



National Association of State Boards of Accountancy

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May 9, 2018

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

**Re: *Proposed Statement on Auditing Standards – Auditor Reporting***

Dear Members of the AICPA Auditing Standards Board (ASB):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to offer comments on the above referenced Proposed Statement on Auditing Standards (the Statement). NASBA's mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories which includes all audit, attest and other services provided by CPAs. In furtherance of that objective, NASBA offers an overall comment followed by responses to the specific questions raised in the Statement as well as additional comments.

Our overall comment to the proposed Statement is based on the State Boards' charge to be regulators protecting the public interest. We believe the best way to avoid public confusion is to limit the differences in auditors' reports, regardless of whether the auditee is an issuer, a public business entity or a nonissuer. We do appreciate the AICPA's position of converging United States (US) Auditing Standards with International Auditing Standards whenever possible. However, in the US, we also need to consider that the Public Company Accounting Oversight Board (PCAOB) has created its own reporting model. A major difference outlined in the Statement relates to Key Audit Matters versus Critical Audit Matters, and when to include or exclude those matters in reports for issuers. Overall, we believe that the final Statement should give more consideration to the PCAOB auditor's reporting standard and eliminate differences between the two models.

Taking into consideration the above overarching comment, we are providing comments in response to the specific requests in the Statement.

## **Request for Comment**

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

As noted above, we believe that the proposed revisions are a good step in bringing consistency to the GAAS, PCAOB and ISA's. As the PCAOB's new reporting standard is applicable for calendar years ending 12/31/2017, we encourage the ASB to complete its review of this proposed standard as soon as possible to limit differences in auditor reports in the United States.

2. *Are the descriptions of the responsibilities of management and the auditor relating to going concerns (paragraphs 31b and 36 biv) 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 560 (SAS No. 132)?*

We understand that various accounting frameworks have different requirements for management's evaluation related to going concern. We are concerned that the report examples in the proposed Standard do not appear to include the concept of a "reasonable period of time" that exists in extant AU-C section 570 par 05, which indicates a reasonable period of time would be one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable) for FASB entities, and 12 months from the date of the financial statements for GASB entities. We do not believe that users understand this concept and suggest that the fourth bullet in the "Auditor's Responsibilities for the Audit of the Financial Statements" be expanded to include the definition of a "reasonable period of time" under the applicable reporting framework.

3. *Will the requirement to identify those responsible for 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 believe that there will likely be difficulties for auditors of small owner-managed entities, as well as some governmental and not-for-profit entities, related to the identification of those responsible for oversight of the financial reporting process. Paragraph A43 indicates that "no reference to oversight responsibilities is required" when there is no separation of preparation and oversight of the financial reporting process. We suggest the reporting examples in the proposed Standard reference this guidance, to make it clear that this situation may exist, and that sentence would not be required in the report.

*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?*

We do not believe the Standard should use the word "guarantee" in the proposed model and suggest the following:

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"Reasonable assurance is a high level of assurance but is not absolute assurance and therefore an audit conducted in accordance with GAAS ~~is not a guarantee~~ will **not** always detect a material misstatement when it exists."

*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?*

As noted in paragraph A39, the auditor may be required to communicate key audit matters by law, regulation or contractual agreement. We have some concern as to what an auditor may do when engaged to communicate KAM, yet then is asked to exclude a KAM in its report when management disagrees with the auditor's report. We suggest that the ASB make reference to other professional guidance as to what the auditor is to do in those situations. While it is unlikely that there will be much voluntary call for KAM reporting, there will be some level of reporting in this area from non-public entities.

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

As noted in the proposed statement, the communication of KAMs is not required for audits of nonissuers. However, we have some concern as to whether there may be confusion as to whether or not a "public business entity," as defined in the Master Glossary of the FASB Accounting Standards Codification, would be considered an issuer, as it would have publicly held debt. It would seem that a holder of those types of debt obligations would be just as concerned over KAMs as an investor in an issuer.

To make it clearer for auditors that KAM is not required for nonissuers, we suggest that the reporting examples including KAM sections contain a reference to par A39 of the Proposed SAS *Forming an Opinion and Reporting on Financial Statements*. We understand this may be a violation of the ASB's drafting convention, but we believe that this may be warranted to avoid confusion

*7. Please provide your views on changes to extant AU-C section 705 described in the preceding section. In addition, the SB would like your views on the following:*

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

The proposed model includes the phrase "and have fulfilled our other ethical responsibilities in accordance with the relevant ethical requirements related to our audit." We suggest that this phrase be revised to state

“and have complied with the applicable ethical requirements relating to our audit,” as the code of professional conduct would address these matters. Alternatively, the ASB may want to consider adding a guidance paragraph addressing “other ethical responsibilities” in the final statement.

8. *Please provide your views on the changes to extant AU-C 706 described in the preceding section. In addition, the ASB would like your views on the following:*

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

No comment.

9. *Is the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs clear and understandable, recognizing that communication of KAMs is not required for audits of nonissuers? If not, what additional guidance would be helpful?*

No comment.

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?*

We believe it would be in the public interest for the proposed standard to be consistent with the PCAOB reporting model which requires the auditor to provide a draft of the auditor’s report to those charged with governance prior to issuance. This would also reduce differences between auditing standards in the United States for issuers and nonissuers.

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?*

We believe that the city and state of the reporting entity should be included in the report. Not only would this be beneficial to State regulators, but it would be helpful to various users of the financial statements, including funding agencies, grantors, and others. We also believe that provision of such information would facilitate States’ adoption of firm mobility.

Prior to the 7th Edition (released in 2014), the Uniform Accountancy Act (UAA) required CPA firm registration in a state if the CPA firm performed attest service for a client having its “home office” in that state even if the CPA firm did not have an office in that state. The 7th Edition and recently released 8th Edition introduced “firm mobility” by dropping the registration requirement for firms without an office in a state so long as the firms complied with the state’s ownership and peer review requirements, see UAA §7(a)(1)(C). Accordingly, per firm mobility, a firm can offer

or render attest services in another state without having to establish an office in that state, register in that state or even provide mere notice to that state.

Currently, 21 jurisdictions (AK, AR, CT, DC, FL, GU, IA, MD, ME, MS, MT, NV, NH, NJ, OK, SC, SD, VI, VT, WV, WY) still use the UAA 6<sup>th</sup> Edition's registration requirement ("home office"). Some form of firm mobility has been adopted in 24 jurisdictions (AL, AZ, CO, DE, FL, IA, ID, IL, IN, KY, LA, MI, MO, MT, NM, ND, OH, PA, RI, TN, UT, VA, WA, WI). Firm mobility legislation is pending two states (NH and NJ). With the elimination of the "home office" requirement, there is arguably no reliable alternative way for regulators and the public to ascertain the relevant requirements for auditors much less their peer review or disciplinary records. The absence of a disclosure requirement for audit client addresses could thus undermine state movement toward firm mobility and encourage adoption of notification requirements.

No compelling argument has been articulated against disclosure. Indeed, in an auditor's report which by its very nature should favor disclosure of relevant information, it seems very little to ask that the auditor disclose the client's city and state. Absent such a simple disclosure, there is a potential for not only auditors but also clients to take advantage of jurisdictional differences. Clients and the public need to know that the audit firm is legally qualified to perform an audit for a particular client. An efficient way for the public to know is to require disclosure of the location of the client for audit purposes.

Additionally, the less than onerous exercise of determining and disclosing an audit client's city and state could benefit not only the public, regulators and clients, but also the audit firms, since, by so doing, they could better ascertain whether and where they must register during this period of regulatory transition in which no more than half the states have implemented firm mobility.

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

Although there might be some difficulty with determining the appropriate "city and state" to disclose for some multistate or multinational clients, we believe that the statements on standards could provide useful guidance. We note that such determinations routinely have been made for many decades to comply with income tax regulations and we are not aware of it being controversial. The audit client's city and state to be disclosed is not likely to be "confidential client information." That location might or might not be the "home office" as specified by the client," or "principal place of business," or "principal office," or "headquarters," or "primary headquarters," and, indeed, some clients might have more than one such location. The chosen term should be one that provides the most relevant information to those who need the disclosure the most: the public.

We believe that the city and state of the reporting entity should be included in the report. Not only would this be beneficial to state regulators, but it would be helpful to various users of the financial statements, including funding agencies, grantors, and others.

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*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?*

We agree with the proposed change to clarify that the notes to the financial statements are a part of the basic financial statements. The reader needs to understand that there is information included in the notes that is essential to an overall understanding of the financial position and results of operations of an entity.

*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?*

No comment.

*14. Will the proposed changes to the assertions in AU-C section 315 help appropriately integrate the auditor's audit approach to the risk of material misstatement in the disclosures with the audit work on the underlying amounts, thereby promoting a more effective audit of disclosures?*

Yes – We believe that the proposed changes to assertions in AU-C section 315 will help to integrate the auditors approach to disclosures resulting in a more effective audit.


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We appreciate the opportunity to comment on the Statement.

Very truly yours,



Theodore W. Long, Jr., CPA  
NASBA Chair  
Very truly yours,



Ken L. Bishop  
NASBA President and CEO