

October 12, 2016

Ms. Sherry Hazel  
Audit and Attest Standards Team  
AICPA  
1211 Avenue of the Americas, 19<sup>th</sup> Floor  
New York, NY 10036-8775

**Re: July 13, 2016 ASB Exposure Draft (ED) of a Proposed Statement on Auditing Standards, *Auditor Involvement with Exempt Offering Documents***

**(AICPA, *Professional Standards*, AU-C section 945, Amends Statement on Auditing Standards No. 122 Section 560, *Subsequent Events and Subsequently Discovered Facts*)**

Dear Ms. Hazel:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective.

TIC has reviewed the ED and is providing the following comments for your consideration.

### **GENERAL COMMENTS**

TIC is pleased that the Board has undertaken this project to address the current diversity in practice regarding auditor involvement in exempt securities offerings, including the nature and extent of the procedures that should be performed by the involved auditor.

TIC supports the types of offerings that would fall under the scope of the proposal and all of the proposed activities that would trigger auditor involvement in exempt offerings.

TIC generally supports the requirement for subsequent event procedures but has some concerns related to the extent of auditor's responsibilities related to such procedures, which are noted below under Issue 3. The "Additional Comments" section of the letter includes recommendations to incorporate two additional paragraphs from Chapter 17 of the Audit and Accounting Guide titled *State and Local Governments* into the final standard and to re-position the proposed amendments to AU-560.

## SPECIFIC COMMENTS

**Issue 1:** Commenters were asked to provide 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.

TIC members have limited experience with franchise offerings regulated by the FTC. However, TIC agrees that these types of offerings should be included within the scope of this ED. TIC could not identify any significant differences in the characteristics of franchise offerings that would warrant excluding them.

TIC also believes the inclusion of securities exempted from registration under the Securities Act of 1933, as amended, is appropriate. TIC is not aware of any additional offerings that should be included in the scope of this ED.

**Issue 2:** Commenters were asked to provide feedback on (a) whether they believe the activities that have been identified should trigger involvement and (b) whether additional activities should be considered as triggers for involvement.

TIC believes the triggers for involvement should include those that currently reside in the AICPA Audit and Accounting Guides, *State and Local Governments* and *Health Care Entities*. TIC also believes that adding item 8(b)(iv), “participating in due diligence discussions with underwriters, placement agents, broker-dealers, or other financial intermediaries in connection with an offering document,” is an appropriate addition to the triggers for involvement. TIC did not identify any other activities that should be considered additional triggers for involvement.

**Issue 3:** Commenters were asked to provide their views regarding the proposed requirement for subsequent event procedures to be performed when the auditor is deemed involved with an exempt offering document.

TIC believes the proposed procedures could be perceived to expand the auditor’s responsibility for subsequently discovered facts, namely for type 2 subsequent events, in connection with exempt offerings and may have unintended consequences, especially for certain governmental entities.

Paragraph 12(a) of the ED states, in part, that the auditor should perform the following procedures described in AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*:

Procedures designed to identify events occurring between the date of the auditor’s report and the date of the distribution, circulation, or submission of the offering document that require adjustment to, or disclosure in, the financial statements.

Effectively, paragraph 12(a) of the ED is extending the auditor's subsequent event procedures beyond what is required by AU-C 560 (except in reissuance circumstances). As a result, disclosures that may be required up to the report release date would be extended into the period through the date of the distribution, circulation or submission of the offering document. If the ED is finalized as written, there may be costly implications for certain governmental entities.

GASB Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, paragraph 13, includes the following disclosure requirement regarding unrecognized subsequent events (i.e., events that provide evidence with respect to conditions that did not exist at the date of the statement of net position but arose subsequent to that date):

Other examples of nonrecognized events that require disclosure in the notes to the financial statements but should not result in adjustment include **the issuance of bonds**, the creation of a new component unit, or the loss of a government facility as a result of a tornado, fire, or flood. (Emphasis added)

The above requirement to disclose the subsequent issuance of bonds currently applies to the period between the date of the statement of net position and the date of issuance of the financial statements. GASB Statement 56, paragraph 14, states that the disclosure requirement would also apply when the financial statements are to be reissued. (FASB guidance, contained in ASC paragraphs 855-10-50-5, 855-10-25-4 and 855-10-55-2, also implies that subsequent bond issuances should be disclosed if financial statements are reissued [i.e., revised]).

TIC is concerned about the implications of Paragraph 12 of the ED in the governmental reporting environment. Certain governments may issue multiple exempt offerings subsequent to the issuance date of the annual financial statements. (One TIC member noted that a single government may have as many as five different bond offerings in one year.)

TIC believes the subsequent events procedures in paragraph 12 of the ED could be construed to imply that the auditor may be required with every exempt offering that they are involved with to ensure that management adds a note to the financial statements about each bond issuance that occurred from the date of the financial statements through the exempt offering date. In cases where an entity has multiple subsequent bond offerings, this could mean that the auditor would be required to ensure that all subsequent offerings are included in the notes to the financial statements and those notes are audited in accordance with AU-C section 560.

TIC believes disclosure of subsequent exempt offerings should be included among the disclosures in the offering document and should not trigger a requirement for the governmental entity to revise its financial statements. To that end, TIC recommends that additional implementation guidance be added to the final standard to clarify that the auditor's involvement in exempt offerings does not constitute a reissuance of the financial

statements (unless the financial statements are revised for correction of an error) and that the auditor's procedures regarding the subsequent discovery of facts do not extend disclosure requirements beyond the requirements of the applicable financial reporting framework. The intent of the auditor's procedures should be to determine if any material issues have arisen that would call into question revisions to the auditor's report.

In addition, TIC recommends that the Master Glossary of the clarified auditing standards and AU-C 560 include a definition of the concept of reissuance of an auditor's report.

## **ADDITIONAL COMMENTS**

### **Proposed Amendments to AU-C 560**

TIC was confused by some of the proposed amendments to AU-C 560, which are discussed on page 23 of the ED. It is unclear whether paragraph .A28 in AU-C 560 is being eliminated since the paragraph is not presented in the ED with strikethrough text. However, new footnote 4 to AU-C 560.12 effectively revises existing paragraph .A28 and adds an additional reference to what will be AU-C 945, *Auditor Involvement With Exempt Offering Documents*. TIC did not understand why the Board would move the application guidance from paragraph .A28 to a footnote to paragraph 12, which is under the heading for "Subsequently Discovered Facts That Became Known to the Auditor Before the Report Release Date." The auditor's responsibilities for exempt offering documents could come into play either before or after the report release date on the original financial statements of the entity but are more likely to occur after the report release date.

Although the guidance in footnote 4 could be repeated in the section entitled "Subsequently Discovered Facts That Become Known to the Auditor After the Report Release Date," TIC believes this would not be the best solution. TIC recommends expanding the application guidance that is already presented in paragraph .A1 of AU-C 560 to provide the appropriate references to AU-C 925 and AU-C 945, respectively, and to explain that there are circumstances when the auditor's responsibilities are extended beyond the report date. As mentioned above, AU-C 560 also should be amended to define what it means to reissue financial statements and the auditor's report thereon.

### **Incorporating Additional Guidance from the AICPA Guide into the Final Standard**

TIC recommends that the Board also consider incorporating into the standard, as considerations specific to governmental entities, the following two paragraphs of guidance currently found in Chapter 17 of the Audit and Accounting Guide titled *State and Local Governments*, paragraphs 9 and 12, as discussed further below.

Paragraph 9 of that guide states that:

The auditor is not required to participate in, or undertake any procedures with respect to, a government's continuing disclosure documents, even though they may include audited financial statements because a government's continuing

disclosures are not required to be submitted to or disseminated from the distributing organizations as a single document. Any attention the auditor devotes to other information included with audited financial statements in continuing disclosure documents at the government's request may be considered, as appropriate, a consulting engagement under the provisions of the AICPA Statement on Standards for Consulting Services No. 1, *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*, CS sec. 100), or an attestation engagement under the provisions of the AICPA Statements on Standards for Attestation Engagements (AICPA, *Professional Standards*).

TIC suggests adding this paragraph to the final standard to make clear that the standard does not imply that the auditor is required to participate in continuing disclosure documents, but rather only when the triggers to involvement are present. This might be included in either the "Scope" section of the final standard or perhaps in the application material to that section. TIC would also suggest perhaps defining the term "continuing disclosure document" if this paragraph does get added to the final standard.

In addition, paragraph 12 of the guide states that:

If the auditor is involved with a government's official statements, the auditor should consider which auditor's reports the government presents in the official statement. It is generally advisable for the official statements to use an auditor's report on the financial statements that does not refer to the Government Auditing Standards audit or to those separate reports because those references, without the presentation of the reports in the official statements, could confuse the users of the official statement.

TIC would suggest adding this best practice to the implementation guidance, perhaps as a new section between paragraphs .A17 and .A18 of the proposed standard, revised as necessary for clarity conventions.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Michael A. Westervelt". The signature is written in a cursive, slightly slanted style.

Michael A. Westervelt, Chair  
PCPS Technical Issues Committee  
cc: PCPS Executive and Technical Issues Committees