

May 15, 2018

Ms. Sherry Hazel
Mr. Mike Glynn
Audit and Attest Standards Team
AICPA
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

Re: November 28, 2017 Auditing Standards Board's Proposed Statements on Auditing Standards - Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements, and the Auditor's Responsibilities Relating to Other Information Included in Annual Reports

Dear Ms. Hazel & Mr. Glynn:

Dixon Hughes Goodman LLP (DHG) welcomes the opportunity to comment on the Auditing Standards Board's (ASB) Proposed Statements on Auditing Standards (SAS) - *Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements* (Auditor's Report Proposals), and the *Auditor's Responsibilities Relating to Other Information Included in Annual Reports* (Other Information Proposal). Headquartered in Charlotte, North Carolina, DHG ranks among the top 20 public accounting firms in the nation, with more than 2,000 professionals and staff in 13 states, and is a member of Praxity, a global alliance of independent firms.

DHG is supportive of the ASB's efforts in modernizing the auditor's report to provide information that is of critical need to stakeholders, while maintaining the value of the 'pass-fail' opinion. We commend the ASB for their efforts in developing a balanced approach that considers the views of numerous stakeholders, while aligning with the auditing standards of both the International Auditing and Assurance Standards Board (IAASB) and Public Company Accounting Oversight Board (PCAOB).

Furthermore, we are supportive of the ASB's efforts in clarifying the auditor's responsibilities related to other information. We believe the Other Information Proposal could potentially reduce diversity in practice with respect to documents that are considered to be within the scope of other information, while potentially narrowing existing expectation gaps by requiring auditors to clarify within their auditor's report their responsibilities related to other information.

This letter includes our views, observations, and recommendations on both the Auditor's Report Proposals and the Other Information Proposal. Our responses are framed by our experiences serving numerous private companies, middle-market public issuers, and non-issuer brokers and dealers, and include our concerns regarding the potential implications the proposals could have for medium to larger-sized accounting firms.

Auditor's Report Proposals

Overall, we are supportive of enhancing the description of the auditor's responsibilities and key features of the audit including enhancing the wording in the auditor's report in relation to independence, the auditor's fulfillment of other ethical responsibilities and expanding the description of the responsibilities of management for the preparation and fair presentation of the financial statements. We also support moving the opinion paragraph to the beginning of the auditor's report, which more closely aligns with the auditing standards of the IAASB and PCAOB. Furthermore, we are supportive of the development of a standard for auditor reporting that provides a basis for the auditor to report on key audit matters (KAM) that is voluntarily applied and generally consistent with auditing standards of both the IAASB and PCAOB. However, we do have concerns regarding the proposed *SAS Communicating Key Audit Matters in the Independent Auditor's Report (proposed new AU-C section 701)* (KAM Proposal). For instance, we believe there are certain areas within the KAM proposal that could negatively affect the profession; in particular the potential litigation risk of the audit firm being the source of original (and potentially confidential) information about a company.¹

We have provided certain comments and recommendations below regarding these points as well as other matters detailed within the Auditor Report Proposal.

Source of Original Information

In considering the potential risk of communicating original information about a company, the KAM Proposal includes application guidance that states the *nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (that is, for the auditor to provide useful information in a concise and understandable form while not inappropriately being the provider of original information about the entity)*.² However, the application guidance also allows the auditor to provide such information necessary to explain why the matter was considered to be one of most significance in the audit, and therefore determined to be a KAM, and how the matter was addressed in the audit.³ Although we support the inclusion of a statement that explains the expectations of the auditor not providing original (and potentially confidential) information about a company, it is inappropriate to include a seemingly contradictive statement that allows for communication of such information in certain circumstances. We acknowledge that the KAM Proposal prohibits the inclusion of original information that is prohibited by law or regulation. However, allowing for the inclusion of original information (regardless of the situation) within the auditor's report could possibly expose the auditor to certain ethics code violations, and effectively impose disclosure thresholds on management that go beyond the applicable financial reporting framework.

This is further implied through the application guidance which states that *management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a KAM, in light of the fact that the matter will be communicated in the auditor's report*.⁴ We strongly believe such application guidance should be removed from the KAM proposal, as it could imply new management disclosure responsibilities through the auditing standards.

¹ Paragraph A35, KAM Proposal, Original information is any information about the entity that has not otherwise been made publicly available by the entity (for example, the information has not been included in the financial statements or other information available at the date of the auditor's report and has not been addressed in other oral or written communications by management or those charged with governance). Such information is the responsibility of the entity's management and those charged with governance.

² Paragraph A34, KAM Proposal.

³ Paragraph A36, KAM Proposal.

⁴ Paragraph A37, KAM Proposal.

Overall, as the auditor is responsible for opining on the information that comprises the financial statements, we believe any information communicated within the auditor's report should be limited to information opined upon, and not include information that is of original (or confidential) nature. Therefore, we strongly encourage the ASB to specifically describe in the KAM Proposal that the auditor is not responsible for providing original information about the company in the auditor's report.

Voluntary Approach to KAMs

Although the KAM Proposal provides substantial guidance for auditors in determining and communicating KAMs, there is minimal information regarding the optionality of the standard and the facts and circumstances to determine when the reporting of KAMs is applicable. From a private company perspective, unless required by regulatory or other bodies, we believe the use of the KAM reporting will be limited. Therefore, it is important to clarify with the proposed standards (possibly within the proposed SAS 700 *Forming an Opinion and Reporting on Financial Statements*) the optionality of the KAM Proposal and not construe that the reporting of KAMs is a requirement of the independent auditor's report, nor imply a required communication to those charged with governance.

Additionally, if management and the auditor have agreed upon the use of KAMs, it is imperative that there is a framework to ensure a proper understanding and written agreement of this commitment to limit any potential misinterpretations. We acknowledge the Auditor's Report Proposals provides application guidance regarding the importance of obtaining written agreement regarding the expected form and content of any reports to be issued by the auditor⁵; however, given the potential implications of KAM reporting, we believe the applicable guidance should be explicit to agreed-upon terms and provide guidance to auditors regarding when a client who originally engaged the auditor to report KAMs subsequently decides to request the auditor not to report KAMs as agreed in the original engagement.

Alignment with the PCAOB and IAASB

We are supportive of the ASB's efforts of developing auditing standards that are aligned with the auditing standards of the IAASB and PCAOB. Although there are commonalities in the underlying criteria of the IAASB KAM and the PCAOB Critical Audit Matter (CAM) frameworks, there are also significant differences between the IAASB KAM and the PCAOB CAM frameworks that could result in situations where reporting may be different. For instance, under the PCAOB's auditing standards materiality is included in the CAM definition that directs the auditor to matters arising from the audit that were communicated or required to be communicated to the audit committee and related to accounts or disclosures that are **material to the financial statements**. However, the KAM definition, under the IAASB auditing standards and utilized as the definition within the KAM Proposal, does not include materiality as a component of the definition, rather it is utilized as one of the considerations the auditor should take into account when determining whether a matter required significant auditor attention.

These differences may result in a narrower population of matters that may be a CAM under the PCAOB auditing standards than under the KAM Proposal. We acknowledge there may not be implications for companies audited solely under the AICPA's auditing standards; however, there are companies that report under dual-standards, for instance PCAOB and AICPA. In these situations, pursuant to SAS 131, the auditor would utilize the auditor's report under the PCAOB reporting framework, while dual reporting under the AICPA's auditing standards. In these situations, the auditor would report CAMs rather than KAMs, which

⁵ Paragraph A40, Proposed SAS 700 Forming an Opinion and Reporting on Financial Statements

could result in different reporting, if the audit was only reported under the AICPA's auditing standards. Therefore, we believe the profession would benefit from guidance in situations where the auditor may be reporting under both the PCAOB and AICPA auditing standards.

Matters of Most Significance

We noted that the determination of which matters are of most significance in the audit of the financial statements as required by paragraph 9 of the KAM Proposal requires a significant degree of judgment. Although we are supportive of the use of auditor judgment in many facets of the audit, we have concerns about whether there is appropriate application guidance to enable auditors to consistently apply this determination. We believe the profession would benefit from additional application guidance for making this determination in the form of additional application guidance in the standard.

Other Information Proposal

We are supportive of the ASB's efforts in advancing the auditor's responsibilities related to other information. However, we believe clarity is needed regarding the auditor's consideration of information that may be omitted from the other information. For instance, paragraph A12 of the Other Information Proposal states that, '*when a particular matter is disclosed in the other information, the other information may omit information that is necessary for a proper understanding of that matter or, **in light of the circumstances**, to keep the other information from being misleading...*' However, the Other Information Proposal does not provide any guidance regarding what circumstances would allow the auditor to omit such information from the auditor's consideration that could keep the other information from being misleading and could potentially result in the auditor omitting information that is of critical relevance to their evaluation. Furthermore, paragraph A12 states that, '*...The auditor is not responsible for searching for omitted information or for the completeness of the other information,*' which may imply a contradiction to the previous statement and potentially result in the auditor including information which may not be relevant to their evaluation. Given the plethora of materials that could be included as other information, it is imperative that the ASB provide a clear understanding as to what should and should not be included in the auditor's evaluation of the other information. Therefore, we believe the profession would benefit from additional clarification, through application guidance, clarifying the auditor's consideration of such omitted information.

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In closing, DHG is supportive of providing financial statement users additional transparency into the audit and believes both the Auditor's Report Proposals and Other Information Proposal provide a general basis for expanding auditor disclosure. We appreciate the opportunity to comment on these proposals and are pleased to discuss any questions the ASB may have concerning our comments. Please direct any questions to Dave Hinshaw, Managing Partner, Professional Standards Group (dave.hinshaw@dhgllp.com), Jeffrey Rapaglia, Partner, Professional Standards Group (jeff.rapaglia@dhgllp.com), Daniel Sanders, Partner, Professional Standards Group (daniel.sanders@dhgllp.com) and Liz Gantnier, Professional Practice Partner (liz.gantnier@dhgllp.com).

Sincerely,

Dixon Hughes Goodman LLP

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