



October 28, 2019

Ms. Sherry Hazel
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Re: ASB August 28, 2019 Proposed Statement on Auditing Standards, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC appreciates the effort of the Auditing Standards Board (ASB) to amend the AU-C section 800 series to align with the relevant provisions of SAS No. 134 and to converge with ISA 800 (Revised). However, TIC does have concerns related to the audit report when management has elected to report using the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs) as well as the introduction of going concern considerations in this ED.

TIC believes that paragraph .A1 of AU-C section 800 specifically should address the FRF for SMEs as one of the examples of special purpose frameworks, rather than combining it with "other frameworks." TIC believes that, since the issuance of the FRF for SMEs in 2013, this framework has become more widely accepted and is more akin to the cash and tax bases of accounting rather than the contractual basis, which typically would be limited as to use and may only be suitable for certain purposes. TIC would even argue that the FRF for SMEs is a more robust framework than the cash and tax bases, as it includes both presentation and disclosure guidance and is more akin to U.S. GAAP than both the cash and tax bases, including management considerations related to going concern.

In addition, with the upcoming effective dates of the FASB revenue standard under ASC 606 and upcoming new standard on leases under ASC 842 for private companies, some TIC clients have found the FRF for SMEs to be the most suitable financial reporting framework that results in less cost and complexity while still satisfying the needs of financial statement users (typically this would include lenders). As noted at a September TIC meeting in Norwalk with the FASB, one TIC member noted almost 40 percent of their client base converted from U.S. GAAP to the FRF for SMEs due to these additional U.S. GAAP complexities. In large part, this has been due to this firm

performing outreach and educating the local banks on the similarities and differences between U.S. GAAP and the FRF for SMEs.

TIC believes that, as U.S. GAAP becomes more complex, costly, and onerous for smaller private entities to apply, this trend may continue. While the cash and tax bases might be widely understood and accepted, the recognition, measurement, and disclosure requirements are not nearly as robust as those required by the FRF for SMEs.

TIC has concerns about the additional language to be added in paragraph .19 of the ED, which requires that, for special purpose financial statements prepared in accordance with a contractual basis or other basis of accounting, the emphasis-of-matter paragraph also should indicate that, as a result, the financial statements may not be suitable for another purpose. TIC believes that the FRF for SMEs should be treated the same way as the tax and cash bases, whereby this new additional language is not required. In addition, TIC believes the generic reference to “other basis” could cause diversity in practice so, perhaps, the ASB should consider being more prescriptive or consider adding examples in the implementation guidance paragraphs.

TIC has concerns that, in cases where they have assisted clients in converting from U.S. GAAP to the FRF for SMEs and lenders and other users have accepted those audited financial statements, the addition of this language could add confusion and result in some lenders being more cautious of accepting this framework. TIC feels this language alludes to the fact that this alternative to U.S. GAAP may not be suitable when, in fact in most cases, it is a very suitable alternative to U.S. GAAP.

In addition, TIC would like to note that the compilation and review literature does NOT require use of this additional language related to being suitable for another purpose. Below is the emphasis-of-matter paragraph that would be required when reviewing financial statements that have been prepared using the FRF for SMEs.

Basis of Accounting

I (We) draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My (Our) conclusion is not modified with respect to this matter.

In addition, paragraph .A32 of AR-C section 80, *Compilation Engagements*, indicates the following:

When the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, the accountant is required by paragraph .20b to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid

misunderstandings when the financial statements are used for purposes other than those for which they were intended.

Note that paragraph .A85 of AR-C section 90, *Review Engagements*, contains similar requirements. Therefore, the SSARS only require the practitioner to describe the purpose for which the financial statements are prepared when the financial statements are prepared in accordance with a regulatory or contractual basis of accounting, whereas the FRF for SMEs is treated the same as the tax and cash bases of accounting.

TIC recommends consistency in the way financial statements prepared using the FRF for SMEs are treated under the SSARS and the way they are treated under the SASs since the SSARS do not require additional language related to the suitability of the report and TIC believes this is the appropriate treatment.

As it relates to the proposed amendments to AU-C section 805, TIC appreciates the additional considerations added by this ED related to going concern and likes that the ED leaves much of this to practitioner judgment as it is, at times, difficult to determine whether the going concern assumptions are relevant based on the elements of the financial statements that are included in that engagement.

TIC does have concerns about potential implications once this standard is effective related to audit documentation and any implicit or explicit additional documentation requirements that may arise once this standard is final.

For example, if an auditor determined that for a particular engagement related to a specified element that there were no additional audit procedures required related to going concern, would they be required to document that fact in the audit work papers? TIC believes that additional clarification might be helpful in the standard related to required documentation to ensure the addition of these going concern considerations does not impose additional unintended documentation requirements in practice.

TIC would also ask that ASB work with the peer review team once this standard is finalized to provide clarification on the documentation requirements related to going concern and audits of single financial statements, specified elements, account, or items of a financial statements in particular, as TIC believes this could be an area where there could be diversity in practice that could lead to matters for further consideration on peer reviews.

TIC has noted practice issues in the past when performing peer reviews where new standards have resulted in additional items being added to the peer review checklists that could include an implicit or explicit documentation requirement that may not always tie back to documentation requirements of the standard.

TIC appreciates the opportunity to present these comments on behalf of PCPS Member firms.
We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read "Danielle Supkis-Cheek". The signature is fluid and cursive, with a long, sweeping flourish extending to the right.

Danielle Supkis-Cheek, Chair
On Behalf of the PCPS Technical Issues Committee