P B T K
PIERCY BOWLER
TAYLOR & KERN
Certified Public Accountants
Business Advisors

August 17, 2016

Ms. Sherry Hazel, Audit and Attest Standards Team
American Institute of Certified Public Accountants (AICPA)

By e-mail to: shazel@aicpa.org

Re: Proposed Statement on Auditing Standards, *Auditor Involvement with Exempt Offering Documents*

Dear Ms. Hazel:

We are pleased to have the opportunity to respond to the request for comment on the exposure draft (the ED) of the AICPA's Auditing Standards Board (ASB) entitled as captioned above (the proposed SAS).

Issue 1: *Limited feedback on the types of offerings included in the scope of the standard, specifically whether franchise offerings should be included in the scope of the proposed SAS, follows:*

Although we have no experience with franchise offerings, we know of no reason they should be excluded from the scope of the proposed SAS, and we believe such scope to be appropriately suited to its objective.

Issue 2: *Our views regarding (a) whether the activities or conditions that have been identified should trigger involvement and (b) whether additional activities or conditions should be considered as triggers for involvement follow:*

The concept of auditor "association" was last discussed in the auditing standards where it was defined in SAS 26 (AU sec. 504) but was withdrawn in 2011 by SAS 122 in connection with the recent clarity recodification primarily because it served only to interpret a reporting responsibility that was likely to be modified by the introduction of a preparation level of service in what ultimately became SSARS 21 in 2014. The operative definition in AU sec. 504.03 was that "an accountant is associated with financial statements when he has consented [not necessarily in the federal statutory sense] to the use of his name in a report, document, or written communication containing the statements." Despite a footnote in SAS 122 that suggests that the content of AU sec. 504 was addressed through amendments to various AR-C and AU-C sections, neither the notion nor a definition of association appears now anywhere in the auditing standards.

The foregoing notwithstanding, we believe the concept of "association" is a useful one with which most experienced auditors are familiar and that its definition (and its use) should be restored to our professional standards particularly in this proposal in connection with exempt offerings and perhaps

elsewhere where relevant,[1] for example in AU-C sec. 720.[2] We say this because we firmly believe that auditor responsibilities and related procedures should be prescribed by a standard only when the auditor is associated with the financial statements pursuant the definition that last appeared in AU sec. 504.03, not under the considerably broader notion of "involvement," as proposed in the ED. Consequently, we believe the term, involvement should not be used in the title or the body of the final SAS and that the proposed definition thereof contained in para. A6 likewise be omitted.

It appears, based on our research, that the term, "involvement," was never used in any auditing or other professional standard; on the other hand, we believe its use was limited historically to various editions of the AICPA Audit and Accounting Guides entitled *State and Local Governments and Health Care Entities* (the Guide) that was cited in the explanatory memorandum contained in the ED. We support the current status of the term in chapter 17 of the 2016 edition of the Guide with respect to the fact that, unlike in prior editions, no recommended procedures or auditor responsibilities are provided. However, consistent with the view expressed about the proposed SAS in the preceding paragraph, we believe the term, "involvement," should be removed in the next edition of the Guide.

We believe that the condition described in para. 8a of the proposed SAS contained in the ED should be expanded to include a requirement for the auditor's permission[3] such that its language, therefore, closely conforms to the definition of association that was in AU sec. 504.03. We also believe that no other condition for association should be cited in the main body of the standard but rather that, except for the last condition listed in para. 8b(vii) of the proposed SAS contained in the ED, which should be presented solely as evidence of the granting of permission (even absent a provision in the letter of engagement or another written document similar to a statutory consent[4] that would be issued in an offering under the federal Securities Act of 1933).

We firmly believe that the other activities now listed in par 8b should be relocated to the Application and Other Explanatory Material section of the final SAS where they should be presented merely as examples of activities that when not otherwise informed by the client, could cause the auditors to find out that their audit report is included in the draft offering document, and that absent persuasive evidence to the contrary, performance of such would be presumed to be indicative of the permission necessary to meet the definition of association.

We note that AU secs. 530.06-.08 described (but did not define) what constituted a "reissuance" of an audit report. Unfortunately, however, pursuant to SAS 122, its useful content also disappeared from our auditing standards in connection with the recent clarity recodification. In essence, AU secs. 530.06-.08 provided that when an audit report is "reissued," for example, for inclusion in an exempt offering document, and the date of the reissued audit report remains the same as the original report, the auditor

---

1 Accordingly, we believe the final standard should contain amendments to standards other than just AU-C sec. 560. For example, we believe that, at a minimum, once adopted, there should be references to this standard (AU-C sec. 945) inserted into AU-C secs. 700, 720, 920, and 925. More substantive examples are noted in the text of this letter.

2 Although absent a useful definition of "association," (which we think is needed) an auditor's obligation to perform the procedures described in AU-C secs. 720.06-.08 (that are also described in paras. 10-11 of the proposed SAS) is precipitated by the risk management driven language that (inappropriately, in our opinion) appears only in in the standard's objective (AU-C sec. 720.04), language that is quite similar to that of the proposed SAS's objective (para. 4). However, in the case of a securities offering, we believe the additional procedures described in paras. 12-17 are warranted by the risk considerations.

3 We believe the final standard should caution auditors (a) to include the need for such permission in their letters of engagement and (b) to seek legal counsel in the event a client includes their audit report in an offering document without permission.

4 Because it is a legal term applied appropriately only to 1933 Act securities registrations, we believe the final standard should caution auditors not to use the term, "consent," to signify permission in connection with exempt offerings.

"has no responsibility to make further investigation or inquiry as to events which may have occurred"[5] (or to update the audit report) after the original report date unless otherwise aware of such an event that would be reportable pursuant to AU sec. 560 (and the event is properly disclosed in revised financial statements in a note designated as having occurred after the date of the audit report and unaudited.

Although no longer articulated in the auditing standards, nor has it been affirmatively superseded by any alternative guidance, it continues to describe common practice today. Accordingly, we believe authoritative support for this common general practice should be restored by amending the auditing standards to supplement the report dating provisions of AU-C sec. 700.41,[6] together with a clear definition of "reissuance," and that a contradictory requirement, if any, to be applicable to exempt offerings pursuant to a final version of the proposed SAS should be clearly characterized as an exception thereto.

Issue 3: *Our views regarding the proposed requirement for subsequent event procedures to be performed when the auditor is deemed involved with an exempt offering document follow:*

For reasons set forth above under ***Issue 2***, above, we believe that (unless provided for under the terms of the engagement) only when association (as defined in AU sec. 504.03) is present should an auditor become responsible to perform the AU-C sec. 560 procedures described in paras. 12-17 (or the AU-C 720 procedures described in paras. 10-11) of the proposed SAS.

* * * * *

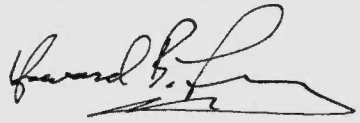
Lastly, in addition to the foregoing, we believe the final SAS should contain a paragraph stating that when there is association, the auditor should consider whether the offering meets the audit firm's risk-based criteria that would require the audit to undergo an engagement quality control review pursuant to QC secs. 10.38-.45.

* * * * *

We are aware and acknowledge that our comments on the ED will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after October 13, 2016, for one year.

Any questions about our Firm's views may be addressed to the undersigned at hlevy@pbtk.com or 702/279-5389.

Very truly yours,
Piercy Bowler Taylor & Kern, Certified Public Accountants



Howard B. Levy, Principal and
Director, Technical Services

---

[5] The final version of the proposed SAS should acknowledge that this provision does not apply to the auditor's statutory obligation relative to issuing a formal consent in connection with a securities registration being made pursuant to the Securities Act of 1933.

[6] See footnote 1.