October 25, 2019

Via Electronic Mail

Sharon Macey
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036-8775

RE: Response to AICPA Exposure Draft – Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134

Dear Ms. Macey

The Office of the Washington State Auditor appreciates the opportunity to comment on this exposure draft. In our constitutional role as the auditor of public accounts for the state of Washington, our Office annually performs or reviews over 800 financial audits of the State, its agencies, and all types of local governments, along with their component units. Approximately half of these audits are conducted under AU-C section 800 on financial statements prepared in accordance with a regulatory basis of accounting. Our Office also regularly performs several audits of single financial statements or elements under AU-C section 805. We do not currently perform any audits of summary financial statements under AU-C section 810.

Objection to requirement for “dual opinion” in AU-C section 800

Washington is one of a number of state audit organizations that audit regulatory basis financial statements of smaller local governments (which are essentially a cash basis presentation, but not in a GASB Statement 34 format). We have long been concerned the inclusion of an adverse GAAP opinion did not achieve the intended purpose of a clearer, more meaningful report for financial statement users. On the contrary, our experience has been that the requirement creates confusion for management, legislative bodies, citizens and other report users. Therefore, we strongly urge the Board to converge with the International Standards on Auditing by eliminating the requirement for a “dual opinion” in extant paragraph 21.

To require inclusion of an adverse GAAP opinion in the auditor’s report is not only unnecessary, but is also inappropriate and potentially harmful for the following reasons:
1. The fact that regulatory basis statements are not GAAP is already abundantly evident to a reasonable and foreseeable user (e.g., a bond rating agency), since it is specifically required to be clearly and obviously communicated to users by the following means:

- Opinion language in the auditor’s report (required by extant paragraph 18 and 22).
- Language regarding management’s responsibility in the auditor’s report (required by extant paragraph 22).
- Emphasis of matter paragraph in the auditor’s report (required by extant paragraph 19, if not for the dual opinion requirement), which will be further clarified to state that the special purpose framework is a basis of accounting other than GAAP in proposed paragraph 22.k.
- Financial statement titles (required by extant paragraph 15).
- Note 1 to the financial statements, which must adequately describe the basis of accounting and enumerate the differences from GAAP (required by extant paragraph 15).

2. In our experience presenting these reports to hundreds of government officials and other parties in Washington, we have found users to be confused by the inclusion of the adverse GAAP opinion because they understand it to mean the financial statements contain errors.

3. It is illogical and inappropriate for an auditor to give a GAAP opinion when the statements were not prepared on that basis, management did not have a responsibility to prepare them on that basis, and the auditor was not engaged to give such an opinion.

4. Such a requirement would seem to be in conflict with the requirement of paragraph 17 to evaluate whether the financial statements achieve fair presentation in accordance with an applicable reporting framework. If the financial statements achieve fair presentation, it would seem inconsistent to also report an adverse opinion.

We are curious as to the research or rationale used by the Board to conclude that a dual opinion is a necessary or effective means of communicating that financial statements were fairly presented in accordance with a special purpose framework, rather than in accordance with GAAP. We are further curious as to why a regulatory basis financial statement that is intended for general use would require an adverse GAAP opinion, whereas a cash or modified cash basis, tax basis, contractual basis, or other basis that is similarly intended for general use would not.

Other comments on proposed amendments to AU-C section 800

Extant paragraph 11(c) requires a description of any significant interpretations for financial statements prepared in accordance with a contractual basis of accounting. We would encourage the Board to consider whether this requirement should be generalized to all special purpose frameworks.

We suggest the following edits to revised paragraph 22(i):

.22 If the auditor is required by law or regulation to use a specific layout, form or wording of the auditor’s report, the auditor’s report should refer to GAAS only if the auditor’s report includes, at a minimum, each of the following elements:
i. A reference to GAAS and, if applicable, a reference to the law or regulation and a description of the auditor’s responsibilities for an audit of financial statements that addresses, and is not inconsistent with, the requirements in paragraphs .35-.37 of section 700

We also suggest the following edits to revised paragraph 22(k):

k. When required by paragraph .19, an emphasis-of-matter paragraph that indicates that the financial statements are prepared in accordance with a special purpose framework when required by paragraph .19 and states that the special purpose framework is a basis of accounting other than GAAP.

AU-C section 725 Paragraph 11 precludes the auditor from expressing an opinion on supplementary information when the auditor’s report contains an adverse opinion on the audited financial statements. If the Board retains the requirement to issue an adverse GAAP opinion on regulatory financial statements intended for general use, we suggest adding a paragraph to the application material that clarifies the adverse GAAP opinion does not preclude the auditor from expressing an opinion on the supplementary information.

We noted that .A12 and .A24 both address achieving fair presentation, but consideration of disclosures has been removed from .A12. We think disclosures should continue to be referenced in .A12, consistent with .A24.

Finally, we noted that the header of Illustration 1 is not consistent with the other illustrative reports in this proposed SAS and SAS 134 (“Report on the Audit of Financial Statements” compared with “Report on the Audit of the Financial Statements”).

Comments on proposed amendments to AU-C section 805 and 810

We agree with the proposed amendments.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at (509) 527-4175.

Sincerely,

Scott Woelfle, CPA
Director for Quality Assurance