



February 10, 2020

Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

To Whom it May Concern:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's exposure draft, *Amendments to AU-C Sections 725, 730, 930, 935, and 940*.

In general, 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. However, we have some general comments relating to proposed changes to AU-C 935, and we have provided our responses to the requests for comments posed in the exposure draft.

*General comments relating to AU-C 935*

- We are unclear why the definition of material noncompliance in paragraph .11 is not parallel to the definition of material misstatement in SAS 138 amendments to AU-C 700 and AU-C 320. Moreover, the proposed definition appears to contain circular reasoning. The determination of materiality should not be based on the auditor's report on compliance – rather, what is reported should be based on the determination of materiality. We strongly suggest making this definition parallel to the definition of material misstatement in SAS 138 and removing “based on the report on compliance” from the definition. If the definition is not intended to be parallel, we would request application guidance in the standard explaining how the auditor would adjust their consideration of materiality for noncompliance from their consideration of misstatements.

In addition, we suggest the following edits to the description of materiality for reporting on compliance audits in paragraphs .30.g.iv and the Illustrative Combined Report in .A44:  
*Noncompliance with the compliance requirements referred to above is considered quantitatively or qualitatively material to compliance if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user about compliance with the requirements referred to above of the government program as a whole based on the report on compliance.*

- AU-C 935.30.e.iii on page 40 contains a footnote reference to fn5, but it appears that fn4 was added and should be the correct footnote reference instead of fn5.
- We noted a paragraph that appears to be out of place. At the top of page 46 is a paragraph that references the exhibit “Illustrative Combined Report on Compliance and Internal Control Over Compliance.” This paragraph is part of paragraph .31. We believe it should be moved to the end of paragraph .30 on page 44 since paragraph .30 discusses combined reports.

*Request for Comment Specific to AU-C Section 930*

1. Are the proposed amendments to AU-C section 930 appropriate and complete?



We agree that the proposed amendments to AU-C Section 930 are appropriate and complete. However, see our comment to item 2 below.

2. Should the reporting requirements in paragraph .31 include revisions for harmonization with the requirements in PCAOB AS 4105, including the placement of the auditor's review conclusion at the beginning of the review report on interim financial information?

We agree with the proposed changes to paragraph .31 to place the auditor's review conclusion at the beginning of the review report, which is consistent with both SAS 134 and PCAOB AS 4501. Other changes made to paragraph .31 (pages 16-17) and to the illustrative reports at paragraph .A76, Exhibit B (pages 22-29), harmonize with PCAOB AS 4501; however, they are not entirely consistent with SAS 134 as explained in the proposed changes to section 930. PCAOB reporting combines the management's responsibilities and auditor's responsibilities within the Basis of Review Results section. Although, the reporting of section 930 includes a separate section for management's responsibilities consistent with SAS 134, it does not include a separate section for the auditor's responsibilities. We suggest that the Board include a separate section for the auditor's responsibilities, including a statement that the auditor's review objectives are to provide limited assurance and issue a conclusion report, to be consistent with SAS 134 reporting.

3. Do you agree with aligning the dating requirement to be consistent with that of PCAOB AS 4105 and AR-C section 90?

We agree with aligning the dating requirement to be consistent with PCAOB AS 4105 and AR-C Section 90. Consistency among these standards will benefit auditors in applying the standard and would meet an expectation of consistency among users.

*Request for Comment Specific to AU-C Section 935*

1. Are the proposed amendments to the appendix appropriate and complete, including the proposed amendments to be consistent with current government requirements? If not, please suggest specific revisions.

In general, yes, the proposed amendments to the appendix are appropriate and complete, including the proposed amendments to be consistent with current government requirements. However, we did note that the AU-C 700 paragraphs shown as "not applicable" in the updated standard (paragraph .43) do not appear to align with paragraphs considered not applicable in the current standard. We believe the list should read .13-.17, .21-.44, and .46-.61.

2. Do you agree with how the combined report and the separate reports are addressed in the standard? If not, please suggest specific revisions.

The changes to the combined and separate reports within the proposed amendments appear to be appropriate and we do not have any suggestions for revisions. However, it would be helpful to include an example of a separate report on internal control or specific guidance as to the order in which the various report elements should be listed, as it is not clear from the updated standard.



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

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

The proposed amendments to this section appear appropriate and complete.

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?

We agree with the proposed amendment that requires a statement in the section “Auditor’s Responsibilities for the Audit of ICFR” that 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?

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

- 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?

We agree with the proposed placement of the paragraphs when issuing an adverse opinion on internal control over financial reporting due to a material weakness.

- 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?

We agree with the proposed amendments to paragraph .80 for reporting when additional information is included in management’s report. We agree that the amended language is an improvement over the former language which directed the auditor to disclaim an opinion in all cases. The amended language, which includes additional options such as withdrawing from the engagement, allows for more auditor judgment.

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