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## MEMBER SERVICES

449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503  
Phone: (859) 276-0686  
Fax: (859) 278-0507  
[www.algaonline.org](http://www.algaonline.org)

May 15, 2018

Sherry Hazel  
AICPA Auditing Standards Board

Re: AICPA Proposed Statements on Auditing Standards *Auditor Reporting* and *Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*

Dear Ms. Hazel,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to provide comments regarding the AICPA's proposed statement on auditing standards *Auditor Reporting* and *Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements* exposure draft. ALGA represents more than 350 organizational members comprised of more than 2,500 individuals. This topic is of interest to our members, and we encourage individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the exposure draft in its entirety. Overall, we believe the proposed changes are clear and understandable and the application material is helpful. In addition, we agree that the revisions will increase the informational value and relevance of the auditor's report for users and, therefore, are in the public interest. We did not have any additional areas to elaborate on or comment on related to eleven of the fourteen specific questions presented in the exposure draft, therefore, we did not answer each question individually. Our responses for questions 3, 10 and 11, and our general comments are as follows:

1. **Question 3. Will the requirement to identify those responsible for the oversight of the financial reporting process present any practical difficulties when those responsible for the oversight of the financial reporting process are also responsible for preparation of the financial statements (as may be the case, for example, in a small owner-managed entity)?** No. We do not believe that it would present any practical difficulties. However, it would be helpful if the auditor's report clearly stated that management is responsible for oversight as well as preparation of the financial statements. Therefore, we recommend that paragraph A43, and related illustrations, be amended to state that the section of the report describing management's responsibilities should state that management is also responsible for oversight.
2. **Question 10. Should the requirement in AU-C section 260 be more specific regarding the timing of communication about certain matters with those charged with governance, including whether there should be a requirement for certain communications to be made prior to issuance of the auditor's report?** No. While those charged with governance may find it useful for significant matters to be communicated prior to the issuance of the auditor's report, we believe that auditors should continue to retain the flexibility necessary to time communications based on the significance of the matter, unless otherwise required by supplementary rules or standards.

3. **Questions 11. Please provide your views on the following: (a) would including the city and state of the addressee in the auditor's report be beneficial to users of the financial statements; (b) what would the practical implications be if such a requirement were adopted?** Yes. Including the city and state of the addressee may be beneficial to some users of the financial statements. However, we agree that this may not always be practical to implement in all instances and the difficulties in doing so may outweigh the benefits.

4. **General Comments.**

a. While an affirmative statement regarding independence is an important addition to the *Basis for Opinion* (paragraph 26c) section of the Independent Auditor's Report, the statement "We are independent of ABC Company" does not tell the user how independence is defined or determined. We recognize that it may be difficult to succinctly define independence in the report. Therefore, if providing a definition in the report is not feasible, consider including a reference (e.g., the AICPA Code of Professional Conduct) to where a user can learn more about the independence requirements if they choose to do so.

Likewise, we suggest that the "relevant ethical requirements" be listed in the report, perhaps as a parenthetical (i.e., the AICPA Code of Professional Conduct, rules of [my state] Board of Accountancy, and [name of applicable regulatory agencies]). Otherwise, the user is left wondering what the relevant requirements are.

b. In paragraph 32, we suggest that the section heading should use the actual name of those identified responsible for the oversight of the financial reporting process (e.g., "Board of Directors") and not use the phrase "those charged with governance." The phrase "those charged with governance" is not immediately meaningful to a user and using the actual name will aid the user in comprehending who is responsible.

Likewise, in the *Illustrations of Auditor's Reports on Financial Statements* section (paragraph A83), consider using brackets within the section titled "Responsibilities of Management..." in order to clarify that the phrase can be modified to reflect the actual body responsible (e.g., "Board of Directors"). For example, the use of "[Appropriate Addressee]" and "ABC Company" in the illustrations serve an analogous purpose.

Thank you for the opportunity to provide input in the review process.

Respectfully submitted,

Nicole Rollins  
Chair, Professional Issues Committee

Key ALGA Contributors:

Neha Sharma, City of Austin, TX  
Lynn Bashaw, City of Sacramento, CA  
Lise Valentine, City of Chicago, IL