



August 1, 2019

Ms. Sherry Hazel  
AICPA  
1211 Avenue of the Americas  
New York, NY 10036-8775

Dear Ms. Hazel:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA's proposed Statement on Auditing Standards and proposed Statement on Standards for Attestation Engagements, both titled *Amendments to the Description of the Concept of Materiality*.

Our responses to the specific questions posed in the exposure draft follow:

1. *Please provide your views on whether the wording of the amendments is consistent with the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators. If the wording is not consistent, please identify the areas of inconsistency and suggest alternate wording.*

We believe the proposed wording of the amendments is consistent with the definition of materiality used by the U.S. judicial system and other U.S. standard setters and regulators, excluding FASB. FASB does not include the term "substantial likelihood," which we believe has a significant impact on the interpretation of the definition, implying a different degree of certainty when compared to the term "probable" (used by FASB). Historically the AICPA has tended to remain in alignment with FASB, however including "substantial likelihood" introduces an inconsistency in the definitions. If the ASB proceeds with use of the term "substantial likelihood" we suggest it define the term in the standard.

The auditing standards currently define the terms "reasonably possible" and "probable" when referring to internal control deficiencies and the likelihood of a material misstatement or noncompliance occurring that will not be prevented, or detected and corrected, on a timely basis (AU-C 265.07 and 935.11). "Probable" is also defined and used in AU-C 501. Specifically, probable is defined as a future event or events that are likely to occur. However, the term substantial likelihood is not defined in either the auditing standards or attestation standards. Therefore, it is unclear whether the ASB intended for this term to mean more likely than probable (i.e., highly probably) or whether it should align with the current definition of probable, the term used by FASB. This should be clarified.

Similarly, we suggest the Board define the term "reasonable user" including distinguishing between an "intended user" and a "reasonable user." Auditing standards and attestation standards both refer to intended users frequently; although, "intended user" is also not defined. Therefore, it is unclear if the term "reasonable user" means the intended user, or if the ASB's intent was for the term to mean a broader set of users than the intended users. To help clarify, the ASB should consider adding to the AU-C 320 application material language similar to that in proposed AT-C 205.17(a-d) regarding the characteristics of the reasonable user (e.g., *reasonable users* have reasonable knowledge of accounting and financial reporting and a willingness to obtain that knowledge). We believe this additional application material will provide the practitioner with consistent guidance when assessing the reasonable user (AU-C 320 ¶4).



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In addition, the proposed amendments to AT-C 205.A17 and AT-C 210.A16 replace “intended users” with “reasonable user” in the first sentence but continue to use “intended users” in the second and third sentences. The ASB should use the term consistently.

2. *Please provide your views on whether the proposed amendments will change how auditors determine materiality in an audit or attestation engagement. If the amendments would result in a change, how would the change affect those engagements?*

We do not believe there will be a significant change in how auditors determine materiality in an audit or attest engagement based on the proposed amendments. Rather it could change how it is applied at the end of an audit. Auditors could interpret the description of the concept of materiality as proposed in this exposure draft as requiring more of a likelihood that a user would be influenced with the use of the term ‘substantial likelihood’ than other terms (i.e., reasonably possible and probable) currently defined and used in the auditing and attestation standards. This could result in auditors concluding more needs to be identified as being omitted or misstated to be considered materially incorrect, causing materiality thresholds to increase.

In addition, the term ‘reasonable user’ may be interpreted as having a broader meaning than the intended user, which may result in auditors changing how they determine and apply materiality. Specifically, it may be more difficult for auditors to judge a misstatement’s effect on a reasonable user’s decision-making versus an intended user’s decision-making, the latter of which implies some degree of knowledge about the financial statements.

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (617) 727-2075.

Sincerely,

Suzanne Bump  
President, NSAA