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Proposed Statement on Auditing Standards — *Auditor reporting* and Proposed Amendments — *Addressing disclosures in the audit of financial statements*

Dear Ms. Hazel:

Ernst & Young LLP is pleased to submit this comment letter to the Auditing Standards Board (ASB or the Board) in response to the ASB's request for comment on its proposed Statement on Auditing Standards (SAS) and Proposed Amendments. We support the ASB's efforts to increase the informational value and relevance of the auditor's report for users of non-issuer entities' financial statements.

We support the ASB's efforts to improve the relevance and usefulness of the auditor's report. We also support the ASB's efforts to enhance the auditor's focus on financial statement disclosures throughout the audit process. However, we do not support some aspects of the proposed amendments and believe some proposed amendments require clarification to make them operable.

For example, as further explained in Attachment A, we don't support including the proposed statement in the auditor's report that the auditor has fulfilled his or her "other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit"[1] because the statement is vague and potentially confusing to users of the report. The proposed SAS does not specify the "other relevant ethical requirements relating to the audit," nor does it describe the implication to the audit or the auditor's reporting requirements if breaches of such ethical requirements are identified during the audit.

In addition, we believe the proposed affirmative statement may unintentionally create a new performance requirement. Currently, auditors are required to "remain alert for evidence of noncompliance with relevant ethical requirements."[2] Although existing professional standards permit the engagement partner to rely on the audit firm's system of quality control to comply with the ethical requirements of the AICPA and other applicable state and regulatory agencies,[3] it's unclear whether such reliance would be sufficient to support the proposed statement.

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1 Proposed AU-C 700.26.c.
2 AU-C 220.11.
3 AU-C 200.A20.

We recommend that the Board more closely align the proposed statement regarding auditor independence and compliance with relevant ethical requirements to the recent interpretations to SAS 131[4] and the requirements of the Public Company Accounting Oversight Board (PCAOB). We believe these changes would help reduce unnecessary differences between AICPA and PCAOB standards, which ultimately benefits users of auditor reports in the US, without introducing additional performance requirements on the auditors.

We also believe some of the proposed requirements and related application guidance for evaluating the overall presentation of an entity's financial statements may go beyond what's necessary or even appropriate for an auditing standard that's supposed to be accounting framework neutral. In Attachment A we discuss how AU-C 700.13d.ii and .A10 of the proposed SAS can be modified to address this concern.

We support the ASB's decision to require the reporting of key audit matters (KAMs) only when the auditor is engaged to do so. When the auditor is engaged to report on KAMs, we believe the communication of KAMs in the auditor's report should enhance the report's informational value by highlighting matters that were of most significance to the audit of the financial statements. We also support the principles-based approach the ASB has proposed for determining KAMs, because we don't believe it would be appropriate or feasible to prescribe the number, subject or content of KAMs that arise in a given audit.

However, we believe it would be preferable for the ASB to align the KAMs requirements with the PCAOB requirements for reporting on critical audit matters (CAMs) for listed entities in the US rather than the requirements of the International Auditing and Assurance Standards Board (IAASB). Aligning the ASB requirements with those of the PCAOB would provide greater comparability between and among auditor's reports issued in the US and would make it easier for auditors to develop policies and training to adopt the new reporting standards. We also note that we expect auditors to be engaged to report on KAMs most often when the engaging party needs to have the auditor follow the PCAOB standards or prefers to have the auditor do so (e.g., when an entity is considering an initial public offering). In these cases, the auditor would follow the guidance in SAS 131, which would require the auditor to follow the PCAOB's framework for determining and reporting on CAMs.

Lastly, we recommend that AU-C section 260 require certain communications to be made in a timely manner and prior to the issuance of the auditor's report. Such matters would include (1) significant judgments about threats to the auditor's independence, (2) significant deficiencies and material weaknesses, (3) significant uncorrected misstatements and (4) potential illegal acts or suspected fraud that could have more than a clearly inconsequential effect on the financial statements. The appropriate timing of a particular communication to those charged with governance depends on factors such as the significance of the matters to be communicated and corrective or follow-up action needed.

We believe requiring these matters to be communicated prior to the issuance of the auditor's report or when certain events occur would enhance the auditor's ability to meet the objective of AU-C 260.06c

[4] Auditing interpretation No. 4, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB," to AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*).

of providing those charged with governance with "timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process" and allow those charged with governance enough time to take any actions prior to the issuance of the auditor's report.

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Attachment A expounds on these matters and includes our responses to the ASB's specific requests for comment along with additional recommendations for your consideration. Attachment B includes other editorial comments. We would be pleased to discuss our comments with members of the ASB or its staff.

Very truly yours,

Ernst + Young LLP

Attachment A — Responses to specific matters on which the ASB is seeking comment

Forming an Opinion and Reporting on Financial Statements (AU-C section 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?

Overall, we believe most of the proposed revisions are clear and understandable and the application material is helpful. However, we do not support some aspects of the proposed SAS and believe that some aspects of the proposed SAS require clarification to make them operable.

Statement on compliance with other ethical responsibilities and independence

We believe the proposed required statement in the auditor's report that the auditor "has fulfilled the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit"[5] is vague and potentially confusing. Although, the application guidance states the ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies,[6] the proposed SAS doesn't specify the relevant ethical requirements relating to the audit nor does it require such information to be communicated in the auditor's report. Although the proposed SAS would not preclude the auditor from including additional information about the other ethical requirements, we believe including such information would only lengthen the auditor's report without increasing its informative value. Moreover, the proposed SAS does not explain the implication to the audit or the auditor's reporting requirements if breaches of such ethical requirements are identified during the audit.

We believe that by requiring a statement about compliance with other ethical requirements in the auditor's report, the proposal may unintentionally create a new performance requirement for auditors. Currently, auditors are required to "remain alert for evidence of noncompliance with relevant ethical requirements."[7] Although existing professional standards permit the engagement partner to rely on the firm's system of quality control to comply with the ethical requirements of the AICPA and other applicable state and regulatory agencies,[8] it's unclear whether such reliance would be sufficient to support the statement about ethical requirements in the auditor's report.

We therefore believe that such a requirement could require the auditor to perform additional work without providing additional value to the users of the financial statements. If the ASB decides to move forward with this proposal, we believe the Board should amend the application guidance in AU-C 200 and AU-C 220 to clarify how audit teams might evidence compliance with the new requirement.

[5] Proposed AU-C 700.26.c.
[6] Proposed AU-C 700.A37.
[7] AU-C 220.11.
[8] AU-C 200.A20.

If the ASB did not intend to change the auditor's responsibilities at the engagement level, we do not believe the proposed statement should be included in the auditor's report because the auditor's current ability to rely on the firm's system of quality control is akin to only providing negative assurance.

The proposed SAS would also require the auditor's report to include "a statement that the auditor is independent of the entity."[9] If the Board decides to move forward with this proposal, we recommend that the statement say the "auditor is required to be independent" rather than the "auditor is independent," which would more closely align with the reporting requirements of the PCAOB.

We recommend making the following edits to paragraph 26.c of the proposed SAS to address our concerns about the affirmative statement on independence and fulfillment of other ethical responsibilities, which would still heighten the auditor's awareness of his or her ethical responsibilities without the need to clarify the performance requirements either in the proposed SAS or in AU-C 200 or AU-C 220.

- "Includes a statement that the auditor is required to comply with the AICPA Code of Professional Conduct, which addresses the auditor's independence ~~of the entity and has fulfilled the auditor's other ethical responsibilities, in accordance with the~~ and other relevant ethical requirements relating to the audit(Ref: par. A37–A38)."

By having the report state that the "auditor is required" to comply with the Code of Professional Conduct that addresses the independence and other ethical requirements, our recommendation aligns with the recently issued auditing interpretation No. 4, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB," to AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, *Professional Standards*), which provides guidance on how an auditor complies with AU-C section 700 in the context of PCAOB Auditing Standard (AS) 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*.

We also recommend that the ASB modify Illustrations 1 through 3 in the Basis for Opinion section of the proposed SAS to conform with the change we recommended to paragraph 26.c above:

- We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to comply with the AICPA Code of Professional Conduct, which addresses the auditor's independence ~~independent of ABC Company, and have fulfilled our other ethical responsibilities, in accordance with the~~ and other relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

[9] Proposed AU-C 700.26.c.

Lastly, assuming the ASB moves forward with this aspect of the proposed SAS, we recommend that the Board consider whether the existing requirements and application guidance for communicating with those charged with governance[10] should be amended to include guidance on communicating the firm's system of quality controls related to compliance with those other ethical requirements related to the audit.

Evaluating information presented in the financial statements

As mentioned in our cover letter, we believe some of the proposed requirements and related application guidance for evaluating the overall presentation of an entity's financial statements may go beyond what's necessary or even appropriate for an auditing standard that's supposed to be accounting framework neutral.

For example, proposed AU-C 700.13d.ii indicates that when evaluating whether the information presented in the financial statements is relevant, reliable, comparable and understandable, the auditor should consider whether "the overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of matters disclosed." The proposed application guidance in paragraph .A10 states, among other things, that when evaluating the understandability of the financial statements, the auditor may consider whether the information is presented in a concise manner and whether the placement of significant disclosures gives appropriate prominence to them (for example, when there is perceived value of entity-specific information to users).

Requiring the auditor to consider whether the overall presentation of financial statements is undermined by including information that is not relevant or presented concisely or because the placement of disclosures does not give appropriate prominence to them, may not be consistent with the requirements of all financial reporting frameworks whose objective is fair presentation. Moreover, requiring auditors to consider whether the inclusion of information "obscures a proper understanding of matters disclosed" may not be operable as what may be considered obscured by one may not be considered obscured by another.

We believe any auditor requirement to evaluate the adequacy of management's financial statement disclosures should not go beyond the specified requirements and disclosure objectives of the applicable financial reporting framework. To reduce this risk, including unnecessary disagreements between the auditors and preparers of financial statements, we recommend the following amendments to paragraph 13d and the related application guidance of the proposed SAS:

- 13d. The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor should consider whether

  ~~i.~~ ~~T~~ the information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and presented (Ref: par. A10) ~~characterized.~~

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10 AU-C 260, *The Auditor's Communication With Those Charged With Governance*.

ii. ~~The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: par. A10)~~

- A10. Evaluating the understandability of the financial statements may include consideration of such matters as the following:

  - Whether the information <u>presented</u> in the financial statements is ~~presented in a~~ clear ~~and concise manner~~

  - ~~Whether the placement of significant disclosures gives appropriate prominence to them (for example, when there is perceived value of entity-specific information to users) and~~ Whether the disclosures are appropriately <u>labeled and</u> cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information

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

Except as noted below, we believe the proposed descriptions of management's and the auditor's responsibilities relating to going concern are useful and understandable.

For entities whose accounting standard setter is the Governmental Accounting Standards Board (GASB), there is no alternative for the use of a basis of accounting other than the going concern basis of accounting, such as the liquidation basis of accounting. All financial statements presented in accordance with the GASB general purpose framework presume the going concern basis of accounting. Accordingly, management does not have a responsibility to determine whether the use of the "going concern basis of accounting is appropriate." We believe that the communicative value of the proposed auditor's report to users is diminished when it includes a requirement for the management's responsibility section of entities subject to the GASB framework to determine whether the going concern basis of accounting is appropriate because it may confuse users of the report by implying an alternative other than the going concern basis of accounting exists.

Accordingly, we recommend the Board add application guidance to proposed paragraph 31b and consider conforming amendments to the application guidance in AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, to state that management of entities subject to the GASB framework is not required to "determine whether the use of the going concern basis of accounting is appropriate" for the entity.

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)?

We do not believe the identification of those charged with governance and the description of their oversight responsibilities in the auditor's report would be meaningful for users of the financial statements. Further, we do not believe that the statement that the auditor communicates certain matters with those charged with governance should be included in the auditor's report, unless all such communications occur before the auditor's report is issued.

The current standards recognize that "governance structures vary by entity, reflecting influences such as size and ownership characteristics"[11] and that "such diversity means that it is not possible for this section to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the engagement circumstances."[12] Due to such diversity, we believe that identifying those charged with governance and describing their oversight responsibilities in the auditor's report could be misleading to users, particularly because users of financial statements in the US may equate those charged with governance to an audit committee of a public entity. Generally, an audit committee of a public entity has more defined responsibilities and their oversight tends to be more rigorous.

If the ASB decides to include statements about those charged with governance in the auditor's report, we believe the definition of those charged with governance should be clarified. AU-C 260 defines those charged with governance as the person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and the obligations related to the accountability of the entity. This includes overseeing the financial reporting process.[13] Paragraph A42 of the proposal provides examples such as the audit committee or the board of directors. However, the PCAOB's definition of an audit committee does not include responsibility for overseeing the strategic direction of the entity,[14] and a board of directors typically does not oversee the financial reporting process. Identifying a person(s) or organization(s) that meet the definition of those charged with governance is challenging because certain person(s) of the governance structure may have responsibility for overseeing the financial reporting process while others have responsibility for overseeing the strategic direction of the entity.

We believe if the statement that the auditor has responsibility to communicate with those charged with governance is included in the auditor's report, then the responsibilities of those charged with governance should always be included in the report. This would also eliminate the practical challenges of determining whether all individuals responsible for oversight of the financial reporting process are also responsible for the preparation of the financial statements. Certain individuals may contribute information used in the

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[11] AU-C 260.A6.

[12] AU-C 260.A8.

[13] AU-C 260.06.

[14] PCAOB AS 1301.A2.

preparation of the financial statements, such as certain journal entries or disclosures, but whether such involvement is considered preparation of the financial statements is subject to interpretation.

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?

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

Overall, we support expanding the description of the auditor's responsibilities in the auditor's report because it would narrow the expectation gap between what some users of the report believe an audit is and what the auditor actually does. However, we believe the proposed description could be improved by explaining that the reasonable assurance, rather than absolute assurance, provided by an audit performed in accordance with GAAS is in part due to examining evidence supporting financial statement amounts and disclosures on a test basis. This clarification would further align with the enhancements to the auditors' report recently adopted by the PCAOB for audits of public companies. Accordingly, we propose the following edit to paragraph 36b.i:

- i. to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain <u>and examine, on a test basis,</u> audit evidence <u>regarding the amounts and disclosures in the financial statements</u> that is sufficient and appropriate to provide a basis for the auditor's opinion.

Proposed SAS Communicating Key Audit Matters in the Independent Auditor's Report (proposed new AU-C section 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?

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

As stated in our cover letter, the communication of KAMs in the auditor's report in certain cases should contribute to enhancing its informational value to users by highlighting matters that were of most significance to the audit of the financial statements. Having auditors communicate such matters may also assist users in understanding the areas of significant management judgment and draw users' attention to management's disclosures of those matters.

We support the principles-based approach the ASB has proposed for determining KAMs, because we don't believe it is appropriate or feasible to prescribe the number, subject or content of KAMs that arise in a given audit. We also support the ASB's decision to set requirements the auditor must comply with when engaged to report on KAMs rather than require the reporting of KAMs. We also believe these requirements are clearly stated in the proposed SAS.

However, we believe it would be preferable for the ASB to align the requirements for determining and reporting on KAMs with the standards of the PCAOB. Aligning the ASB's requirements with those of the PCAOB would provide greater comparability among auditor's reports issued in the US and may benefit users of those reports. Doing so would also make it easier for auditors to develop the policies and training they would need to develop to adopt the reporting standard, without resulting in significant differences with the international auditing standards. We also note that we expect auditors to be engaged to communicate KAMs most often when the engaging party needs to have the auditor follow the PCAOB standards or prefers to have the auditor do so (e.g., when an entity is considering an initial public offering). In these cases, the auditor would follow the guidance in SAS 131, which would require the auditor to follow the PCAOB's framework for determining and reporting on CAMs.

We recognize that certain US regulators (other than the Securities and Exchange Commission) and other state and local governing bodies may require KAMs reporting in the future. Additionally, component auditors in the US reporting to a group auditor under international auditing standards may also be required to follow the KAMs reporting framework. As a result, practitioners in the US would be required to understand the differences between the requirements for reporting on KAMs and CAMs. Accordingly, if the ASB moves forward with the SAS as proposed, we encourage the ASB to work with the PCAOB to separately develop interpretive guidance to explain the key similarities and differences between the standards, similar to what the IAASB did when the PCAOB issued its reporting standard. We believe such guidance would help certified public accountants more easily identify factors that could reasonably result in different matters (both number and type) being reported as KAMs and CAMs. We believe all stakeholders, including users of these reports, would benefit from such guidance.

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

7. Are the revisions to AU-C 705 clear and understandable, and is the application material helpful in supporting the application of those requirements?

Overall, we believe the modifications to AU-C 705 are clear.

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

8. Are the revisions to AU-C 706 clear and understandable, and is the application material helpful in supporting the application of those requirements?

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? If not, what additional guidance would be helpful?

Based on the proposed requirements of AU-C 701 and revised AU-C 706, it's clear that KAMs and emphasis-of-matter paragraphs can co-exist within an auditor's report and that the use of an emphasis-of-matter paragraph is not a substitute for a description of KAMs. We agree with the ASB's decision to include both concepts.

Issue for consideration — timing of communications with those charged with governance

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

As stated in our cover letter, we believe AU-C section 260 should require the following matters to be communicated to those charged with governance prior to the issuance of the auditor's report:

- Significant deficiencies and material weaknesses identified during the audit
- Uncorrected misstatements taking into account the size and nature of the misstatement judged in the surrounding circumstances, and possible implications with regard to future financial statements
- Significant judgments about threats to independence and related safeguards

We also believe the auditor should communicate the following events when they occur:

- Identified potential illegal acts, noncompliance with laws, suspected fraud or whistle-blower allegations that might have a more than clearly inconsequential effect on the client's financial statements or cause us to question the integrity of management

We believe requiring these matters to be communicated prior to the issuance of the auditor's report or when they occur would allow those charged with governance enough time to take the appropriate actions and enhance the auditor's ability to meet the objective of providing "those charged with governance timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process."[15]

As mentioned in our response to item 3, if the auditor's responsibility section of the report states that the auditor is responsible for communicating matters with those charged with governance, then all matters should be communicated prior to the issuance of the auditor's report.

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[15] AU-C 260.05.c.

Issue for consideration — Addressee in the Auditor's Report

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?

b. What would the practical implications be if such a requirement were adopted?

We do not believe including the addressee's city and state in the auditor's report would improve the objectives of financial reporting. We recommend any final SAS on this matter be consistent with the standards of the PCAOB and the IAASB and not require the location of the addressee to be included in the auditor's report.

If the ASB decides to require such information, the Board would need to provide application guidance to help the auditor determine the appropriate location to disclose. For example, the auditor would need to understand whether the appropriate city and state of the addressee is the location of the addressee's principal office, place of incorporation or the location of the books and records.

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?

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?

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?

We support the ASB's efforts to focus the auditor's attention on disclosures in an audit of the financial statements. We believe the proposed amendments would encourage a holistic and integrated approach to auditing the disclosures throughout the financial statement audit. Other than the matter discussed in our response to Question 1 above regarding evaluating information presented in the financial statements, we do not have any other significant concerns with the proposed amendments.

Proposed effective date

We do not believe the proposed effective date for audits of financial statements for periods ending on or after 15 June 2019 provides sufficient time for auditors to implement the new SAS.

Although the proposed SAS would primarily affect the auditor reporting process, which typically occurs at or near the completion of the audit, there are aspects of the Board's proposal that also have implications for the earlier stages of the audit, such as the proposed AU-C 260 requirement to communicate about significant risks with those charged with governance, as well as the proposed amendments to the engagement agreement requirements. Also, when engaged to communicate KAMs, auditors will need to fundamentally change the reporting phase of the audit. For example, drafting of the audit report will need to occur earlier in the audit process, as opposed to at or near year end. Also, companies will be need to understand potential KAMs in order to prepare for any potential changes to their financial reporting process (including financial statement disclosures) and questions from users of the companies' financial statements and the auditor's report thereon.

Accordingly, to allow audit firms sufficient time to train personnel on the new SAS and update reporting policies, including related systems of quality control, we believe the effective date should be no earlier than for audits of financial reporting periods beginning after 15 December 2019 (i.e., 2020 for calendar-year-end reporting entities).

Attachment B

Other editorial comments

Reference	Observation
AU-C 700 Illustration 7	Given that this illustration is for audits that have been conducted in accordance with both auditing standards generally accepted in the US and the auditing standards of the PCAOB, we believe this illustration should conform with the examples included in the recently issued auditing interpretation No. 4, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and the Standards of the PCAOB," to AU-C section 700, *Forming an Opinion and Reporting on Financial Statements* (AICPA, Professional Standards).
AU-C 705.A12	We recommend the following edit: ▸ The entity is required to use the equity method of accounting for an investee ~~associated entity~~, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
AU-C 705 Illustration 6	▸ We suggest adding a sentence to the background description explaining that the auditor was appointed after the period end.
AU-C 705 Illustration 8	We recommend the following edits to the illustrative Disclaimer of Opinion paragraph to align with the background description: ▸ Disclaimer of Opinion on 20X1 Operations, Changes in Stockholders' Equity and Cash Flows ▸ Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations, changes in stockholders' equity, and cash flows.
AU-C 706.A4	We recommend the following edit: ▸ A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position or results of operations
AU-C 210.A44	Second paragraph of example audit engagement letter: We suggest retaining the deleted text "on the financial statements" after "… that includes our opinion."

Reference	Observation
AU-C 540, paragraph A120	We recommend the following edit to the last sentence to avoid different possible interpretations: ▸ If the matter is determined to be a key audit matter<u> and the auditor has been engaged to report key auditor matters in the auditor's report under proposed AU-C 701</u>, proposed SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* prohibits the auditor from including that matter in an emphasis-of-matter paragraph in the auditor's report.