February 17, 2020

Mr. Robert Dohrer  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1345 Avenue of the Americas, 27th Floor  
New York, NY 10036-8775

RE: Exposure Draft, Proposed Statement on Auditing Standards – Amendments to AU-C Sections 725, 730, 930, 935 and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137

Dear Mr. Dohrer

We appreciate the opportunity to comment on the exposure draft addressing the Proposed Statement on Auditing Standards, Amendments to AU-C Sections 725, 725, 930, 935 and 940 to Incorporate Auditor Reporting Changes from SAS Nos. 134 and 137 (the proposed amendments). We support making changes to the standards in the AU-C section 700 and 900 series to align with the changes to the form and content of auditor’s reports addressing audits of general purpose financial statements.

AU-C section 930, Interim Financial Information

Question 1 - Are the proposed amendments to AU-C section 930 appropriate and complete?

We generally believe the proposed amendments to AU-C section 930 are appropriate and complete, in particular aligning the form and content of paragraph 31 of AU-C section 930 to the form and content of AU-C section 700. However, we recommend that the requirements around items such as Title, Addressee, Opinion, etc. be listed in separate paragraphs (as compared to required elements within a single requirement) in order to maintain consistency with AU-C section 700.

Even if the ASB declines to move the elements within paragraph 31 of AU-C section 930 to separate requirements to maintain consistency with AU-C section 700, we believe the language in paragraph 31 should be more closely aligned to AU-C section 700. For example, AU-C section 700.25a states, “Identify the entity whose financial statements have been audited,” whereas AU-C section 930.31c(i) has been changed from “identifies the entity whose interim financial information has been reviewed” (which is consistent with AU-C section 700) to “the name of the name of the entity whose interim financial information has been reviewed.” We note similar inconsistencies in AU-C section 930.31c(ii), AU-C section 930.31c(iii), AU-C section 930.31c(iv), and AU-C section 930.31c(v).

We also believe the following edit (shown in underline) is needed to paragraph 31d to align with paragraph 31a and the illustrative report:

A section, directly following the “Results of Review of Interim Financial Information” section, that includes the heading “Basis for Review Results,” and includes the following statements...

Going concern

We believe consideration should be given to combining the requirements in paragraphs 32 and 39 to explain in a holistic manner how going concern matters are expected to be described in the review report.
As currently drafted, it is unclear whether the intent of paragraph 32 is the same as the intent of paragraph 39b.

Paragraph 39 of AU-C section 930 could be viewed as requiring the phrase “an Entity’s” to be used in the auditor’s review report, even if the rest of the report uses another term, such as “the Company.” We believe this could result in a discrepancy between how the Company is referenced throughout the report. Therefore, we suggest paragraph 39 should be clarified to require a heading “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern, or other appropriate heading”. This would also provide flexibility for the rest of the heading, for example, we have seen “Significant Doubt” used if the financial statements are IFRS as issued by the IASB. Using the phrase is consistent with some other AU-C sections, for example, in the Exposure Draft it is used in AU-C section 725.09, AU-C section 730.07, and AU-C section 940.64g. Alternatively, the Board could consider adding language to AU-C section 930 similar to what is included in AU-C section 570.25 that the description in the “Going Concern” section about the entity’s ability to continue as a going concern for a reasonable period of time should use terms consistent with those included in the applicable financial reporting framework.

We also note that paragraph 39 of AU-C section 930 does not address the circumstance in which the prior year auditor’s report referred to in the interim review report indicated substantial doubt about the entity’s ability to continue as a going concern, but substantial doubt has been alleviated in the interim period. The ASB should consider including guidance in AU-C section 930 to note that the auditor is not prohibited from explaining this circumstance in the interim review report.

**Other suggestions**

We suggest the following changes also be considered:

- **Paragraph A76, all Illustrations -** There is a typographical error in the last sentence of the Basis for Review Results section - “relative” should be changed to “relevant ethical requirements” to align with AU-C section 700.

- **Paragraph A76, Illustration #2 –** The illustrative heading of “Results of Review of Condensed Interim Financial Information” does not align to the requirement in AU-C section 930.31c, “Results of Review of Interim Financial Information.” If the intention of AU-C section 930.31c is to allow flexibility in the title, we recommend that the phrase “or other appropriate heading” be added to AU-C section 930.31c.

- **Paragraph A76, Illustration #2 –** The illustration contains a subheading of “Report on Condensed Balance Sheet as of [date].” We note that PCAOB standards do not require this subheading, nor do we see a similar requirement in the Exposure Draft. Accordingly, we do not believe that this heading should appear in an illustration as it could be misinterpreted as being required.

**Question 2 - Should the reporting requirements in paragraph .31 include revisions for harmonization with the requirements in PCAOB AS 4105, including the placement of the auditor’s review conclusion at the beginning of the review report on interim financial information?**

We generally agree with the manner of presentation of the illustrative reports in Exhibit B, noting this is both consistent with SAS 134 and the PCAOB’s presentation.

We considered the illustrative reports in Exhibit C when the auditor’s review report is modified. The requirements in AU-C section 930 do not address how the new required heading “Basis for Review Results” would be amended when the auditor’s review conclusion is modified. Rather, the illustrative examples retain the notion of a Basis for Modification Paragraph, but do not illustrate how the remainder
of the report would be structured. We recommend Exhibit C include the entirety of the report, and we provide a suggested revised presentation in the Appendix to this letter. We do not think the Basis for Modification Paragraph heading is necessary as it is not required by AU-C section 930 and is confusing when viewed with the other required headings. While this is somewhat inconsistent with AU-C section 700 (which requires the Basis for Opinion heading to be modified), it aligns more closely with PCAOB AS 4105 and, in our view, results in a report that is easier to understand.

**Question 3 - Do you agree with aligning the dating requirement to be consistent with that of PCAOB AS 4105 and AR-C section 90?**

We do not object to aligning the dating requirement to be consistent with AR-C section 90, as this is substantially the same as the principle in AT-C section 210 to obtain sufficient evidence to support the practitioner’s conclusion (i.e., to enable the auditor to make the statements required by paragraph 31c of AU-C section 930).

**AU-C section 935, Compliance Audits**

**Question 1 - Are the proposed amendments to the appendix appropriate and complete, including the proposed amendments to be consistent with government requirements? If not, please suggest specific revisions.**

An organization may not be required to have an audit in accordance with GAGAS for a given year. In those cases, the auditor is usually engaged to conduct the audit in accordance with AICPA standards. However, an organization may elect to also have the audit conducted in accordance with GAGAS, in particular if it is likely they will be subject to GAGAS requirements in future years. We believe AU-C section 935 should acknowledge that an organization may be required to comply with both GAGAS and AICPA standards or may voluntarily elect to have their audit conducted in accordance with GAGAS in addition to AICPA standards. Guidance as to how the form and content of the auditor’s report would be amended in these circumstances could be provided in a manner similar to how “dual standards” are addressed in AU-C section 700.

In addition, while we agree with the revisions to the definition of material noncompliance, we believe an explicit reference within the definition to paragraph A7 is necessary. This is because for Uniform Guidance compliance audits, the determination of a finding being considered material or not is in relation to the type of compliance requirement, rather than the program as a whole.

**Question 2 - Do you agree with how the combined report and the separate reports are addressed in the standard? If not, please suggest specific revisions.**

We agree with how the combined report and the separate reports are addressed in the standard.

**AU-C section 940, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements**

**Question 1 - Are the proposed amendments to AU-C section 940 appropriate and complete?**

We believe the proposed amendments to AU-C section 940 are appropriate and complete, with the exception of the matter described in our response to Question 2.
Question 2 - Do you agree with the proposed

a. amendment to require a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is not effective if a material weakness exists?

b. placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65?

c. placement of the paragraphs when issuing an adverse opinion on ICFR due to a material weakness as required by the proposed amendments to paragraph .69?

d. amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report?

We agree with the amendments as proposed, except as follows.

We do not believe it is necessary to require the statement that “internal control over financial reporting is not effective if a material weakness exists” and suggest it be deleted for the following reasons:

- The auditor’s opinion will expressly state that the company has not maintained effective internal control over financial reporting and describe any material weaknesses when they exist, making this required statement redundant.
- The auditor’s report on the financial statements does not explain when the financial statements are misstated, so this change goes beyond the intent of conforming with AU-C section 700.
- Deleting this sentence also helps the paragraph flow better given the new definition of reasonable assurance that has been added to align with AU-C section 700.

In circumstances where the auditor obtains other information in an annual report before the date of the auditor’s report in an integrated audit, AU-C section 720 would require the inclusion of an “Other Information” section identifying what constitutes the other information and describing the auditor’s responsibilities for this information. We believe the ASB should consider how the reporting requirements of AU-C section 720 would interact with the requirement in paragraph 80 of AU-C section 940 when the auditor reports on both the audit of ICFR and the financial statements in a combined report and provide guidance for auditors. We note Illustration 5 is an example of a combined report on ICFR and the financial statements, but does it not address the reporting requirements in AU-C section 720.

Other suggestions

- Paragraph A154 - Illustration #5 - There is a typographical error in the paragraph of the Auditor’s Responsibility section describing fraud - “my” should be changed to “may” to align with AU-C section 700.
AU-C section 725, Supplementary Information in Relation to the Financial Statements as a Whole

As a result of the proposed changes to AU-C section 725, the reference in Exhibit C, paragraph A19 of AU-C section 706 to paragraph 9 of AU-C section 725 should be removed.

AU-C section 730, Required Supplementary Information

As a result of the proposed changes to AU-C section 730, the reference in Exhibit C, paragraph A19 of AU-C section 706 to paragraph 7 of AU-C section 930 should be removed.

* * * *

We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Heidi Schuetze at (973) 236-5000 regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP
Note: The following is our suggestion for how the full report would be laid out when the auditor modifies the review conclusion, incorporating language from Illustration 1 in Exhibit B of AU-C section 930. Words in strikethrough appeared in Exhibit C but are proposed to be deleted; additional language is shown in underline.

**Independent Auditor's Review Report**

*Appropriate Addressee*

**Results of Review of Interim Financial Information**

We have reviewed the accompanying [describe the interim financial information or statements reviewed] of ABC Company and its subsidiaries as of September 30, 20X1, and for the three-month and nine-month periods then ended, and the related notes to the interim financial information.

Based on our review, with the exception of the matters described in the following paragraph in the *Basis for Modified Conclusion* section of our report, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America].

*Basis for Modified Conclusion Paragraph*

Based on information furnished to us by management, we believe that the Company has excluded from property and debt in the accompanying balance sheet certain lease obligations that we believe should be capitalized to be in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]. This information indicates that if these lease obligations were capitalized at September 30, 20X1, property would be increased by $____, long-term debt would be increased by $____, and net income would be increased (decreased) by $____ and $____, respectively, for the three-month and nine-month periods then ended.

**Basis for Review Results**

We conducted our review in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of ABC Company and to meet our other ethical responsibilities in accordance with the relative relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.
Management’s Responsibility for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with [identify the applicable financial reporting framework; for example, accounting principles generally accepted in the United States of America]; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

[Signature of the auditor’s firm]

[City and state where the auditor’s report is issued]

[Date of the auditor’s report]