TO: Sharon Macey, on behalf of the AICPA Auditing Standards Board  
FROM: Local Government Services of the Montana Department of Administration  
RE: Comments requested regarding amendments to AU-C sections 800, 805, and 810  
DATE: October 25, 2019

To whom it may concern:

We appreciate the opportunity to respond to the AICPA Auditing Standards Board exposure draft on the Proposed Statement on Auditing Standards, Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134.

The following comments are for the Board’s consideration:

1. The term "Specific Users" in proposed paragraph 800.07 conflicts with existing paragraph 800.21, which addresses the concept of general use financial statements. If an entity prepares financial statements for general use, those financial statements are not meant for specific users.

2. The additional opinion requirement of existing paragraph 800.21 is inappropriate for the following reasons:

   2.1. The opinion required by paragraph 800.21 misstates the degree of assurance and reliability a user is to understand from it. AU-C 200, et al, requires “reasonable assurance” of whether the financials present in accordance with the “applicable financial reporting framework.” In these instances, GAAP is not the “applicable financial reporting framework," and the opinion provides misplaced or misleading assurance.

   2.2. The opinion required by paragraph 800.21 opines on information not included in the financial statements. It is negative disclosure.

   2.3. AU-C 705 provides that modifications to an opinion should occur when the financial statements presented are materially misstated. But the opinion required by paragraph 800.21, while suggesting that the financial statements presented are materially misstated, is not premised upon any misstatement. Rather, it is possible and even likely that an entity receiving such an opinion properly reported its financial activity. As such, the opinion required by paragraph 800.21 is unnecessarily and inconsistently punitive.
2.4. Adequate disclosure of the fact that the financial statements are other than GAAP is sufficiently made in the titles to the financial statements, the notes to the financial statements, the auditor's responsibility paragraphs, the management responsibility paragraphs, the opinion paragraphs, and, if it were to be applicable (see recommendation below), an emphasis of matter paragraph.

2.5. An emphasis of matter paragraph required by paragraph 800.19 is a more appropriate alert of the fact that the financial statements presented are not GAAP because, in accordance with the requirements of AU-C 706, it addresses information presented in the financial statements. Moreover, because it explicitly draws attention to the related note disclosure of the applicable financial reporting framework, it better provides the information needed for the user to assess the degree assurance to be provided from the financial statements presented. Such information is significantly more helpful than the misplaced or misleading assurance described above.

2.6. Given the auditor's requirements in AU-C 500, et al, to obtain sufficient, appropriate evidence to support the auditor's opinion, the opinion required by paragraph 800.21 unnecessarily requires performance and documentation of additional procedures on a financial reporting framework that is not being presented.

Recommendations:

1. Please consider revising the definition of special purpose framework in paragraph 800.07.

2. Please consider the following:

   -- Deleting the "except for...." clause in paragraph 800.19

   -- Deleting any text from paragraph 800.21 relating to the additional opinion such that it only provides that the other matters paragraph required by paragraph 800.20 is not required for general use financial statements.

Thank you,

CHET MCLEAN, CPA, CGFM, CIA
State Social Security Administrator | Local Government Audit Manager
Local Government Services
State Financial Services Division
Montana Department of Administration
DESK 406.444.9105  MOBILE 406.240.9522