



Agenda Item 4D

Exposure Draft *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*
Comment Letter Responses to “Issues For Consideration” [Questions 10-11]

Letter Number	Name	Affiliation
1	Mark Baroulis CPA	
2	Technical Issues Committee	TIC (2)
3	Tennessee Division of State Audit	TN State (3)
4	New York State Society of Certified Public Accountants	NYSSCPA (4)
5	RSM US LLP	RSM (5)
6	New Jersey Society of Certified Public Accountants	NJCPA (6)
7	National Association of State Boards of Accountancy	NASBA (7)
8	Office of the Washington State Auditor	Office of the Washington State Auditor (8)

Comment Letter Responses to Issues Q10 & Q11
ASB Meeting, October 15-17, 2018

Letter Number	Name	Affiliation
9	Smith & Howard PC	Smith & Howard PC (9)
10	CliftonLarsonAllen LLP	CliftonLarsonAllen LLP (10)
11	ALEXANDER, ARONSON, FINNING & CO., P.C.	AAFCPAs (11)
12	Federal Accounting Standards Advisory Board	FASAB (12)
13	Cherry Bekaert	Cherry Bekaert (13)
14	Michigan Office of the Auditor General	OAG (14)
15	Maryland Association of Certified Public Accountants	MACPA (15)
16	Piercy Bowler Taylor & Kern	PBTK (16)
17	Florida Institute of Certified Public Accountants	FICPA (17)
18	Dixon Hughes Goodman	DHG (18)
19	BDO USA, LLP	BDO (19)
20	Illinois CPA Society	ICPAS (20)
21	SVA Certified Public Accountants, S.C.	SVA (21)
22	Association of Local Government Auditors	Association of Local Government Auditors (22)
23	GAO U. S. Government Accountability Office	GAO (23)

Comment Letter Responses to Issues Q10 & Q11
ASB Meeting, October 15-17, 2018

Letter Number	Name	Affiliation
24	Massachusetts Society of CPAs	MSCPA (24)
25	Grant Thornton LLP	GT (25)
26	Crowe Horwath LLP	Crowe Horwath (26)
27	North Carolina Association of CPAs	NCACPA (27)
28	California Society of CPAs	CALCPA (28)
29	Anders CPAs & Advisors	Anders (29)
30	Baker Tilly Kirchow Krause, LLP	Baker Tilly (30)
31	The Ohio Society of CPAs	OHIOCPA (31)
32	PricewaterhouseCoopers LLP	PWC (32)
33	Ernst & Young LLP	EY (33)
34	KPMG LLP	KPMG (34)
35	Laura Lindal	Laura Lindal (35)
36	National State Auditors Association	NSAA (36)
37	Deloitte & Touche LLP	D&T (37)
38	Abraham D. Akresh	Abraham D. Akresh (38)

Issues for Consideration: Issue 1—Timing of Communications With Those Charged With Governance

ED Question 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?*

Responder	Comment	TF Consideration
TIC (2)	TIC’s preference would be to retain the flexibility in the timing of communications due to the variety of circumstances that may be encountered during an audit of a nonissuer.	No. Retain flexibility See issue 1 in agenda item 4.
TN State (3)	We agree with the PCAOB AS 1301 requirement, which is similar to that in Government Auditing Standards and the Office of Management and Budget’s Uniform Grant Guidance. We believe communications of significant deficiencies and material weaknesses to those charged with governance should be made prior to the issuance of the auditor’s report. We believe this still provides plenty of flexibility for whatever circumstances the auditor might face.	Yes. Require SD and MW prior to issuance See issue 1 in agenda item 4.
NYSSCPA (4)	No. The parameters regarding the timing of required communications within AU-C-260 retain an appropriate level of flexibility for the communications process that allows the auditor to use judgment to determine the appropriate timing communication based on the particular circumstances of the engagement within the limits set forth in the extant standards.	No. Retain flexibility See issue 1 in agenda item 4.
RSM (5)	We believe the requirement in AU-C section 260, <i>The Auditor’s Communication With Those Charged With Governance</i> , should be more specific regarding the timing of communication about certain matters with those charged with governance. We believe the auditor’s communications with those charged with governance required by AU-C section 260 should be made prior to issuance of the auditor’s report. Although we believe this timing requirement should apply to all audits, we think the timing of these communications would be especially important if the auditor is engaged to communicate key audit matters in the auditor’s report. As provided in	Yes. Require prior to issuance See issue 1 in agenda item 4.

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Responder	Comment	TF Consideration
	paragraph 7 of the proposed standard, “Key audit matters are selected from matters communicated with those charged with governance.” Therefore, we believe required matters should be communicated to with those charged with governance prior to or concurrent with the issuance of the auditor’s report.	
NJCPA (6)	The Group believes auditors should use professional judgement for determining when to communicate significant matters to those charged with governance. The Group does agree it is a best practice to communicate significant audit matters to the governing body early in the audit and when possible before the Report is issued. In reality though this is not always achievable. A requirement to complete all communications prior to the issuance of the Report is impractical and pressures auditors without significantly enhancing audit quality.	No. Retain flexibility See issue 1 in agenda item 4.
NASBA (7)	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.	Yes. Require prior to issuance See issue 1 in agenda item 4.
Office of the Washington State Auditor (8)	No, unless the auditor is engaged to report on KAMs. Unless a communication is deemed to be necessary to support the auditor’s opinion (as it would only if KAMs were included in the report), it should not be required to be performed prior to report issuance. This evaluation is already required by current AU-C 260.19. So long as adequate two-way communication has been established for purposes of the audit, we would prefer that the governing body be free to schedule a timely meeting with the auditor at its convenience. Requiring communications before the report is issued	No. Retain flexibility See issue 1 in agenda item 4.

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Responder	Comment	TF Consideration
	might create hardships for governing bodies that meet on a monthly, quarterly or infrequent basis but have a tight timeframe for the audit to meet a reporting deadline.	
Smith & Howard PC (9)	We do not believe the requirement in AU-C section 260 should be more specific than the current requirement to communicate with those charged with governance on a “timely basis”. We agree with the ASB’s conclusion that flexibility in the timing of communications is appropriate given the variety of circumstances that may be encountered by auditors of nonissuers.	No. Retain flexibility See issue 1 in agenda item 4.
CliftonLarsonAllen LLP (10)	We are in agreement with the proposed SAS that retaining the flexibility in the timing of communications is appropriate given the variety of circumstances that may be encountered by auditors of non-issuers. We believe professional judgment should be exercised by the auditor when determining whether certain communications should be made prior to issuance of the auditor’s report, rather than instituting requirements for certain communications.	No. Retain flexibility See issue 1 in agenda item 4.
AAFCPAs (11)	AAFCPAs notes that timing of communication with those charged with governance depends on the significance and nature of matters being communicated. In addition, flexibility in the timing of communications is appropriate as other factors such as: size, operating structure, control environment, legal structure, expectations of the entity being audited, and availability of those of charged with governance will all vary.	No. Retain flexibility See issue 1 in agenda item 4.
Cherry Bekaert (13)	We agree with the ASB’s decision to retain flexibility in the timing of communications with those charged with governance and do not believe the requirements should be more specific. We believe specific timing requirements would	No. Retain flexibility

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Responder	Comment	TF Consideration
	be overly restrictive for audits of nonissuers; the timing of communications should be based on the circumstances of the individual audit engagement, the needs of those charged with governance, and the specific items to be communicated.	See issue 1 in agenda item 4.
OAG (14)	Yes, we encourage the Board to maintain the current 60-day requirement to communicate to those charged with governance certain matters regarding the conduct of the audit including significant difficulties encountered during the audit and findings identified during the audit. Communications regarding the planning of the audit should be required to be made prior to the issuance of the auditor's report.	Retain current 60-day requirement See issue 1 in agenda item 4.
MACPA (15)	Overall, we prefer the flexibility provided in the current timing requirement. Perhaps include as a recommendation that certain communications may be made prior to issuance, but it should not be a requirement.	No. Retain flexibility See issue 1 in agenda item 4.
FICPA (17)	In the opinion of the Committee, the requirement in AU-C 260 should be more specific regarding the timing of the communication about certain matters to those charged with governance. The timing of this communication is meaningful and relevant if communicated prior to the issuance of the audit report. Therefore, the Committee believes that the wording in the ED should spell out that the timing of the communication before the end of the audit is a requirement, not an option.	Yes See issue 1 in agenda item 4.
BDO (19)	Communications with those charged with governance should continue to be required to be made on a timely basis. However, we believe that the timing of such communications should remain flexible, given the variety of circumstances that may be encountered by auditors of nonissuers. Such flexibility is essential to ensure the proposed SASs are scalable and appropriate for audits of companies of all sizes and	No. Retain flexibility See issue 1 in agenda item 4.

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Responder	Comment	TF Consideration
	degrees of complexity. Further, we agree with the revisions to paragraph A50 of AU-C section 260, which provides guidance regarding what may be considered appropriate timely communication for certain matters.	
ICPAS (20)	The Committee recommends changing the word “robust” to “effective” with respect to dialogue. To clarify the communications date, the Committee recommends that the proposed standard should include a statement that all communications with those charged with governance should be dated no later than sixty days (60) from the date of the audit report.	No. should be no later than 60 days from date of report See issue 1 in agenda item 4.
SVA (21)	AU-C 260 should retain the flexibility regarding the timing of communication about matters to those charged with governance. Auditors need to retain the flexibility to exercise professional judgment regarding the extent and timing of these communications.	No. Retain flexibility See issue 1 in agenda item 4.
Association of Local Government Auditors (22)	No. While those charged with governance may find it useful for significant matters to be communicated prior to the issuance of the auditor’s report, we believe that auditors should continue to retain the flexibility necessary to time communications based on the significance of the matter, unless otherwise required by supplementary rules or standards.	No. Retain flexibility See issue 1 in agenda item 4.
GAO (23)	We agree with the ASB’s conclusion that flexibility in the timing of communications is appropriate given the variety of circumstances that may be encountered by auditors of nonissuers.	No. Retain flexibility See issue 1 in agenda item 4.

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Responder	Comment	TF Consideration
MSCPA (24)	The Committee believes the existent requirements of communicating certain matters to those charged with governance are sufficient and do not require any modifications. The Committee particularly feels that any modifications to the existent requirement will not result in a benefit to the small and medium sized entities the Committee members work with.	No. Retain flexibility See issue 1 in agenda item 4.
GT (25)	Issue 1 – timing of communications with those charged with governance We agree with the Board’s conclusion to retain flexibility in the timing of communications with those charged with governance (TCWG). Since nonissuers do not have the same legal or regulatory oversight as issuers, the flexibility provides the auditor with the ability to adapt the timing and the extent of his or her communications to best meet the needs of TCWG and the circumstances of the engagement. Nevertheless, we believe there are certain matters that should be communicated prior to the issuance of the auditor’s report to enhance the interactions between the auditor and TCWG, particularly as this relates to their oversight of the financial reporting process. Examples of these circumstances already exist in auditing standards generally accepted in the United States of America (GAAS), such as the required communication regarding expected report modifications currently required by AU-C section 705, Modifications to the Opinion in the Independent Auditor’s Report. In order to enhance the opportunities for increased TCWG engagement on important matters arising in the audit, we recommend the Board require the auditor to provide a draft management representation letter to TCWG prior to the issuance of the auditor’s report in cases where management and TCWG are not the same. The management representation letter, including a summary of unrecorded misstatements is a key deliverable and can provide TCWG with valuable insight to assist in their oversight	No – retain flexibility Considerations for application material See issue 1 in agenda item 4.

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Responder	Comment	TF Consideration
	<p>responsibilities. Requiring auditors to provide a draft representation letter to TCWG prior to report issuance could enable more timely communication of significant matters impacting the financial statements. The Board could also provide related application guidance to discuss auditor considerations as to the extent of the communications related to providing the draft management representation letter.</p> <p>We do note that certain application guidance with regard to TCWG communications may indirectly imply more specific timing expectations. We encourage the Board to consider the application guidance related to TCWG communication matters and ascertain whether there may be implied mixed messaging in this area. We provide additional recommendations on this topic in the appendix to this letter.</p>	
NCACPA (27)	We do not believe there should be more specific requirements as to the timing of communication of certain matters. The facts and circumstances of individual audits make it impossible to list every possible scenario. This is an area that must be left to an auditor’s judgment.	No. Retain flexibility See issue 1 in agenda item 4.
CLCPA (28)	No; most of the time for non-issuers, management and those charged with governance are the same individuals. The auditor can use their professional judgment to determine when communications are made timely.	No. Retain flexibility See issue 1 in agenda item 4.
Anders (29)	We strongly agree with the Board’s conclusion to retain the flexibility in the timing of communications given the variety of circumstances that may be encountered by auditors of nonissuers.	No. Retain flexibility See issue 1 in agenda item 4.

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OHIOCPA (31)	<p>The committee believes that current guidance is sufficient regarding the timing of communication about certain matters with those charged with governance, and should remain unchanged.</p> <p>This section covering significant proposed amendments to existing auditor reporting standards also includes amendments to AU-C Section 570, AU-C Section 260, and AU-C Section 210 for which the committee would like to provide further comment.</p> <p><i>AU-C Section 570, Going Concern</i></p> <p>The committee believed that this proposal is consistent with the current direction of professional standards.</p> <p><i>AU-C Section 260, Communications With Those Charged With Governance</i></p> <p>The committee had concerns about communicating significant risks as part of the required communication about the planned scope and timing of the audit, particularly when those charged with governance are management. As noted in the application material, care is required when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit. Communicating significant risks and the audit procedures planned to address these risks allows the procedures to be somewhat predictable, thereby potentially reducing the effectiveness of the audit procedures.</p> <p><i>AU-C Section 210, Terms of Engagement</i></p> <p>The committee agreed that should management and those charged with governance, as applicable, request the auditor communicate KAMs in the auditor’s report,</p>	<p>No. Retain flexibility</p> <p>See issue 1 in agenda item 4.</p>

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Responder	Comment	TF Consideration
	acknowledgment of this communication should be included in the engagement letter so it is clear when the communication of KAMs is required in the auditor’s report.	
PwC (32)	<p>We support the Board’s decision to retain flexibility in the timing of communications of certain matters with those charged with governance given the various circumstances encountered by nonissuers and the requirement in AU-C section 265 to communicate about significant deficiencies and material weaknesses no later than 60 days following the report release date.</p> <p>Separately, we note guidance in AU-C section 260 highlights the need to communicate with those charged with governance about the expected form and content of the auditor’s report when there is a modified opinion, inclusion of an emphasis of matter or other matter paragraph, or the communication of KAMs in the auditor’s report. We recommend also highlighting the need for the auditor to communicate about the expected form and content of the auditor’s report in situations in which the auditor is dividing responsibility.</p>	No. Retain flexibility See issue 1 in agenda item 4.
E&Y (33)	<p>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:</p> <ul style="list-style-type: none"> ▶ 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 	Yes, with comments See issue 1 in agenda item 4.

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Responder	Comment	TF Consideration
	<p>We also believe the auditor should communicate the following events when they occur:</p> <ul style="list-style-type: none"> ▶ 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 <p>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</p> <p>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.</p>	
KPMG (34)	<p>Section 1 – Issues for Consideration – Timing of Communications to those Charged with Governance and Addressee of Auditor’s Report</p> <p>Issue 1—Timing of Communications with Those Charged with Governance</p> <p>We believe that AU-C section 260 should require auditors, with limited exception for governmental audits, to communicate with those charged with governance prior to the report release date instead of permitting the communication to be within 60 days after</p>	<p>Yes</p> <p>See issue 1 in agenda item 4.</p>

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Responder	Comment	TF Consideration
	<p>the report is released. With the proposed changes to the auditor’s report related to the responsibilities of management and those charged with governance, we believe it is appropriate to require dialogue with auditors before we cite responsibilities in the auditor’s report.</p> <p>We acknowledge that adding such a requirement changes practice and may, in the short term, present implementation challenges. However, the changes that are being proposed related to the auditor’s report highlight the fact that many of the required communications should be made prior to the report release date, if not the date of the auditor’s report, for them to be most effective and useful to those charged with governance, especially as the auditor considers how the results and findings of the audit will impact the auditor’s report.</p> <p>Revising the requirement to communicate before report release date would eliminate other inconsistencies with the required report elements of the Proposed Standards (with specific reference to proposed paragraph):</p> <ul style="list-style-type: none"> • The statement about how those charged with governance are responsible for overseeing the financial reporting process would be consistent with and supported by making the required communication prior to the release of the report is not appropriate. (AU-C 700.32) • The statement about the auditor’s responsibility to communicate with those charged with governance in the auditor’s report is inconsistent with and undermined by the permissibility of timing those communication after the report release date. (AU-C 700.37) • If key audit matters are included in the report, a statement that “key audit matters are those matters that were communicated with those charged with 	

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Responder	Comment	TF Consideration
	<p>governance” should be withheld or modified if communications have not yet been made. (AU-C 700 Illustration 2)</p> <ul style="list-style-type: none"> • If the required communications have not been made to those charged with governance, does that mean that there would be no key audit matters to include in the report? (AU-C 701.8 and 10a) • Communicating preliminary views on key audit matters, while a good practice, is not sufficient to achieve the required communications (AU-C 701.A58) • An emphasis-of-matter or other-matter paragraph should be communicated prior to the release of the report. (AU-C 706.12) <p>If the requirement is not changed, then the Board should add additional requirements and application material to address each of the matters noted above and modify the KAM paragraph in all illustrations to recognize the current requirement that communications do not have to be made prior to the date of the auditor’s report as follows:</p> <p style="padding-left: 40px;">Key audit matters are those matters that were (will be) communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.”</p>	
Laura Lindal (35)	I do not think AU-C section 260 needs to be more specific regarding the timing of communication with governance, unless it was to explicitly require the communication be made no later than 60 days following the report release date	No. Retain flexibility

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Responder	Comment	TF Consideration
	(consistent with extant AU-C 230-.16). I do not think there should be a <i>requirement</i> for certain communications to be made <i>prior</i> to issuance of the auditor’s report. The auditor can use their professional judgment as to what is appropriate in the circumstances.	See issue 1 in agenda item 4.
NSAA (36)	<p>We do not believe the requirement in AU-C section 260 should be more specific regarding the timing of communication about certain matters with those charged with governance. We appreciate the flexibility to use our professional judgment to determine the most appropriate timing of communications.</p> <p>Additionally, we believe the amendment to paragraph 11 to communicate significant risks the auditor identified seems inconsistent with the extant requirement. Specifically, the extant requirement relates to communicating the planned scope and timing, which substantially occurs in the beginning of an audit, but the new language relates to communicating significant risks the auditor identifies. While certain significant risks might be identified in the planning stages, the auditor identifies risks throughout the audit. We suggest the Board consider revising or removing the amendment to paragraph 11 and consider whether auditor communication about significant risks might be incorporated into extant AU-C section 260 paragraph 12. In addition, the Board should consider clarifying in paragraph A20 that the communication would include significant risks the auditor identified during the planning stages and throughout the audit.</p>	No. Retain flexibility See issue 1 in agenda item 4.
D&T (37)	D&T believes the requirement in AU-C section 260, <i>The Auditor’s Communication With Those Charged With Governance</i> (AU-C 260), does not need to be more specific regarding the timing of communication about certain matters with those charged with	No. Retain flexibility

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Responder	Comment	TF Consideration
	governance (and that such requirement should not be revised to require that certain communications be made prior to issuance of the auditor’s report). The guidance included in AU-C 260 application material paragraph A50 provides helpful information on suggested timing for certain communications while acknowledging that communications will vary with the circumstances of the engagement.	See issue 1 in agenda item 4.

Issues For Consideration: Issue 2—Addressee in the Auditor’s Report

ED question 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?*

Responder	Comment	TF Consideration
TIC (2)	TIC does not believe including the city and state of the addressee in the auditor’s report would provide any benefit and could possibly create an administrative burden to determine the address to use when entities have multiple locations. Essentially, it would create an administrative burden with little to no value added to the readers of	No - Do not include city and state

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ED question 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?

Responder	Comment	TF Consideration
	the financial statements. TIC also believes in a changing environment where more and more work is done virtually and offices and locations are going more virtual as well so that, the concept of physical location is becoming somewhat dated.	See issue 2 in agenda item 4.
TN State (3)	<p>a. Including the city and state of the issuing auditor appears appropriate. We are not sure what benefit the user obtains from this information though.</p> <p>b. We do not believe there are any practical implications, especially in the state and local government environment.</p>	Supportive with comments See issue 2 in agenda item 4.
NYSSCPA (4)	<p>Some users may find that including the city and state of the addressee beneficial, and we observe that this practice is not uncommon; however, it is doubtful that many users gain any significant benefit from this information.</p> <p>In rare instances, a practical implication of such a requirement could be additional engagement time to determine the appropriate city and state to communicate. Determination of the city and state might require additional guidance for practitioners to maintain uniformity in application among auditors.</p>	Supportive with comments Some may find it beneficial; however, doubtful users will gain any benefit. See issue 2 in agenda item 4.
RSM (5)	<p>11.a. We do not believe including the city and state of the addressee in the auditor’s report would be beneficial to users of the financial statements.</p> <p>11.b. We believe there may be practical difficulties for an auditor in determining the appropriate location to include in the auditor’s report. For example, there may be situations in which the corporate office is in a different location than the office at which the principal books and records are maintained.</p>	No. Not beneficial See issue 2 in agenda item 4.

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- 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?

Responder	Comment	TF Consideration
NJCPA (6)	<p>11a. The Group believes including the city and state of the addressee would not improve the report at all.</p> <p>11b. With virtual offices and cloud computing becoming the new workplace – including the city and state of the addressee in the report only provides more information without purpose.</p>	<p>No. Would not improve the report.</p> <p>See issue 2 in agenda item 4.</p>
NASBA (7)	<p>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.</p> <p>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.</p> <p>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 6th Edition’s registration requirement (“home office”). Some form of firm mobility has been adopted in 24</p>	<p>Supportive of including</p> <p>See issue 2 in agenda item 4.</p>

Issues For Consideration: Issue 2—Addressee in the Auditor’s Report

ED question 11 – Please provide your views on the following:

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

Responder	Comment	TF Consideration
	<p>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.</p> <p>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.</p> <p>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.</p> <p><i>What would the practical implications be if such a requirement were adopted?</i></p>	

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Responder	Comment	TF Consideration
	<p>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.</p> <p>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.</p>	
Office of the Washington State Auditor (8)	Including the city and state makes the addressee more complete and possibly more clear. We already do this in our reports and do not see any practical implications of such a requirement.	Supportive of including See issue 2 in agenda item 4.
Smith & Howard PC (9)	We do not believe including the city and state of the addressee in the auditors’ report will be beneficial to users of financial statements. Furthermore, we believe inclusion	No. Not beneficial See issue 2 in agenda item 4.

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Responder	Comment	TF Consideration
	of the city and state of the addressee will potentially create confusion regarding nexus for the jurisdiction of the audit, the purpose for which the ASB discussed this issue.	
CliftonLarsonAllen LLP (10)	<p>11.a Response: We do not see the benefit this would provide to users of the financial statements.</p> <p>11.b Response: If the client has multiple locations, it may be difficult to decide which location should be included in the auditor’s report. The corporate office location may be in a different location than the office where the principal books and records are maintained, which may be in a different location than the office where the audit was performed.</p>	No. Not beneficial See issue 2 in agenda item 4.
AAFCPAs (11)	<p>AAFCPAs believes that adding the city and state of the addressee in the auditor’s report would not be beneficial to users of the financial statements. Providing information about where the client is located would provide a nexus for the jurisdiction of the audit, however this would be misleading to the users of the financial statements when the client has multiple locations, thus not adding any value or benefit to the users of the financial statements.</p> <p>If such a requirement were adopted, entities with multiple locations would need to consider what office performs most of the key management functions. This consideration would be further complicated when the corporate office is in a different location than the office at which the principal books and records are maintained. Performing this type of analysis would ultimately have no benefit to the users of the financial statements.</p>	No. Not beneficial See issue 2 in agenda item 4.

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Responder	Comment	TF Consideration
Cherry Bekaert (13)	<p>We believe that including the city and state of the addressee in the auditor’s report may be beneficial to users of the financial statements. However, we expect that any benefit would only be seen in situations where entities operate in a limited area, and the location disclosed would then indicate the location of all relevant geographies of the entity (e.g. operations, corporate office, accounting office). Additionally, we note that this information concerning location is commonly found in the notes to the financial statements, and thus this disclosure in the auditor’s report would not provide any additional information to the users.</p> <p>We believe there could be practical difficulties in determining the appropriate city and state to be included, such as in situations where management is not at the same location as the accounting records or the entity has no corporate office. We also believe the inclusion of city and state could lead to confusion for users of the financial statements, such as if the location disclosed is not consistent with the location of the operations of the business. We therefore do not believe the potential benefits would outweigh these difficulties and potential consequences of complying with such a requirement.</p> <p>Based on the above, we agree with the ASB’s decision not to require the city and state to be included in the addressee of the auditor’s report.</p>	<p>Supportive with comments</p> <p>May be beneficial to users; however, would not provide additional information to users and could be practical difficulties.</p> <p>See issue 2 in agenda item 4.</p>
OAG (14)	<p>We would not consider it beneficial to the users of the financial statements as our experience is that the audited entity routinely includes their city and state as part of their mailing address on their letterhead within their annual report. We are not aware of a compelling reason to include this information.</p>	<p>No. Not beneficial to users</p> <p>See issue 2 in agenda item 4.</p>

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Responder	Comment	TF Consideration
	For nonissuers such as small not-for-profit entities that have no physical office address, identification of the city and state may be a matter of where they accept their mail. For township governments, this may require additional guidance to specify whether naming the township is appropriate in lieu of naming the post office, which in some cases is not a city.	
MACPA (15)	Possibly, but it could also be problematic for certain clients (e.g., those who maintain virtual offices). The flexibility allowed under current standards is appropriate.	Could be problematic See issue 2 in agenda item 4.
PBTK (16)	<p>Regarding Issue 2 presented on p. 17 of the ED, although not required by the extant standard, and although no change is currently proposed, we note that there has been a trend developing among some audit firms of addressing audit reports to shareholders (as presently required by the PCAOB) or other non-management owners rather than solely to those in charge of governance (<i>i.e.</i>, “responsible for the oversight of the financial reporting process”). We recommend that the final standard caution auditors that, because in some jurisdictions such practice may trigger legal privity of contract with those who otherwise may not have it, thus expanding the auditor’s exposure to liability, and because such a practice may necessarily affect an auditor’s judgment as to materiality, they should not do so unless expressly engaged to report that way and it has been considered appropriately in determining audit scope.</p> <p>As for question 11 under Issue 2, although it currently is common practice to include the client’s city and state when addressing an audit report, we regard it as</p>	<p>No justification or benefit to including</p> <p>See issue 2 in agenda item 4.</p>

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

Responder	Comment	TF Consideration
	uncontroversial and, once again, we see no justification for, or benefit to anyone from, requiring its inclusion.	
FICPA (17)	<p>A: The Committee sees no particular benefits to including the city and state of the addressee in the auditor’s report.</p> <p>B: In the case of multi-office clients, adding the address would place a burden to identify the proper address, especially since the Committee does not see a conceivable benefit to adding such information on the audit report.</p>	<p>See no benefit to including</p> <p>See issue 2 in agenda item 4.</p>
BDO (19)	We believe that inclusion of the city and state of the addressee should not be required, although auditors may choose to include such information in the auditor’s report. As noted in the Explanatory Memorandum, there may be practical difficulties for an auditor in determining the appropriate location to include in the auditor’s report (for example, when the corporate office is in a different location than the office at which the principal books and records are maintained).	<p>No. should not be required</p> <p>See issue 2 in agenda item 4.</p>
ICPAS (20)	<p><i>a. Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?</i></p> <p><i>Response: No comment.</i></p> <p><i>b. What would the practical implications be if such a requirement were adopted?</i></p> <p><i>Response: No comment.</i></p>	No comment

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Responder	Comment	TF Consideration
SVA (21)	My firm’s practice is to include the city and state of the addressee in the auditor’s report. However, I recognize that there are situations where that is not practical for larger companies. I do not think this needs to be a requirement.	Do not think it needs to be a requirement See issue 2 in agenda item 4.
Association of Local Government Auditors (22)	Yes. Including the city and state of the addressee may be beneficial to some users of the financial statements. However, we agree that this may not always be practical to implement in all instances and the difficulties in doing so may outweigh the benefits.	Supportive with comments Yes – may be beneficial to some users; however, difficulties may outweigh the benefits. See issue 2 in agenda item 4.
GAO (23)	We believe the best approach is to allow flexibility for the auditor to determine whether the benefits of including the city and state of the addressee in the auditor’s report outweigh the difficulties of determining such information.	No – better allow flexibility See issue 2 in agenda item 4.
MSCPA (24)	Response – The overwhelming majority of the Committee members at present include the City/Town and State of the client in the auditor’s report. The Committee however feels the decision to include the City/Town and State should be left to the judgement of the auditor.	No. should be left to judgement (not a requirement) See issue 2 in agenda item 4.

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Responder	Comment	TF Consideration
	Response – Since the Committee members in most all reports are including this information already the Committee sees no adverse implications.	
GT (25)	<p>Issue 2 – addressee in the auditor’s report</p> <p>Generally, we do not believe that including the city and state of the addressee in the auditor’s report would be beneficial to users of the financial statements. We believe such information could instead cause confusion from a user’s perspective. In addition, we foresee practical challenges in determining the appropriate disclosure of the entity’s city and state, especially with larger, more complex entities, and resulting inconsistencies in practice. As such, we agree with the Board’s conclusion not to propose requiring this information in the auditor’s report.</p>	<p>No. not beneficial</p> <p>See issue 2 in agenda item 4.</p>
NCACPA (27)	<p>Some task force members felt the addition of the addressee’s city and state could be useful information and that there would be no practical implications if this requirement were adopted. However, there were others on the task force that felt identifying the addressee’s city and state could prove difficult in multi-location entities with multiple or offshore headquarters and that, even in the event the location was easily identifiable, there would be little to no value gained by the user of the statements.</p>	<p>Mixed views (considered supportive with comments)</p> <p>See issue 2 in agenda item 4.</p>
CLCPA (28)	<p>a. Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?</p> <p>No; in practice this may not be much of an issue, but there can be difficulties at times in determining the appropriate city and state of client in instances where the</p>	<p>No. not beneficial to users</p> <p>See issue 2 in agenda item 4.</p>

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Responder	Comment	TF Consideration
	<p>accounting and home office operations are in different locations, or when an entity is registered / organized in a foreign jurisdiction (apart from where management is located). We do not believe this information would be beneficial to users of financial statements.</p> <p>b. What would the practical implications be if such a requirement were adopted? None; we do not believe this information is beneficial. The auditor is free to include this information now if they believe it provides meaningful information to a reader.</p>	
Anders (29)	We strongly agree with the Board’s decision to NOT require the client’s address in the auditor’s report.	No. See issue 2 in agenda item 4.
Baker Tilly (30)	<p>a. We believe that the practical difficulties discussed below would outweigh any potential benefits derived by financial statement users from including the addressee’s city and state in the auditor’s report.</p> <p>b. Due to the significant number of entities that operate out of multiple locations or utilize decentralized management and leadership, unless significant application guidance were added to the proposed standard, we believe that many times it would be difficult for auditors to determine the addressee’s city and state.</p>	No. Difficulties outweigh the benefits See issue 2 in agenda item 4.
OHIOCPA (31)	The committee recommended against adding this requirement, as there may be practical implications for businesses with multiple locations and the location would typically already be known to users such as lenders and interested parties.	No. Against adding the requirement

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Responder	Comment	TF Consideration
		See issue 2 in agenda item 4.
PWC (32)	We support the ASB’s decision not to require this information in the auditor’s report. Paragraph A25 of AU-C section 700 notes the auditor’s report is normally addressed to those for whom the auditor’s report is prepared, further explaining the report may be addressed to the entity whose financial statements are being audited or to those charged with governance. If the report is issued to any party other than the entity, we believe requiring auditors to include the city and state of the addressee in the auditor’s report would be difficult. We believe it would be preferable for users of the report to obtain information about the location of the company’s business from disclosures the company provides.	Agree not to require See issue 2 in agenda item 4.
E&Y (33)	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.	No. Will not improve objectives of financial reporting and would be inconsistent with PCAOB and IAASB. See issue 2 in agenda item 4.

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Responder	Comment	TF Consideration
KPMG (34)	<p>Issue 2—Addressee in the Auditor’s Report</p> <p>We are not aware of any practice or public interest issues relating to the fact that the city and state of the addressee is not currently included in the auditor’s report. Without more background as to the potential benefit, we would not support a requirement to include that information, particularly with the Board’s acknowledgment that there would be practical difficulties in determining the appropriate location to include.</p>	<p>No – would need more background on the potential benefit</p> <p>See issue 2 in agenda item 4.</p>
Laura Lindal (35)	<p>I do not believe including the city and state of the addressee in the auditor’s report would be beneficial to the users of the financial statements. In my experience, users of the financial statements of nonissuers already know this information, and issuers have multiple locations so that the city and state is fairly meaningless (such as “American-made cars manufactured outside the U.S., or wine grown in Mexico but the address is in Napa); Geographic location is typically provided in the notes to the financial statements where there is the opportunity to explain various locales. Also, in many cases it would be problematic to determine whether it should be the city and state of the accounting office where the audit is performed, or the city and state of the operations plant; the city where the owner/governance is, or the city where the facilities are. What about virtual companies, what would determine their city and state? This seems like a lot of rigamarole for something that I don’t believe will be beneficial to the users.</p>	<p>No. not beneficial</p> <p>See issue 2 in agenda item 4.</p>
NSAA (36)	<p>a. We don’t believe including the city and state of the addressee in the auditor’s report would be beneficial to the users of the financial statements.</p>	<p>No. Not beneficial</p>

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Responder	Comment	TF Consideration
	b. We know of no practical implications if such a requirement were adopted.	See issue 2 in agenda item 4.
D&T (37)	<p>a. D&T believes including the city and state of the addressee in the auditor’s report is not necessarily beneficial to users of the financial statements. If the entity believes such information is useful, the entity should include such information in the notes to, or elsewhere in the financial statements. Alternatively, the auditor may include the information voluntarily or at management’s request. D&T therefore agrees with the ASB’s proposal to not require the entity’s address to be included in the auditor’s report.</p> <p>b. Practical implications could be challenges that may result when the corporate office is in a different location than the office at which the principal books and records are maintained or where the entity is incorporated in a different state than the corporate office. The address information may in those cases be confusing to the users of the audited financial statements. Ultimately, we believe as stated above, that if this information is useful to the users of the financial statements, such information can best be voluntarily provided by the entity in the notes to the financial statements.</p>	<p>No. Not beneficial</p> <p>See issue 2 in agenda item 4.</p>