PICPA
Pennsylvania Institute of Certified Public Accountants

November 19, 2013

International Auditing and Assurance Standards Board
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Re: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing

The Accounting and Auditing Procedures Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed new and revised International Standards on Auditing. The PICPA is a professional association of more than 20,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators.

1. Reporting on key audit matters.

The committee understands that financial statement users would like greater transparency from companies and are looking to the auditors for this additional information. However, the committee disagrees with the underlying concept and role being proposed for the auditor in this proposal. The committee believes that the proposed communications are fundamentally flawed, are in direct conflict with professional ethics standards, and would not result in meaningful communication to the financial statement user.

a. As the requirement to communicate key audit matters would likely greatly increase the auditor's practice management exposure, it is unclear which risk areas that an auditor would be willing to leave out. As a result, the audit report would likely become a lengthy document noting all risk areas material and immaterial. Standardization would likely result, as each firm looking to manage its practice risk would centralize and standardize the communication process. The value of the proposed communications is questionable, as the end result would be a lengthy document that would read like an audit textbook.

b. The auditor is not permitted by many state statues and the AICPA Code of Professional Conduct to release confidential client information without the client's permission. The Code defines confidential client information as follows:

> **"ET Section 92 – Definitions .05 Confidential client information.** Confidential client information is any information obtained from the client that is not available to the public. Information that is available to the public includes, but is not limited to, information

- in a book, periodical, newspaper, or similar publication;
- in a client document that has been released by the client to the public or that has otherwise become a matter of public knowledge;
- on publicly accessible websites, databases, online discussion forums, or other electronic media by which members of the public can access the information;
- released or disclosed by the client or other third parties in media interviews, speeches, testimony in a public forum, presentations made at seminars or trade association meetings, panel discussions, earnings press release calls, investor calls, analyst sessions, investor conference presentations, or a similar public forum;
- maintained by, or filed with, regulatory or governmental bodies that is available to the public; or
- obtained from other public sources.

Unless the particular client information is available to the public, such information should be considered confidential client information.

Members are advised that federal, state, or local statutes, rules, or regulations concerning confidentiality of client information may be more restrictive than the requirements contained in the Code of Professional Conduct."

c. As the audit firm would be precluded from communicating any confidential client information, the client would have to approve the final wording of the audit report, including information about audit difficulties, negating the overall value of the communication. The auditors would likely involve their attorneys and the final audit opinion would result from a negotiation process involving the auditor, attorneys representing both parties, public relations specialists, and key members of a client's management. The process for issuing an audit opinion would not only be untenable, but if the process results in an adversarial situation, the auditor could lose independence and become unable to issue the opinion.

The auditor's role is to provide an opinion on the fairness of the financial statement presentation, not to provide communications regarding the overall health of the audited entity. If greater transparency is needed, the committee believes that financial statement users should look to the company's management for additional information (e.g., information that would "assist users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements" (as noted in point 41 on pg. 20). If the financial statement users cannot ascertain the nature of the entity and areas of significant management judgment from the financial statements, then the communications included in the financial statements should be enhanced. The committee does not agree that the fundamental role of the auditor should change to correct a deficiency in financial statement reporting requirements.

Ultimately, the committee is supportive of proposed changes that would better communicate to the financial statement user the nature and limitations of an audit. The committee, for example, suggests that any proposed change to the audit report seek to minimize the gap between what financial statement users expect from the audit and what the audit is designed to accomplish. For example, improvements to the opinion could focus on further explaining the roles and responsibilities of the auditor and the audited entity's management, and that the audit is not designed to detect fraud due to the nature of fraud and the scope of the audit. The committee recommends that the IAASB consider the findings included in the 103rd American Assembly Report, "The Future of the Accounting Profession," The American Assembly, Columbia University, which included tailoring the attestation level for the nature of the financial statement to remove the "illusion of exactitude." Two specific suggestions are as follows:

- More limited attestation on subjective judgments (e.g. accounting estimates and fair value determinations) instead verify reasonableness of process used.
- A new audit opinion to permit the external auditors to adhere to different attestation standards for different parts of the financial statements.

2. Statement of auditor independence.

The committee generally is supportive of this proposal.

3. Disclosure of the name of the engagement partner, required for audits of financial statements of listed entities, with a "harm's way exemption."

The committee strongly disagrees with the proposed requirement to name the engagement partner. While the committee acknowledges that the IAASB has included a "harm's way exemption," the committee notes that it might not be obvious in advance of issuing an opinion whether the partner could potentially be in "harm's way." The committee is primarily concerned with the safety of the audit partners and their families, and is mindful of the potential for violent activism or an irrational reaction from a shareholder who has lost money. As an example, the committee recalls the 2003 London animal rights activist incident in which a city block in front of the Deloitte building was closed and protests took place outside the homes of the auditors. [See the following link for a column in *The Guardian* "Auditors under fire over animal right."]
http://www.theguardian.com/uk/2003/feb/20/businessofresearch.research
The committee does not believe individual partners should be exposed to such security threats.

Furthermore, while personal signatures and names of the engagement partner in the audit report are required in certain jurisdictions, the legal environments in those jurisdictions may not be the same as others. Some jurisdictions, especially the United States of America, are very litigious and could expose the signing partner and the partner's family to unwarranted and costly litigation, whether any fault lies with the partner or not. Therefore, we recommend that the IAASB leave the decision on this disclosure to the local jurisdiction.

4. Preferred ordering and placement of the required auditor reporting elements highlighted through the illustrative auditor's reports. Specific ordering is not mandated.

The committee generally is supportive of this proposal.

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5. **Prominent placement of the auditor's opinion and other entity-specific information in the auditor's report.**

The committee generally is supportive of this proposal.

6. **Auditor reporting on going concern, including a conclusion on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and a statement as to whether a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern has been identified.**

The requirement to assess the appropriateness of the going concern basis of accounting lies with management and is inherent in management's selection of an appropriate framework. The committee believes that requiring the auditor to provide assurance on the going concern basis of accounting is akin to providing a solvency opinion, which is prohibited by the AICPA Code of Profession Conduct. Furthermore, the committee believes that requiring a separate conclusion on going concern from the auditor could potentially mislead users as to the role and limitations of an audit. The committee also believes that providing negative assurance on the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern is similar to reporting that there were no significant deficiencies. The committee does not believe that the auditor is in a position, based on the scope and limitations of a financial statement audit, to comply with this requirement. Additionally, the wording of the sentence, "However, neither management nor the auditor can guarantee the Group's ability to continue as a going concern," seems to place the auditor in the same position as management. Auditors have no role in ensuring the audited entities viability. Furthermore, the requirement is not necessarily consistent with the requirements in all financial reporting frameworks (e.g., a special purpose framework such as income tax basis).

7. **Auditor reporting on other information (to be finalized as part of the separate project to revise ISA 720)**

   The committee is neutral regarding the additional reporting requirements for the other information.

8. **Improved description of the responsibilities of the auditor and key features of the audit. Proposed ISA 700 (Revised) now permits certain components of the description of the responsibilities of the auditor and key aspects of the audit to be relocated to an appendix to the auditor's report, or for reference to be made to such description on a website of an appropriate authority.**

   The committee generally is supportive of efforts to make the audit opinion clearer.

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We appreciate your consideration of our comments, and members of the committee are available to discuss any of these with you at your convenience.

Sincerely,

Richard E. Wortmann, CPA
Chair, PICPA Accounting and Auditing Procedures Committee