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Via email: [CommentLetters@aicpa-cima.com](mailto:CommentLetters@aicpa-cima.com)

## **Proposed Statement on Audit Standards, Amendments to AU-C sections 725, 730, 930, 935, and 940**

Dear Ms. Hazel:

Ernst & Young LLP (EY) is pleased to submit this comment letter to the Auditing Standards Board (ASB or Board) in response to the ASB's request for comment on its proposed Statement on Auditing Standards (SAS), amendments to AU-C sections 725, 730, 930, 935, and 940.

We generally support the proposed amendments to better align the form and content of the auditor's report on the subject matters covered by AU-C sections 725, 730, 930, 935, and 940 with the recently issued guidance in SAS No. 134. We also support the proposed amendments to AU-C section 935 to align the definition of material noncompliance with the description of materiality in SAS No. 138 and to revise the standard for recent developments in the compliance arena. However, we believe some proposed amendments require clarification.

In Attachment A, we respond to the ASB's requests for comment and provide recommendations for your consideration. Attachment B includes additional recommendations and other editorial comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Sincerely yours,

## Attachment A – Responses to requests for comment

### Proposed Revisions to AU-C Section 930

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

We support the ASB's proposal to amend AU-C section 930 to conform with SAS No. 134 and also align with the requirements in Auditing Standard (AS) 4105, *Reviews of Interim Financial Information*, issued by the Public Company Accounting Standards Board (PCAOB). However, we recommend the revisions that we describe in Attachment B and our response to question 3 below.

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 support the harmonization of the reporting requirements in paragraph 31 of AU-C section 930, including the placement of the auditor's review conclusion at the beginning of the review report on interim financial information, with the requirements in PCAOB 4105. Our recommendations and other editorial comments on the proposed amendments to paragraph 31 of AU-C section 930 are included in Attachment B.

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

AU-C section 930, paragraph 31.h, as proposed, states the following:

***"The date of the review report, which should be dated ~~as of the date of completion of the review procedures~~ no earlier than the date on which the auditor completed procedures sufficient to obtain limited assurance as a basis for reporting whether the auditor is aware of any material modifications that should be made to the interim financial information in order for it to be in accordance with the applicable financial reporting framework, including evidence of the following (Ref: par. .A58):***

- i. All the statements and disclosures that the interim financial information comprises have been prepared.***
- ii. Management has asserted that they have taken responsibility for the interim financial information."***

We recommend removing the phrase "limited assurance as." The term "limited assurance" is not used elsewhere in AU-C section 930, including the examples of review reports. Making our suggested edit would better align the wording with the stated objective of the auditor, as described in AU-C 930.05, and avoid any unintended consequences, including confusion.

***Proposed Revisions to AU-C Section 935***

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

We believe the proposed amendments to the AU-C section 935 appendix are appropriate and consistent with current government requirements. Our recommendations and other editorial comments on the proposed amendments to AU-C section 935 are included in Attachment B.

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 support the ASB's proposal to amend AU-C section 935 to present the requirements for a combined report on compliance and internal controls as the default form of report and to better align the form and content of the auditor's report with SAS No. 134. Our recommendations and other editorial comments on the proposed amendments to AU-C section 935 are included in Attachment B.

***Proposed Revisions to AU-C Section 940***

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

We support the ASB's proposal to amend AU-C section 940 to better align the form and content of the auditor's report on ICFR to conform with SAS No. 134. However, we have some suggested revisions that are further described in our responses below to the ASB's requests for comment 2.a and 2.d.

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?

We believe that the statement "Internal control over financial reporting is not effective if a material weakness exists" does not describe a responsibility of the auditor and therefore should not be included in the "Auditor's Responsibilities" section of the auditor's report. We suggest moving the proposed statement to the "Definition and Inherent Limitations of Internal Control Over Financial Reporting" section of the auditor's report.

2. Do you agree with the proposed
- b. placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65?

We agree with the proposed placement of the paragraphs if the auditor is issuing a separate report on ICFR as required by the proposed amendments to paragraph 65 of AU-C section 940.

2. Do you agree with the proposed

- 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?

We agree with the proposed placement of the paragraphs if the auditor is issuing an adverse opinion on ICFR due to a material weakness as required by the proposed amendments to paragraph 69 of AU-C section 940.

2. Do you agree with the proposed

- 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 support the ASB's proposal to amend paragraph 80 of AU-C section 940. However, we believe the phrase "and to become aware of material misstatements of fact" in proposed AU-C 940.80.a is confusing. We suggest replacing this phrase with the words "or any material misstatements of fact."

Alternatively, we recommend that the ASB consider combining the requirements described in proposed AU-C 940.80.a and 80.b in the following manner because they are the same, except for the requirement to include an other-matter paragraph on the additional information when this information is included in management's report:

**“.80** When management includes, either within management's report or in a document containing management's report and the related auditor's report, information in addition to the elements that are subject to the auditor's evaluation as described in paragraph .55, the auditor should ~~do the following:~~ ***read the additional information to identify material inconsistencies with management's report or any material misstatements of fact, and:***

- a. ~~When such information is included in management's report, read the additional information to identify material inconsistencies with management's report and to become aware of material misstatements of fact. If no material inconsistencies or material misstatements of fact are identified, disclaim an opinion, in an other-matter paragraph, on the additional information~~ ***when such information is included in management's report. If, upon reading the additional information the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. If management agrees to make the correction, determine that the correction has been made. If management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following:*** (Ref: par. .A129)

- ~~i. Consider the implications for the auditor's report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor's report~~
  - ~~ii. Withhold the auditor's report~~
  - ~~iii. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation~~
- b. ~~When such information is included outside management's report and the related auditor's report, read the additional information to identify material inconsistencies with management's report.~~ If, upon reading the additional information, the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. If management agrees to make the correction, determine that the correction has been made. If management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following: (Ref: par. .A130)
- i. Consider the implications for the auditor's report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor's report
  - ii. Withhold the auditor's report
  - iii. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation"

## Attachment B – Recommendations for other edits and improvements

AU-C Section 930, <i>Interim Financial Information</i>	
Paragraph	Recommendation
.31.d	<p>We recommend the following edits to the description of the requirements of AU-C section 930, paragraph 31.d, to better align with the drafting convention used in AU-C section 700 (SAS No. 134):</p> <ul style="list-style-type: none"> <li>d. A section, directly following the “Results of Interim Financial Information” section, that includes the heading “Basis for Review Results,” and <del>includes</del> <b>does</b> the following <del>statements</del>: (Ref: par. .A50) <ul style="list-style-type: none"> <li>i. <b>States that</b> <del>the</del> review was conducted in accordance with <b>generally accepted</b> auditing standards <b>applicable to reviews of interim financial information</b> <del>generally accepted and identifies in</del> the United States of America <b>as the country of origin of those standards</b> <del>applicable to reviews of interim financial information</del>. (Ref: par. .A51)</li> <li>ii. <b>Includes a statement that a</b> <del>A</del> review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters.</li> <li>iii. <b>Includes a statement that a</b> <del>A</del> review of interim financial information is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is an expression of an opinion regarding the financial <del>statements</del> <b>information</b> as a whole, and accordingly, the auditor does not express such an opinion.</li> <li>iv. <b>Includes a statement that</b> <del>the</del> auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities, in accordance with the relevant ethical requirements relating to the review. (Ref: par. .A52-.A53)</li> <li>v. <b>States whether</b> <del>the</del> auditor believes that the results of the review procedures provide a reasonable basis for the auditor’s conclusion.</li> </ul> </li> </ul>

AU-C Section 935, <i>Compliance Audits</i>	
Paragraph	Recommendation
.11	<p>We recommend the following edit to the definition of Material noncompliance in paragraph 11 of AU-C section 935:</p> <p>“Material noncompliance. In the absence of a definition of material noncompliance in the governmental audit requirement, noncompliance with the applicable compliance requirements is considered <del>to be</del> quantitatively or qualitatively material if there is a substantial likelihood that, individually or in the aggregate, it would <del>to</del> influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance.”</p>
.30	<p>Extant AU-C section 935, paragraph 30.e.v, states the following:</p> <p>“A statement that the compliance audit does not provide a legal determination of the entity's compliance”</p> <p>We observe that this requirement was removed from the proposed amendments to AU-C section 935. However, we believe the extant requirement should be retained and presented as new AU-C 935.30.g.vii.</p>
.30.g.iv	<p>We recommend the following edit to paragraph 30.g.iv of AU-C section 935:</p> <p>“State that noncompliance with the applicable compliance requirements is <del>to be</del> considered quantitatively or qualitatively material to compliance if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements of the government program as a whole based on the report on compliance”</p>
.31	<p>We recommend moving the following content from paragraph 31 of AU-C section 935 to paragraph 30 of AU-C section 935:</p> <p>A combined report on compliance and internal control over compliance is presented in the exhibit “Illustrative Combined Report on Compliance With Applicable Requirements and Internal Control Over Compliance – (Unmodified Opinion on Compliance; No Material Weaknesses or Significant Deficiencies in Internal Control Over Compliance Identified).”</p>

AU-C Section 935, <i>Compliance Audits</i>	
Paragraph	Recommendation
.36	<p>We recommend retaining the phrase “significant findings from the compliance audit” from extant paragraph 37 of AU-C section 935. The following edits to proposed paragraph 36 of AU-C section 935 reflect our recommendation:</p> <p>“The auditor also should communicate to those charged with governance of the auditor’s responsibilities under GAAS, <i>Government Auditing Standards</i>, and the governmental audit requirement, an overview of the planned scope and timing of the compliance audit, <b>significant findings from the compliance audit</b> and any significant deficiencies and material weaknesses in internal control over compliance that the auditor identified during the <del>audit</del> compliance audit <sup>fn 8, fn 9</sup> (Ref: par. .A357-.A368)”</p> <p>If the ASB decides to not make the changes proposed above, it should consider whether the use of the word “findings” in paragraph A37 of AU-C section 935, as amended, is appropriate.</p>
.A44	<p>We recommend the following edit to the “Report on Internal Control Over Compliance” section of the Illustrative report in paragraph A44 of AU-C section 935 to align with the wording in the “Illustrative No Material Weakness Communication” in paragraph A39 of AU-C section 265:</p> <p>“Our consideration of internal control over compliance was for the limited purpose described in the Auditor’s Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. <b>Given these limitations, during our audit</b> <del>we</del> did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses in internal control over compliance may exist that have not been identified.”</p>