November 7, 2019

Auditing Standards Board
American Institute of Certified Public Accountants
1345 Avenue of the Americas, 27th Floor
New York, NY 10105

Via Email to CommentLetters@aicpa-cima.com

Re: Proposed Statement on Auditing Standards, Amendments to AU-C Sections 800, 805, and 810 To Incorporate Auditor Reporting Changes from SAS No. 134

Dear Board members and staff:

Grant Thornton LLP appreciates the opportunity to comment on Proposed Statement on Auditing Standards, Amendments to AU-C Sections 800, 805, and 810 To Incorporate Auditor Reporting Changes from SAS No. 134. We support the Board’s undertaking to align the reporting requirements in the 800 series to the new requirements of SAS No. 134 and support the Board’s consideration of certain changes to converge the AU-C sections with international auditing standards. We respectfully submit our comments and recommendations, including paragraph-level comments in the accompanying appendix, for the Board’s consideration.

Definition of a special purpose framework/convergence matters

We see that the Board is proposing to revise the definition of “special purpose framework” in order to align it more closely with the definition that exists in ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks. While we generally support convergence, we are concerned this proposed change could have negative unintended consequences on the application of certain requirements in the standard given the specificity of those requirements to certain types of frameworks.

Currently, AU-C section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks, defines a special purpose framework as being, specifically, one of the following: cash basis, tax basis, regulatory basis, contractual basis, or other basis. Each basis is then defined individually. This construct enables that certain requirements in the remainder of the standard be limited to certain of these bases. For example, requirements specific to when the regulatory basis of accounting is used or other requirements specific to contractual basis of accounting, Moving these definitions to application guidance and calling them examples of special purpose frameworks could result in unintended changes in how such frameworks, particularly regulatory, are currently defined and used in practice. We believe this could
cause unnecessary confusion to auditors since the definitions will no longer align with how the remaining requirements are constructed. Accordingly, we recommend that the Board reconsider adopting the international definition and retain the extant presentation. If the Board moves forward with the definition as proposed, we believe further clarification to the requirements prescribed for specific types of special purpose frameworks will be necessary.

We generally support the other proposed changes with respect to converging with the international standards.

Suitability of purpose

We support the Board’s proposal to enhance the emphasis-of-matter paragraph required by AU-C section 800 that alerts readers that the financial statements are prepared in accordance with a special purpose framework. However, we do not support requiring that the proposed additional statement, “as a result, the financial statements may not be suitable for another purpose,” apply to all financial statements prepared in accordance with contractual basis or other basis of accounting. We believe that such statement would be relevant and appropriate only in circumstances where the auditor is required to describe the purpose for which the financial statements are prepared (refer to proposed paragraph .18a of AU-C section 800). Describing the original purpose provides the necessary context to readers for the alert that the financial statements may not be suitable for another purpose. As such, we recommend revising proposed paragraph .19 as follows (bolded italics for additions and strikethrough for deletions).

Except for the circumstances described in paragraph .21, the auditor’s report on special purpose financial statements should include an emphasis-of-matter paragraph under an appropriate heading that includes the following.

a. A statement indicates that the financial statements are prepared in accordance with a special purpose framework

b. A reference refers to the note to the financial statements that describes that framework, and

c. A statement states that the special purpose framework is a basis of accounting other than GAAP, and

d. When a description of the purpose for which the financial statements are prepared or reference to a note in the special purpose financial statements that contains that information is required pursuant to paragraph .18a, a statement that, as a result, the financial statements may not be suitable for another purpose.

Going concern considerations

We are supportive of the Board’s proposed approach with respect to the auditor’s responsibilities related to the entity’s ability to continue as a going concern when conducting an audit in accordance with AU-C section 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement. We believe that the circumstances of the engagement will require the auditor to use judgment in determining the applicability of his/her responsibilities under AU-C section
570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern. We found the application guidance in proposed paragraph .A21 of AU-C section 805 to be helpful in assisting auditors in applying professional judgment in these types of engagements.

**Reporting on summary financial statements**

While it is our experience that engagements performed under AU-C section 810, Engagements to Report on Summary Financial Statements, are rare, we are concerned by the proposed changes with regard to reporting the auditor’s responsibilities under an engagement performed in accordance with this section. It is our view that one of the objectives of SAS No. 134 is to enhance transparency through expanded and clearer auditor reporting. Therefore, the proposed elimination of the description of the procedures performed by the auditor appears inconsistent with that underlying objective.

Given the fact that such engagements are not often performed, this could lead to a misunderstanding by users as to the nature of the auditor’s report on the summary financial statements. As such, we believe it would be in the public interest to be clearer as to the auditor’s procedures because potential users may not understand how a report on summary financial statements differs from an auditor’s report on a complete set of financial statements. While we recognize these proposed changes would converge with the reporting requirements of ISA 810 (Revised), Engagements to Report on Summary Financial Statements, we believe the existing requirements are more appropriate and provide greater transparency. Therefore, we recommend the Board reinstate the extant requirements to describe the procedures performed by the auditor in the auditor’s report.

**Compliance frameworks**

We appreciate the Board’s deliberations on the potential introduction of compliance frameworks as a potential special purpose framework and are supportive of a continued project to explore whether and how such frameworks could be incorporated into the auditing standards.

We would be pleased to discuss our comments with you. If you have any questions, please contact Bert Fox, National Managing Partner of Professional Standards, at (312) 602-9080 or Bert.Fox@us.gt.com.

Sincerely,

/s/ Grant Thornton LLP
Appendix

Paragraph-level comments
Following please find certain paragraph-level comments for the Board’s consideration. Suggested edits are shown as **bolded italics** for additions and *strikethrough* for deletions.

<table>
<thead>
<tr>
<th>Paragraph</th>
<th>Comment</th>
</tr>
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<tbody>
<tr>
<td>800.03</td>
<td>We recommend reinstating the sentence regarding AU-C section 910. We believe it continues to be relevant and applicable.</td>
</tr>
<tr>
<td>800.07</td>
<td>As described in the body of the letter, we recommend the Board reinstate the existing definition of special purpose framework.</td>
</tr>
<tr>
<td>800.16</td>
<td>We believe that combining extant paragraph .16 with proposed paragraph .16 is combining relatively unrelated requirements into a single paragraph. This could be confusing to auditors and runs the risk that the latter requirement may be missed. We recommend the Board leave these two paragraphs separate as they currently exist.</td>
</tr>
<tr>
<td>800.19</td>
<td>Refer to the body of our letter for the proposed changes to this paragraph.</td>
</tr>
</tbody>
</table>
| 800 Illustration 3 | If the Board accepts our proposed edits to proposed paragraph .19 that are described in the body of our letter, the emphasis-of-matter paragraph illustrated in this report will need to be revised to include the following sentence.  

*As a result, the financial statements may not be suitable for another purpose.*

| 800 Illustration 5 | The “Emphasis of Matter – Basis of Accounting” paragraph appears to be missing the purpose for which the financial statements have been prepared, which is required by proposed paragraph .18a. Therefore we propose revising that paragraph as follows.  
We draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared by ABC Company on the basis of the financial reporting provisions of Section Z of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America, *to comply with the financial reporting provisions of the contract referred to above*. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter. |
| 805.A21    | As discussed in the body of our letter, we are supportive of this paragraph and believe it will be helpful to auditors. |

Note: We have no paragraph-level comments on AU-C section 810 other than what is included in the body of our letter.