November 20th, 2014

Hunter College Graduate Program
Economics Department
695 Park Ave.
New York, NY 10021

Ms. Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Re: Exposure Draft on the Proposed Changes to the Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements.

Dear Ms. Hazel,

The Advanced Auditing class, at Hunter College Graduate Program in New York City, appreciates the opportunity to comment on this exposure draft.

Our group reviewed and discussed the above proposed exposure draft and have attached some comments.

If you would like to discuss our comments or have any additional questions, please contact Professor Joseph A. Maffia, at 212-980-2470 ext 30.

Sincerely,

[Signature]

Professor Joseph A. Maffia, CPA
COMMENTS TO THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AUDITING STANDARDS BOARD ON THE PROPOSED CHANGES TO THE AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING THAT IS INTEGRATED WITH AN AUDIT OF FINANCIAL STATEMENTS

November 20, 2014

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COMMENTS TO THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AUDITING STANDARDS BOARD ON THE PROPOSED CHANGES TO THE AUDIT OF INTERNAL CONTROL OVER FINANCIAL REPORTING THAT IS INTEGRATED WITH AN AUDIT OF FINANCIAL STATEMENTS

QUESTIONS FOR RESPONDENTS

1. We are not aware of any consequences that would result from this move. Overall we agree with moving the content because we feel it would streamline the auditing process and make it more efficient.

2. We agree with the approach the ASB took to make a standalone SAS. It makes the standard easier to search; the auditor does not need to refer to multiple sections when looking at the standard.

3. We agree with the approach relating to the 2013 COSO framework particularly because the new framework retains the core definition of internal control and the five components of internal control, and it continues to emphasize the importance of management judgment in designing, implementing, and conducting a system of internal control, and in assessing its effectiveness. It broadens the application of internal control in addressing operations and reporting objectives.

4. Yes this change helps appropriately align the terminology with minimal impact on practice. This term helps create more consistency between the risk assessment process and procedures that supports the financial statement audit and those that support the internal control audit.

GENERAL COMMENTS

The Advanced Auditing Class has reviewed the above-referenced Exposure Draft and offers the following comments for consideration by the AICPA Auditing Standards Board.

Illustration 1 - Unmodified Opinion on ICFR

According to 68, the auditor should add the following other-matter paragraph to the report on ICFR:

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the [identify financial statements] of [entity name]
and our report dated [date of report, which should be the same as the date of the report on ICFR] expressed [include nature of opinion]. (Ref: par. A104-A105)

We agree with the inclusion of an other-matter paragraph on the report. We think it is important to highlight that the financial statements were audited. Expressing this provides more assurance to the opinion given. However, we believe that the auditor’s report on the financial statements should be named for quick reference.

Illustration 2 - Adverse Opinion on ICFR

*Basis for Adverse Opinion*

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. The following material weakness has been identified and included in the accompanying [title of management’ report].

According to A109, the auditor’s report need only refer to the “material weaknesses described in management’s report” and need not include a description of each material weakness, provided each material weakness is included and fairly presented in all material respects in management’s report, as described in paragraph 73.

We disagree and believe that its definition should be included in this section as well because it is an important matter and needs to be emphasized on the basis for the adverse of opinion. The reader should not have to go to the management’s report to look for the description of a material weakness.

Illustration 3 – Disclaimer of Opinion on ICFR

In the auditor’s responsibility section of the auditor’s report, it should add how important internal control of a company is and express that the auditor is not required to perform any additional work prior to issuing a disclaimer when the auditor concludes that the auditor will not be able to obtain sufficient appropriate audit evidence to express an opinion.

When the auditor disclaims an opinion but has concluded that one or more material weaknesses exist, the auditor’s report should include the definition of the material weakness and disclose it. This should be added under the section for the basis for disclaimer of opinion.

A114 The auditor’s report need only refer to the “material weakness described in management’ report” and need not include a description of each material weakness, provided each material weakness is included and fairly presented in all material respects in management’s report.
We disagree and believe that its **definition should be included** in this section as well because it is an important matter and needs to be emphasized on the basis for the disclaimer of opinion.

**Illustration 4 – Unmodified Opinion on ICFR Making Reference to a Component Auditor**

As required by **AU-C section 600**, the group engagement partner should determine whether to make reference to a component auditor in the report on the ICFR over the group financial statements. Reference to the group audit of the component auditor in the auditor report over the group financial statement should not be made unless the engagement partner determined that the component auditor has performed the audit of ICFR in accordance with relevant requirements of GAAS and the component auditor issue an auditor report that is not restrictive as to use.

We agree with everything in the illustration provided in the unmodified opinion on ICFR making reference to a component auditor. But, when the group auditor relies on a component auditor to make an opinion, **they should add exactly on what they relied on in the other matters section of the independent auditor’s report.** This is very important because the component auditor’s audit of ICFR on certain procedures does not provide absolute assurance, only reasonable assurance. The group auditor should state how each of the process that was relied on from the component auditor and how that portion of the audit was out of their control.

**Illustration 5 – Combined Report Expressing an Unmodified Opinion on ICFR and an Unmodified Opinion on the Financial Statements**

In the auditor’s responsibility paragraph we are proposing to add a sentence to clarify for the uninformed investors that there is no difference in level of assurance provided between an audit of internal control and an examination over internal control. In the third paragraph of the auditor’s responsibility, we propose that the **following sentence should be added to the end:**

> “An audit of internal control provides no higher or lower level of assurance than the previously used term of the examination over internal control attest engagement for nonissuers.”

This sentence should only be added for the first two years that the combined report is implemented. This change will clarify that the change in terms does not require a different level of assurance for the uninformed investor.

Some might argue that the examination term should be used for consistency purposes. However, we disagree with this because use of the phrase audit of internal control eliminates any discrepancy between an examination of nonissuers and an audit of issuers.
Exhibit B—Illustrative Written Communication of Significant Deficiencies and Material Weaknesses

According to paragraph 62, in making the written communication regarding all deficiencies and material weaknesses to management, the auditor should include those deficiencies that are not material weaknesses or significant deficiencies and identified them on a timely basis, but no later than 60 days of following the report release date. But, the auditor is not required to communicate those deficiencies that are not material weaknesses or significant deficiencies that were included in previous written communications, whether those communications were made by the auditor, internal auditors, or others within the organization.

A100. Significant deficiencies and material weaknesses that previously were communicated and have not yet been remediated may be communicated, in writing, by referring to the previously issued written communication and the date of that communication.

We disagree and believe that auditor should include material weaknesses or significant deficiencies that were included in previous written communications, at least, they should make sure that those material weaknesses or significant deficiencies have been remediated or corrected during the integrated audit. If some materials weaknesses or significant deficiencies are still uncorrected or not remediated, auditors must include every one of them in the written communication to management. It helps management notice and takes action to eliminate them and reduce audit risk of material weakness to minimum level.

Exhibit C—Illustrative Management Report

According paragraph 73, if the auditor determines that the required disclosure about one or more material weaknesses is not fairly presented in all material respects and one or more material weaknesses have not been included in management’s report accompanying the auditor’s report, the auditor’s report should be modified to state that one or more material weaknesses have been identified but not included in management's report. Additionally, the auditor's report should include a description of each material weakness not included in management’s report. The auditor’s description should include specific information about the nature of each material weakness and its actual and potential effect on the presentation of the entity’s financial statements issued during the existence of the weakness.

[Describe the material weaknesses that were identified during the integrated audit and provide an explanation of their potential effects. The auditor may separately identify those material weaknesses that exist as of the date specified in management’s assertion about ICFR by referring to the auditor’s report.]

We disagree and believe the additional information of more material weaknesses that are not accompanying the auditor’s report, should be modified to state that the information and detail description of each material weakness in both management’s reports and auditor’s reports. Management should have better knowledge of those material
weakness is not fairly presented in all material respects that are not accompanying with auditor’s report in management’s report because it gives additional information of material weaknesses and have a clear perspective about auditor’s decision that not reporting them as other material weaknesses that included in management’s report.