



## Agenda Item 4

### Auditor Reporting — Cover Letter and Issues Paper

#### Objective

To review revisions to the exposure draft of *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements* (the ED), based on comments received on the ED and ASB discussion from the July 2018 ASB meeting.

#### Task Force

The Auditor Reporting Task Force (task force) members are:

- Dan Montgomery (Chair)
- Audra Harrington
- Jan Herringer
- Susan Jones
- Richard Miller
- Jeffrey Rapaglia
- Rick Reisig
- Mike Westervelt (TIC)

#### Background

On November 28, 2017 the ASB issued three exposure drafts, with comments due by May 15, 2018:

1. *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements.*
  - *Forming an Opinion and Reporting on Financial Statements*
  - *Communicating Key Audit Matters in the Independent Auditor’s Report*
  - *Modifications to the Opinion in the Independent Auditor’s Report*
  - *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*
  - *Proposed amendments to various AU-C sections*

2. Proposed SAS, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports* [To be discussed as part of [Agenda Item 5](#)]
3. Proposed SAS, *Omnibus Statement on Auditing Standards—2018* [To be discussed as part of [Agenda Item 1](#)]

This issues paper will focus on the first exposure draft relating to auditor reporting.

***Summary of Comment Letter Responses and July 2018 ASB Meeting***

At the July 2018 ASB meeting, the task force provided the ASB with a preliminary analysis and views from the comment letters received on the ED. The task force provided the ASB with the following feedback:

Overall, the responses to the ED were supportive of moving forward with changes to the auditor reporting model, subject to further revisions to the proposals in the ED to address comments received.

The task force received 38 comment letters. Nine respondents supported the exposure draft with no significant comments. Twenty-eight respondents supported the exposure draft with comments. A response was considered “supportive of the proposed SAS with comments” if it supported the direction of the standard but recommended changes to further enhance the proposed SAS. The task force considered this to be 37 respondents (97%) supporting moving forward with changes to the auditor reporting model for non-issuers, subject to further revisions.

One respondent (PWC) had significant concerns with the exposure draft and questioned whether changes to the auditor’s report are needed at this time. This respondent suggested the ASB undertake outreach with users of private company audit reports and others to determine the level of interest in changing the auditor’s report for private companies in the US and what the focus of those changes should be. Further, they believe the ASB should take advantage of the opportunity to more fully converge with the PCAOB’s form and content of the auditor’s report. A number of respondents that supported the direction of the proposed revisions also had various comments or suggestions about exploring the possibility of further alignment with the PCAOB auditor reporting model.

In addition, the task force received direction from the ASB on how to proceed in revising the proposed SASs relating to the timing of communications with those charged with governance and requiring the inclusion of the city and state of the addressee in the auditor’s report (see [issue 1](#) and [issue 2](#) of this issues paper).

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The ED contained two “Issues for Consideration” (questions 10-11) and twelve “Requests for Comment” (questions 1-9, and 12-14) seeking specific feedback from respondents.

The following table contains a summary of the questions from the ED and their disposition.

Issue for Consideration or Request for Comment from the Exposure Draft	Disposition of Issue	Related Materials for this Meeting
<b>Issues for Consideration on Proposed SAS <i>Forming an Opinion and Reporting on Financial Statements</i> (AU-C 700) (Questions 10-11)</b>		
<i>Issue 1—Timing of Communications With Those Charged With Governance (Question 10)</i>	Discussed at the July 2018 ASB Meeting to provide task force with direction. See Issue 1.	<a href="#">Issue 1</a>
<i>Issue 2—Addressee in the Auditor’s Report (Question 11)</i>	Discussed at the July 2018 ASB Meeting to provide task force with direction. See Issue 2.	<a href="#">Issue 2</a>
<b>Request for Comments on Proposed SAS <i>Forming an Opinion and Reporting on Financial Statements</i> (AU-C 700) (Questions 1-4)</b>		
<i>Question 1 — Are the proposed revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?</i>	Comment letter results discussed at the July 2018 ASB Meeting.  <i>Results</i> —31 of the 38 comment letters specifically responded to question 1. Of the 31 who responded, 15 supported the proposed SAS, and 15 supported the proposed SAS with comments. The task force viewed this as 97% of respondents believing that the revisions in the proposed SAS are clear and understandable, and the application material is helpful in supporting the application of the requirements, subject to further revisions to address the comments received.	No further discussion necessary
<i>Question 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</i>	Preliminary discussions at the July 2018 ASB meeting. See issue 3 relating to going concern and Issue 4 relating to independence.	<a href="#">Issue 3</a> (Going Concern)  <a href="#">Issue 4</a> (Independence)

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<p><i>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, in particular 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)?</i></p>		
<p><i>Question 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)?</i></p>	<p><b>Results</b>—33 of the 38 comment letters specifically responded to question 3. Of the 33 who responded, 14 supported the proposed SAS, and 11 supported the proposed SAS with comments. The task force viewed this as 76% of respondents supporting the proposed SAS.</p> <p>8 of the 33 (24%) respondents did not support identifying those responsible for the oversight of the financial reporting process in the auditor's report.</p>	<p>TF does not believe this statement is meaningful in a nonissuer environment and therefore recommends removing paragraphs 32 and A42-A43 of the proposed SAS (See agenda item 4A)</p>
<p><i>Question 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</i></p>	<p><b>Results</b>—31 of the 38 comment letters specifically responded to question 4. Of the 31 who responded, 16 supported the proposed SAS, and 11 supported the proposed SAS with comments. The task force viewed this as 87% of respondents supporting the proposed SAS, subject to</p>	<p>See <a href="#">Issue 5</a> and agenda Item 4A for proposed changes</p>

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Issue for Consideration or Request for Comment from the Exposure Draft	Disposition of Issue	Related Materials for this Meeting
<i>responsibilities that should be added?</i>	<p>further revisions to address the comments received.</p> <p>4 of the 31 (13%) respondents do not believe the proposed SAS will provide useful information or greater transparency. One respondent is not in favor of increasing the amount of boilerplate language in the audit report (Washington State (8)).</p>	
<p><b>Request for Comments on Proposed SAS <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i> (AU-C 701) (Questions 5-6)</b></p>		
<i>Question 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?</i>	<p>Results—35 of the 38 comment letters specifically responded to question 5. Of the 35 who responded, 9 supported the proposed SAS, and 14 supported the proposed SAS with comments. The task force viewed this as 66% of respondents supporting the proposed SAS and, in concept, communicating key audit matters (KAMs) in the auditor’s report, subject to further revisions to address the comments received.</p> <p>12 of the 35 (34%) respondents did not support creating a standard to permit the communication of KAM in the auditor’s report.</p>	See <a href="#">Issue 6</a> and agenda item 4A for proposed changes
<i>Question 6 — Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?</i>	<p>Results—33 of the 38 comment letters specifically responded to question 6. Of the 33 who responded, 11 supported the proposed SAS, and 8 supported the proposed SAS with comments. The task force viewed this as 58% of respondents believe the proposed SAS is sufficiently clear that the communication of KAM is not required for audits of nonissuers.</p> <p>14 of the 33 (42%) respondents do not believe the proposed SAS is sufficiently</p>	See agenda item 4A for proposed changes. In particular, paragraph 1 of this proposed SAS (and par 3A in AU-C 700, and par. 2 of AU-C 706)

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Issue for Consideration or Request for Comment from the Exposure Draft	Disposition of Issue	Related Materials for this Meeting
	clear that the communication of KAMs is not required.	
<b>Request for Comments on Proposed SAS <i>Modifications to the Opinion in the Independent Auditor's Report</i> (AU-C 705) (Question 7)</b>		
<i>Question 7 — Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?</i>	Results—32 of the 38 comment letters specifically responded to question 7. Of the 32 who responded, 25 supported the proposed SAS, and 7 supported the proposed SAS with comments. The task force viewed this as 100% of respondents believing that the revisions to AU-C section 705 are clear and understandable and the application material is helpful, subject to further revisions to address the comments received.	See <a href="#">Issue 7</a> and agenda item 4A for proposed changes.
<b>Request for Comments on Proposed SAS <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report</i> (AU-C 706) (Questions 8-9)</b>		
<i>Question 8 — Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?</i>	Results—29 of the 38 comment letters specifically responded to question 8. Of the 29 who responded, 23 supported the proposed SAS, and 5 supported the proposed SAS with comments. The task force viewed this as 96% of respondents supporting the proposed SAS and believe the revisions to AU-C section 706 are clear and understandable and the application material is helpful, subject to further revisions, if necessary, to address the comments received.  One (4%) respondent (CLA) does not believe the revisions to AU-C section 706 are clear and understandable.	See agenda item 4A for proposed changes.
<i>Question 9 — Is the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs clear and</i>	Results—30 of the 38 comment letters specifically responded to question 9. Of the 30 who responded, 15 supported the proposed SAS, and 10 supported the	See agenda item 4A for

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Issue for Consideration or Request for Comment from the Exposure Draft	Disposition of Issue	Related Materials for this Meeting
<p><i>understandable, recognizing that the communication of KAMs is not required for audits of nonissuers? If not, what additional guidance would be helpful?</i></p>	<p>proposed SAS with comments. The task force viewed this as 84% of respondents supporting the proposed SAS and believe that the interrelationship between emphasis-of-matter (EOM) paragraphs, other-matter (OM) paragraphs, and KAMs is clear and understandable, subject to further revisions to address the comments received.</p> <p>5 of the 30 (16%) respondents do not believe the interrelationship is clear and understandable.</p>	<p>proposed changes.</p>
<p><b>Proposed Amendments Addressing Disclosures in the Audit of Financial Statements (Questions 12-14)</b></p>		
<p><i>Question 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?</i></p>	<p><i>Results</i>—32 of the 38 comment letters specifically responded to question 12. Of the 32 who responded, 26 supported the proposed SAS, and 6 supported the proposed SAS with comments. The task force viewed this as 100% of respondents supporting the proposed SAS and believe that the proposed changes are appropriate and sufficient for purposes of enhancing the focus of the auditor on disclosures and thereby further enhancing audit quality.</p>	<p>Disclosures (other than those related to auditor-reporting standards) to be addressed at the January 2019 ASB meeting</p>
<p><i>Question 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?</i></p>	<p><i>Results</i>—30 of the 38 comment letters specifically responded to question 13. Of the 30 who responded, 23 supported the proposed SAS, and 6 supported the proposed SAS with comments. The task force viewed this as 97% of respondents believe that there are no additional enhancements to either the requirements or application material necessary for purposes of effective auditing of</p>	<p>Disclosures (other than those related to auditor-reporting standards) to be addressed at the January 2019 ASB meeting</p>

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Issue for Consideration or Request for Comment from the Exposure Draft	Disposition of Issue	Related Materials for this Meeting
	disclosures as part of the financial statement audit.	
<p><i>Question 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?</i></p>	<p><i>Results</i>—31 of the 38 comment letters specifically responded to question 14. Of the 31 who responded, 26 supported the proposed SAS, and 5 supported the proposed SAS with comments. The task force viewed this as 100% of respondents supporting the proposed SAS and believe that 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.</p>	<p>Disclosures (other than those related to auditor-reporting standards) to be addressed at the January 2019 ASB meeting</p>
	<i>Effective Date</i>	<a href="#">See Issue 8</a>

***Effect on Extant AU-C Sections 800, 805, and 810***

As noted in the exposure draft, the ASB concluded that changes to the 800 series (AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and AU-C section 810, *Engagements to Report on Summary Financial Statement*) should be addressed after feedback is received on the proposed SASs in the auditor reporting exposure draft. The auditor reporting task force intends to propose any necessary changes to the 800 series through a separate exposure draft, with the intent of aligning the effective dates of all the reporting standards to the extent practicable. A draft of the 800 series changes will be discussed at the January 2019 ASB meeting with the intent to vote to ballot for exposure.

***Employee Benefit Plans***

In July 2018 the ASB voted, as a final standard, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (EBP reporting standard), that addresses the auditor’s responsibilities to form an opinion and report on ERISA plan financial statements.



The EBP reporting standard was voted final pending conforming amendments to be considered to align with the auditor reporting standards once they are finalized.

### Agenda Items Presented

- Item 4 – Cover Letter and Issues Paper
- Item 4A – Exposure Draft marked to reflect changes from comment letter responses
- Item 4B – Illustration 1 marked to reflect changes from the exposure draft
- Item 4C – Detailed Comment Letter Responses to *Requests for Comment* (Questions 1-4) and proposed SAS *Forming an Opinion and Reporting on Financial Statements*
- Item 4D – Detailed Comment Letter Responses to *Issues for Consideration* (Questions 10-11)
- Item 4E – Detailed Comment Letter Responses to *Requests for Comment* (Questions 5-6) and proposed SAS *Communicating Key Audit Matters in the Independent Auditor’s Report*
- Item 4F – Detailed Comment Letter Responses to *Requests for Comment* (Question 7) and proposed SAS *Modifications to the Opinion in the Independent Auditor’s Report*
- Item 4G – Detailed Comment Letter Responses to *Requests for Comment* (Questions 8-9) and proposed SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*
- Item 4H – Other Detailed Comment Letter Responses on the ED

Mr. Montgomery will lead the discussion through Agenda Items 4, 4A and 4B.

## Issues for Discussion with the ASB

The ASB is asked to review the proposed changes in Agenda Item 4A. The following eight issues highlight certain areas in Agenda Item 4A to which the task force is seeking specific feedback from the ASB.

### Forming an Opinion and Reporting on Financial Statements (AU-C 700)

(Issues 1-5 in this Issues Paper)

#### Issue 1: Timing of Communication With Those Charged With Governance

**Question 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?*

**Comment Letter Results** —There was strong sentiment that auditor judgment should be allowed and the proposed SAS should retain the flexibility in the timing of communications due to the variety of circumstances that may be encountered during an audit. Respondents noted that such flexibility is essential to ensure the proposed SASs are scalable and appropriate for audits of companies of all sizes and degrees of complexity.

#### **Results from July 2018 ASB Meeting**

At the July 2018 ASB meeting, the ASB noted the importance of certain communications to be made prior to the release of the auditor’s report. The ASB asked the task force to re-look at paragraphs 12-13 of AU-C section 260 *The Auditor’s Communication with Those Charged with Governance*, to determine whether any of those required communications should be made prior to the issuance of the auditor’s report. The ASB also asked the task force to obtain feedback from TIC so that the task force is taking into consideration the concerns of different size firms.

#### **Subsequent Task Force Discussion**

Subsequent to the July 2018 ASB meeting, the task force met twice in person and held teleconference calls to discuss revisions to the proposed SASs. The task force believes, consistent with the comment letter feedback, that the proposed SASs should retain flexibility in the timing of communications with those charged with governance. The TIC representative on the task force also supports this approach.

#### **Task Force Recommendations**

The task force believes that the requirements in the ED should remain unchanged but proposes adding additional guidance to paragraph .A50 of AU-C section 260 to highlight that certain matters may be important to communicate prior to the issuance of the auditor's report.

The following contains the proposed changes (redlined) to the proposed amendments to AU-C section 260 for the ASB's consideration:

*Timing of Communications (Ref: par. .18)*

~~A42-A50.~~ ~~The~~ *Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the* appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter and the action expected to be taken by those charged with governance. ~~The auditor may consider communicating~~ *For example:*

*Timing of Communications (Ref: par. .18)*

~~A42-A50.~~ ~~The~~ *Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the* appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter and the action expected to be taken by those charged with governance. ~~The auditor may consider communicating~~ *For example:*

- *Communications regarding* planning matters *may often be made* early in the audit engagement and, for an initial engagement, as part of the terms of the engagement.
- *It may be appropriate to communicate* significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor in overcoming the difficulties or if the difficulties are likely to lead to a modified opinion.
- *Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards.*
- *When proposed SAS Communicating Key Audit Matters in the Independent Auditor's Report applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph .A21); the auditor may also have more frequent communications to further discuss such matters when communicating about significant audit findings.*

**Deleted:** *The following are examples of what may be considered appropriate timely communication*

**Moved (insertion) [1]**

**Moved up [1]:** *Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards.*

*The following are examples of matters for which communication with those charged with governance may be more important prior to issuance of the auditor's report:*

- *Communications regarding uncorrected misstatements accumulated by the auditor and the effect that they, individually or in the aggregate, may have on the opinion in*

the auditor’s report, including possible implications with respect to future financial statements.

- Communications regarding findings from the audit, including the auditor’s views about the qualitative aspects of the entity’s accounting practices,
- When proposed SAS Communicating Key Audit Matters in the Independent Auditor’s Report applies, the matters planned to be included in the auditor’s report.

Deleted: , may also be made at the conclusion of the audit

#### **Action Requested of the ASB**

The ASB is asked to review the proposed changes to paragraph .A50 of AU-C section 260 (see the “Amendments” section in agenda item 4A) and provide the task force with feedback.

1. Does the ASB support the task force’s conclusion to retain the flexibility in the timing of communications with those charged with governance?
2. Does the ASB support the proposed changes to paragraph .A50 of AU-C section 260?

## **Issue 2—Addressee in the Auditor’s Report**

**Question 11 — Please provide your views on the following:**

- a. *Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?*
- b. *What would the practical implications be if such a requirement were adopted?*

**Comment Letter Results** —78% of respondents believe that including the addressee’s city and state would not be beneficial to users of the financial statements and believe the difficulties in determining that information would outweigh the benefits.

#### **Results from July 2018 ASB Meeting**

At the July 2018 ASB meeting, the ASB asked the task force to develop a requirement, along with related application material, for the city and state of the addressee to be included in the auditor’s report for the ASB to consider at the October 2018 meeting.

#### **Subsequent Task Force Discussion**

Because it is important to have both ARSC and the ASB agree on an approach, Bruce Nunnally (ARSC representative) and Mike Glynn (AICPA staff of ARSC) joined the task force for the discussion on this topic. The task force discussed the need for the auditor to obtain the agreement of management as to the city and state of the addressee to the auditor’s report. In addition, the task force agree that the application material should be concise, and that the city and state used for the engagement letter is an appropriate starting point.

**Task Force Recommendations**

**[Paragraphs 21 and A25A of proposed SAS *Forming an Opinion and Reporting on Financial Statements*; and paragraph .A24 of AU-C section 210 in Agenda Item 4A)**

The task force recommends the following changes to paragraph 21 of proposed SAS *Forming an Opinion and Reporting on Financial Statements* with application material included in new paragraph A25A.

Requirements	Application Material
<p>21. The auditor’s report should be addressed, as appropriate, based on the circumstances of the engagement, <u>and should include the city and state of the addressee.</u> (Ref: par. A25-A25A)</p>	<p>A25. The auditor’s report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being audited or to those charged with governance. A report on the financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). Occasionally, an auditor may be retained to audit the financial statements of an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.</p>
	<p><u>A25A. The city and state of the addressee is ordinarily the city and state used for the engagement letter. However, in other instances, including when the engaging party is different from the entity for which the audit is being performed, determining the location to include in the auditor’s report may require professional judgment. Factors that may be helpful in making this determination include the following:</u></p> <ul style="list-style-type: none"> <li>• <u>the principal location of business operations that may be described in the notes to the financial statements;</u></li> <li>• <u>the city and state included in the entity’s income tax returns;</u></li> <li>• <u>the location where a preponderance of the audit work was performed.</u></li> </ul>

***Action Requested of the ASB***

3. Does the ASB agree that the city and state of the addressee should be required to be included in the auditor's report?
4. Does the ASB believe the application material in paragraph A25A is helpful in determining the city and state of the addressee?

**AU-C section 210, *Terms of Engagement***

The task force recommends the following changes (redlined) to paragraph .A24 of proposed revisions to AU-C section 210, *Terms of Engagement* from the ED because the auditor may want to obtain the agreement of management regarding the city and state of the addressee in the auditor's report:

**Audit Engagement Letter or Other Form of Written Agreement<sup>10</sup> (Ref. par. .10)**

*Form and Content of the Audit Engagement Letter*

~~A.23~~ **A.24** The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.<sup>11</sup> Paragraph .06b of this section addresses the description of the responsibilities of management. In addition to including the matters required by paragraph .10, an audit engagement letter may make reference to, for example, the following:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, GAAS, and ethical and other pronouncements of professional bodies to which the auditor adheres
- ***Arrangements regarding the planning and performance of the audit, including the composition of the audit team***
- ***The communication of key audit matters***
- The form of any other communication ***about the*** ~~of~~ results of the audit engagement
- ~~Arrangements regarding the planning and performance of the audit, including the composition of the audit team~~
- The expectation that management will provide written representations (see also paragraph .A11)

- ***The expectation that management will provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, including an expectation that management will provide access to information relevant to disclosures***
- The agreement of management to make available to the auditor draft financial statements, ***including all information relevant to their preparation and fair presentation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation and fair presentation of disclosures), and the and any accompanying*** other information,<sup>12</sup> ***if any***, in time to allow the auditor to complete the audit in accordance with the proposed timetable
- The agreement of management to inform the auditor of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the financial statements
- The basis on which fees are computed and any billing arrangements
- ***The city and state of addressee in the auditor's report<sup>1</sup>***
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein, as may be evidenced by their signature on the engagement letter

<sup>11</sup>[Footnote omitted for purposes of this proposed SAS.]

<sup>12</sup> ***As defined in proposed SAS The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.***

***<sup>1</sup> See proposed SAS Forming an Opinion and Reporting on Financial Statements, paragraph 21***

[All subsequent footnotes are renumbered.]

#### ***Action Requested of the ASB***

5. Does the ASB agree with the amending the application material in paragraph A24 of AU-C section 210 to include the city and state of the addressee as a matter the auditor may want to make reference to in the engagement letter?

### **Issue 3—Going Concern**

**Question 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, in particular 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)?**

**Comment Letter Results**

Many respondents supported including the descriptions of the responsibilities of management and the auditor relating to going concern in the report because they believe it will provide additional clarity to the users of the auditor’s report, and provided recommendations on how to better communicate such matters. Some respondents raised concerns about including a going concern section in every auditor’s report when there is no substantial doubt about an entity’s ability to continue as a going concern and, in some cases, no indication of events or conditions that could give rise to substantial doubt. Other respondents expressed concerns with requiring a statement about the appropriateness of the going concern basis of accounting when the going concern basis of accounting may not be relevant for all financial reporting frameworks.

**July 2018 ASB Meeting Discussion**

At the July 2018 ASB meeting, the ASB had a preliminary discussion about the comment letter feedback relating to going concern. The task force noted that the comments received on the exposure draft would be considered further and recommendations would be developed for further discussion at the October 2018 ASB meeting.

**Subsequent Task Force Discussion**

The task force focused on the following going concern related content in the proposed SAS *Forming an Opinion and Reporting Financial Statements*:

1. Paragraph 27 of the proposed SAS (from the ED) requires a separate going concern section in the auditor’s report, when applicable, in accordance with the proposed amendment to AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*
2. Paragraph 31(b) of the proposed SAS (from the ED) requires a statement that describes management’s responsibilities for assessing the entity’s ability to continue as a going concern in accordance with the applicable financial reporting framework and determining whether the use of the going concern basis of accounting is appropriate
3. Paragraph 36(b)(iii) of the proposed SAS (from the ED) requires a statement that the auditor’s responsibilities are to conclude on the entity’s ability to continue as a going



concern and on the appropriateness of management’s use of the going concern basis of accounting

The task force believes the proposed SAS should continue to require a separate section in the auditor’s report when required in accordance with AU-C section 570 (i.e., when there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time) and therefore the task force is not proposing any changes to paragraph 27 of the proposed SAS.

The task force discussed the comments received relating to paragraph 31(b) and whether there is a need to discuss going concern in all reports. The task force noted that there is confusion with the term “going concern” and it may be misunderstood by users. The task force also questioned the need for the proposed SAS to make reference to the going concern basis of accounting because in the U.S. the going concern basis of accounting is not always relevant.

The task force discussed the following three options for revising the proposed SAS relating to going concern.

Option 1:

- Revise paragraph 31(b) to retain the requirement to describe management’s responsibilities for assessing the entity’s ability to continue as a going concern in accordance with the applicable financial reporting framework, but remove the requirement to describe management’s responsibility for determining whether the use of the going concern basis of accounting is appropriate.
- Revise paragraph 36(b)(iv) to retain the description of the auditor’s responsibilities to conclude on the entity’s ability to continue as a going concern, but remove the requirement to describe the auditor’s responsibility to conclude on the appropriateness of management’s use of the going concern basis of accounting.

Option 2:

- Remove paragraph 31(b) entirely such that the report is silent about management’s responsibilities relating to going concern because not all financial reporting frameworks require management to make a going concern.
- Revise paragraph 36(b)(iv) to retain the description of the auditor’s responsibilities to conclude on the entity’s ability to continue as a going concern, but remove the requirement to describe the auditor’s responsibility to conclude on the appropriateness of management’s use of the going concern basis of accounting.

Option 3:

- Revise paragraph 31(b) to include a requirement to describe management’s responsibilities for assessing the entity’s ability to continue as a going concern only when the applicable financial reporting framework contains such a requirement. Remove the requirement to

describe management’s responsibility for determining whether the use of the going concern basis of accounting is appropriate.

- Revise paragraph 36(b)(iv) to retain the description of the auditor’s responsibilities to conclude on the entity’s ability to continue as a going concern, but remove the requirement to describe the auditor’s responsibility to conclude on the appropriateness of management’s use of the going concern basis of accounting.

**Task Force Recommendations**

[Paragraphs 31(b) and 36(e) from the proposed SAS *Forming an Opinion and Reporting on Financial Statements* in Agenda Item 4A]

The task force supports option 3 based on the following:

- Any reference to management’s responsibility in the auditor’s report should be conditional on whether the applicable financial reporting framework requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern.
- The report should be silent about the going concern basis of accounting because it may not be relevant for some financial reporting frameworks.
- Any wording about the auditor’s responsibilities should focus on the requirement under AU-C section 570 to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern.

Accordingly, the task force recommends the following changes to paragraphs 31(b) and 36(e) (formerly paragraph 36(b)(iv)) from the proposed SAS *Forming an Opinion and Reporting on Financial Statements* in agenda item 4A (note: the task force has also proposed other changes to the auditor responsibilities section that are reflected here):

Requirements	Application Material
<i>Responsibilities for the Financial Statements</i>	<i>Responsibilities for the Financial Statements</i> (Ref: par. 30–33)
30. The auditor’s report should include a section with the heading “Responsibilities of Management for the Financial Statements.”	
31. This section of the auditor’s report should describe management’s responsibility for the following:	
a. The preparation and fair presentation of the financial statements in accordance	A41. AU-C section 200 explains the premise relating to the responsibilities of management

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Requirements	Application Material
<p>with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error (Ref: par. 0)</p>	<p>and, when appropriate, those charged with governance on which an audit in accordance with GAAS is conducted.<sup>1</sup> Management and, when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management’s responsibilities in the auditor’s report includes reference to both of these responsibilities because it helps explain to users the premise on which an audit is conducted. AU-C section 260 uses the term <i>those charged with governance</i> to describe the persons or organizations with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures among entities.</p>
<p>b. <del>When required by the applicable financial reporting framework, the evaluation of conditions or events that raise substantial doubt about</del> <del>Assessing</del> the entity’s ability to continue as a going concern <del>in accordance with the applicable financial reporting framework and determining whether the use of the going concern basis of accounting is appropriate</del></p>	

<sup>1</sup> Paragraphs .05 and .A2 of AU-C section 200.

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Requirements	Application Material
<i>Auditor’s Responsibilities for the Audit of the Financial Statements</i>	<i>Auditor’s Responsibilities for the Audit of the Financial Statements (Ref. par. 34–37)</i>
34. The auditor’s report should include a section with the heading “Auditor’s Responsibilities for the Audit of the Financial Statements.”	
35. This section of the auditor’s report should do the following: (Ref. par. A45)	A45. The description of the auditor’s responsibilities as required by paragraphs 24–37 of this proposed SAS may be tailored to reflect the specific nature of the entity, for example, when the auditor’s report addresses consolidated financial statements. Illustration 2 in the exhibit to this proposed SAS includes an example of how this may be done.
a. State that the objectives of the auditor are to	
i. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and (Ref. par. A46)	Objectives of the Auditor (Ref. par. 35a–c) A46. The auditor’s report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes the auditor’s opinion. These are in contrast to management’s responsibilities for the preparation and fair presentation of the financial statements.
ii. issue an auditor’s report that includes the auditor’s opinion	
b. State that reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists (Ref. par. A47)	A47. Because the auditor’s opinion is based on obtaining reasonable assurance, the auditor’s report does not constitute a guarantee. Because of the inherent limitation of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance

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Requirements	Application Material
	with GAAS. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with GAAS. <sup>2</sup>
c. <u>State that the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control</u>	
d. State that misstatements <del>can arise from fraud or error, and describe that misstatements</del> are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements <sup>3</sup> (Ref. par. A48)	A48. When the applicable financial reporting framework defines materiality differently from the definition in AU-C section 320, <i>Materiality in Planning and Performing an Audit</i> , the auditor's report may need to reflect the definition or description of materiality from the applicable financial reporting framework.
36. The "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report should further <u>describe an audit by stating that, in performing an audit in accordance with GAAS, the auditor's responsibilities are to include the following:</u> <del>the following:</del>	
a. <del>State that, as part of an audit in accordance with GAAS, the auditor exercises</del> <u>use</u> professional judgment and <del>exercise</del> <u>maintains</u> professional skepticism throughout the audit. <del>and</del>	
b. <del>Describe an audit by stating that the auditor's responsibilities are</del>	

<sup>2</sup> Paragraph .A56 of AU-C section 200 and paragraph .10d of AU-C section 210.

<sup>3</sup> Paragraph .02 of AU-C section 320, *Materiality in Planning and Performing an Audit*.

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Requirements	Application Material
<p>b. <del>i. to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and ; to design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, ; and to obtain audit evidence regarding the amounts and disclosures in the financial statements that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.</del></p>	
<p>c. <del>ii. to obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, no such opinion is expressed.</del></p> <p>In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the following: “but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, no such opinion is expressed.”</p>	
<p>d. <del>iii. to evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.</del></p>	

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Requirements	Application Material
<p>e. <del>iv. to conclude whether in the auditor's judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about</del> <del>on</del> the entity's ability to continue as a going concern <u>for a reasonable period of time [or the time period as set by the applicable financial reporting framework, when applicable]</u> <del>and on the appropriateness of management's use of the going concern basis of accounting.</del></p>	

***Action Requested of the ASB***

6. Does the ASB agree with the proposed changes relating to going concern (option 3) as discussed above?

## Issue 4—Independence

### [Paragraph 26c of proposed SAS]

Paragraph 26c of the proposed SAS *Forming an Opinion and Reporting on Financial Statements* requires the “Basis for Opinion” section of the auditor’s report to include an affirmative statement about the auditor’s independence and fulfillment of the auditor’s other ethical responsibilities in accordance with relevant ethical requirements relating to the audit.

#### **Comment Letter Feedback**

While the exposure draft did not request specific feedback on this topic, some of the comment letters expressed concerns with including an affirmative statement about independence in the auditor’s report.

One respondent (NJCPA) believes that 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.

Another respondent (PWC) encouraged the ASB to consider the implications of diverging from the PCAOB’s approach. Aligning with the PCAOB would create a consistent approach in the U.S to describing the auditor’s responsibilities for independence between public and private companies. The PCAOB’s approach requires a statement that explains the auditor is required to be independent and lists the relevant literature that governs the determination of independence for public company audits.

A third respondent (EY) also recommended that the ASB more closely align with the PCAOB requirements. This respondent expressed concerns with stating in the auditor’s report that the auditor “has fulfilled the auditor’s other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit” and believes the wording is vague and potentially confusing. This respondent also expressed concerns that the proposed SAS does not explain the implications to the audit or the auditor’s reporting requirements if breaches of such ethical requirements are identified during the audit, and believes the ASB should amend the application guidance relating to the terms of the engagement to clarify how audit teams might evidence compliance with the requirement.

Other respondents (NSAA and ALGA) recommended a specific reference be made to the *AICPA Code of Professional Conduct*.

#### **Subsequent Task Force Discussion**

The task force discussed whether to align the wording closer to that of the PCAOB. In addition, the task force discussed the difficulties involved in identifying the *AICPA Code of Professional Conduct* in the auditor’s report and why it may not always be applicable.

Certain members of the task force support aligning the wording closer to that of the PCAOB and believe identifying the relevant ethical requirements in the report would be useful. Other members



of the task force believe that the proposed SAS should continue to converge with ISA 700 (Revised) because the auditor needs to be independent in order to sign the report and therefore they do not see the difficulty in making an affirmative statement. These task force members believe that including such an affirmative statement in the auditor's report will raise the level of awareness and encourage auditors to give thought to the relevant independence and ethical requirements for each engagement. These members of the task force also believe that the identification of the relevant ethical requirements in the auditor's report would only lengthen the auditor's report without increasing its informational value and may create more confusion.

#### ***Task Force Recommendations***

[Paragraph 26(c) and A37-A38 from the proposed SAS *Forming an Opinion and Reporting on Financial Statements* in Agenda Item 4A]

The task force supports retaining the requirement for an affirmative statement in the auditor's report as proposed in the exposure draft (no changes to paragraph 26(c)) and is proposing the application material in paragraph A38 include a reference to the *AICPA Code of Professional Conduct* as follows:

##### ***Basis for Opinion***

26. The auditor's report should include a section, directly following the "Opinion" section, with the heading "Basis for Opinion," that does the following: (Ref. par. A34)

- a. States that the audit was conducted in accordance with generally accepted auditing standards and identifies the United States of America as the country of origin of those standards (Ref. par. A35–A36)
- b. Refers to the section of the auditor's report that describes the auditor's responsibilities under GAAS
- c. Includes a statement that the auditor is independent of the entity and has fulfilled the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit (Ref. par. A37–A38)
- d. States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion

##### ***Application Material***

*Basis for Opinion* (Ref: par. 26)

A34. The "Basis for Opinion" section provides important context about the auditor's opinion. Accordingly, this proposed SAS requires the "Basis for Opinion" section to directly follow the "Opinion" section in the auditor's report.

A35. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards. For example, the auditor's report may refer to auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards.

A36. In accordance with AU-C section 200, the auditor does not represent compliance with GAAS in the auditor’s report unless the auditor has complied with the requirements of section 200 and all other AU-C sections relevant to the audit.<sup>4</sup>

Relevant ethical requirements (Ref: par. 26c)

A37. AU-C section 200 explains that relevant ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.<sup>5</sup> When the AICPA Code of Professional Conduct applies, the auditor’s other ethical responsibilities relate to the principles of professional conduct (AICPA, *Professional Standards*, ET sec. 0.300, *Principles of Professional Conduct*).

A38. Relevant ethical requirements may exist in several different sources, such as ethical codes and additional rules and requirements within law and regulation. When independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant sources (for example, the AICPA Code of Professional Conduct, when applicable, or the name of the code, rule or applicable regulation, or *Government Auditing Standards* promulgated by the Comptroller General of the United States) or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*,<sup>6</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations in which the component auditor does not meet the independence requirements that are relevant to the group audit.

**Action Requested of the ASB**

7. Does the ASB support retaining the affirmative statement in the auditor’s report relating to independence, and retaining the flexibility relating to naming the relevant ethical requirements but specifically referencing the AICPA Code of Professional Conduct in the application material?

<sup>4</sup> Paragraph .22 of AU-C section 200.

<sup>5</sup> Paragraph .A15 of AU-C section 200.

<sup>6</sup> Paragraphs .22–.23 of AU-C section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

**Issue 5—Auditor’s Responsibilities Relating to Communications with Those Charged With Governance**  
(Paragraph 37 of Proposed SAS)

Paragraph 37 of the proposed SAS *Forming an Opinion and Reporting on Financial Statements* (from the exposure draft) required the auditor’s report to state that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, any significant deficiencies and material weaknesses in internal control that the auditor identifies during the audit.

***Comment Letter Feedback***

Question 4 of the exposure draft requested feedback about the expanded description of the auditor’s responsibilities. Some respondents (Washington and CLA) expressed concerns with the use of “significant deficiency” and “material weakness” in the auditor’s report without the appropriate definitions.

One respondent (AAFCPAs) recommended including all the required communications with those charged with governance from AU-C section 260 or removing the wording about “the planned scope and timing of the audit” because otherwise it was highlighting only one required communication over all the others.

Other respondents (PWC and GT) believe some users may view the statement about significant deficiencies and material weaknesses to imply that significant deficiencies or material weaknesses had been identified or could possibly be misleading in terms of whether matters were actually identified.

Another respondent (KPMG) believes these requirements make it critical for the required communications to those charged with governance to be made prior to the report release date and omitting that requirement undermines the objectives of these paragraphs. If communications will continue to be allowed after the report release date, to be more meaningful to users of the financial statements, this respondent recommends the auditor’s report clearly state whether or not the communications have been made prior to the issuance of the auditor’s report, in addition to stating the auditor’s responsibility to communicate with those charged with governance.

***Task Force Discussion***

Subsequent to the July 2018 ASB meeting, the task force discussed this paragraph at length and believes that the use of “among other matters” in the paragraph alleviates some of the concerns. Further, the task force recommends the following changes to paragraph 37 to address the comments received. (Also, see [Issue 1](#) relating to the timing of communications with those charged with governance.)

37. The “Auditor’s Responsibilities for the Audit of the Financial Statements” section of the auditor’s report should also state that the auditor **is required to** communicate with

those charged with governance regarding, among other matters, the planned scope and timing of the audit, ~~and significant audit findings, and including internal control related matters any significant deficiencies and material weaknesses in internal control~~ that the auditor identifies during the audit.

Some members of the task force do not think this paragraph is necessary to include in the auditor's report because they believe it may raise questions about what has been communicated.

**Action Requested of the ASB**

8. Does the ASB support the changes proposed to paragraph 37? More broadly, what are the ASB views on retaining this wording or removing the statement entirely from the auditor responsibilities section of the auditor's report?

## Communicating Key Audit Matters in the Auditor's Report (AU-C 701)

(Issue 6 in this Issues Paper)

### Issue 6—Audits Conducted in Accordance with Standards of the PCAOB and GAAS

*Issue*

Paragraph 45 of proposed SAS *Forming an Opinion and Reporting on Financial Statements* addresses auditor's reports for audits conducted in accordance with the standards of the PCAOB and GAAS when the audit is not within the jurisdiction of the PCAOB.

#### **Auditor's Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB**

45. When conducting an audit of financial statements in accordance with the standards of the PCAOB and the audit is not within the jurisdiction of the PCAOB, the auditor is required to also conduct the audit in accordance with GAAS. In such circumstances, when the auditor refers to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor should use the form of report required by the standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. (Ref: par. A61–A67)

The task force discussed whether it would be helpful to include additional guidance in proposed SAS *Communicating Key Audit Matters in the Auditor's Report* to draw attention to paragraph 45 indicating that the auditor would follow the PCAOB standards relating to critical audit matters, and not key audit matters, when the scenario contemplated by paragraph 45 exists (and therefore proposed SAS *Communicating Key Audit Matters in the Auditor's Report* would not apply).

**Action Requested of the ASB**

9. Does the ASB believe that a reference to paragraph 45 of proposed AU-C 700 would be helpful in the proposed SAS *Communicating Key Audit Matters in the Auditor's Report*? If so, does the ASB have a preference as to the where this guidance should be included (e.g., the scope section of the standard, application material)?

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

(Issue 7 in this Issues Paper)

**Issue 7—Disclaimer of Opinion and KAMs**

*Issue*

Paragraph 30 of proposed SAS *Modifications to the Opinion in the Independent Auditor's Report* prohibits the inclusion of a “Key Audit Matters” section in the auditor’s report when the auditor issues an adverse opinion or disclaims an opinion on the financial statements, and also prohibits the inclusion of an “Other Information” section in the auditor’s report when the auditor disclaims an opinion on the financial statements.

The task force discussed situations when the auditor is engaged to communicate key audit matters in the auditor’s report but, due to matters identified during the audit, the auditor concludes that a disclaimer of opinion is appropriate in the circumstances and is therefore precluded from communicating KAM.

In such situations, the task force discussed whether the proposed SAS should require the auditor to include a statement in the auditor’s report to state that the auditor is precluded from including the key audit matters to allow for transparency because the auditor was engaged to communicate key audit matters.

The task force believes that, in the situation described in the previous paragraph, the auditor would need to amend the engagement letter, and noted that application material has already been added to AU-C 210 in this regard. The task force does not believe there is a need for a statement in the auditor’s report that the auditor is precluded from reporting in such situations because such statement may overshadow the description of the circumstances giving rise to the disclaimer of opinion. The task force notes that this scenario is different from when the auditor is engaged to communicate key audit matters but does not include them in the auditor’s report because either there are no key audit matters to report or the auditor is unable to communicate them because law or regulation prohibit such disclosure or due to the adverse consequences to such disclosure. Accordingly, the task force has not proposed any changes to the proposed SAS for this matter.

**Action Requested of the ASB**

Does the ASB agree with the task force conclusion that no statement is needed in the auditor’s report in the circumstance described above?

**Effective Date**

**Issue 8—Effective Date**

[Paragraph 6 of proposed SAS *Forming an Opinion and Reporting on Financial Statements*]

**Comment Letter Feedback**

The following table contains the comment letter responses relating to the proposed effective date.

<i>Respondent</i>	<i>Comment</i>
BDO	We recommend that the effective date for the proposed SASs and related amendments, as they relate to KAM, should be, at a minimum, <u>no earlier than for audits of financial statements for periods ending on or after December 15, 2021</u> , which is one year after the date the Critical Audit Matter provisions of AS 3101 become effective for all issuers. Such an effective date would permit the nonissuer community to benefit from the experience of auditors of public companies in implementing AS 3101.
Illinois	<p>The Committee is concerned that the effective date of the proposed SAS will create additional strain on auditors of not-for-profit (NFP) and “non-public” entities whose clients chose not to early adopt the provisions of ASU 2016-14 and ASU 2014-09 (as amended by ASU 2015-14) and who will be burdened with the new NFP reporting and revenue recognition implementation, plus many other organizations which will be affected by numerous other ASUs becoming effective in 2019.</p> <p>Additionally, the Committee feels that practitioners need more time to familiarize themselves with the contents of the proposed standard. Due to its size and scope (i.e. changes beyond the form and content of the auditor’s report) the Exposure Draft requires more time for careful consideration. Unfortunately, the timing of the Exposure Draft was less than ideal. The Exposure Draft was released when most practitioners were either spending time with families or gearing up for their busiest season of the year and were subsequently tied up</p>

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<i>Respondent</i>	<i>Comment</i>
	<p>serving their clients until April 17th. This did not allow sufficient time for most practitioners (and users) to study the proposed changes.</p> <p>Lastly, the Committee believes the effective date for the auditor’s report and KAMs should be separated and that the effective date for KAMs should be delayed (for an additional time, beyond what is suggested above), following the example set by the PCAOB, in which the effective date for CAMs was (up to) 3 years later than the effective date for all other elements of the PCAOB auditor’s report. The Committee would like to point out that, based on the suggested effective dates, the proposed standard would result in privately held entities and NFPs reporting on KAMs before publicly listed entities would be required to do so.</p> <p>Therefore, the Committee urges the AICPA Auditing Standards Board to do the following:</p> <ul style="list-style-type: none"> <li>- Delay the effective date for all elements of auditor’s report (other than KAM) until <u>no earlier than December 15, 2020</u>.</li> <li>- Delay the effective date <u>for KAMs until no earlier than December 15, 2021</u>.</li> </ul>
Crowe	<p>The fact that these changes impact the drafting of engagement letters, risk assessments, and communication with those charged with governance in the planning process, it will be difficult for firms to change methodologies, develop and provide training to cover the key changes all prior to the beginning of the reporting period that will end after June 15, 2019. Considering the impact to the planning aspects of an audit, we suggest the effective date be changed to <u>periods ending on or after December 15, 2020</u> to allow firms sufficient time to change methodologies and to develop and provide training prior to the beginning of the audit period that will be impacted by these changes. This timing should also allow firms to build a methodology for evaluating and reporting key audit matters</p>
NCACPA	<p>We’ve noted that the PCAOB has deferred implementation of KAMs one year out from the implementation of all the other wording changes. We would <u>request the Board consider a later effective date for non-public entities that want to include KAMs</u> to observe how public entities have responded to the accompanying PCAOB requirement.</p>
BT	<p>We believe an effective date of less than a year from the date that the proposed standards are finalized will not allow auditors sufficient time to update their audit methodologies, therefore, we recommend that the <u>proposed effective date be at least one year from the date that the proposed standards are finalized</u>.</p>

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<i>Respondent</i>	<i>Comment</i>
EY	We believe the effective date should be <u>no earlier than for audits of financial reporting periods beginning after 15 December 2019 (i.e., 2020 for calendar-year-end reporting entities)</u> .
NSAA	For audit effectiveness and to ensure compliance with the updated standards, through updated policies and procedures and audit tools, we believe an effective date of <u>audits of financial statements for periods ending on or after June 15, 2020</u> would be more feasible and appropriate.
D&T	While we encourage the ASB to finalize the proposed SASs quickly, we believe that when deciding on the effective date, other changes auditors are facing need to be acknowledged (e.g., dealing with the auditing implications of the new accounting requirements regarding revenue recognition, leasing, and expected credit losses and also addressing the new PCAOB requirements related to communication of critical audit matters in auditor reports for issuers). We therefore suggest the ASB revise the proposed SASs to be effective <u>for audits of financial statements for periods ending on or after December 15, 2019, or June 15, 2020</u> . In addition, we believe that <u>earlier implementation should be expressly permitted and guidance should be provided as to the need to implement all the proposed reporting SASs and proposed new section AU-C 720 concurrently</u> .
GT	We support the proposed effective date of periods ending on or after June 15, 2019 and encourage the Board not to delay the adoption of the new reporting model.



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<i>Respondent</i>	<i>Comment</i>
PWC	<p>We support setting the same effective date for the suite of standards currently under revision so that firms can update their guidance and tools - and train auditors on these changes - in the most effective manner. Our separate comment letter in response to proposed AU-C section 720, <i>The Auditor's Responsibilities Relating to Other Information Included in Annual Reports</i>, notes our view that the proposed SAS needs significant revision before it could be effectively implemented and achieve its intended objectives, and may require re-exposure before it can be finalized. We therefore suggest the ASB plan for the suite of standards currently under revision to become <u>effective no sooner than for periods ending on or after December 15, 2020.</u></p> <p>We recognize this timing results in a gap between when the new form and content of reports would be available for audits of private companies as compared to public companies. However, we believe time will be needed for audit firms to update their guidance and tools for the new changes, as well as for wider stakeholder engagement by the AICPA and others to make sure the implications of these changes are well-understood and accepted. Changes will also be necessary to the various Accounting and Auditing Guides and other interpretive publications that contain a variety of illustrative reports, ideally in time to align with the effective date, so that practitioners have access to such illustrations on a real-time basis. A 2020 effective date also aligns the potential for voluntary communication of KAMs (or CAMs) for private companies with the implementation date of CAMs for PCAOB audits (other than large accelerated filers).</p> <p>However, there may be merit in the ASB postponing the adoption of any new standard addressing CAMs or KAMs until such time as feedback from the planned post-implementation review by the PCAOB and SEC has been obtained, including understanding the views of users in the US and consideration of any unintended consequences.</p>

***Task Force Discussion***

The task force discussed the responses received from the comment letters relating to the proposed effective date and noted that a number of respondents requested additional time to implement the standards from the provisional effective date proposed in the exposure draft.

**Task Force Recommendation**

Assuming that the ASB approves the auditor reporting standards in January 2019, the task force discussed that the revised standards be effective for audits of financial statements for periods ending on or after December 15, 2020.

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The task force recognizes that this proposed effective date is four years after the effective date of the IAASB's revised auditor reporting standards, but supports a calendar 2020 effective date for the following reasons:

- To allow more time for the auditor reporting-800 series to be exposed and voted final, in light of the introduction of compliance frameworks
- To allow time for practitioners and service providers to update policies and procedures, audit tools, and training
- To allow time for implementation guidance to be developed
- To consider any feedback from the initial communication of Critical Audit Matters under the PCAOB standards
- To alleviate the burden of recent accounting standards being implemented

The task force briefly discussed a later effective date for proposed SAS *Communicating Key Audit Matters in the Independent Auditor's Report* but believes that this proposed SAS should have the same effective date as the rest of the auditor reporting standards because the communication of key audit matters is not required. The task force also continues to support using the same effective date for the three exposure drafts and the ERISA reporting standard.

***Action Requested of the ASB***

10. Does the ASB support an effective date of periods ending on or after December 15, 2020?
11. Does the ASB believe early implementation should be permitted (the exposure draft indicated that early implementation would not be permitted)? If so, does the ASB believe all of the standards should be implemented at the same time (that is, the auditor cannot pick and choose which ones to implement early)?
12. Does the ASB believe there should be a different effective date for the proposed SAS on communication of key audit matters?
13. Does the ASB agree that the same effective date as above should apply to the ERISA reporting standard that was voted final at the July 2019 ASB meeting?