

Agenda Item 2



Practice Issue – Addressee in Report

Discussion Memo

Objective of Agenda Item

To discuss whether including the city and state of the addressee in the accountant's compilation or review report would be beneficial to users of the financial statements and the potential practical implications if such a requirement were adopted.

Background

On November 28, 2017 the Auditing Standards Board (ASB) issued an exposure draft addressing several different AU-C sections with respect to auditor reporting. Comments were due on the proposed revisions on May 15, 2018. The ASB met on July 23-26, 2018 and was provided preliminary feedback from the comment letters received and was requested to provide direction to the Task Force working on the proposed revisions.

The explanatory material accompanying the exposure draft included the following:

Issue 2—Addressee in the Auditor's Report

Paragraph 21 of proposed SAS *Forming an Opinion and Reporting on Financial Statements* requires the auditor's report to be addressed, as appropriate, based on the circumstances of the engagement. This is essentially identical to the requirement in extant AU-C section 700 and is not expected to change current practice.

The ASB considered whether the proposed SAS should require the city and state of the addressee to be included in the auditor's report, or whether to include application material that would discuss including such information. Certain members of the ASB believed that providing information about where the client is located would provide a nexus for the jurisdiction of the audit, which may be helpful in certain circumstances involving regulatory actions and therefore would be in the public interest.

The ASB acknowledged that the city and state of the addressee might be helpful information in certain situations but noted that there may be practical difficulties for an

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auditor in determining the appropriate location to include in the auditor's report (for example, when the corporate office is in a different location than the office at which the principal books and records are maintained). Accordingly, the ASB is not proposing to require the client's address to be included in the auditor's report.

Please note that the proposed SAS does not change the existing requirement for the auditor's report to name the city and state where the auditor practices (that is, the auditor's address).

The ASB asked for respondents to provide their views on the following:

- a. Would including the city and state of the addressee in the auditor's report be beneficial to users of the financial statements?
- b. What would the practical implications be if such a requirement were adopted?

The ASB Task Force considered the comment letters received on the exposure draft of the proposed standard and included the following in the discussion memorandum that accompanied the agenda materials for the ASB's July 23-26, 2018 meeting:

Results — 32 of the 38 comment letters specifically responded to question 11. Of the 32 who responded, 78% believe including the addressee's city and state would not be beneficial to users of the financial statements and believe the difficulties in determining that information would outweigh the benefits.

The seven respondents that supported including the addressee's city and state noted the following:

- appears appropriate but not sure what benefit the users will obtain from this information (TN state)
- beneficial to State regulators (NASBA)
- helpful to various users of the financial statements, including funding agencies, grantors, and others (NASBA)
- believe provision of such information would facilitate States' adoption of firm mobility provisions (NASBA)
- makes the addressee more complete and possibly more clear (office of Washington State auditor)
- some users may find that including the city and state of the addressee beneficial, but it is doubtful that many users will gain any significant benefit from this information (NYSSCPA)
- may be beneficial to users; however, would not provide any additional information to users and there could be practical difficulties (Cherry Bekaert)
- may be beneficial to some users of the financial statements; however, may not always be practical to implement in all instances and the difficulties in doing so may outweigh the benefits (ALGA)

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- believe could be useful information and that there would be no practical implications if this requirement were adopted (NCACPA)

The following is a summary of the results.

<i>Question 11</i>	<i># Responses out of 32</i>	<i>Percentage of those who responded</i>
Supportive	2	6%
Supportive with comments	5	16%
Total supporting	7	22%
Not Supportive	25	78%

Task Force Recommendations

Based upon the responses received, the task force believes that the proposed SAS should not require the city and state of the addressee to be included in the auditor’s report. Accordingly, the task force will not propose any amendments to the proposed SAS relating to this matter.

After discussion, the ASB directed the Task Force to not include the city and state of the addressee in the auditor’s report.

A summary of all responses to the specific request for comment are included in the exhibit to this discussion memorandum.

Action Requested of the ARSC

Mr. Burkes will present NASBA’s concerns with respect to the proposal to include the city and state of the addressee in the auditor’s/accountant’s report. The ARSC is asked to consider:

- a. the concerns expressed by Mr. Burkes and also the responses to the specific request for comment included in the exposure draft of the proposed auditor reporting standard;
- b. whether it believes that the city and state of the addressee should be included in the accountant’s compilation or review report; and
- c. whether any communication should be made to the ASB regarding the ARSC’s thoughts on the matter.

Agenda Items Presented:

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No additional agenda material is presented.

Exhibit – Summary of Responses to ASB’s Specific Request for Comment

<i>Issues For Consideration: Issue 2—Addressee in the Auditor’s Report</i>		
<i>ED question 11 – Please provide your views on the following:</i>		
<i>a. Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?</i>		
<i>b. What would the practical implications be if such a requirement were adopted?</i>		
Responder	Comment	TF Consideration / Response
TIC	TIC does not believe including the city and state of the addressee in the auditor’s report would provide any benefit and could possibly create an administrative burden to determine the address to use when entities have multiple locations. Essentially, it would create an administrative burden with little to no value added to the readers of the financial statements. TIC also believes in a changing environment where more and more work is done virtually and offices and locations are going more virtual as well so that, the concept of physical location is becoming somewhat dated.	No - Do not include city and state
Tennessee Division of State Audit	<p>a. Including the city and state of the issuing auditor appears appropriate. We are not sure what benefit the user obtains from this information though.</p> <p>b. We do not believe there are any practical implications, especially in the state and local government environment.</p>	Supportive with comments
NYSSCPA	<p>Some users may find that including the city and state of the addressee beneficial, and we observe that this practice is not uncommon; however, it is doubtful that many users gain any significant benefit from this information.</p> <p>In rare instances, a practical implication of such a requirement could be additional</p>	Supportive with comments

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

Responder	Comment	TF Consideration / Response
	engagement time to determine the appropriate city and state to communicate. Determination of the city and state might require additional guidance for practitioners to maintain uniformity in application among auditors.	Some may find it beneficial however doubtful users will gain any benefit
RSM	11.a. We do not believe including the city and state of the addressee in the auditor’s report would be beneficial to users of the financial statements. 11.b. We believe there may be practical difficulties for an auditor in determining the appropriate location to include in the auditor’s report. For example, there may be situations in which the corporate office is in a different location than the office at which the principal books and records are maintained.	No. Not beneficial
NJCPA	11a. The Group believes including the city and state of the addressee would not improve the report at all. 11b. With virtual offices and cloud computing becoming the new workplace – including the city and state of the addressee in the report only provides more information without purpose.	No. Not improve the report
NASBA	We believe that the city and state of the reporting entity should be included in the report. Not only would this be beneficial to State regulators, but it would be helpful to various users of the financial statements, including funding agencies, grantors, and	Supportive of including

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Responder	Comment	TF Consideration / Response
	<p>others. We also believe that provision of such information would facilitate States’ adoption of firm mobility.</p> <p>Prior to the 7th Edition (released in 2014), the Uniform Accountancy Act (UAA) required CPA firm registration in a state if the CPA firm performed attest service for a client having its “home office” in that state even if the CPA firm did not have an office in that state. The 7th Edition and recently released 8th Edition introduced “firm mobility” by dropping the registration requirement for firms without an office in a state so long as the firms complied with the state’s ownership and peer review requirements, see UAA §7(a)(1)(C). Accordingly, per firm mobility, a firm can offer or render attest services in another state without having to establish an office in that state, register in that state or even provide mere notice to that state.</p> <p>Currently, 21 jurisdictions (AK, AR, CT, DC, FL, GU, IA, MD, ME, MS, MT, NV, NH, NJ, OK, SC, SD, VI, VT, WV, WY) still use the UAA 6th Edition’s registration requirement (“home office”). Some form of firm mobility has been adopted in 24 jurisdictions (AL, AZ, CO, DE, FL, IA, ID, IL, IN, KY, LA, MI, MO, MT, NM, ND, OH, PA, RI, TN, UT, VA, WA, WI). Firm mobility legislation is pending two states (NH and NJ). With the elimination of the “home office” requirement, there is arguably no reliable alternative way for regulators and the public to ascertain the relevant requirements for auditors much less their peer review or disciplinary records. The absence of a disclosure requirement for audit client addresses could thus</p>	

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Responder	Comment	TF Consideration / Response
	<p>undermine state movement toward firm mobility and encourage adoption of notification requirements.</p> <p>No compelling argument has been articulated against disclosure. Indeed, in an auditor’s report which by its very nature should favor disclosure of relevant information, it seems very little to ask that the auditor disclose the client’s city and state. Absent such a simple disclosure, there is a potential for not only auditors but also clients to take advantage of jurisdictional differences. Clients and the public need to know that the audit firm is legally qualified to perform an audit for a particular client. An efficient way for the public to know is to require disclosure of the location of the client for audit purposes.</p> <p>Additionally, the less than onerous exercise of determining and disclosing an audit client’s city and state could benefit not only the public, regulators and clients, but also the audit firms, since, by so doing, they could better ascertain whether and where they must register during this period of regulatory transition in which no more than half the states have implemented firm mobility.</p> <p><i>What would the practical implications be if such a requirement were adopted?</i></p> <p>Although there might be some difficulty with determining the appropriate “city and state” to disclose for some multistate or multinational clients, we believe that the statements on standards could provide useful guidance. We note that such</p>	

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	<p>determinations routinely have been made for many decades to comply with income tax regulations and we are not aware of it being controversial. The audit client’s city and state to be disclosed is not likely to be “confidential client information.” That location might or might not be the “home office” as specified by the client,” or “principal place of business,” or “principal office,” or “headquarters,” or “primary headquarters,” and, indeed, some clients might have more than one such location. The chosen term should be one that provides the most relevant information to those who need the disclosure the most: the public.</p> <p>We believe that the city and state of the reporting entity should be included in the report. Not only would this be beneficial to state regulators, but it would be helpful to various users of the financial statements, including funding agencies, grantors, and others.</p>	
Office of the Washington State Auditor	Including the city and state makes the addressee more complete and possibly more clear. We already do this in our reports and do not see any practical implications of such a requirement.	Supportive of including
Smith & Howard PC	We do not believe including the city and state of the addressee in the auditors’ report will be beneficial to users of financial statements. Furthermore, we believe inclusion	No. Not beneficial

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

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Responder	Comment	TF Consideration / Response
	location than the office at which the principal books and records are maintained. Performing this type of analysis would ultimately have no benefit to the users of the financial statements.	
Cherry Bekaert	<p>We believe that including the city and state of the addressee in the auditor’s report may be beneficial to users of the financial statements. However, we expect that any benefit would only be seen in situations where entities operate in a limited area, and the location disclosed would then indicate the location of all relevant geographies of the entity (e.g. operations, corporate office, accounting office). Additionally, we note that this information concerning location is commonly found in the notes to the financial statements, and thus this disclosure in the auditor’s report would not provide any additional information to the users.</p> <p>We believe there could be practical difficulties in determining the appropriate city and state to be included, such as in situations where management is not at the same location as the accounting records or the entity has no corporate office. We also believe the inclusion of city and state could lead to confusion for users of the financial statements, such as if the location disclosed is not consistent with the location of the operations of the business. We therefore do not believe the potential benefits would outweigh these difficulties and potential consequences of complying with such a requirement.</p>	<p>Supportive with comments</p> <p>May be beneficial to users however, not provide additional information to users and could be practical difficulties</p>

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Responder	Comment	TF Consideration / Response
	Based on the above, we agree with the ASB’s decision not to require the city and state to be included in the addressee of the auditor’s report.	
Michigan Office of the Auditor General	We would not consider it beneficial to the users of the financial statements as our experience is that the audited entity routinely includes their city and state as part of their mailing address on their letterhead within their annual report. We are not aware of a compelling reason to include this information. For nonissuers such as small not-for-profit entities that have no physical office address, identification of the city and state may be a matter of where they accept their mail. For township governments, this may require additional guidance to specify whether naming the township is appropriate in lieu of naming the post office, which in some cases is not a city.	No. Not beneficial to users
MACPA	Possibly, but it could also be problematic for certain clients (e.g., those who maintain virtual offices). The flexibility allowed under current standards is appropriate.	Could be problematic
Piercy Bowler Taylor & Kern	Regarding Issue 2 presented on p. 17 of the ED, although not required by the extant standard, and although no change is currently proposed, we note that there has been a trend developing among some audit firms of addressing audit reports to shareholders (as presently required by the PCAOB) or other non-management owners rather than solely to those in charge of governance (<i>i.e.</i> , “responsible for the oversight of the	No justification or benefit to including

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Responder	Comment	TF Consideration / Response
	<p>financial reporting process”). We recommend that the final standard caution auditors that, because in some jurisdictions such practice may trigger legal privity of contract with those who otherwise may not have it, thus expanding the auditor’s exposure to liability, and because such a practice may necessarily affect an auditor’s judgment as to materiality, they should not do so unless expressly engaged to report that way and it has been considered appropriately in determining audit scope.</p> <p>As for question 11 under Issue 2, although it currently is common practice to include the client’s city and state when addressing an audit report, we regard it as uncontroversial and, once again, we see no justification for, or benefit to anyone from, requiring its inclusion.</p>	
FICPA	<p>A: The Committee sees no particular benefits to including the city and state of the addressee in the auditor’s report.</p> <p>B: In the case of multi-office clients, adding the address would place a burden to identify the proper address, especially since the Committee does not see a conceivable benefit to adding such information on the audit report.</p>	See no benefit to including
BDO	We believe that inclusion of the city and state of the addressee should not be required, although auditors may choose to include such information in the auditor’s report. As noted in the Explanatory Memorandum, there may be practical difficulties for an	No. should not be required

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Responder	Comment	TF Consideration / Response
	auditor in determining the appropriate location to include in the auditor’s report (for example, when the corporate office is in a different location than the office at which the principal books and records are maintained).	
ICPAS	<p>a. Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?</p> <p><i>Response: No comment.</i></p> <p>b. What would the practical implications be if such a requirement were adopted?</p> <p><i>Response: No comment.</i></p>	No comment
SVA Certified Public Accountants, S.C.	My firm’s practice is to include the city and state of the addressee in the auditor’s report. However, I recognize that there are situations where that is not practical for larger companies. I do not think this needs to be a requirement.	Do not think it needs to be a requirement
Association of Local Government Auditors	Yes. Including the city and state of the addressee may be beneficial to some users of the financial statements. However, we agree that this may not always be practical to implement in all instances and the difficulties in doing so may outweigh the benefits.	<p>Supportive with comments</p> <p>Yes – may be beneficial to some users however</p>

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Responder	Comment	TF Consideration / Response
		difficulties may outweigh the benefits
GAO	We believe the best approach is to allow flexibility for the auditor to determine whether the benefits of including the city and state of the addressee in the auditor’s report outweigh the difficulties of determining such information.	No – better allow flexibility
Massachusetts Society of CPAs	<p>Response – The overwhelming majority of the Committee members at present include the City/Town and State of the client in the auditor’s report.</p> <p>The Committee however feels the decision to include the City/Town and State should be left to the judgement of the auditor.</p> <p>Response – Since the Committee members in most all reports are including this information already the Committee sees no adverse implications.</p>	No. should be left to judgement (not a requirement)
GT	<p><i>Issue 2 – addressee in the auditor’s report</i></p> <p>Generally, we do not believe that including the city and state of the addressee in the auditor’s report would be beneficial to users of the financial statements. We believe such information could instead cause confusion from a user’s perspective. In addition, we foresee practical challenges in determining the appropriate disclosure of the</p>	No. not beneficial

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Responder	Comment	TF Consideration / Response
	entity’s city and state, especially with larger, more complex entities, and resulting inconsistencies in practice. As such, we agree with the Board’s conclusion not to propose requiring this information in the auditor’s report.	
NCACPA	Some task force members felt the addition of the addressee’s city and state could be useful information and that there would be no practical implications if this requirement were adopted. However, there were others on the task force that felt identifying the addressee’s city and state could prove difficult in multi-location entities with multiple or offshore headquarters and that, even in the event the location was easily identifiable, there would be little to no value gained by the user of the statements.	Mixed views (considered supportive with comments)
CALCPA	<p>a. Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?</p> <p>No; in practice this may not be much of an issue, but there can be difficulties at times in determining the appropriate city and state of client in instances where the accounting and home office operations are in different locations, or when an entity is registered / organized in a foreign jurisdiction (apart from where management is located). We do not believe this information would be beneficial to users of financial statements.</p>	No. not beneficial to users

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Responder	Comment	TF Consideration / Response
	<p>b. What would the practical implications be if such a requirement were adopted? None; we do not believe this information is beneficial. The auditor is free to include this information now if they believe it provides meaningful information to a reader.</p>	
Anders	We strongly agree with the Board’s decision to NOT require the client’s address in the auditor’s report.	No.
Baker Tilly	<p>a. We believe that the practical difficulties discussed below would outweigh any potential benefits derived by financial statement users from including the addressee’s city and state in the auditor’s report.</p> <p>b. Due to the significant number of entities that operate out of multiple locations or utilize decentralized management and leadership, unless significant application guidance were added to the proposed standard, we believe that many times it would be difficult for auditors to determine the addressee’s city and state.</p>	No. Difficulties outweigh the benefits
OHIOCPA	The committee recommended against adding this requirement, as there may be practical implications for businesses with multiple locations and the location would typically already be known to users such as lenders and interested parties.	No. against adding the requirement
PWC	We support the ASB’s decision not to require this information in the auditor’s report. Paragraph A25 of AU-C section 700 notes the auditor’s report is normally addressed	Agree not to require

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	to those for whom the auditor’s report is prepared, further explaining the report may be addressed to the entity whose financial statements are being audited or to those charged with governance. If the report is issued to any party other than the entity, we believe requiring auditors to include the city and state of the addressee in the auditor’s report would be difficult. We believe it would be preferable for users of the report to obtain information about the location of the company’s business from disclosures the company provides.	
E&Y	<p>We do not believe including the addressee’s city and state in the auditor’s report would improve the objectives of financial reporting. We recommend any final SAS on this matter be consistent with the standards of the PCAOB and the IAASB and not require the location of the addressee to be included in the auditor’s report.</p> <p>If the ASB decides to require such information, the Board would need to provide application guidance to help the auditor determine the appropriate location to disclose. For example, the auditor would need to understand whether the appropriate city and state of the addressee is the location of the addressee’s principal office, place of incorporation or the location of the books and records.</p>	No. will not improve objectives of financial reporting and be consistent with PCAOB and IAASB

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

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Responder	Comment	TF Consideration / Response
	state? This seems like a lot of rigamarole for something that I don’t believe will be beneficial to the users.	
National State Auditors Association	<p>a. We don’t believe including the city and state of the addressee in the auditor’s report would be beneficial to the users of the financial statements.</p> <p>b. We know of no practical implications if such a requirement were adopted.</p>	No. Not beneficial
D&T	<p>a. D&T believes including the city and state of the addressee in the auditor’s report is not necessarily beneficial to users of the financial statements. If the entity believes such information is useful, the entity should include such information in the notes to, or elsewhere in the financial statements. Alternatively, the auditor may include the information voluntarily or at management’s request. D&T therefore agrees with the ASB’s proposal to not require the entity’s address to be included in the auditor’s report.</p> <p>b. Practical implications could be challenges that may result when the corporate office is in a different location than the office at which the principal books and records are maintained or where the entity is incorporated in a different state than the corporate office. The address information may in those cases be confusing to the users of the audited financial statements. Ultimately, we believe as stated above, that if this</p>	No. Not beneficial

Practice Issue – Addressee in Report
Discussion Memorandum
ARSC Meeting, August 14-16, 2018

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

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

- a. Would including the city and state of the addressee in the auditor’s report be beneficial to users of the financial statements?*
- b. What would the practical implications be if such a requirement were adopted?*

Responder	Comment	TF Consideration / Response
	information is useful to the users of the financial statements, such information can best be voluntarily provided by the entity in the notes to the financial statements.	