

April 27, 2018

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas
New York, NY 10036

By e-mail: Sherry.Hazel@aicpa-cima.com

Re: Proposed Statements on Auditing Standards—Auditor Reporting
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—Addressing Disclosures in the Audit of Financial Statements

Dear Ms. Hazel:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 26,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above-captioned exposure draft.

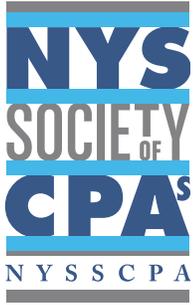
The NYSSCPA’s Auditing Standards Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Michael J. Corkery, Chair of the Auditing Standards Committee, at (631) 845-5252, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

A handwritten signature in black ink that reads "Harold L. Deiters III". The signature is written in a cursive style and is positioned over a faint, light blue watermark of the NYSSCPA logo.

Harold L. Deiters III
President

Attachment



**NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS**

COMMENTS ON

PROPOSED STATEMENTS ON AUDITING STANDARDS—AUDITOR REPORTING

***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—ADDRESSING DISCLOSURES IN THE AUDIT OF
FINANCIAL STATEMENTS**

April 27, 2018

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Jonathan Zuckerman**

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Comments on

Proposed Statements on Auditing Standards—Auditor Reporting

Forming an Opinion and Reporting on Financial Statements

Communicating Key Audit Matters in the Independent Auditor’s Report

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Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements

General Comments

The New York State Society of Certified Public Accountants (NYSSCPA) is pleased to submit the following comments on the above-captioned exposure draft (the Exposure Draft) issued by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA).

We are supportive of the AICPA’s Exposure Draft and believe most of the proposed changes are not controversial. However, there are two matters that we believe the AICPA should reconsider before issuing the final standard.

The Exposure Draft places undue emphasis on an entity’s ability to continue as a going concern and should be revised in accordance with the extant standards. We acknowledge the AICPA’s proposal of Key Audit Matters (KAMs) in audit reports to align with International Standards on Auditing (ISA) and the standards of the Public Company Accounting Oversight Board (PCAOB), however, the KAMs discussion currently proposed, which is not a requirement of the Exposure Draft, is intended to be limited to matters involving auditor judgment. We believe the primary users of financial statements audited under auditing standards generally accepted in the United States of America (U.S. GAAS) are lenders and creditors who would not be as interested in such matters when compared to the public at large and accordingly KAMs would have limited utility.

Additionally, it is our view that KAMs will be seldom used in an auditor’s practice as they will likely increase litigation risk for the auditor while providing disproportionately less benefit to enhancing the public trust.

Our responses to the request for comment and substantive issues contained in the Explanatory Memorandum of the Exposure Draft are presented below for your consideration.

Specific Comments

We offer the following responses to the request for comment contained in each of the various sections of the Exposure Draft.

Proposed SAS - Forming an Opinion and Reporting on Financial Statements (Proposed new AU-C Section 701)

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?

Response: As the primary purpose of the proposed standard is to converge with ISA 700 and secondarily with aspects of the auditor reporting model recently adopted by the PCAOB, we believe the proposed revision to the existing requirements are clear and understandable. However, we do not believe convergence alone, particularly with international standards, to be sufficient justification for a new auditing or reporting standard that would apply to reports issued for privately held companies in the United States. The practice environment in the United States is fraught with considerably more litigation risk than in other countries and must be given due consideration. We do find the material helpful in applying the ISAs and PCAOB standards and believe the ASB should take responsibility to point out these differences clearly.

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)?

Response: The descriptions relative to going concern are understandable. However, we believe that the draft proposal overemphasizes and puts a spotlight on the topic of going concern, for example, where there is an absence of identifiable circumstances that might lead to substantial doubt regarding an entity’s ability to continue operating. The current standards imply that the auditor should conclude on the entity’s ability to continue as a going concern and the appropriateness of management’s use of the going concern basis of accounting. When the inability to pay obligations when due appears probable, then we believe an auditor’s report modification such as is provided in the currently extant standards is appropriate. But we do not believe it is appropriate for auditors to have to defend the absence of such language in every report that does not include a going concern paragraph. We also recommend that paragraph 31b be modified to remove the term “in accordance with the applicable financial reporting framework and” for reasons set forth in our next response below.

We do not believe any modifications to the descriptions of management’s responsibility are necessary as the financial reporting framework should have no impact on management’s responsibility for the financial statements.

Except for user confusion about auditor's responsibilities, we believe confusion or misinterpretation is likely to be caused by the inclusion of unnecessary defensive language about the absence of a going concern paragraph. Other than a financial statement user's likely inherent inability, due to lack of training and experience in auditing, to understand and evaluate that which would be reported as KAMs (discussed below under Questions 5-6), we do not have any other concerns about any possible confusion or misinterpretation about the auditor's responsibilities.

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)?

Response: We believe the identification of such responsibilities are communicated in the engagement letter to those charged with governance. Such requirements should be supplemented with discussions with the individual responsible for the financial reporting process of the owner-managed entity. Therefore, we see no potential for user confusion in this regard.

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 responsibilities that should be added?

Response: The expanded description of the auditor's responsibilities provides more useful information to the users of the audited financial statements as to the salient objectives of an audit as well as the role of the auditor. Paragraph 35(b) provides further insight into the concept of reasonable assurance. Paragraph 35(c) defines the concept of materiality, although it is still very subjective as one user's conclusion may be different from another user's, as discussed in the FASB's most recent project on the definition of materiality. We concur with the proposed reporting language.

We do not believe there are any aspects of the auditor's responsibilities that should be added to the proposed standard.

Proposed SAS Communicating KAMs in the Independent Auditor's Report (proposed new AU- C section 701)

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?

In our view, auditor reporting of KAMs provides little or no benefit for aiding any audit report user in making a credit or investment decision. Rather, we believe its sole potential benefit would be to aid an adversary pursuing a claim for damages against an auditor. Also, a claim of omission of a KAM that later surfaces as a significant audit risk could enable another adversarial assertion when KAMs are presented. Accordingly, if KAMs are undertaken, it could result in considerable time demands on auditors. See also our response to Question 1. The

preparation of such nonstandard reporting language would also potentially create for the auditor unwarranted exposure to significant liability risks.

Although the Exposure Draft provides some guidance for auditors in determining and communicating KAMs, there should be more clarity and emphasis indicating that communication of KAMs is optional and should not be considered a requirement of the independent auditor's report, nor a required communication to those charged with governance (beyond those already covered by AU-C 260 "The Auditors Communications with Those Charged with Governance") (also see Question 6, below). Additional guidance should be provided so the auditor can have a better understanding of when it might be appropriate to consider communication of KAMs to users of the financial statements or to those charged with governance. This additional guidance would be helpful to an auditor considering KAMs in planning the engagement and in determining if KAMs should be mentioned in the engagement letter.

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

Response: Pursuant to SAS 131, dual reporting requires the use of the PCAOB reporting format, rather than the ASB format and, thus should include the PCAOB's Critical Audit Matters (CAM), rather than KAMs, when dual reporting is opted. Accordingly, we believe some clarification is needed in the proposed standards as to the use of CAM versus KAM in dual reporting.

In addition, although communication of KAMs is discussed in various sections of the Exposure Draft, the word "not" should be in bold print where applicable to emphasize that KAM reporting is optional. In addition, on page 44 of the Exposure Draft, paragraph 28 should be modified as follows:

28. When applicable, if key audit matters are communicated in the auditor's report, the auditor should do so in accordance with SAS No. [tbd], *Communicating Key Audit Matters in the Independent Auditor's Report*. (Ref. par. A39–A40)

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

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

Response: Yes, subject to our preceding comments, the revisions to existing requirements are clear and understandable, and the application material is helpful in supporting the application of those requirements.

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

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

Response: The revisions to existing requirements relative to emphasis-of-matter and other-matter paragraphs are clear and understandable, however, the application material should be further clarified to provide support in the application of the requirements. Please see our response to Question 9 below for additional detail.

Question 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: No, as under extant standards, the interrelationship between emphasis-of-matter or other-matter paragraphs (and now, KAMs) remains insufficiently clear and, in our view, is not understandable. Accordingly, we believe page 189, paragraph 8.b., of the Exposure Draft should be clarified to read similarly to the last sentence on page 185, paragraph A1., and that further guidance should be provided to emphasize once again that communication of KAMs in audit reports is not required for audits of non-issuers.

Issue 1—Timing of Communications With Those Charged With Governance

Question 10: Should the requirements in AU-C 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: No. The parameters regarding the timing of required communications within AU-C-260 retain an appropriate level of flexibility for the communications process that allows the auditor to use judgment to determine the appropriate timing communication based on the particular circumstances of the engagement within the limits set forth in the extant standards.

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?**

Response: Some users may find that including the city and state of the addressee beneficial, and we observe that this practice is not uncommon; however, it is doubtful that many users gain any significant benefit from this information.

In rare instances, a practical implication of such a requirement could be additional engagement time to determine the appropriate city and state to communicate. Determination of the city and

state might require additional guidance for practitioners to maintain uniformity in application among auditors.

Proposed Amendments Addressing Disclosures in the Audit of Financial Statements

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?

Response: No, there are no further areas that we believe are in need of additional clarification or revision.

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?

Response: No, there are no areas that we believe are in need of additional enhancements.

Question 14: Will the proposed changes to the assertions in AU-C section 315 help appropriately integrate the auditor's 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: Yes, the proposed changes will likely assist auditors in their approach to the risk of material misstatement in financial statement disclosures.