

**Proposed Auditing Standards –  
The Auditor's Report on an Audit of Financial  
Statements When the Auditor Expresses an  
Unqualified Opinion;  
The Auditor's Responsibilities Regarding Other  
Information in Certain Documents Containing  
Audited Financial Statements and the Related  
Auditor's Report;  
and Related Amendments to PCAOB Standards**

Proposals issued for comment by the Public Company Accounting Oversight Board (PCAOB Rulemaking Docket Matter No. 034)

Comments from ACCA  
10 December 2013

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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Further information about ACCA's comments may be obtained from:

**David York**  
Head of Auditing Practice, ACCA  
Email: [david.york@accaglobal.com](mailto:david.york@accaglobal.com)

ACCA welcomes the opportunity to comment on the proposed improvements in auditor reporting, which are concisely and clearly addressed in PCAOB Rulemaking Docket Matter No. 034. The ACCA Global Forum for Audit and Assurance<sup>1</sup> has considered the matters raised in the Rulemaking Docket and the views of its members are represented in the following.

Our comments draw upon our world-wide membership, which includes significant numbers of members working in all aspects of the financial reporting supply chain in a wide range of industries, the public sector and public practice.

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## GENERAL COMMENTS

ACCA has carried out a body of work, in our Accountancy Futures research programme, on the value of audit and auditor reporting. This is explained on our website, which includes links to the research and reports. We would particularly draw attention to *A Framework for Extended Audit Reporting*, a report commissioned by ACCA from the Maastricht Accounting, Auditing and Information Management Research Center (MARC), Maastricht University, Netherlands.<sup>2</sup>

In our view, the value of the audit would be enhanced if its scope were to be extended beyond the financial statements. We support, nevertheless, the intention of the PCAOB to improve the informational value of the auditor's report to promote the usefulness and relevance of the audit and the related auditor's report within the existing context.

As the PCAOB is well aware, related auditing standards are under development by the International Auditing and Assurance Standards Board (IAASB). In November 2013, ACCA responded to an exposure draft issued by the IAASB and our comments herein are consistent with those in that response. Moreover, the agenda papers for the December 2013 meeting of the IAASB make it clear that, in relation to an update of International Standard on Auditing 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* (ISA 720), the project task force wishes to obtain an understanding of the responses to the current PCAOB proposals.<sup>3</sup>

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<sup>1</sup> <http://www.accaglobal.com/en/research-insights/global-forums/audit-assurance.html>

<sup>2</sup> [http://www.accaglobal.co.uk/content/dam/acca/global/PDF-technical/audit-publications/extended\\_audit\\_reporting.pdf](http://www.accaglobal.co.uk/content/dam/acca/global/PDF-technical/audit-publications/extended_audit_reporting.pdf)

<sup>3</sup> [http://www.ifac.org/sites/default/files/meetings/files/20131209-IAASB-Agenda\\_Item\\_2%20-ISA\\_720-Cover-Final.pdf](http://www.ifac.org/sites/default/files/meetings/files/20131209-IAASB-Agenda_Item_2%20-ISA_720-Cover-Final.pdf)

Although the IAASB is addressing similar issues, there are differences in the order in which subject matters are being addressed and the structure into which the proposals must fit. For example, disclosure of the name of the engagement partner and reporting aspects of going concern are integral to the IAASB's auditor reporting proposals, whereas they are separate matters for the PCAOB.

Recognising that the IAASB standards have to be written so that they may be applied in many jurisdictions and that the PCAOB standards reflect the requirements of the U.S. federal securities laws and rules, we nevertheless continue to recommend that the PCAOB develops standards with a view towards long-term convergence with those of the IAASB.

Auditor reporting and indeed the transparency of the audit are important matters that can contribute directly and indirectly to increased investor confidence and, through that, the better functioning of capital markets. We believe that it is important, therefore, that sufficient time is taken, and effort is made, by standard setters to ensure that their proposals meet investor needs and achieve change that is synonymous with progress.

We are at an unusual juncture in standard-setting, whereby standards are leading practice rather than recognising the best practice that is currently in place. It is even more important, therefore, that such standards are evidence-based to the fullest possible extent. We believe that it would be helpful if the PCAOB were to encourage field testing of its proposals in the same way that the IAASB has instigated a field test.

In subsequent sections of this response we answer the specific questions for respondents in Appendix 5 (other than those relating to proposed amendments to PCAOB standards and the audit of brokers and dealers – question 33 to 40) and in Appendix 6 (other than questions 26 through 28). We do not comment in respect of Emerging Growth Companies (Appendix 7).

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## APPENDIX 5 RE PROPOSED AUDITOR REPORTING STANDARD

### QUESTION RELATED TO SECTION II

**Question 1** Do the objectives assist the auditor in understanding the requirements of what would be communicated in an auditor's unqualified report? Why or why not?

We are content with the objectives as drafted; they are clear and consistent with the type of presentation in other recent PCAOB auditing standards. They encapsulate the requirements and should assist the auditor in developing an understanding.

### QUESTIONS RELATED TO SECTION IV

**Question 2** The proposed auditor reporting standard would require the auditor's report to be addressed at least to (1) investors in the company, such as shareholders, and (2) the board of directors or equivalent body. Are there others to whom the auditor's report should be required to be addressed?

The requirements deal with the common addressees and are flexible enough to accommodate others if necessary in individual circumstances. We do not believe that it is necessary to require the auditor's report to be addressed to other parties.

**Question 3** The proposed auditor reporting standard retains the requirement for the auditor's report to contain a description of the nature of an audit, but revises that description to better align it with the requirements in the Board's risk assessment standards. Are there any additional auditor responsibilities that should be included to further describe the nature of an audit?

The description of the nature of an audit should provide users with information but not overwhelm them with detail. We are reluctant, therefore, to suggest any further matters for inclusion.

**Question 4** The proposed auditor reporting standard would require the auditor to include a statement in the auditor's report relating to auditor independence. Would this statement provide useful information regarding the auditor's responsibilities to be independent? Why or why not?

A statement in the body of the report is inherently more powerful than just using the word 'independent' in its title, as it makes it clear that being independent is a requirement.

The mention of the specific laws, rules and regulations with which the public accounting firm is required to comply is informative for users. The references are necessarily at a high level, however, so users are not able to identify the precise requirements, nor perhaps to appreciate the precise role that independence plays in the audit.

Conceivably, more detailed information could be made available to users on a website maintained by an appropriate body. This would allow for the inclusion of educational material.

Users may also be interested in the other ethical obligations of public accounting firms that are relevant to the audit. For example, when dealing with other information, ethical requirements already drive professional accountants to ensure that they are not knowingly associated with misleading information.

**Question 5** The proposed auditor reporting standard would require the auditor to include in the auditor's report a statement containing the year the auditor began serving consecutively as the company's auditor.

- a) Would information regarding auditor tenure in the auditor's report be useful to investors and other financial statement users? Why or why not? What other benefits, disadvantages, or unintended consequences, if any, are associated with including such information in the auditor's report?
- b) Are there any additional challenges the auditor might face in determining or reporting the year the auditor began serving consecutively as the company's auditor?
- c) Is information regarding auditor tenure more likely to be useful to investors and other financial statement users if included in the auditor's report in addition to EDGAR and other sources? Why or why not?

As the PCAOB is aware, there are current proposals within the European Union to instigate mandatory firm rotation. Guidance to put audit contracts out to tender (on a comply or explain basis) has been recently introduced in the UK by the Financial Reporting Council (FRC), and the UK Competition Commission's enquiry into the statutory audit services market has led to a recommendation to the Government that tendering become mandatory, at least every ten years. In its guidance the FRC chose not to include a requirement to disclose, in the auditor's report, the length of tenure.

There is undoubted current user interest in the length of tenure of the auditor. Even where the information is separately available, disclosure of the period of tenure seems to us to be something that it is difficult to oppose other than on the grounds that the usefulness of such a disclosure is not conclusively proven.

If and when it becomes a requirement to name the engagement partner, it would be consistent to disclose how long the particular engagement partner had served in that capacity.

**Question 6** The proposed auditor reporting standard would require the auditor to describe the auditor's responsibilities for other information and the results of the evaluation of other information. Would the proposed description make the auditor's report more informative and useful? Why or why not?

In broad terms we agree with the inclusion, within the auditor's responsibilities, of an extended responsibility in respect of other information. We believe that users will benefit from the disclosure of the results of the auditor's evaluation.

**Question 7 Should the Board require a specific order for the presentation of the basic elements required in the auditor's report? Why or why not?**

While there is a degree of merit in ensuring consistency between auditors' reports on different entities, the change in emphasis towards reports that are relevant to the individual entity, through the disclosure of critical audit matters, is best served through striving for innovation rather than consistency.

We feel that it is inevitable that there would need to be changes in order to accommodate different presentations depending on whether the report was, for example qualified or unqualified and depending on the number, relative importance and degree of exposition of critical audit matters.

**Question 8 What other changes to the basic elements should the Board consider adding to the auditor's report to communicate the nature of an audit, the auditor's responsibilities, the results of the audit, or information about the auditor?**

To the greatest extent possible, we suggest adopting the disclosures in the IAASB proposals. Although there are superficial differences between 'critical audit matters' and 'key audit matters' (IAASB), we would expect auditors to arrive at identical disclosures and descriptions under both standards.

We fear that users will put a negative interpretation on the disclosure of critical audit matters (or key audit matters) even though such transparency is intended to be neutral. This interpretation is likely to be intensified where the term is translated (as it often would be for companies with foreign listings, or when using IAASB standards). Neither term is easy to translate: 'key' does not have a direct translation, and 'critical' is close in meaning to 'criticism'. In such circumstances, translation is done by reference to the underlying meaning, which is 'matters that are of sufficient importance to justify disclosure'.

This leads us to the conclusion that, ideally, no new term should be created for the matters disclosed. If a term is thought necessary to allow the auditor to report succinctly that 'the auditor has determined that there are no [insert term]', the term chosen should be 'important audit matters' (or, if a more formal term is desired 'matters of audit importance'). These terms may be criticised because they do not communicate the degree of importance, apparently signified by the words 'critical or 'key'. That argument is, however, flawed as 'critical' is merely acting as a label for the matters of most importance that are disclosed. That introduces tautology, as once a matter is disclosed it is clear that it is of sufficient importance to be disclosed; labelling as 'critical' is unnecessary.

**Question 9** What are the potential costs or other considerations related to the proposed basic elements of the auditor's report? Are cost considerations the same for audits of all types of companies? If not, explain how they might differ.

Inevitably, additional time will be spent determining and drafting the auditor's report. This work will involve management as well as the auditor and some of it will necessarily take place at the busy time of finalisation of the financial statements. The additional costs are unlikely to be substantial, however, as critical audit matters would already be discussed with management and the audit committee.

Such incremental costs that do occur may fall disproportionately on smaller audited entities, but it is for the market regulator to determine public policy concerning the balance between application of, and exemption from, the proposals.

#### QUESTIONS RELATED TO SECTION V

**Question 10** Would the auditor's communication of critical audit matters be relevant and useful to investors and other financial statement users? If not, what other alternatives should the Board consider?

Over the last five years, ACCA has participated in research and outreach events that have consistently confirmed the appetite of investors for additional disclosures from auditors about the audit. We support, therefore, the communication of critical audit matters.<sup>4</sup>

We do not suggest alternatives, as any such alternatives are likely to cross the boundary into the auditor communicating matters that should be disclosed by management.

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<sup>4</sup> However, see our answer to question 8, in relation to the suitability of the term 'critical audit matters'.



**Question 11 What benefits or unintended consequences would be associated with the auditor's communication of critical audit matters?**

Through having enhanced information, financial statement users should be better placed to make economic decisions. In addition, heightened scrutiny of critical audit matters should motivate management to ensure that its reporting of related matters is of a consistently high standard.

There need be no unintended consequences of such disclosure, as it should be possible to anticipate and mitigate potentially adverse consequences. For example, possible negative investor perception of expanded report wording should be addressed by the issue of educational material during the implementation phase.

**Question 12 Is the definition of a critical audit matter sufficient for purposes of achieving the objectives of providing relevant and useful information to investors and other financial statement users in the auditor's report? Is the definition of a critical audit matter sufficiently clear for determining what would be a critical audit matter? Is the use of the word "most" understood as it relates to the definition of critical audit matters?**

The definition of a critical audit matter is sufficient for its purposes, albeit that the definition, at paragraph A2 of Appendix A to the proposed auditor reporting standard is in the plural. It is important that the definition allows auditors sufficient scope to justify the inclusion of matters that they wish to bring to the attention of users.

The definition of a critical audit matter is sufficiently clear for determining what would be a critical audit matter, but a definition alone will not allow full determination; as candidates for inclusion will have to be balanced one against another to determine overall what should be reported. The definition provides links to where candidate matters would ordinarily be expected to be found and it is difficult to envisage matters that would not fit into this approach.

In the definition, the use of the word 'most' is understandable as a mechanism to reduce the disclosed matters to a reasonable number.

**Question 13** Could the additional time incurred regarding critical audit matters have an effect on the quality of the audit of the financial statements? What kind of an effect on quality of the audit can it have?

We believe that the additional time incurred will have a positive effect on audit quality. The increased transparency and focus on matters that were critical to the audit will also prompt management to ensure that any related disclosures in the financial statements are of a suitably high quality.

**Question 14** Are the proposed requirements regarding the auditor's determination and communication of critical audit matters sufficiently clear in the proposed standard? Why or why not? If not, how should the proposed requirements be revised?

The proposed requirements regarding the auditor's determination and communication of critical audit matters are sufficiently clear and understandable. As further explained in our answer to question 19 below, we feel that improvements can, nevertheless, be made.

**Question 15.** Would including the audit procedures performed, including resolution of the critical audit matter, in the communication of critical audit matters in the auditor's report be informative and useful? Why or why not?

Users are unlikely to understand the audit procedures performed but could benefit from an explanation that a matter was resolved. It is important to distinguish a statement to that effect from a piecemeal opinion. The IAASB proposes introductory wording, which we support, to the effect that 'the auditor does not express an opinion on these individual matters'.

**Question 16.** Are the factors helpful in assisting the auditor in determining which matters in the audit would be critical audit matters? Why or why not?

While we agree that the factors in paragraph 9 are helpful, there is a risk that auditors will adopt a methodology that involves scoring a matter against each factor. This would give a false result, as the factors are simply listed without an indication of their relative importance.

Given that such general factors will have influenced whether a matter is treated in one of the three ways mentioned in paragraph 8, it should be possible to remove reference to such a list at this stage and merely refer to the relative importance of the matters in the specific audit.

**Question 17** Are there other factors that the Board should consider adding to assist the auditor in determining which matters in the audit would be critical audit matters? Why or why not?

It may be worth recognising that the existence of a similar disclosed matter in a prior year, or in disclosures made by auditors of companies in the same industry, are strong indicators that a matter is critical. In view of the risk we identify in our answer to question 16, we suggest that a discussion of factors is more suited to being presented as guidance material, for example in an Appendix to the proposed standard.

**Question 18** Is the proposed requirement regarding the auditor's documentation of critical audit matters sufficiently clear?

The proposed requirement, referencing Auditing Standard No. 3, is clear; but we have reservations about it, as explained in our answer to question 19.

**Question 19 Does the proposed documentation requirement for non-reported audit matters that would appear to meet the definition of a critical audit matter achieve the Board's intent of encouraging auditors to consider in a thoughtful and careful manner whether audit matters are critical audit matters? If not, what changes should the Board make to the proposed documentation requirement to achieve the Board's intent?**

The requirement should not be 'hidden' in a documentation section but should be dealt with as a stage of the determination. We are, however, not in favour of this as a requirement or documentation requirement. It is not easy to operate as it implicitly requires the auditor to categorise matters into three types:

1. Critical audit matter (disclosed and documentation as to why critical)
2. Matters that would appear to an experienced auditor having no previous connection to the engagement to meet the definition of a critical audit matter (documentation if not disclosed as to why not disclosed)
3. Matters of such importance that they are included in the matters required to be documented in the engagement completion document; reviewed by the engagement quality reviewer; communicated to the audit committee; or any combination of the three but would not appear to an experienced auditor having no previous connection to the engagement to meet the definition of a critical audit matter (not documented further in relation to whether they are critical audit matters)

There seems little point in introducing a separate step in which the auditor has to decide whether an experienced auditor having no previous connection to the engagement would form a particular view, in order to decide what to document.

Auditors will be tempted to respond to a perceived risk of criticism by a regulatory body by increasing the number of matters in the first two categories and so increasing the amount of documentation of items that ought to be in category 3. This will not result in improved reporting or audit quality, will not benefit users but will be costly. It should be sufficient to document the decision as to which matters of importance are reported so as to expose the logic – which may be no more than a decision that, of the matters of importance, users would not derive significant benefit from the presentation of more than eight of the most important matters.

**Question 20 Is the proposed documentation requirement sufficient or is a broader documentation requirement needed?**

The proposed documentation requirement is certainly sufficient and it is clear and understandable. We have, however, raised an objection to it (see our answer to question 19) and it is arguable whether there needs to be any specific documentation requirement at all; as the requirements of Auditing Standard No. 3 are sufficient to ensure that the documentation would meet the needs of an experienced auditor having no previous connection to the engagement.

**Question 21 What are the additional costs, including indirect costs, or other considerations related to the auditor's determination, communication, and documentation of critical audit matters that the Board should take into account? Are these costs or other considerations the same for all types of audits?**

ACCA does not answer this question in full as it is aimed primarily at auditors. We believe that the increased costs will be justified because of the value to users of the increased transparency of the audit. As they are more of a fixed nature, such costs will fall disproportionately on smaller audits.

**Question 22 What are the additional costs, including indirect costs, or other considerations for companies, including their audit committees, related to critical audit matters that the Board should take into account? Are these costs or other considerations the same for audits of both large and small companies?**

ACCA does not answer this question in full as it is aimed primarily at audited companies. We believe that the increased costs will be justified because of the value to users of the increased transparency of the audit. As they are more of a fixed nature, such costs will fall disproportionately on smaller companies.

**Question 23 How will audit fees be affected by the requirement to determine, communicate, and document critical audit matters under the proposed auditor reporting standard?**

ACCA does not answer this question because the determination of whether increased costs will be recoverable through increased audit fees is complex and depends on audit market conditions and specific auditor/client circumstances.

**Question 24** Are there specific circumstances in which the auditor should be required to communicate critical audit matters for each period presented, such as in an initial public offering or in a situation involving the issuance of an auditor's report on a prior period financial statement because the previously issued auditor's report could no longer be relied upon? If so, under what circumstances?

We believe that the focus of the communications should be on the needs of users of the current financial statements. There should not be separate requirements to report in the circumstances listed in question 24 but the auditor should consider whether critical audit matters ought to include matters arising in relation to such circumstances. Any reporting should not be in the manner that would have been appropriate in a prior year but should recognise current circumstances.

**Question 25** Do the illustrative examples in the Exhibit to this Appendix provide useful and relevant information of critical audit matters and at an appropriate level of detail? Why or why not?

The presentation in the Exhibit of hypothetical auditing scenarios that lead to the illustrative examples is very helpful.

In general, we believe that users will be interested in outcomes, not the detail of the process followed by the auditor in relation to a particular matter. As we noted in our answer to question 15, it is important to avoid piecemeal opinions but it should be possible to indicate that potential difficulties were adequately resolved.

If this is not done for each matter, it would help user understanding if there was additional wording in the standardised introductory text to the effect that: *'The critical audit matters communicated below were satisfactorily resolved and do not alter in any way our opinion on the financial statements, taken as a whole.'*

The description of the critical audit matter in scenario #1 may be too detailed for most users. We question whether users will understand, for example the significance of consultation with 'our national office'.

**Question 26** What challenges might be associated with the comparability of audit reports containing critical audit matters? Are these challenges the same for audits of all types of companies? If not, please explain how they might differ.

It is likely that users will look for comparability of reports in particular industries, or where circumstances giving rise to critical audit matters are pervasive (such as a financial crisis). In general, however, there is no need to strive for comparability as such reporting is intended to be specific to the particular audit.

**Question 27** What benefits or unintended consequences would be associated with requiring auditors to communicate critical audit matters that could result in disclosing information that otherwise would not have required disclosure under existing auditor and financial reporting standards, such as the examples in this Appendix, possible illegal acts, or resolved disagreements with management? Are there other examples of such matters? If there are unintended consequences, what changes could the Board make to overcome them?

We consider that the possibility of the auditor disclosing information that otherwise would not have required disclosure under existing auditor and financial reporting standards will be one factor influencing the communication. We can foresee management making disclosures so that the auditor is not the only party to communicate information but, if a matter is not material to the financial statements, disclosure by the auditor in compliance with an auditing standard should afford a degree of legal privilege to such wording.<sup>5</sup>

**Question 28** What effect, if any, would the auditor's communication of critical audit matters under the proposed auditor reporting standard have on an auditor's potential liability in private litigation? Would this communication lead to an unwarranted increase in private liability? Are there other aspects of the proposed auditor reporting standard that could affect an auditor's potential liability in private litigation? Are there steps the Board could or should take to mitigate the likelihood of increasing an auditor's potential liability in private litigation?

ACCA does not comment on an auditor's potential liability in private litigation in the US environment. We assume that the PCAOB will take legal advice in this regard.

<sup>5</sup> Following similar reasoning to that advanced in *Cucinotta v Deloitte & Touche LLP*, 129 Nev. Adv. Op. 35 (30 May 2013).

## QUESTIONS RELATED TO SECTION VI

**Question 29** Is it appropriate for the Board to include the description of the circumstances that would require explanatory language (or an explanatory paragraph) with references to other PCAOB standards in the proposed auditor reporting standard?

It is appropriate to include the description of the circumstances that would require explanatory language (or an explanatory paragraph) with references to other PCAOB standards in the proposed auditor reporting standard as that enables the standard to act as a comprehensive signpost to readers.

**Question 30** Is retaining the auditor's ability to emphasize a matter in the financial statements valuable? Why or why not?

It is appropriate to retain the auditor's ability to emphasize a matter in the financial statements because such reporting satisfies a different objective to the reporting of critical audit matters.

**Question 31** Should certain matters be required to be emphasized in the auditor's report rather than left to the auditor's discretion? If so, which matters? If not, why not?

We are in favour of retaining the existing facility regarding matters to be emphasised, as the disclosure of critical audit matters is not, of itself, a reason for change.

**Question 32** Should additional examples of matters be added to the list of possible matters that might be emphasized in the auditor's report? If so, what matters and why?

It is appropriate to keep the list of possible matters that might be emphasized under review in order to recognise changed circumstances over the years. However, as the examples are drafted in terms that are wide ranging, we have no additional examples to add at this time.

## QUESTIONS RELATED TO SECTION VII AND QUESTIONS RELATED TO SECTION VIII

ACCA does not answer questions 33 through 40.



## QUESTIONS RELATED TO SECTION X

**Question 41** Is the Board's effective date appropriate for the proposed auditor reporting standard? Why or why not?

We agree with the Board's proposed effective date for the proposed auditor reporting standard as it allows sufficient time for effective implementation.

**Question 42.** Should the Board consider a delayed compliance date for the proposed auditor reporting standard and amendments or delayed compliance date for certain parts of the proposed auditor reporting standard and amendments for audits of smaller companies? If so, what criteria should the Board use to classify companies, such as non-accelerated filer status? Are there other criteria that the Board should consider for a delayed compliance date?

We believe that a two (or more) stage implementation is not necessary and could potentially confuse users.

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## APPENDIX 6 RE PROPOSED OTHER INFORMATION STANDARD

### QUESTIONS RELATED TO SECTION I

**Question 1** Is the scope of the proposed other information standard clear and appropriate? Why or why not? Are there Exchange Act documents, other than annual reports, that the Board should consider including in the scope of the proposed other information standard?

The scope of the standard is clear and appropriate; users are properly informed about the scope in a particular audit by virtue of the requirement to identify the annual report.

**Question 2** Is it appropriate to apply the proposed other information standard to information incorporated by reference? Why or why not? Are there additional costs or practical issues with including information incorporated by reference in the scope of the proposed other information standard? If so, what are they?

It is appropriate to apply the proposed other information standard to information incorporated by reference. Users would expect information to be within the scope of the standard where it is incorporated by reference. We see no particular issues attaching to the form in which the information is available.

**Question 3** Is it appropriate to apply the proposed other information standard to amended annual reports? Why or why not? Are there additional costs or practical issues with including amended annual reports in the scope of the proposed other information standard? If so, what are they?

We agree with the approach justified on page A6-4 of Appendix 6, which makes a distinction between amendments according to whether or not they cause the auditor to consider the need to update or issue a new auditor's report.

**Question 4** Should the company's auditor, the other entity's auditor, or both have responsibilities under the proposed other information standard regarding audited financial statements of another entity that are required to be filed in a company's annual report under Article 3 of Regulation S-X? Why or why not? Are there practical issues with applying the proposed other information standard to the other entity's audited financial statements?

It is right to exclude such financial statements because they are separately audited and users would derive little or no value from the primary auditor addressing them as 'other information'. There would, in such cases, be considerable practical difficulties in carrying out procedures were any to be considered necessary.

#### QUESTION RELATED TO SECTION II

**Question 5** Do the objectives assist the auditor in performing the procedures required by the proposed other information standard to evaluate the other information and report on the results of the evaluation?

The objectives encapsulate the requirements and are clearly drafted. They should assist the auditor in developing an understanding and hence in performing the required procedures.

#### QUESTIONS RELATED TO SECTION III

**Question 6** Is it appropriate to require the auditor to evaluate the other information for both a material inconsistency and for a material misstatement of fact? If not, why not?

We support requiring the auditor to evaluate the other information for both a material inconsistency and for a material misstatement of fact. This responds to calls from investors, in particular, for more informative reporting by auditors as annual reports are becoming more complex and increasingly include qualitative disclosures.

We do not support the use of the term 'misstatement of fact'. The term has been overtaken by events; increasingly it is not the factual basis of matters that is of importance but the manner of their presentation. As inappropriate presentation can be a material misstatement, the natural language meaning of 'misstatement of fact' no longer coincides with its use as a defined term. We have suggested to the IAASB that it is simpler to drop the words 'of fact' and that has been done in the proposed revised standard forming part of the agenda papers for the IAASB's December 2013 meeting.

**Question 7 Would the evaluation of the other information increase the quality of information available to investors and other financial statement users and sufficiently contribute to greater confidence in the other information? If not, what additional procedures should the Board consider?**

It would be a matter for research to establish, but we expect that the procedures carried out by many auditors under a requirement to 'read and consider' would be extensive and a new requirement to 'evaluate' would not increase that effort but merely recognise that it was taking place. We nevertheless support the intention of the proposed standard as, whether it brings about improved practice or merely communicates better with users the effort employed, it should succeed in increasing confidence in other information and indeed in the financial statements themselves.

Any further procedures that might be considered by the PCAOB would likely extend assurance to the other information and this has not been called for by those commenting on earlier proposals.

**Question 8 Is the federal securities laws' definition of materiality the appropriate standard for the auditor's responsibility to evaluate the other information? Would applying this definition represent a change to the materiality considerations auditors currently use under AU sec. 550?**

In our view the definition of materiality in the federal securities laws is an appropriate standard for the auditor's responsibility to evaluate the other information. As we have represented to the IAASB, it would introduce unwarranted complications to use a different approach, such as having regard to the financial statements and the other information taken as a whole as the reference point for materiality.

**Question 9 Are the proposed procedures with respect to evaluating the other information clear, appropriate, and sufficient? If not, why not?**

The drafting of the procedures that the auditor would be required to undertake under paragraph 4 is clear. The wording is, however, repetitious, with the wording at the start of the paragraph ('based on relevant audit evidence obtained and conclusions reached during the audit') in effect repeated in subparagraphs a. to c.

We have concerns, however, about the structure of the proposed standard (beginning with paragraph 3). We discuss these in our answer to question 17 below.

**Question 10** Is it understood which amounts in the other information the auditor would be required to recalculate under paragraph 4.d.? If not, why not?

Although procedures relating to consistency with the financial statements and relevant audit evidence are automatically constrained by considerations of materiality and risk, we are concerned that some auditors might interpret the recalculation requirement in paragraph 4.d. as one that extends to all calculations, irrespective of their significance.

**Question 11** Are there additional costs beyond those described in this Appendix related to the proposed required procedures for the evaluation of the other information? If so, what would these costs be?

In our view the Appendix identifies all significant costs, including one-time costs of implementation.

**Question 12** Are the proposed auditor responses under paragraph 5 appropriate when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both? If not, why not?

The responses are appropriate and are the same as currently proposed in the IAASB equivalent draft standard.

**Question 13** Are there additional costs beyond those described in this Appendix related to responding when the auditor identifies a potential material inconsistency, a potential material misstatement of fact, or both? If so, what would these costs be?

In our view there are no significant additional costs to be identified.

#### QUESTIONS RELATED TO SECTION IV

**Question 14** Are the proposed auditor's responses under paragraphs 8 and 9 appropriate when the auditor determines that the other information that was available prior to the issuance of the auditor's report contains a material inconsistency, a material misstatement of fact, or both? Why or why not?

The proposed auditor's responses are appropriate, for the reasons set out in Appendix 6.

**Question 15** Is it appropriate for the auditor to issue an auditor's report that states that the auditor has identified in the other information a material inconsistency, a material misstatement of fact, or both, that has not been appropriately revised and describes the material inconsistency, the material misstatement of fact, or both? Under what circumstances would such a report be appropriate or not appropriate?

The issue of an auditor's report with a statement tailored to the actual circumstances encountered is valuable as it informs users of matters that may be material to them. Unless the auditor concludes that withdrawal from the engagement is necessary in the circumstances, such reporting should be done as a matter of course. In practice, the knowledge that the auditor will draw attention to the matter may motivate management or the audit committee to act to remedy the disclosure at issue.

**Question 16** Are the proposed auditor's responses under paragraphs 10 and 11 appropriate when the auditor determines that the other information that was not available prior to the issuance of the auditor's report contains a material inconsistency, a material misstatement of fact, or both? Why or why not?

The proposed auditor's responses under paragraphs 10 and 11 are appropriate, for the reasons set out in Appendix 6.

## QUESTION RELATED TO SECTION V

**Question 17** Are the proposed auditor's responses appropriate when, as a result of the procedures performed under the proposed other information standard, the auditor determines that there is a potential misstatement in the financial statements? Why or why not?

The proposed auditor's responses under paragraph 12 are appropriate, as they are references to requirements set out elsewhere.

We are not convinced, however, that the structure of the proposed standard is ideal. Paragraphs 6 to 11 deal with the position where, following the requirements in paragraph 5, the auditor has determined that a potential problem is really a material inconsistency, a material misstatement of fact, or both.

Paragraph 12 reverts back to a potential problem although the work under paragraph 5 could have determined that the potential problem is really a material misstatement in the audited financial statements. We understand that paragraphs 3 to 5 relate to other information, not financial statements, but the work on inconsistency is also capable of exposing deficiencies in the financial statements.

We find the structure adopted in the draft of ISA 720 to be considered in the December 2013 meeting of the IAASB to be preferable. Sections of that proposed standard deal with:

- 'Reading and [Evaluating/Considering] the Other Information'
- 'Responding to an Apparent Material Misstatement of the Other Information'
- 'Responding When There May Be a Material Misstatement in the Financial Statements'

This structure can be achieved through a small repositioning of paragraph 5 of the proposed PCAOB standard and changes to headings.

## QUESTIONS RELATED TO SECTION VI

**Question 18** Is the proposed reporting, including the illustrative language, appropriate and sufficiently clear? If not, why not?

The proposed reporting, including the illustrative language, is appropriate and clear. We address one concern, however, in our answer to question 21 below.

**Question 19 Should the Board consider permitting or requiring the auditor to identify in the auditor's report information not directly related to the financial statements for which the auditor did not have relevant audit evidence to evaluate against? If so, provide examples.**

Information for which the auditor did not have relevant audit evidence, or (albeit not mentioned in the question) in relation to which the auditor had insufficient experience, knowledge or competence to evaluate, may be within scope because it is in a document that is within scope. There is a danger that users will assume that the auditor has done more work relating to it than is the case. The danger can be addressed by user education or a quasi-scoping out of information by identifying it in the report.

We are not in favour of requiring the identification of such material in the auditor's report because of the potential complexity of disclosures, the underlying extra work for auditors to determine and document the treatment of information potentially falling within this category and the need for brevity to avoid unbalancing the report by including matters on which the auditor not only does not provide assurance but warns specifically that that is the case.

We see some merit in permitting identification but would not want that to become the norm.

**Question 20 What additional costs would the auditor or the company incur related to auditor reporting when the auditor identifies a material inconsistency, a material misstatement of fact, or both?**

ACCA does not answer this question in full as it is aimed primarily at auditors and audited companies. We agree with the general analysis of costs in Appendix 6. Additional costs will vary considerably depending on the individual circumstances. As they are more of a fixed nature, such costs will fall disproportionately on smaller audits.



**Question 21** Would the proposed reporting, including the illustrative language, provide investors and other financial statement users with an appropriate understanding of the auditor's responsibilities for, and the results of, the auditor's evaluation of the other information? Why or why not?

The proposed reporting, including the illustrative language, is appropriate and clear. It is important that users appreciate the constraints on the evidence and that no separate assurance is being communicated.

The illustrative language concerning not identifying a material inconsistency or a material misstatement of fact in the other information is acceptable but there is potential for a statement of this nature to be mistaken for a negative conclusion conveying limited assurance. For this reason, we prefer the less direct approach in the draft of ISA 720 to be considered in the December 2013 meeting of the IAASB, where, having stated the responsibility (*'If we identify that the other information, to a material degree, is incorrectly stated, inappropriately presented or otherwise misleading, we are required to report that fact.'*) the auditor states that *'We have nothing to report in this regard.'*

**Question 22** Are there any practical considerations that the Board should consider when an auditor identifies a material inconsistency or a material misstatement of fact in the other information that management has appropriately revised prior to the issuance of the auditor's report?

The auditor will have carried out procedures to establish that a material inconsistency or a material misstatement of fact in the other information exists. The procedures may have revealed why the problem arose and it is consideration of such circumstances that potentially affect the auditor's approach in the audit generally.

We do not believe that it is necessary to introduce any specific requirements relating to such circumstances.

#### QUESTION RELATED TO SECTION VII

**Question 23** Are the proposed responsibilities of the predecessor auditor appropriate and sufficiently clear? If not, why not?

The proposed responsibilities of the predecessor auditor are appropriate and sufficiently clear to those informed by the relevant material in Appendix 6. The proposed standard includes only a short footnote relating to the matter and we do not think that is sufficient to properly communicate the responsibilities.

## QUESTIONS RELATED TO SECTION VIII

**Question 24** What effect, if any, would the reporting under the proposed other information standard have on an auditor's potential liability in private litigation? Would this reporting lead to an unwarranted increase in private liability? Are there steps the Board could or should take related to the other information requirements to mitigate the likelihood of increasing an accounting firm's potential liability in private litigation?

ACCA does not comment on an auditor's potential liability in private litigation. We assume that the PCAOB will take legal advice in this regard.

**Question 25** Would reporting under the proposed other information standard affect an auditor's potential liability under provisions of the federal securities laws other than Section 10(b) of the Exchange Act, such as Section 11 of the Securities Act? Would it affect an auditor's potential liability under state law?

ACCA does not comment on an auditor's potential liability under the provisions of the federal securities laws or the Securities Act. We assume that the PCAOB will take legal advice in this regard.

## QUESTIONS RELATED TO SECTION IX AND QUESTIONS RELATED TO SECTION X

ACCA does not answer questions 26 through 28.

## QUESTIONS RELATED TO SECTION XI

**Question 29** Is the Board's effective date appropriate for the proposed other information standard? Why or why not?

We agree with the Board's proposed effective date for the proposed standard as it allows sufficient time for effective implementation. It is appropriate for this date to be the same as that for the proposed auditor reporting standard.

**Question 30** Should the Board consider a delayed compliance date for the proposed other information standard and amendments for audits of smaller companies? If so, what criteria should the Board use to classify companies, such as non-accelerated filer status? Are there other criteria that the Board should consider for a delayed compliance date?

We believe that a two (or more) stage implementation is not necessary and could potentially confuse users. It is appropriate for the implementation to be done in the same way as for the proposed auditor reporting standard.



## QUESTIONS RELATED TO SECTION XII

ACCA does not answer questions 31 through 33 as we believe that it is for the market regulator to determine public policy concerning the application of the proposed other information standard to filings under the Securities Act.



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