



## Agenda Item 4F

### **Auditor Reporting — Proposed SAS Modifications to the Opinion in the Independent Auditor’s Report**

Comment letters on the Exposure Draft of the proposed SAS *Modifications to the Opinion in the Independent Auditor’s Report* [Responses to Question 7 in Requests for Comment]

Letter Number	Name	Affiliation
1	Mark Baroulia, 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)

Auditor Reporting-Comment Letter Analysis (AU-C 705; Q7)  
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)

Auditor Reporting-Comment Letter Analysis (AU-C 705; Q7)  
ASB Meeting, October 15-17, 2018

Letter Number	Name	Affiliation
23	GAO U. S. Government Accountability Office	GAO (23)
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)

Auditor Reporting-Comment Letter Analysis (AU-C 705; Q7)  
ASB Meeting, October 15-17, 2018

Letter Number	Name	Affiliation
37	Deloitte & Touche LLP	D&T (37)
38	Abraham D. Akresh	Abraham D. Akresh (38)

**Request for Comment – AU-C 705 Modifications to the Opinion in the Independent Auditor’s Report**

The ASB would like your views on the following:

**ED Question 7** — Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?

Responder	Comment	TF Consideration / Response
TIC (2)	Yes, TIC believes these revisions to existing requirements are clear and understandable, with the exception of one possible clarification. Paragraph .30 indicates that KAMs should not be included when the auditor expresses an adverse opinion or disclaims an opinion. TIC agrees with this notion; however, what does one do when they have been engaged to report KAMs but cannot because of the above reasons? For instance, if the auditor is engaged to report on KAMs, but they don’t identify any KAMs, the auditor is required to indicate that in their report. Perhaps this issue could be addressed in the implementation guidance.	Supportive with comments  TF believe this is better addressed in the AICPA Audit and Accounting Guide <i>State and Local Governments</i>

**ED Question 7** — Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?

Responder	Comment	TF Consideration / Response
	<p>In addition, paragraphs .A35 and .A36 do not address communication or reporting. TIC believes it is likely that communication likely would be made to those charged with governance, but this is not overtly indicated in the proposal. Perhaps something also could be added to the implementation guidance.</p> <p>Illustration 3 on page 160 in the reporting section has an adverse opinion example and the circumstances indicate that the auditor is precluded from communicating KAMs. If an auditor is engaged to report on KAMs, but unable to present KAMs because of an adverse opinion, should this be required to be called out in the report? TIC believes this should be addressed in the standard or the applicable implementation guidance.</p>	
TN State (3)	Yes, except for our comment in #5 above.	Supportive with comments
NYSSCPA (4)	Yes, subject to our preceding comments, the revisions to existing requirements are clear and understandable, and the application material is helpful in supporting the application of those requirements.	Supportive with comments
RSM (5)	We believe the revisions to existing requirements in extant AU-C section 705 are clear and understandable. Also, the application material is helpful in applying those requirements.	Supportive
NJCPA (6)	The Group believes the changes to AU-C section 705 are adequate when the auditor issues a modified opinion on the financial statements. As suggested in the response to question #1, including the type of opinion in the Opinion heading is suggested.	Supportive
NASBA (7)	The proposed model includes the phrase “and have fulfilled our other ethical responsibilities in accordance with the relevant ethical requirements related to our	Supportive with comments

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Responder	Comment	TF Consideration / Response
	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.	Discussed with AU-C 700 discussions  See issue 4 in agenda item 4.
Office of the Washington State Auditor (8)	Yes	Supportive
Smith & Howard PC (9)	The proposed changes to AU-C section 705 do not appear detrimental. The revisions to existing requirements appear to be clear and understandable. The application material appears appropriate in supporting the application of those requirements.	Supportive
CliftonLarsonAllen LLP (10)	Yes, we believe the revisions are clear and understandable, and the application material is helpful.	Supportive
AAFCPAs (11)	Yes, the proposed revisions are clear and understandable, and the application materials and samples are adequate. However, please reference our comments to the proposed SAS – Forming An Opinion and Reporting on Financial Statements.	Supportive
Cherry Bekaert (13)	We believe the proposed revisions to the existing requirements are clear and understandable, and the application material is helpful in supporting the application of the requirements.	Supportive

Auditor Reporting-Comment Letter Analysis (AU-C 705; Q7)  
ASB Meeting, October 15-17, 2018

**ED Question 7** — Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?

Responder	Comment	TF Consideration / Response
OAG (14)	Yes, we consider the requirements as clear and understandable and have no suggested revisions.	Supportive
MACPA (15)	Yes.	Supportive
FICPA (17)	The revisions to existing requirements to AU-C section 705 are clear and understandable, and the application material is helpful in supporting the application of those requirements.	Supportive
BDO (19)	We agree that the revisions to existing requirements are clear and understandable, and that the application material is helpful in supporting the application of the requirements. We also support the convergence of the proposed SAS with ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i> , to eliminate differences between the two standards, except where necessitated by circumstances unique to the U.S. environment. We note that the modifications to extant AU-C section 705 primarily relate to the form and content of the auditor's report when the opinion is modified, and that the circumstances in which a modification would be required remain unchanged.	Supportive
ICPAS (20)	Yes	Supportive
SVA (21)	The proposed changes are consistent with the proposed changes to AU-C 700 and are clear and understandable.	Supportive
GAO (23)	We believe the proposed revisions to the existing requirements are generally clear and understandable and the application material is helpful in supporting the application of	Supportive with comments

**ED Question 7** — Are the revisions to existing requirements clear and understandable, and is the application material helpful in supporting the application of those requirements?

Responder	Comment	TF Consideration / Response
	<p>those requirements. However, we note that the proposed new requirement in paragraph 30—which states that when the auditor disclaims an opinion on the financial statements, the auditor’s report should not include an “Other Information” section—is problematic in the federal government environment. Given the extent of other information in government financial reports, we believe that it is important to emphasize to the users of the financial statements that the auditors did not audit and do not express an opinion or provide any assurance on other information contained in the annual report. We also believe that the users of financial statements should be cautioned that the scope limitation as well as any significant deficiencies or material weaknesses found may affect the reliability of the other information. Based on experience reporting on “Other Information” in the federal government environment when the auditor disclaims an opinion, we believe that such reporting promotes transparency and is clear to the reader. To provide users with context for understanding other information contained in the report, the ASB, in our view, should revise the standard or provide application guidance to allow government auditors to include an “Other Information” section with the appropriate caveats in the auditor’s report when they disclaim an opinion.</p>	<p>See issue 7 in agenda item 4</p>
MSCPA (24)	<p>The Committee does interpret the revisions as being clear and understandable. The Committee also believes the application material is helpful.</p>	<p>Supportive</p>
GT (25)	<p><b>Opinion modifications</b></p> <p>We are supportive of the proposed revisions to existing requirements for opinion modifications and generally believe they are clear and understandable.</p>	<p>Supportive</p>

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Responder	Comment	TF Consideration / Response
NCACPA (27)	We believe that the changes are clear and understandable. We would like to have examples of KAMs within the application material.	Supportive
CLCPA (28)	Yes; the application material is helpful to support the application requirements.	Supportive
Anders (29)	We feel the revisions in the section are clear and understandable, and that the application material is helpful.	Supportive
Baker Tilly (30)	<p>Paragraphs 13a and b describe the implications when an auditor is unable to obtain sufficient appropriate audit evidence. We believe that adding application guidance to those paragraphs, including some practical examples, would be helpful.</p> <p>Governmental entities have multiple opinion units and it is not uncommon for auditors to express an opinion on certain opinion units while disclaiming on others. Paragraph 20c states that the auditor “was engaged” to audit the financial statements which is not always the case. Some governments only engage their auditors to audit certain opinion units, therefore, the auditors are required to disclaim an opinion on the other opinion units that are required to be included in the governmental entity’s financial statements under the applicable financial reporting framework. We recommend that the Board modify paragraph 20c to address this situation.</p>	<p>Supportive with comments</p> <p>TF does not believe additional examples are needed</p> <p>Governmental entity specific guidance included in A19 and the AICPA Audit and Accounting Guide <i>State and Local Governments</i>. TF to retain standard language for disclaimers.</p>
OHIOCPA (31)	Requirements are clear, consistent, and understandable.	Supportive
PWC (32)	We believe the revisions to the proposed SAS are appropriate.	Supportive

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Responder	Comment	TF Consideration / Response
E&Y (33)	Overall, we believe the modifications to AU-C 705 are clear.	Supportive
KPMG (34)	<p><b>Proposed SAS Modifications to the Opinion in the Independent Auditor’s Report (AU-C section 705)</b></p> <p>We believe that the proposed revisions are clear and understandable, and that the application material is helpful in supporting the application of the requirements.</p>	Supportive
Laura Lindal (35)	Section 14 is awkward. Something like “Before withdrawing the auditor as discussed in paragraph 13, the auditor should communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: par. A17)” would make more sense.	Supportive with comments  See proposed changes made to this proposed SAS in agenda item 4A.
NSAA (36)	We believe the revisions to existing requirements are clear and understandable, and the application material is helpful in supporting the application of those requirements.	Supportive
D&T (37)	D&T believes the revisions to the existing requirements for modifications to the opinion in the independent auditor’s report are clear and understandable and the application material is helpful in supporting the application of those requirements.	Supportive

## Summary of Comments (by paragraph) on the Exposure Draft of the Proposed SAS Modifications to the Opinion in the Independent Auditor's Report

Topic/ Paragraph No. (Modifications)	Commenter	Comment	Response to Comment
<b>Requirements (application material)</b>			
<b>Circumstances in Which a Modification to the Auditor's Opinion Is Required (paragraphs 7; A2-A13)</b>			
A12	EY (33)	<p>We recommend the following edit:</p> <p>► The entity is required to use the equity method of accounting for an <u>investee associated entity</u>, 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.</p>	Change made. See proposed changes made to this proposed SAS in agenda item 4A.
<b>Form and Content of the Auditor's Report when the Opinion Is Modified</b>			
<b><i>Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements (paragraph 29; A34)</i></b>			
A34	GT (25)	<p>With regard to the guidance provided in paragraph A34, there may be circumstances when the auditor disclaims an opinion on the financial statements because the auditor is not independent, as suggested by paragraph 16. Therefore, we ask the Board to consider additional application guidance to the second bullet of this paragraph to address how the independence statement would be impacted in cases where the</p>	TF believes it is more appropriate to address this in the AICPA Audit and Accounting Guide <i>State and Local Governments</i> .

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ASB Meeting, October 15-17, 2018

Topic/ Paragraph No. (Modifications)	Commenter	Comment	Response to Comment
		auditor is not independent and disclaims an opinion for that reason.	
<i>Considerations When the Auditor Expresses an Adverse Opinion or Disclaims an Opinion on the Financial Statements (paragraph 30; A35-A36)</i>			
A35-A36	TIC (2)	In addition, paragraphs .A35 and .A36 do not address communication or reporting. TIC believes it is likely that communication likely would be made to those charged with governance, but this is not overtly indicated in the proposal. Perhaps something also could be added to the implementation guidance.	See issue 7 in agenda item 4
<b>Communication With Those charged With Governance (paragraph 31; A37)</b>			
<b>Exhibit — Illustrations of Auditor’s Reports with Modifications to the Opinion</b>			
<b>A38</b>	<b>D&amp;T (37)</b>	Proposed new AU-C section 705, paragraph A38, Illustrations 1, 2, 4, 7, 8, in the “Circumstances include the following” section, final bullet “The auditor has not been <del>engaged</del> <b>requested or required</b> to communicate key audit matters in the auditor’s report.”	TF agreed to retain “engaged” as the trigger for KAM. No change made.
Illustration 1: An Auditor’s Report Containing a Qualified Opinion Due to a Material Misstatement of the Financial Statements			

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Topic/ Paragraph No. (Modifications)	Commenter	Comment	Response to Comment
Illustration 6:			
<b>Illustration 6</b>	<b>EY (33)</b>	We suggest adding a sentence to the background description explaining that the auditor was appointed after the period end.	See changes made
Illustration 8:			
<b>Illustration 8</b>	<b>EY (33)</b>	<p>We recommend the following edits to the illustrative Disclaimer of Opinion paragraph to align with the background description:</p> <ul style="list-style-type: none"> <li>▶ Disclaimer of Opinion on 20X1 Operations, <u>Changes in Stockholders' Equity and Cash Flows</u></li> <li>▶ 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, <u>changes in stockholders' equity</u>, and cash flows.</li> </ul>	See circumstances added to explain why not included (reference to paragraph A26 of proposed SAS <i>Forming an Opinion and Reporting on Financial Statements</i> )