



## Agenda Item 4G

### **Auditor Reporting — Proposed SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report***

Comment letters on the Exposure Draft of the proposed SAS *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* [Responses to Questions 8-9 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)

Auditor Reporting-Comment Letter Analysis (AU-C 706; Q8-9)  
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Letter Number	Name	Affiliation
8	Office of the Washington State Auditor	Office of the Washington State Auditor (8)
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)

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Letter Number	Name	Affiliation
22	Association of Local Government Auditors	Association of Local Government Auditors (22)
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)

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Letter Number	Name	Affiliation
36	National State Auditors Association	NSAA (36)
37	Deloitte & Touche LLP	D&T (37)
38	Abraham D. Akresh	Abraham D. Akresh (38)

**Request for Comment – AU-C 706 Emphasis of Matter and Other Matter Paragraphs in the Independent Auditors Report**

The ASB would like your views on the following:

***ED Question 8*** — 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 the revisions to existing requirements are clear and understandable and the application material is helpful in supporting the application of those requirements.	Supportive
TN State (3)	Yes	Supportive

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<b>Responder</b>	<b>Comment</b>	<b>TF Consideration / Response</b>
NYSSCPA (4)	The revisions to existing requirements relative to emphasis-of-matter and other-matter paragraphs are clear and understandable, however, the application material should be further clarified to provide support in the application of the requirements. Please see our response to Question 9 below for additional detail.	Supportive with comments
RSM (5)	We believe the revisions to existing requirements in extant AU-C section 706 are clear and understandable. Also, the application material is helpful in applying those requirements.	Supportive
NJCPA (6)	See Response to #9 below.	Supportive with comments
NASBA (7)	No comment	No comment
Office of the Washington State Auditor (8)	Yes	Supportive
Smith & Howard PC (9)	The proposed changes to AU-C section 706 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 Same response as question 9
CliftonLarsonAllen LLP (10)	We do not believe the revisions are clear and understandable as it relates to clarifying the relationship between the communication of KAMs, emphasis-of-matter	Not supportive

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Responder	Comment	TF Consideration / Response
	paragraphs, and other-matter paragraphs for reasons described in our response to question 9.	
AAFCPAs (11)	Yes, the revisions are clear and understandable with respect to emphasis-of-matter and other-matter paragraphs, as there were no significant changes.	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
OAG (14)	Yes, we consider the wording of this section as straightforward and easy to follow. We have no suggested revisions.	Supportive
MACPA (15)	Yes.	Supportive
FICPA (17)	The Committee agrees that the changes to AU-C 706 relating to the Emphasis-of-Matter and Other-Matters paragraphs are sufficiently clarified through the illustrations and the application material.	Supportive Same response as question 9
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 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report (ISA 706)</i> , to eliminate differences between the two standards, except where necessitated by circumstances unique to the U.S.	Supportive

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Responder	Comment	TF Consideration / Response
	environment. Furthermore, we note two paragraphs in the application guidance in ISA 706 were excluded from the proposed SAS that we believe would add clarity to the interaction between KAM paragraphs and emphasis of matter paragraphs, as discussed in further detail in our response to question 9 below.	
ICPAS (20)	Yes	Supportive
SVA (21)	The proposed changes are in line with the proposed changes to AU-C 700 and AU-C 705 and are clear and understandable.	Supportive
GAO (23)	We agree that the revisions to existing requirements are clear and understandable and the application guidance is helpful in supporting the application of those requirements.	Supportive
MSCPA (24)	The Committee does interpret the revisions as being clear and understandable. The Committee also believes the application material is helpful.	Supportive
NCACPA (27)	We believe the revisions are clear and understandable.	Supportive
CLCPA (28)	Yes.	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)	We appreciate the Board adding the application guidance in paragraph A2 of AU-C section 706 clarifying that an auditor may include an emphasis-of-matter paragraph	Content in A2 and A7 is based on paragraph .24 of

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Responder	Comment	TF Consideration / Response
	<p>making reference to management’s disclosures related to the conditions and events that raised substantial doubt and management’s plans that alleviated that substantial doubt as we believe this guidance is helpful and reflects what is often done in practice.</p> <p>We believe that throughout paragraph A2 and in the third bullet point of paragraph A7 of AU-C section 706 “in the aggregate” should be added after “conditions or events” to be consistent with the language used in AU-C section 570.</p>	AU-C 570. Paragraph .24 does not include “in the aggregate” and therefore no change made.
OHIOCPA (31)	Requirements are clear, consistent, and understandable.	Supportive
PWC (32)	We believe the revisions to the proposed SAS are generally appropriate. However, while we support requiring a heading for each Emphasis of Matter paragraph, we do not think it is necessary to prescribe that the heading includes the term “Emphasis of Matter.” We note the IAASB’s rationale for doing so was to differentiate Emphasis of Matter paragraphs from KAM reporting, which is required for listed entities. In light of the voluntary nature of KAMs under the ASB’s proposal, we do not believe this level of prescription is necessary.	Supportive with comments See proposed changes made to this proposed SAS in agenda item 4A, including paragraphs 9(a) and A6.
KPMG (34)	<p><b>Proposed SAS Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report (AU-C section 706)</b></p> <p>With one exception, we believe that the proposed revisions are clear and understandable, that the application material is helpful in supporting the application of the requirements, and that the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs is clear and understandable.</p> <p>With regard to the communication requirement in paragraph 12, when an auditor determines that an emphasis-of-matter or other-matter paragraph should be included</p>	Supportive with comments



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Responder	Comment	TF Consideration / Response
	in the auditor’s report, we believe that communication should be required prior to the report release date. Doing so is consistent with the new requirement in proposed AU-C section 700 to state that those charged with governance have oversight responsibilities for financial reporting.	See issue 1 in agenda item 4.
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 emphasis-of-matter and other-matter paragraphs are clear and understandable and the application material is helpful in supporting the application of those requirements.	Supportive

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

Responder	Comment	TF Consideration / Response
TIC (2)	Yes, TIC does believe that the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs is clear and understandable. However, TIC was confused by the fact that, in this ED, the order of certain items in the report is more	Supportive with comments

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Responder	Comment	TF Consideration / Response
	important than perhaps it was under the current reporting standard, but in the case of Other-Matter paragraphs in .A14 (on page 193 of the ED), the placement is subjective. TIC believes it may just be less confusing for practitioners if the placement of these paragraphs were made clear rather than leaving this to judgment.	TF supports retaining flexibility in the placement of sections
TN State (3)	See #5 above.	Supportive with comments Addressed in AU-C 701
NYSSCPA (4)	No, as under extant standards, the interrelationship between emphasis-of-matter or other-matter paragraphs (and now, KAMs) remains insufficiently clear and, in our view, is not understandable. Accordingly, we believe page 189, paragraph 8.b., of the Exposure Draft should be clarified to read similarly to the last sentence on page 185, paragraph A1., and that further guidance should be provided to emphasize once again that communication of KAMs in audit reports is not required for audits of non-issuers.	Not supportive See proposed changes made to this proposed SAS in agenda item 4A, including paragraph 2.
RSM (5)	We believe the interrelationships between (a) emphasis-of-matter or other-matter paragraphs and (b) KAMs is clear and understandable, and no additional guidance is needed.	Supportive
NJCPA (6)	The interrelationship is not entirely clear in the proposed guidance. However, if an example report were included in the exposure material it may provide a better understanding of the interrelationship.	Supportive with comments TF believes Illustration 2 provides guidance.
NASBA (7)	No comment	No comment

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Responder	Comment	TF Consideration / Response
Office of the Washington State Auditor (8)	As discussed in our response to question 5, we do not believe that including key audit matters in the auditor’s report is beneficial, because it creates an unacceptably high risk of misunderstanding the difference between the auditor’s opinion, emphasis or other matter paragraphs, and KAMs	Not supportive noted
Smith & Howard PC (9)	The proposed changes to AU-C section 706 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 Same response as question 8
CliftonLarsonAllen LLP (10)	We are concerned that users will not understand the difference between KAMs and emphasis-of-matter and other-matter paragraphs. Because KAM is not required for audits of nonissuers, in practice, a similar item could be communicated differently in the auditor’s report for different entities. One client engaged the auditor to report on KAM and another client did not engage the auditor to report on KAM resulting in different communications in the auditor’s report for the same item.  Please also refer to our response to question 6.	Not Supportive Noted.
AAFPCAs (11)	The interrelationship between emphasis-of-matter and other-matter paragraphs is clear. However, the interrelationship between emphasis-of-matter or other-matter paragraphs with KAMs is not clear. As stated above, we suggest to eliminate AU-C 701. If desired, modify AU-C Section 706 to incorporate some of the KAM concept.	Not Supportive TF agreed to continue with current model
Cherry Bekaert (13)	We believe the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs is clear and understandable. We believe the proposed guidance	Supportive

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Responder	Comment	TF Consideration / Response
	is clear that emphasis-of-matter or other-matter paragraphs are only required if these matters are not already communicated as KAMs.	
OAG (14)	While we do consider this section as understandable, we look forward to the updated AICPA State and Local Audit Guide that will include examples of opinion letters for nonissuers that contain emphasis of matter and other matter paragraphs without communicating KAMs.	Supportive  AICPA Audit and Accounting Guide <i>State and Local Governments</i> to include examples.
MACPA (15)	Yes.	Supportive
FICPA (17)	The Committee agrees that the changes to AU-C 706 relating to the Emphasis-of-Matter and Other-Matters paragraphs are sufficiently clarified through the illustrations and the application material.	Supportive  Same response as question
BDO (19)	Overall, we believe that the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs is clear and understandable within the proposed SAS. However, we note that certain guidance from paragraphs A2 and A3 of ISA 706 was excluded from the proposed SAS. We believe that inclusion of this application guidance would provide additional clarity, and believe that this guidance should be incorporated into the proposed SAS. Refer to the sentences in italics below:  <i>A2. Matters that are determined to be key audit matters in accordance with ISA 701 may also be, in the auditor’s judgment, fundamental to users’ understanding of the financial statements. In such cases, in communicating the matter as a key audit</i>	Supportive  TF does not support including A2 and A3 from ISA 706 (revised). TF believes this content was included in ISA 706 (Revised) for one specific jurisdiction and may create

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Responder	Comment	TF Consideration / Response
	<p><i>matter in accordance with ISA 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.</i></p> <p><i>A3. There may be a matter that is not determined to be a key audit matter in accordance with ISA 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this ISA.</i></p>	more confusion if included in the proposed SAS.
ICPAS (20)	Yes	Supportive
SVA (21)	The last paragraph of the auditor's responsibilities section is addressing communications with those charged with governance. Therefore, disclosing KAMs immediately after the opinion and between the emphasis-of-matter and other-matter paragraphs does not make sense given the proposed order of the report in AU-C 700. It would make sense if the order of the report aligned with extant AU-C 700 so that context was provided to the reader.	Supportive with comments ASB agreed to align with the ISA on the ordering.
GAO (23)	We believe that the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs are clear and understandable.	Supportive

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Responder	Comment	TF Consideration / Response
MSCPA (24)	<p>The Committee believes the interrelationship between the emphasis of a matter and KAM is clear. The emphasis of a matter paragraph would be applicable to specific circumstances whereas KAM seems to be more general issues that would be part of the communication with those charged with governance.</p> <p>Under KAM see our comments under the general section above. Particularly the possible requirement of KAM by regulators.</p>	Supportive
NCACPA (27)	<p>We believe that the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMS would only be clear to those individuals in the auditing profession. Non-auditor readers of the financials could be confused if there have been KAMs previously or if they had seen an engagement letter that indicated KAMs would be in the opinion and then there were no KAMs in the report. Currently in the exposure draft there are no examples of KAMs so it makes the guidance more difficult to understand. It makes sense that KAMs are a significant item to the audit like a finding or a hard to audit area that would be important to communicate to governance.</p>	<p>Not Supportive</p> <p>Example KAM will not be included in the proposed SAS based on ASB discussion.</p>
CLCPA (28)	<p>We may ask the committee to include more examples especially in areas when a KAM may also be addressed as an Other Matter, such as going concern uncertainty, or Emphasis of a Matter where these may already be included as a communication to those charged with governance and therefore included as a KAM.</p>	Supportive with comments
Anders (29)	<p>While the interrelationship between EOM and OM paragraphs and KAMs is clear in the proposal, we have previously expressed concerned about the inclusion of KAMs in general.</p>	Supportive

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Responder	Comment	TF Consideration / Response
Baker Tilly (30)	<p>Due to the nuanced differences between emphasis-of-matter (EOM) and other-matter (OM) paragraphs and KAMs, we believe that it would be helpful if additional guidance were added to the proposed standard addressing situations in which 1) a KAM and an EOM or OM paragraph are required to be included in the auditor’s report or 2) when the auditor elects to include an EOM or OM paragraph related to a matter also communicated in a KAM.</p> <p>We believe that it would be helpful if definitive guidance regarding the location of EOM and OM paragraphs was included in the proposed standard. For example, it seems reasonable that EOM paragraphs would be located before OM paragraphs, required EOM or OM paragraphs would be located before elective EOM or OM paragraphs, etc.</p>	<p>Supportive with comments</p> <p>TF believes proposed illustrations provide sufficient guidance.</p> <p>TF supports flexibility in placement of paragraphs</p>
OHIOCPA (31)	<p>The proposed standard is clear that when the auditor is required to communicate KAMs, an emphasis of matter paragraph is not a substitute for a separate paragraph describing the KAMs. As noted previously, additional guidance would be helpful related to the subjectivity in determining what has “most significance” to be considered a KAM.</p>	<p>Supportive with comments</p> <p>Considered as part of AU-C 701</p>
PwC (32)	<p>We believe the proposed SAS guidance describing the relationship is clear and understandable. As highlighted within our cover letter, if the ASB considers moving forward with a framework more similar to the PCAOB CAM framework, the Board will likely need to revisit the interrelationship between emphasis of matter or other matter paragraphs and CAMs. For example, the PCAOB acknowledges a CAM could be a matter for which an emphasis or explanatory paragraph may also be required.</p>	<p>Supportive with comments</p> <p>TF supports remaining with KAM model</p>

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Responder	Comment	TF Consideration / Response
EY (33)	Based on the proposed requirements of AU-C 701 and revised AU-C 706, it's clear that KAMs and emphasis-of-matter paragraphs can co-exist within an auditor's report and that the use of an emphasis-of-matter paragraph is not a substitute for a description of KAMs. We agree with the ASB's decision to include both concepts.	Supportive
Laura Lindal (35)	Illustration 2 does a nice job illustrating the layout of EOMs, KAMs and OMs.	Supportive
NSAA (36)	Please see our response to question# 5 above regarding establishing a hierarchy for KAM, EOM, and other-matter paragraphs.	Supportive with comments
D&T (37)	D&T believes the interrelationship between emphasis-of-matter or other-matter paragraphs and KAMs is clear and understandable.	Supportive



**Summary of Comments (by paragraph) on the Exposure Draft of the Proposed SAS Emphasis of Matter and Other Matter Paragraphs in the Independent Auditors Report**

Topic/ Paragraph No. (EOM/OM)	Commenter	Comment	Response to Comment
<b>Requirements (and/or application material)</b>			
<b>Emphasis-of-Matter Paragraphs in the Auditor’s Report (paragraphs 8-9; A4-A8)</b>			
<b>A4</b>	<b>EY (33)</b>	<p>We recommend the following edit:</p> <p>▶ A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position or <u>results of operations</u></p>	Change made
<b>Other-Matter Paragraphs in the Auditor’s Report (paragraphs 10-11; A9-A15)</b>			
<b>A14</b>	<b>GT (25)</b>	<p>With regard to the application guidance provided for emphasis-of-matter paragraphs, we believe stating that such a paragraph “may be presented either directly before or after the Key Audit Matters section” implies a requirement for those paragraphs to be presented in one of these two places. We do not necessarily object to this approach, but if this is the Board’s intention, we believe it is better suited in the requirements as opposed to the application guidance. If it is intended to be application guidance, we recommend saying “may be presented, <i>for example</i>, either directly before or after....”</p>	No change made. TF believes the use of “may” and the nature of application material does not imply a requirement.

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Topic/ Paragraph No. (EOM/OM)	Commenter	Comment	Response to Comment
<b>Communication With Those Charged With Governance (paragraphs 12; A16)</b>			
<b>Exhibit A — Illustrations of Auditor’s Reports with Emphasis-of-Matter or Other-Matter Paragraphs</b>			
A17	D&T (37)	Proposed new AU-C section 706, paragraph A17, Illustrations 1 - 4, in the “Circumstances include the following” section, final bullet “The auditor has not been <del>engaged</del> <b><u>requested or required</u></b> to communicate key audit matters in the auditor’s report.”	TF believes “engaged” is the trigger for KAM. No change made.
<b>Illustration 2 —</b>			
<b>Fn 4</b>	<b>GT (25)</b>	Footnote 4 to this illustration references paragraph A16, and we believe this should be revised to reference paragraph A14. We further note that we have the same concern and recommendation with this language as we provided about A14 above.	Changes made