



May 14, 2018

To: Sherry Hazel at Sherry.Hazel@aicpa-cima.com

Re: Proposed Statements on Auditing Standards— Auditor Reporting  
Proposed Amendments— Addressing Disclosures In The Audit of Financial Statements

The Accounting and Auditing Standards Committee of the Maryland Association of Certified Public Accountants appreciates the opportunity to comment on this Exposure Draft. The Committee contains a diverse range of members and we were able to discuss these matters from a variety of different perspectives.

**Proposed SAS Forming an Opinion and Reporting on Financial Statements (AU-C 700)**

**1. Are the proposed revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?**

- Except as noted below, we believe the proposed revisions are clear and understandable.

**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 of AU-C section 570 (SAS No. 132)?**

- As drafted, paragraph 31b indicates it is management's responsibility to assess entity's ability to continue as a going concern; however in some cases, management may not be required to make an assessment, since this responsibility does not exist under all frameworks. We recommend consideration be given to including an acknowledgement of, or reference to, AU-C 570.07 (i.e., in some frameworks, there may be no explicit requirement to make such as assessment). Perhaps this acknowledgement or reference can be included in application material related to this paragraph?
- In our judgment, paragraph 36biv lacks context. As drafted, the language may lead reader to conclude the auditor has determined the company is healthy when such is not the case but, rather, conditions and events appear to the auditor to have alleviated substantial doubt at a point in time. We recommend using language similar to what is

actually found in paragraphs 8 and 19 of AU-C section 570. As an example, the paragraph in the auditor's report could read as follows: "Conclude on whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time and conclude on the appropriateness of management's use of the going concern basis of accounting."

- Perhaps also require the inclusion of specific time frames, when specified by a specific framework (e.g., if relevant framework is US GAAP, the report could insert parenthetically the phrase "within one year after the date that the financial statements are issued or are available to be issued when applicable" right after the term "reasonable period of time").

**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)?**

- Although we have no issue with the requirement, we are in agreement it doesn't add much value either.

**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?**

- Yes, we agree it does provide useful information and greater transparency.

**Are there any aspects of the auditor's responsibilities that should be added?**

- See below.

**Additional comments on the changes to extant AU-C section 700:**

**Paragraph 40 - The auditor's report should include the manual or printed signature of the auditor's firm. (Ref: par. A52–A54)**

- Consider harmonizing signature requirement with SSARS 23.

**Paragraph 42 - The auditor's report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence of the following: (Ref. par. A56)**

- Consider reinstating paragraph (a) of the extant 700.41. We see no compelling reason to remove this sentence:  
.41 "The auditor's report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that  
a. the audit documentation has been reviewed"

***Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: par. 13e), Application Material (pg. 33 -34)***

- In this case, it seems the language does not entirely comport with IAASB. Also, the comments in Column D of the Detailed Differences Chart appear to contradict the very definition of inherent risk at AU-C 200.14 and the discussion of significant risk at AU-C 315 - that is, transactions and events can impact inherent risk; accordingly, consider retaining ISA 700 language in second sub-bullet of second bullet under paragraph A6 .
- Also, the reference to "potential asset and liabilities arising from transactions or events that do not meet the criteria for recognition" in the second bullet of paragraph A11 is a bit concerning. Such a phrase could be construed to establish a requirement to disclose items (contingent or otherwise) not presently required under existing frameworks (e.g., does this mean internally-developed goodwill has to be disclosed)?

***Proposed SAS Communicating Key Audit Matters in the Independent Auditor's Report (AU-C 701)***

***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?***

- We agree the proposed requirements and guidance are helpful materials.

***6. Is it sufficiently clear that the communication of KAMs is not required for audits of nonissuers?***

- It is sufficiently clear in the Explanatory Memorandum, however it is not as clear in the Exposure Draft. We recommend including, "*Communication of KAMs would not be required for audits of nonissuers*" in the respective proposed SAS.

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

***7. Are the revisions to the existing requirements clear and understandable and is the application material helpful in supporting the application of those requirements?***

- Yes.

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

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

- Yes.

**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 nonissuers?**

- Yes.

**Significant Proposed Amendments to Existing Auditor Reporting Standards**

**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 requirement for certain communications to be made prior to issuance of the auditor's report?**

- Overall, we prefer the flexibility provided in the current timing requirement. Perhaps include as a recommendation that certain communications may be made prior to issuance, but it should not be a requirement.

**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?**

- Possibly, but it could also be problematic for certain clients (e.g., those who maintain virtual offices). The flexibility allowed under current standards is appropriate.

**(b) What would the practical implications be if such a requirement were adopted?**

- See (a) above.

**Proposed Amendments Addressing Disclosures in the Audit of Financial Statements**

**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?**

- Yes - but initially, the proposed changes may be burdensome to smaller clients given their need to rely to a greater extent on their auditor to draft these notes.
- Practitioners, especially in smaller firms, must "beef up" their knowledge of, and familiarize themselves with, the increased emphasis on disclosures (see below regarding AU-C 315).

**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?**

- It would be helpful to provide supplemental guidance on how to assess materiality when there is no quantitative information on which to base such a measurement.

**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?**

- Yes. These are substantive changes and will require a coordinated communication outreach to practitioners.

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Our Committee appreciates the effort by the Board. We are available to discuss any of these comments at your convenience.

Sincerely,

**Maryland Association of CPAs  
Accounting & Auditing Standards Committee**

The following individuals worked on reviewing and commenting on the Proposed Statements on Auditing Standards - Auditor Reporting and Proposed Amendments - Addressing Disclosures in the Audit of Financial Statements:

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