auditor's report.

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We appreciate the opportunity to share our viewpoints on the ED. If the International Auditing and Assurance Standards Board has any questions regarding our comments, please contact Steven Buller at (212) 810-3501.

Sincerely,

Steven E. Buller
Managing Director