



Agenda Item 1C (3)

AU-C section 940 – Summary of Comment Letters

The ED was issued in December 2019. Comment letters were due February 10, 2020. Comment letters were received from the following 14 respondents:

1. Michigan Office of the Auditor General
2. Grant Thornton LLP
3. Ernst & Young LLP
4. Texas Society of CPAs
5. BDO USA LLP
6. Tennessee Department of Audit, Division of State Audit
7. Commonwealth of Virginia, Auditor of Public Accounts
8. Deloitte & Touche LLP
9. Office of Washington State Auditor
10. George A. Rippey, CPA
11. Terrill W. Ramsey, CPA
12. Florida Institute of CPAs
13. KPMG LLP
14. PricewaterhouseCoopers LLP

This document contains the following summary of comments (click to link directly to that section):

- [Responses to Question 1](#)
- [Responses to Question 2a](#)
- [Responses to Question 2b](#)
- [Responses to Question 2c](#)
- [Responses to Question 2d](#)
- [Responses by paragraph number](#)

Q1 - Request for Comment Specific to AU-C Section 940

Are the proposed amendments to AU-C section 940 appropriate and complete?

Summary of Responses

	# of responses	Percentage
Amendments are appropriate and complete	4	28%
Amendments are appropriate and complete with comments	5	36%
Amendments are not appropriate and complete	0	0%
No response	5	36%
Total letters received	14	

The comment letters showed strong support for conforming AU-C section 940 with SAS No. 134, as amended. The more significant comments received related to questions 2a and 2d. Refer to those sections for disposition of comments.

AU-C 940 Summary of Comment Letters
ASB Meeting, March 11, 2020

	<i>Request for Comment #1</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
Supportive				
1	Nodes\\940 Q1\Appropriate and complete	1 - OAG	Yes, we consider them appropriate and complete. We have no suggested revisions.	Supportive
2	Nodes\\940 Q1\Appropriate and complete	12 - FiCPA	Question 1. The Committee believes that the proposed amendments to AU-C section 940 are appropriate and complete.	Supportive
3	Nodes\\940 Q1\Appropriate and complete	5 - BDO	Yes.	Supportive
4	Nodes\\940 Q1\Appropriate and complete	6 - TN	We agree the proposed amendments are appropriate and complete.	Supportive
Supportive with Comments				
5	Nodes\\940 Q1\Appropriate and complete with comments	14 - PwC	We believe the proposed amendments to AU-C section 940 are appropriate and complete, with the exception of the matter described in our response to Question 2.	Supportive with comments (see responses to questions 2a and 2d)

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	<i>Request for Comment #1</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
6	Nodes\\940 Q1\Appropriate and complete with comments	2 - GT	Generally, we support the proposed revisions to AU-C section 940 and believe they are appropriate.	Supportive with comments (see responses to questions 2a and 2d)
7	Nodes\\940 Q1\Appropriate and complete with comments	3 - EY	We support the ASB’s proposal to amend AU-C section 940 to better align the form and content of the auditor’s report on ICFR to conform with SAS No. 134. However, we have some suggested revisions that are further described in our responses below to the ASB’s requests for comment 2.a and 2.d.	Supportive with comments (see responses to questions 2a and 2d)
8	Nodes\\940 Q1\Appropriate and complete with comments	4 - TXCPA	Response: In general, we believe the proposed amendments to AU-C section 940 are appropriate, with additional comments listed below.	Supportive with comments (see responses to questions 2a and 2d)
9	Nodes\\940 Q1\Appropriate and complete with comments	8 - Deloitte Touche LLP	D&T believes, except for the comments noted below and proposed editorial recommendations in Appendix B, that the proposed amendments to AU-C section 940 are appropriate and complete: a. Paragraph .64c of AU-C section 940 was amended to require a heading of “Opinion on Internal Control Over Financial Reporting.” However, in AU-C section 700 for the audit of the financial statements, the heading is just “Opinion.” We would recommend changing paragraph .64c	Supportive with comments. See responses in the detailed comments by paragraph at the end of the document (paragraphs .64c, .76, and .86 – see comment # 71, 75, and 80 in this document)

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	<i>Request for Comment #1</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p>and the illustrative examples in AU-C section 940 to be consistent with AU-C section 700. In addition, paragraph .64f requires the auditor to state that the objectives of the auditor are to “issue an auditor's report that includes the auditor’s opinion on ICFR.” However, in paragraph .35a of AU-C section 700 for the audit of the financial statements, there is similar language, but it reads “issue an auditor’s report that includes the auditor’s opinion.” We would recommend deleting “on ICFR” from paragraph .64f and the related illustrative reports in AU-C section 940 to be consistent with AU-C section 700.</p>	
			<p>b. Paragraph .76 of AU-C section 940 was amended for situations in which the auditor disclaims an opinion but has concluded that one or more material weaknesses exist to require the definition and description of the material weakness to be included in the “Basis for Disclaimer of an Opinion on Internal Control Over Financial Reporting” section of the report. We believe it would be more appropriate to include a separate section (with the heading “Material Weakness[es]”) after the “Definition and Limitations of Internal Control Over Financial Reporting” section. Including in the basis for disclaimer section may confuse users that the material weakness and the reason for the disclaimer are related.</p>	

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	<i>Request for Comment #1</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p>c. Paragraph .86 of AU-C section 940 was amended for situations in which management elects to limit its assessment by excluding certain entities to require the auditor to include a disclosure in the “Basis for Opinion” section of the report. We believe the requirement should allow flexibility in where the auditor includes this disclosure and be amended as follows:</p> <p>In situations in which management elects to limit its assessment by excluding certain entities, the auditor should evaluate whether it is appropriate, in the auditor’s judgment, to do so. If the auditor concludes that it is appropriate, in applying the requirement in paragraph .64, the auditor should include <u>in either the “Opinion on Internal Control Over Financial Reporting” or “Basis for Opinion” section of the report</u> a disclosure similar to management’s regarding the exclusion of an entity from the scope of both management’s assessment about ICFR and the auditor’s audit of ICFR. Additionally, the auditor should evaluate the appropriateness of management’s disclosure related to such a limitation.</p>	
No specific response to question 1				
10	Nodes\\940 Q1\No response	10 - George R	No responses to 940	No specific response to Q1

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	<i>Request for Comment #1</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
11	Nodes\\940 Q1\No response	11 - TRamsey (10)	No responses to 940	No specific response to Q1
12	Nodes\\940 Q1\No response	13 - KPMG	Recognizing the importance of finalizing this Proposed Standard so that the effective date aligns with other reporting standards, we have considered the Proposed Standard and are supportive of the Board adopting the Proposed Standard as exposed.	No specific response to Q1
13	Nodes\\940 Q1\No response	7 - Virginia	We agree with the proposed changes to existing standards, including the illustrative reports, and believe the changes are consistent with SAS Nos. 134 and 137.	No specific response to Q1
14	Nodes\\940 Q1\No response	9 - WA state	Our Office does not perform audits of internal controls over financial reporting and does not have comments regarding this section.	No specific response to Q1

Q2a. Request for Comment Specific to AU-C Section 940

2. Do you agree with the proposed

a. amendment to require a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is not effective if a material weakness exists?

Summary of Responses

	# of responses	Percentage
Agree	5	36%
Agree with comments	3	21%
Disagree	2	15%
No response	4	28%
Total letters received	14	

Of the fourteen respondents, 5 supported the proposed amendment to require a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is not effective if a material weakness exists. Three respondents supported including the statement but provided comments. One respondent (PWC) does not support including the statement in the report and recommends it be removed from the proposed SAS. One respondent (GT) proposes different wording to be included. See issue 1 in the Issues Paper in agenda item 1C(1).

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	<i>Request for Comment #2a</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
15		12 - FiCPA	<p>Question 2: <u>The Committee strongly agrees with the ASB about the proposed a) amendment that requires a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is not effective if a material weakness exists,</u> b) placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65 and c) placement of the paragraphs when issuing an adverse opinion on ICFR due to material weakness as required by the proposed amendments to paragraph .69 and d) amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report.</p>	Strongly supports
16	Nodes\\940 Q2a\Agree	13 - KPMG	<p>The proposed amendment requiring a statement in the auditor’s responsibilities section of an internal control over financial reporting report (ICFR) that ICFR is not effective if a material weakness exists is appropriate.</p>	Supportive
17	Nodes\\940 Q2a\Agree	5 - BDO	<p>Yes.</p>	Supportive

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	<i>Request for Comment #2a</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
18	Nodes\940 Q2a\Agree	6 - TN	We agree.	Supportive
19	Nodes\940 Q2a\Agree	8 - Deloitte Touche LLP	D&T agrees with the changes to AU-C section 940 as outlined in question 2a – d.	Supportive
Agree with Comments				
20	Nodes\940 Q2a\Agree with comments	1 - OAG	Response: When an auditor identifies a material weakness in ICFR, the statement that internal control over financial reporting (ICFR) is not effective is so essential to the reader that we recommend incorporating this statement into the Auditor’s Opinion section immediately after the auditor’s opinion. Such a statement provides the user the proper context and consequences of modifying the opinion on ICFR. When no material weakness is reported, this statement is a general information statement to users and should be relegated to the Auditor’s Responsibility section.	Supportive with comments See issue 1 in issues paper (Agenda item 1C(1))

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	<i>Request for Comment #2a</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
21	Nodes\940 Q2a\Agree with comments	3 - EY	We believe that the statement “Internal control over financial reporting is not effective if a material weakness exists” does not describe a responsibility of the auditor and therefore should not be included in the “Auditor’s Responsibilities” section of the auditor’s report. We suggest moving the proposed statement to the “Definition and Inherent Limitations of Internal Control Over Financial Reporting” section of the auditor’s report.	Supportive with comments See issue 1 in issue paper (Agenda item 1C(1))
22	Nodes\940 Q2a\Agree with comments	4 - TXCPA	Response: We request that additional guidance or clarification be provided in the amendment regarding the definition of a material weakness. Drawing a hard line in the standard might result in possible legal repercussions, since determination of material weakness is the professional determination of the auditor. The more narrow the definition, the higher the likelihood of possible legal liability for the auditor. The current practice is working well and should not be altered.	Supportive with comments See issue 1 in issue paper (agenda item 1C(1)) Task force believes this is outside the scope of the project.
Disagree				

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	<i>Request for Comment #2a</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
23	Nodes\940 Q2a\Disagree	14 - PwC	<p>We agree with the amendments as proposed, except as follows.</p> <p>We do not believe it is necessary to require the statement that “internal control over financial reporting is not effective if a material weakness exists” and suggest it be deleted for the following reasons:</p> <ul style="list-style-type: none"> • The auditor’s opinion will expressly state that the company has not maintained effective internal control over financial reporting and describe any material weaknesses when they exist, making this required statement redundant. • The auditor’s report on the financial statements does not explain when the financial statements are misstated, so this change goes beyond the intent of conforming with AU-C section 700. • Deleting this sentence also helps the paragraph flow better given the new definition of reasonable assurance that has been added to align with AU-C section 700. 	<p>Not supportive</p> <p>See issue 1 in issue paper (agenda item 1C(1))</p>

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	<i>Request for Comment #2a</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
24	Nodes\940 Q2a\Disagree	2 - GT	Nevertheless, we have concerns regarding the proposed statement that “internal control over financial reporting is not effective if a material weakness exists.” We found this statement inconsistent with the constructs of AICPA reporting on financial statements and PCAOB reporting on ICFR. Further, we do not believe this statement represents an auditor responsibility. We believe that a more understandable and consistent statement for this section of the auditor’s report would be as follows: “An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists.” Therefore, we recommend the Board revise the requirement and include the proposed changes we suggest in the accompanying appendix.	Not Supportive See issue 1 in issue paper (agenda item 1C(1))
No Response				
25	Nodes\940 Q2a\No response	10 - GEorge R	No response to 940	No response to question 2a

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	<i>Request for Comment #2a</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
26	Nodes\\940 Q2a\No response	11 - TR	Comments on AU-C Section 935 only	No response to question 2a
27	Nodes\\940 Q2a\No response	7 - Virginia	We agree with the proposed changes to existing standards, including the illustrative reports, and believe the changes are consistent with SAS Nos. 134 and 137.	No response to question 2a
28	Nodes\\940 Q2a\No response	9 - WA state	Our Office does not perform audits of internal controls over financial reporting and does not have comments regarding this section.	No response to question 2a

Q2b. Request for Comment Specific to AU-C Section 940

2. Do you agree with the proposed

b. placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65?

Summary of Responses

	# of responses	Percentage
Agree	9	65%
Agree with comments	1	7%
Disagree	0	0%
No response	4	28%
Total letters received	14	

Of the fourteen respondents, 9 supported the placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65. One respondent (TXCPA) believe the content of the paragraph is more important than its placement in the report and did not propose any revisions. Therefore, no changes have been proposed to paragraph .65.

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	<i>Request for Comment #2b</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
Supportive				
29	Nodes\\940 Q2b\Agree	1 - OAG	Response: We agree with the placement of the two paragraphs identified in paragraph .65. We have no suggested revisions.	Supportive
30	Nodes\\940 Q2b\Agree	12 - FiCPA	Question 2: The Committee strongly agrees with the ASB about the proposed a) amendment that requires a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is not effective if a material weakness exists, b) placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65 and c) placement of the paragraphs when issuing an adverse opinion on ICFR due to material weakness as required by the proposed amendments to paragraph .69 and d) amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report.	Supportive
31	Nodes\\940 Q2b\Agree	13 - KPMG	The proposed placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65 is appropriate.	Supportive

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	<i>Request for Comment #2b</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
32	Nodes\\940 Q2b\Agree	14 - PwC	We agree with the amendments as proposed	Supportive
33	Nodes\\940 Q2b\Agree	2 - GT	Further, we agree with the following proposed changes: The placement of the paragraphs when issuing a separate report on internal control over financial reporting (ICFR) The placement of the paragraphs when issuing an adverse opinion on ICFR due to a material weakness.	Supportive
34	Nodes\\940 Q2b\Agree	3 - EY	We agree with the proposed placement of the paragraphs if the auditor is issuing a separate report on ICFR as required by the proposed amendments to paragraph 65 of AU-C section 940.	Supportive
35	Nodes\\940 Q2b\Agree	5 - BDO	Yes	Supportive
36	Nodes\\940 Q2b\Agree	6 - TN State	We agree.	Supportive

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	<i>Request for Comment #2b</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
37	Nodes\\940 Q2b\Agree	8 - Deloitte Touche LLP	D&T agrees with the changes to AU-C section 940 as outlined in question 2a – d.	Supportive
Supportive with Comments				
38	Nodes\\940 Q2b\Agree with comments	4 - TXCPA	Response: We are of the opinion that the content of the paragraph is more important than its placement in the report.	Supportive with Comments Noted. No action needed. No change made.
No Response				
39	Nodes\\940 Q2b\No response	10 - GEorge R	Answers to Questions related to AU –C Section 935 only	No response specific to Q2b
40	Nodes\\940 Q2b\No response	11 - TR	Comments on AU-C Section 935 only	No response specific to Q2b
41	Nodes\\940 Q2b\No response	7 - Virginia	We agree with the proposed changes to existing standards, including the illustrative reports, and believe the changes are consistent with SAS Nos. 134 and 137.	No response specific to Q2b

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	<i>Request for Comment #2b</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
42	Nodes\\940 Q2b\No response	9 - WA state	Our Office does not perform audits of internal controls over financial reporting and does not have comments regarding this section.	No response specific to Q2b

Q2c. Request for Comment Specific to AU-C Section 940

2. Do you agree with the proposed

c. placement of the paragraphs when issuing an adverse opinion on ICFR due to a material weakness as required by the proposed amendments to paragraph .69?

Summary of Responses

	# of responses	Percentage
Agree	9	65%
Agree with comments	1	7%
Disagree	0	0%
No response	4	28%
Total letters received	14	

Of the fourteen respondents, 9 supported the placement of the paragraphs when issuing an adverse opinion on ICFR due to a material weakness as required by the proposed amendments to paragraph .69. One respondent (TXCPA) believes the content of the paragraph is more important than its placement in the report and did not propose any revisions. Therefore, no changes have been proposed to paragraph .69.

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	<i>Request for Comment #2c</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
Supportive				
43	Nodes\\940 Q2c\Agree	1 - OAG	Response: We agree with the provisions of paragraph .69 and including a separate paragraph within the Adverse Opinion section to inform users whether the auditor's opinion on the financial statements was affected by the material weakness.	Supportive
44	Nodes\\940 Q2c\Agree	12 - FiCPA	Question 2: The Committee strongly agrees with the ASB about the proposed a) amendment that requires a statement in the "Auditor's Responsibilities for the Audit of ICFR" section that states internal control over financial reporting is not effective if a material weakness exists, b) placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65 and c) placement of the paragraphs when issuing an adverse opinion on ICFR due to material weakness as required by the proposed amendments to paragraph .69 and d) amendments to paragraph .80 for reporting when additional information is included in management's report or in a report that includes management's report and the auditor's report.	Supportive
45	Nodes\\940 Q2c\Agree	13 - KPMG	The proposed placement of the paragraphs when issuing an adverse opinion on ICFR due to material weakness as	Supportive

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	<i>Request for Comment #2c</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			required by the proposed amendments to paragraph .69 is appropriate.	
46	Nodes\\940 Q2c\Agree	14 - PwC	We agree with the amendments as proposed	Supportive
47	Nodes\\940 Q2c\Agree	2 - GT	Further, we agree with the following proposed changes: The placement of the paragraphs when issuing a separate report on internal control over financial reporting (ICFR) The placement of the paragraphs when issuing an adverse opinion on ICFR due to a material weakness.	Supportive
48	Nodes\\940 Q2c\Agree	3 - EY	We agree with the proposed placement of the paragraphs if the auditor is issuing an adverse opinion on ICFR due to a material weakness as required by the proposed amendments to paragraph 69 of AU-C section 940.	Supportive
49	Nodes\\940 Q2c\Agree	5 - BDO	Yes.	Supportive

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	<i>Request for Comment #2c</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
50	Nodes\\940 Q2c\Agree	6 - TN	We agree.	Supportive
51	Nodes\\940 Q2c\Agree	8 - Deloitte Touche LLP	D&T agrees with the changes to AU-C section 940 as outlined in question 2a – d.	Supportive
Supportive with Comments				
52	Nodes\\940 Q2c\Agree with comments	4 - TXCPA	Response: Again, we are more concerned with content of the report on ICFR rather than placement of the opinion paragraph.	Supportive with comments Noted. No action needed. No change made.
No Response				
53	Nodes\\940 Q2c\No response	10 - GEorge R	Answers to Questions related to AU –C Section 935	No response specific to Q2c
54	Nodes\\940 Q2c\No response	11 - TR	Comments on AU-C Section 935	No response specific to Q2c

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	<i>Request for Comment #2c</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
55	Nodes\\940 Q2c\No response	7 - Virginia	We agree with the proposed changes to existing standards, including the illustrative reports, and believe the changes are consistent with SAS Nos. 134 and 137.	No response specific to Q2c
56	Nodes\\940 Q2c\No response	9 - WA state	Our Office does not perform audits of internal controls over financial reporting and does not have comments regarding this section.	No response specific to Q2c

Q2d. Request for Comment Specific to AU-C Section 940

2. Do you agree with the proposed

d. amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report?

Summary of Responses

	# of responses	Percentage
Agree	5	36%
Agree with comments	5	36%
Disagree	0	0%
No response	4	28%
Total letters received	14	

Of the fourteen respondents, 5 supported the proposed amendment to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report. Five respondents supported including the statement but suggested edits to the paragraph. See issue 2 in the Issues Paper in agenda item 1C(1).

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	Request for Comment #2d	Respondent	Comment	Response
Supportive				
57	Nodes\\940 Q2d\Agree	12 - FiCPA	Question 2: The Committee strongly agrees with the ASB about the proposed a) amendment that requires a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is <i>not</i> effective if a material weakness exists, b) placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65 and c) placement of the paragraphs when issuing an adverse opinion on ICFR due to material weakness as required by the proposed amendments to paragraph .69 and d) amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report.	Supportive
58	Nodes\\940 Q2d\Agree	13 - KPMG	The proposed amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report are appropriate.	Supportive
59	Nodes\\940 Q2d\Agree	5 - BDO	Yes.	Supportive

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	Request for Comment #2d	Respondent	Comment	Response
60	Nodes\940 Q2d\Agree	6 - TN	We agree.	Supportive
61	Nodes\940 Q2d\Agree	8 - Deloitte Touche LLP	D&T agrees with the changes to AU-C section 940 as outlined in question 2a – d.	Supportive
Supportive with Comments				
62	Nodes\940 Q2d\Agree with comments	1 - OAG	Response: In the event management refuses to make a correction to a material misstatement or material inconsistency of information even after discussing the issue with those charged with governance, we suggest the board provide the auditor with the option to include an “Other Matter” paragraph informing the reader that the auditor is disclaiming an opinion on that information but is aware of a material misstatement (or material inconsistency) and that the auditor has informed management of this issue and management has decided not to modify the information. Such a resolution may be necessary when the auditor does not have the option to withdraw from the engagement, and management and those charged with governance refuse to modify the information.	Supportive with Comments No change made. As drafted the auditor concludes what the effect on the report should be. This could include an OM paragraph. See Issue 2 in agenda item 1C(1)

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	Request for Comment #2d	Respondent	Comment	Response
63	Nodes\\940 Q2d\Agree with comments	14 - PwC	In circumstances where the auditor obtains other information in an annual report before the date of the auditor's report in an integrated audit, AU-C section 720 would require the inclusion of an "Other Information" section identifying what constitutes the other information and describing the auditor's responsibilities for this information. We believe the ASB should consider how the reporting requirements of AU-C section 720 would interact with the requirement in paragraph 80 of AU-C section 940 when the auditor reports on both the audit of ICFR and the financial statements in a combined report and provide guidance for auditors. We note Illustration 5 is an example of a combined report on ICFR and the financial statements, but does it not address the reporting requirements in AU-C section 720.	Supportive with Comments See comment #76 Other information has a specific meaning in GAAS and therefore the auditor would follow 720 by reporting, in a separate section of the auditor's report. Paragraph .80 discusses additional information, in addition to the required elements, which may not be OI. Therefore, no change made. See Issue 2 in agenda item 1C(1)
64	Nodes\\940 Q2d\Agree with comments	2 - GT	We are also concerned about the clarity and readability of the requirements in proposed paragraph .80. While we support the performance requirements, we believe they could be more clearly set forth. We've provided proposed revisions for the Board's consideration in the accompanying appendix.	Supportive with Comments See comment #77

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	Request for Comment #2d	Respondent	Comment	Response
65	Nodes\940 Q2d\Agree with comments	3 - EY	<p>We support the ASB’s proposal to amend paragraph 80 of AU-C section 940. However, we believe the phrase “and to become aware of material misstatements of fact” in proposed AU-C 940.80.a is confusing. We suggest replacing this phrase with the words “or any material misstatements of fact.”</p> <p>Alternatively, we recommend that the ASB consider combining the requirements described in proposed AU-C 940.80.a and 80.b in the following manner because they are the same, except for the requirement to include an other-matter paragraph on the additional information when this information is included in management’s report:</p> <p>“.80 When management includes, either within management’s report or in a document containing management’s report and the related auditor’s report, information in addition to the elements that are subject to the auditor’s evaluation as described in paragraph .55, the auditor should do the following: <i>read the additional information to identify material inconsistencies with management’s report or any material misstatements of fact, and:</i></p> <p>a. When such information is included in management’s report, read the additional information to identify material inconsistencies with management’s report and</p>	<p>Supportive with Comments</p> <p>Also see comment #78</p> <p>See issue 2 in agenda item 1C(1)</p>

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	Request for Comment #2d	Respondent	Comment	Response
			<p>to become aware of material misstatements of fact. If no material inconsistencies or material misstatements of fact are identified, disclaim an opinion, in an other-matter paragraph, on the additional information <i>when such information is included in management's report.</i></p>	
			<p>If, upon reading the additional information the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. If management agrees to make the correction, determine that the correction has been made. If management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following: (Ref: par. .A129)</p>	
			<ul style="list-style-type: none"> i. Consider the implications for the auditor's report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor's report ii. Withhold the auditor's report iii. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation 	

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	Request for Comment #2d	Respondent	Comment	Response
			<p>b. When such information is included outside management’s report and the related auditor’s report, read the additional information to identify material inconsistencies with management’s report. If, upon reading the additional information, the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. If management agrees to make the correction, determine that the correction has been made. If management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following: (Ref: par. .A130)</p>	
			<p>i. Consider the implications for the auditor’s report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor’s report</p>	
			<p>ii. Withhold the auditor’s report</p>	
			<p>iii. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation”</p>	

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	Request for Comment #2d	Respondent	Comment	Response
66	Nodes\\940 Q2d\Agree with comments	4 - TXCPA	Response: We believe that either approach for reporting additional information is satisfactory.	Noted. No change made.
No Response				
67	Nodes\\940 Q2d\No response	10 - George R	Answers to Questions related to AU –C Section 935	No response specific to question 2d
68	Nodes\\940 Q2d\No response	11 - TR	Comments on AU-C Section 935	No response specific to question 2d
69	Nodes\\940 Q2d\No response	7 - AICPA	We agree with the proposed changes to existing standards, including the illustrative reports, and believe the changes are consistent with SAS Nos. 134 and 137.	No response specific to question 2d
70	Nodes\\940 Q2d\No response	9 - WA state	Our Office does not perform audits of internal controls over financial reporting and does not have comments regarding this section.	No response specific to question 2d

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Detailed Comments by Paragraph

	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
71	Nodes\64\64c	8 - Deloitte Touche LLP	Paragraph .64c of AU-C section 940 was amended to require a heading of “Opinion on Internal Control Over Financial Reporting.” However, in AU-C section 700 for the audit of the financial statements, the heading is just “Opinion.” We would recommend changing paragraph .64c and the illustrative examples in AU-C section 940 to be consistent with AU-C section 700. In addition, paragraph .64f requires the auditor to state that the objectives of the auditor are to “issue an auditor's report that includes the auditor’s opinion on ICFR.” However, in paragraph .35a of AU-C section 700 for the audit of the financial statements, there is similar language, but it reads “issue an auditor’s report that includes the auditor’s opinion.” We would recommend deleting “on ICFR” from paragraph .64f and the related illustrative reports in AU-C section 940 to be consistent with AU-C section 700.	.64c - The distinction in the paragraph heading was intentional to distinguish between an Opinion on the financial statements and an Opinion on Internal Control Over Financial Reporting. No change made. .64f - See comment #74. No change made.
72	Nodes\64\64f	14 - PwC Response	We do not believe it is necessary to require the statement that “internal control over financial reporting is not effective if a material weakness exists” and suggest it be deleted for the following reasons:	See issue 1 in issues paper (Agenda item 1C(1))

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p>The auditor’s opinion will expressly state that the company has not maintained effective internal control over financial reporting and describe any material weaknesses when they exist, making this required statement redundant.</p> <p>The auditor’s report on the financial statements does not explain when the financial statements are misstated, so this change goes beyond the intent of conforming with AU-C section 700.</p> <p>Deleting this sentence also helps the paragraph flow better given the new definition of reasonable assurance that has been added to align with AU-C section 700.</p>	
73	Nodes\64\64f	2 - GT	<p>As noted in the body of our letter, we propose the following revisions to this paragraph:</p> <p style="padding-left: 40px;">ii. state that <i>an audit of</i> internal control over financial reporting <i>involves performing procedures to obtain audit evidence about whether</i> is not effective if a material weakness exists...</p>	See issue 1 in issues paper (Agenda item 1C(1))
74	Nodes\64\64f	8 - Deloitte Touche LLP	<p>Paragraph .64c of AU-C section 940 was amended to require a heading of “Opinion on Internal Control Over Financial Reporting.” However, in AU-C section 700 for the audit of the financial statements, the heading is just “Opinion.” We would recommend changing paragraph .64c and the illustrative examples in AU-C section 940 to be consistent with AU-C</p>	<p>.64c – see comment #71 No change made. .64f - It was intentional to distinguish the report from a</p>

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			section 700. In addition, paragraph .64f requires the auditor to state that the objectives of the auditor are to “issue an auditor's report that includes the auditor’s opinion on ICFR.” However, in paragraph .35a of AU-C section 700 for the audit of the financial statements, there is similar language, but it reads “issue an auditor’s report that includes the auditor’s opinion.” We would recommend deleting “on ICFR” from paragraph .64f and the related illustrative reports in AU-C section 940 to be consistent with AU-C section 700.	report on the f/s. No change made.
75	Nodes\76	8 - Deloitte Touche LLP	Paragraph .76 of AU-C section 940 was amended for situations in which the auditor disclaims an opinion but has concluded that one or more material weaknesses exist to require the definition and description of the material weakness to be included in the “Basis for Disclaimer of an Opinion on Internal Control Over Financial Reporting” section of the report. We believe it would be more appropriate to include a separate section (with the heading “Material Weakness[es]”) after the “Definition and Limitations of Internal Control Over Financial Reporting” section. Including in the basis for disclaimer section may confuse users that the material weakness and the reason for the disclaimer are related.	See issue 3 in the issue paper in agenda item 1C(3)

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
76	Nodes\80	14 - PwC	In circumstances where the auditor obtains other information in an annual report before the date of the auditor’s report in an integrated audit, AU-C section 720 would require the inclusion of an “Other Information” section identifying what constitutes the other information and describing the auditor’s responsibilities for this information. We believe the ASB should consider how the reporting requirements of AU-C section 720 would interact with the requirement in paragraph 80 of AU-C section 940 when the auditor reports on both the audit of ICFR and the financial statements in a combined report and provide guidance for auditors. We note Illustration 5 is an example of a combined report on ICFR and the financial statements, but does it not address the reporting requirements in AU-C section 720.	Same as comment #63 See issue 2 in issue paper (Agenda item 1C(1))
77	Nodes\80	2 - GT	940.80 We found this paragraph difficult to follow and believe it could be clearer by splitting the requirement into multiple paragraphs. Therefore, we ask the Board to consider replacing proposed paragraph .80 with the following two paragraphs. <i>.80A When management includes, either within management’s report or in a document containing management’s report and the related auditor’s report, information in addition to the elements that are subject to</i>	See issue 2 in issue paper (Agenda item 1C(1))

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p><i>the auditor’s evaluation as described in paragraph .55, the auditor should do the following.</i></p>	
			<p><i>a. Read the additional information to identify material inconsistencies with management’s report and remain alert for material misstatements of fact while reading the additional information</i></p>	
			<p><i>b. If the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information.</i></p> <p><i>i. If management agrees to make the correction, determine that the correction has been made.</i></p> <p><i>ii. If management refuses to make the correction, communicate the matter to those charged with governance and request the correction be made.</i></p>	
			<p><i>c. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following.</i></p> <p><i>i. Consider the implications for the auditor’s report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor’s report</i></p>	

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p><i>ii. Withhold the auditor’s report</i></p> <p><i>iii. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation</i></p> <p><i>.80B When the additional information subject to the requirements of .80A is included in management’s report and no material inconsistencies or material misstatements of fact are identified, the auditor should disclaim an opinion, in an other-matter paragraph, on the additional information.</i></p>	
78	Nodes\80	3 - EY	<p>We support the ASB’s proposal to amend paragraph 80 of AU-C section 940. However, we believe the phrase “and to become aware of material misstatements of fact” in proposed AU-C 940.80.a is confusing. We suggest replacing this phrase with the words “or any material misstatements of fact.”</p> <p>Alternatively, we recommend that the ASB consider combining the requirements described in proposed AU-C 940.80.a and 80.b in the following manner because they are the same, except for the requirement to include an other-matter paragraph on the additional information when this information is included in management’s report:</p>	See issue 2 in issue paper (Agenda item 1C(1))

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p>.80 When management includes, either within management’s report or in a document containing management’s report and the related auditor’s report, information in addition to the elements that are subject to the auditor’s evaluation as described in paragraph .55, the auditor should do the following: <i>read the additional information to identify material inconsistencies with management’s report or any material misstatements of fact, and:</i></p>	
			<p>c. When such information is included in management’s report, read the additional information to identify material inconsistencies with management’s report and to become aware of material misstatements of fact. If no material inconsistencies or material misstatements of fact are identified, disclaim an opinion, in an other-matter paragraph, on the additional information <i>when such information is included in management’s report.</i></p>	
			<p>If, upon reading the additional information the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. If management agrees to make the</p>	

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p>correction, determine that the correction has been made. If management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following: (Ref: par. .A129)</p> <p>iv. Consider the implications for the auditor's report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor's report</p> <p>v. Withhold the auditor's report</p> <p>vi. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation</p>	
			<p>d. When such information is included outside management's report and the related auditor's report, read the additional information to identify material inconsistencies with management's report. If, upon reading the additional information, the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. If management agrees to make the correction, determine that the correction has been made.</p>	

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			<p>If management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made. If the correction is not made after communicating with those charged with governance, the auditor should do one or more of the following: (Ref: par. .A130)</p> <p>iv. Consider the implications for the auditor’s report and communicate to those charged with governance about how the auditor plans to address the material inconsistency or material misstatement of fact in the auditor’s report</p> <p>v. Withhold the auditor’s report</p> <p>vi. Withdraw from the engagement, when withdrawal is possible under the applicable law or regulation”</p>	
79	Nodes\80\80b	8 - Deloitte Touche LLP	<p>Paragraph .80</p> <p>D&T noted an inconsistency between the audit procedures to be performed in paragraph .80a with those stated in paragraph .80b. We recommend the following edits be made to paragraph .80b to address this inconsistency related to material misstatements of fact.</p> <p><i>b.</i> When such information is included outside management’s report and the related auditor’s report,</p>	See issue 2 in issue paper (Agenda item 1C(1))

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			read the additional information to identify material inconsistencies with management’s report <u>and to become aware of material misstatements of fact</u> . If, upon reading the additional information, the auditor identifies a material inconsistency or becomes aware of a material misstatement of fact, request management to correct the information. ...	
80	Nodes\\86	8 - Deloitte Touche LLP	<p>Paragraph .86 of AU-C section 940 was amended for situations in which management elects to limit its assessment by excluding certain entities to require the auditor to include a disclosure in the “Basis for Opinion” section of the report. We believe the requirement should allow flexibility in where the auditor includes this disclosure and be amended as follows:</p> <p>In situations in which management elects to limit its assessment by excluding certain entities, the auditor should evaluate whether it is appropriate, in the auditor’s judgment, to do so. If the auditor concludes that it is appropriate, in applying the requirement in paragraph 64d, the auditor should include <u>in either the “Opinion on Internal Control Over Financial Reporting” or “Basis for Opinion” section of the report</u> a disclosure</p>	<p>Change made.</p> <p>See change proposed in agenda item 1C(2)</p>

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			similar to management's regarding the exclusion of an entity from the scope of both management's assessment about ICFR and the auditor's audit of ICFR. Additionally, the auditor should evaluate the appropriateness of management's disclosure related to such a limitation.	
81	Nodes\\A154 illustration 5	14 - PwC	Paragraph A154 - Illustration #5 - There is a typographical error in the paragraph of the Auditor's Responsibility section describing fraud - "my" should be changed to "may" to align with AU-C section 700.	Agreed. Change made.
82	Nodes\\A154 illustration 5	4 - TXCPA	Additionally, we would like to point out a typographical error noted on p.85 in the proposed amendments: "Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one	Corrected

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	<i>Paragraph</i>	<i>Respondent</i>	<i>Comment</i>	<i>Response</i>
			resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.”	
83	Nodes\A154 illustration 5	8 - Deloitte Touche LLP	In Illustration 5, we noted that “audit” should be “audits.” We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits.	Agreed. Change made.