



May 9, 2018

*Via electronic mail - Sherry.Hazel@aicpa-cima.com*

Sherry Hazel

AICPA Auditing Standards Board

Re: PROPOSED STATEMENTS ON AUDITING STANDARDS – *AUDITOR REPORTING*

Dear Ms. Hazel:

The members of the New Jersey Society of Certified Public Accountants (NJCPA) Accounting and Auditing Standards Interest Group (the Group) appreciate the chance to comment on the Proposed Statements on Auditing Standards – *Auditor Reporting* (Proposed SAS). The NJCPA represents over 15,000 professionals and future CPAs. The Group was formed to address technical topics effecting financial statement issuers and users. The members of the Group have reviewed the proposed standards and worked together to prepare this comment letter to the Accounting Standards Board (the ASB). The following responses are the views of the Group and may not reflect the opinions of all NJCPA members.

The ASB has proposed changes to the auditor’s report (the Report) to contain more relevant and valuable information in an effort to satisfy the appeals of financial statement users, regulators, and others (collectively referred to as Users). The Group agrees the objective of a Report should be to communicate the appropriate information to Users and enhance Users’ confidence. However, changes shouldn’t put more pressure on the auditor or increase Users’ expectation gap (the expectation gap for purposes of this letter is the disparity between what an auditor can reasonably expect to accomplish during a financial statement audit and what Users expect them to accomplish based on statements in the Report). The Group raised similar concerns in its comment letter dated August 2, 2017 on the Proposed Statements on Auditing Standards (SAS) for Employee Benefit Plan Auditor Reporting. In this comment letter the Group argued adding requirements to include certain information in the Report does not enhance audit quality or close the gap on Users’ expectations.

Company financial statements are becoming more and more complex and so is accounting. Users say they are worried about transparency and are unhappy with “boilerplate” language in the Report. Users perceive there are limitations with the Report and would most likely benefit from a straightforward, “tell it like it is” Report. However, in today’s environment a cross-over to a “tell it like it is” Report seems unlikely. Auditors fear litigation and rely heavily on guidance to reduce the possibility of lawsuits. Boilerplate language is used to close the expectation gap, save time, avoid misunderstandings and improve comparability. Users have expressed satisfaction with the standard pass/fail nature of the report but want more individual descriptions. While the proposed standard attempts to address Users’ concerns, the Group does not believe it is completely successful in achieving the objectives.



QUESTIONS 1-4, page 13

Proposed SAS - Forming an Opinion and Reporting on Financial Statements (AU-C section 700)

Please provide your views on the changes to existing AU-C section 700 described in the preceding section. In addition, the ASB would like your views on the following:

1. *Are the proposed revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?*

RESPONSE

Forming an opinion and reporting on financial statements is complicated. The Group agrees with proposed changes to existing AU-C section 700 as follows.

- Agrees with presenting the Opinion section first. In addition, the Group suggests expanding the heading to read – Unmodified Opinion; Disclaimer of Opinion; Modified Opinion (Requirement 22, page 40). Having the Opinion with an expanded heading as the first statement of the report will highlight the results of the audit and increase Users confidence.
- Disagrees with the affirmative statement about independence and fulfillment of the auditor’s other ethical responsibilities. This proposed statement complicates what auditor independence means and adds more technical, confusing language. The auditor declares their independence in the title “Independent Auditor’s Report,” and the statement “We conducted our audit in accordance with Generally Accepted Auditing Standards” covers auditor independence and ethical requirements. Users have not expressed dissatisfaction with independence, so the Group would appreciate guidance about why this is an important disclosure.
- Disagrees with the proposed requirement of concluding on the Entity’s Ability to Continue as a Going Concern in the Report. Evaluating going concern is the responsibility of management. Users understand going concern is implied unless the uncertainty is specifically mentioned in the Report. The Group believes strong consideration should be given on how this proposed change will impact users’ expectations of the auditor’s responsibilities and how it will affect independence - especially since going concern is a management responsibility.
- Agrees non-issuers financial statements should not include information in the report about the audit process, specifically Key Audit Matters (KAMs). The Group would find it helpful and appreciate if the ASB could expand guidance to reinforce that non-issuers are under no circumstances required to communicate KAMs. However, non-issuers may communicate KAMs if they so desire. The Group is concerned if non-issuers, such as non-profit organizations could be forced into providing KAMs by boards of directors or regulatory agencies because of their desire to model information now required by the PCAOB and International Auditing Standards Board (ISAB). Non-issuers and issuers auditing standards are fundamentally different. For instance, issuers are subject to internal control mandates in Section 404 of the Sarbanes Oxley Act and non-issuers are not. Because of these distinctions the Group



believes if Users do not understand the distinction it may negatively influence their view on the quality of the audit.

- Agrees with the reporting requirement in the proposed standard. The Auditors Responsibility Relating to Other Information Included in Annual Reports.
  - Agrees with expanding the description of the responsibilities of management for the preparation and fair presentation of the financial statements. But disagrees with the proposed requirement to identify the party responsible for oversight, because it has minimal effect on audit quality and Users confidence.
  - Disagrees. See #4 below.
2. *Are the descriptions of the responsibilities of management and the auditor relating to going concern (paragraphs 31b and 36biv) useful and understandable, in view of the calls for more information in the auditor's report about their respective responsibilities in this area? Would any modifications to the descriptions of management's responsibility be necessary for any specific financial reporting framework? Are there any concerns about possible confusion or misinterpretation about the auditor's responsibilities, the requirement to conclude on the entity's ability to continue as a going concern, recognizing that the description is consistent with the requirement in paragraph .20 of AU-C section 570 (SAS No. 132)?*

#### RESPONSE

As mentioned in #1 above - the Group does not agree with the proposed requirement for the auditor to conclude on the ability to continue as a going concern.

Users are requesting more individual company information and not specifically expressing an interest in going concern. However, the goal of the ASB is to converge standards with the ISA. Although the Group is uneasy about applying the proposed standard it is likely to become a requirement. In that case the Group respectfully requests additional guidance from the ASB about applying this proposed change specifically on why it is appropriate to conclude on going concern in the report.

3. *Will the requirement to identify those responsible for the oversight of the financial reporting process present any practical difficulties when those responsible for the oversight of the financial reporting process are also responsible for preparation of the financial statements (as may be the case, for example, in a small owner-managed entity)?*

#### RESPONSE

The Group believes it is not necessary to require disclosure in the Report about whether those responsible for oversight of financial reporting are also responsible for preparation of the financial statements. This proposed change has no effect on the quality of the audit.

4. *Does the expanded description of the auditor's responsibilities, including the key features of the audit, provide useful information and greater transparency into what an audit is and what the auditor does? Are there any aspects of the auditor's responsibilities that should be added?*

#### RESPONSE

The Group believes the proposed expanded description of the auditor's responsibilities will not provide users with more transparency and useful information as they desire. For users to have greater transparency the report should be straightforward and avoid additional indirect language.



QUESTIONS 5-6, page 14

Proposed SAS - Communicating Key Audit Matters in the Independent Auditor's Report (AU-C section 701)

Request for comment

5. *What are your views regarding whether the requirements and guidance in the proposed SAS will be helpful for auditors in determining and communicating KAMs?*

RESPONSE

It is not clear how users will benefit from KAMs in the report. The purpose of the audit report is to provide stakeholders an opinion and report on financial statements. The Group believes KAMs do not belong in the auditor's report, because KAMs have to do with the mechanics of the audit - not the financial statement accounts. KAMs are an attempt to bridge the communication gap between the auditor and stockholders. Users who understand the dynamics of the report will start to expect more from auditors. But most users will be left behind trying to interpret technical accounting language. There is also the possibility KAMs become standard descriptions with little variation from report to report. With the Opinion paragraph moved to the top – users might not even be interested in reading the rest of the report. If regulators and users insist on KAMs perhaps they can be included in a separate report on KAMs only. Nevertheless, the Group strongly agrees there is no advantage to include KAMs in reports of non-issuers.

6. *Is it sufficiently clear that the communication of KAMs is not required for audits of non-issuers?*

RESPONSE

It is clear in the proposed standard non-issuers do not need to communicate KAMs, but it is not clear why this is important. As explained in previous responses the Group firmly agrees with excluding non-issuers from the KAMs requirement because it is not relevant information to Users.

QUESTION 7, page 14

Proposed SAS - Modifications to the Opinion in the Independent Auditor's Report (AU-C section 705)

Please provide your views on the changes to existing AU-C section 705 described in the preceding section. In addition, the ASB would like your views on the following:

7. *Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?*

RESPONSE

The Group believes the changes to AU-C section 705 are adequate when the auditor issues a modified opinion on the financial statements. As suggested in the response to question #1, including the type of opinion in the Opinion heading is suggested.



QUESTIONS 8-9, page 15

Proposed SAS Emphasis-of-Matter and Other-Matter Paragraphs in the Independent Auditor's Report (AU-C section 706)

Please provide your views on the changes to existing AU-C section 706 in the preceding sections. In addition, the ASB would like your views on the following:

8. *Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?*

RESPONSE

See Response to #9 below.

9. *Is the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs clear and understandable, recognizing that the communication of KAMs is not required for audits of non-issuers? If not, what additional guidance would be helpful?*

RESPONSE

The interrelationship is not entirely clear in the proposed guidance. However, if an example report were included in the exposure material it may provide a better understanding of the interrelationship.

QUESTION 10, page 17

Timing of Communications with Those Charged with Governance (AU-C section 260)

In addition to overall views on the proposed changes to existing standards and the amendments described in the preceding sections, the ASB requests your response on the following issues.

ISSUE 1 - Timing of Communications with Those Charged with Governance

10. *Should the requirement in AU-C section 260 be more specific regarding the timing of communication about certain matters with those charged with governance, including whether there should be a requirement for certain communications to be made prior to issuance of the auditor's report?*

RESPONSE

The Group believes auditors should use professional judgement for determining when to communicate significant matters to those charged with governance. The Group does agree it is a best practice to communicate significant audit matters to the governing body early in the audit and when possible before the Report is issued. In reality though this is not always achievable. A requirement to complete all communications prior to the issuance of the Report is impractical and pressures auditors without significantly enhancing audit quality.

QUESTION 11, page 17

Proposed SAS Forming an Opinion and Reporting on Financial Statements (AU Section 700)

ISSUE 2 – Addressee in the Auditor's Report



Please provide your views on the following:

- 11a. *Would including the city and state of the addressee in the auditor's report be beneficial to users of the financial statements?*

RESPONSE

The Group believes including the city and state of the addressee would not improve the report at all.

- 11b. *What would the practical implications be if such a requirement were adopted?*

RESPONSE

With virtual offices and cloud computing becoming the new workplace – including the city and state of the addressee in the report only provides more information without purpose.

QUESTIONS 12-14, page 19

Proposed Amendments Addressing Disclosures in the Audit of Financial Statements

Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards (AU-C section 200); Terms of Engagement (AU-C section 210);

The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (AU-C section 240);

Communication with Those Charged with Governance (AU-C section 260); Planning an Audit of Financial Statements (AU-C section 300); Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (AU-C section 315); Materiality in Planning and Performing an Audit (AU-C section 320); The Auditor's Responses to Assessed Risks (AU-C section 330); and Evaluation of Misstatements Identified During the Audit (AU-C section 450) Forming an Opinion and Reporting on Financial Statements (AU-C section 700).

Request for comment

12. *Are the proposed changes appropriate and sufficient for purposes of enhancing the focus of the auditor on disclosures and, thereby, further enhancing audit quality?*

RESPONSE

The Proposed Amendments Addressing Disclosures in the Audit of Financial Statements will push auditors to deal with unusual or difficult disclosures and discuss their concerns with management early in the audit. The Group believes the proposed changes sufficiently explain this.

13. *Are there any specific areas where, in your view, additional enhancements to either the requirements or application material would be necessary for purposes of effective auditing of disclosures as part of a financial statement audit?*

RESPONSE

No

14. *Will the proposed changes to the assertions in AU-C section 315 help appropriately integrate the auditor's audit approach to the risk of material misstatement in the disclosures with the*



*audit work on the underlying amounts, thereby promoting a more effective audit of disclosures?*

RESPONSE

The Group believes this proposed change as explained in the Exposure Draft on page 18, last row, bullet one will promote consistency and is a useful revision for presentation and disclosure. However, the Group is not clear on what bullet two is expressing in the statement - To acknowledge and give prominence to disclosures where the information is not derived from the accounting system and related consideration to the source of audit evidence.

The Group has many views different from those in the Exposure Draft – however the Group does appreciate the ASB’s attention to developing the proposed SAS. The Group understands the ASB has worked hard and devoted a lot of time in the effort to converge U.S. Standards with ISA. Although the Group has expressed many concerns we have confidence in the guidance of the ASB.

The Group appreciates the ASB for requesting our professional views on the Exposure Draft. The Group would like to thank the ASB for taking the time to read this comment letter submitted on behalf of the members of the New Jersey Society of Certified Public Accountants Accounting and Auditing Standards Interest Group.

Respectfully submitted,

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