



Agenda Item 2

Auditor's Reports—Dual reporting under GAAS and PCAOB standards

Objective

To discuss a possible amendment to AU-C 700 *Forming an Opinion and Reporting on Financial Statements* to address the layout and wording of the auditor's report for audits conducted in accordance with both auditing standards generally accepted in the United States of America (GAAS) and another set of auditing standards, specifically the auditing standards of the Public Company Accounting Oversight Board (PCAOB).

Background

Auditors of entities that are within the jurisdiction of the PCAOB, such as auditors of issuers and non-issuer broker dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. In these situations, the *AICPA's Code of Professional Conduct* (Code) requires members to perform the audit in accordance with PCAOB standards.

Other situations exist in which an agency or regulator may require that audits of entities that are not within the jurisdiction of the PCAOB be conducted under PCAOB auditing standards. In these situations, the Code requires members to perform the audit in accordance with GAAS, which results in the audit being conducted in accordance with multiple auditing standards. These financial statements and the auditor's report are, in some circumstances, included in an SEC filing. Examples of entities not within the jurisdiction of the PCAOB include clearing agencies and futures commission merchants (FCMs) registered with the Commodities Future Trading Commission (CFTC), as well as certain other entities registered with the CFTC which are not also SEC-registered broker dealers.

AICPA staff has been exploring whether a single auditor's report could be drafted to meet the standards of both the PCAOB and the ASB, when an agency or regulator requires the audit of an entity that is not within the jurisdiction of the PCAOB to be performed in accordance with PCAOB auditing standards. With respect to reports that are filed with the SEC that are required to be under PCAOB standards but where the PCAOB does not have jurisdiction, the AICPA staff has preliminarily determined that the SEC would accept a report that has no changes to the PCAOB

standard auditor's report, except for the inclusion of a reference to conducting the audit in accordance with GAAS.

Issue for ASB Discussion

Issue - Scope of Amendment to AU-C 700

At the April 9, 2015 AITF meeting, the AITF discussed developing an amendment to AU-C 700 that would permit the use of the layout and wording specified by the PCAOB for the auditor's report, amended to indicate that the audit was also conducted in accordance with GAAS, when an agency or regulator requires an audit under PCAOB auditing standards of an entity that is not within the jurisdiction of the PCAOB. The AITF also discussed circumstances where the auditor's report may or may not be included in SEC filings.

The AITF questioned whether there was a need for a broader amendment to AU-C 700 to address every audit conducted under both GAAS and the auditing standards of the PCAOB, regardless of whether the PCAOB audit is required by an agency or regulator, or is performed voluntarily.

[Note: The Auditor's Report Task Force (the task force) had previously circulated a draft interpretation to address dual reporting under GAAS and the recently adopted new and amended ISA reporting standards. Commenters on the draft noted that the approach set forth in the draft interpretation could be affected by the decisions reached on an amendment to AU-C 700; accordingly the task force will assess the next steps for the interpretation subject to decisions made regarding the potential amendment to AU-C 700.]

The following are options for amendments to AU-C 700 for ASB consideration:

Option 1 — An amendment to AU-C 700 that relates specifically to reporting under both GAAS and PCAOB auditing standards, applicable when—

- an audit under PCAOB auditing standards is required by an agency or regulator
- the audit of the entity is not within the jurisdiction of the PCAOB
- the auditor's report is to be included in an SEC filing, and
- the auditor intends to refer to both sets of standards

Such amendment would permit the use of the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS.

Support for option 1 includes:

- Retains the GAAS reporting requirements for most entities

The potential issues with option 1 include:

- Creates potential for different forms of auditor reports when dual reporting under both GAAS and PCAOB auditing standards
- Does not provide relief to the current practice issue that has arisen related to entities such as CFTC registered Futures Commission Merchants
- May create confusion that the audit was not conducted in accordance with both sets of standards in their entirety

Option 2 – An amendment to AU-C 700 that relates specifically to reporting under both GAAS and PCAOB auditing standards, applicable—

- when an audit under PCAOB auditing standards is required by an agency or regulator
- when the audit of the entity is not within the jurisdiction of the PCAOB
- regardless of whether the auditor's report is, or is not, included in an SEC filing, and
- when the auditor intends to refer to both sets of standards.

Such amendment would permit the use of the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS.

Support for option 2 includes:

- Provides relief to the current practice issue that has arisen related to entities such as Futures Commission Merchants and certain other entities registered with the CFTC when a PCAOB audit is required
- Creates consistency in the form of auditor's report used when reporting under both GAAS and PCAOB auditing standards
- Simplifies the auditor's report when the auditor has conducted an audit in accordance with both GAAS and the PCAOB auditing standards and the auditor intends to refer to both sets of standards

The potential issues with option 2 include:

- Weakens the GAAS reporting requirements when the auditor has conducted an audit in accordance with both GAAS and the auditing standards of the PCAOB and the auditor intends to refer to both sets of standards.
- May create confusion that the audit was not conducted in accordance with both sets of standards in their entirety.

Option 3 – An amendment to AU-C 700 that relates specifically to reporting under both GAAS and PCAOB auditing standards, applicable—

- regardless of whether an audit under PCAOB auditing standards is, or is not, required by an agency or regulator

- when the audit of the entity is not within the jurisdiction of the PCAOB, and
- regardless of whether the auditor's report is, or is not, included in an SEC filing

Such amendment would permit the use of the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS.

Support for option 3 includes:

- Provides relief to the current practice issue that has arisen related to entities such as Futures Commission Merchants and certain other entities registered with the CFTC when a PCAOB audit is required
- Creates consistency in the form of auditor's report used when reporting under both GAAS and PCAOB auditing standards
- Simplifies the auditor's report when the auditor has conducted an audit in accordance with both GAAS and the PCAOB auditing standards and the auditor intends to refer to both sets of standards, for example in certain situations where an entity is in the process of a public offering but has not yet filed an initial registration statement

The potential issues with option 3 include:

- Weakens the GAAS reporting requirements if the PCAOB format is permitted anytime the auditor has conducted an audit in accordance with both GAAS and the PCAOB auditing standards and the auditor intends to refer to both sets of standards
- May create confusion that the audit was not conducted in accordance with both sets of standards in their entirety

Action Requested of the ASB

The ASB is asked to consider the three options discussed previously and provide the AICPA staff with direction on how to proceed with the development of an amendment to AU-C 700.

Draft Amendments

The following lays out the proposed paragraphs that would be added to AU-C 700 under each of the three options listed previously:

<i>Option 1: GAAS and PCAOB (required by agency or regulator and filed with the SEC)</i>	<i>Option 2: GAAS and PCAOB (required by agency or regulator but not filed with the SEC)</i>	<i>Option 3: GAAS and PCAOB (may or may not be required by agency or regulator)</i>
.44 An auditor may be required by law or regulation, to conduct	.44 An auditor may be required by law or regulation,	.44 When an auditor conducts an audit and reports in accordance

<p>an audit and report in accordance with PCAOB standards. If those audits are not within the jurisdiction of the PCAOB, as set forth in the AICPA Code of Professional Conduct, the auditor must also comply with GAAS in the conduct of the audit. In such circumstances, the auditor may use the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS, when such reports are included in SEC filings. (Ref. par. A43)</p>	<p>to conduct an audit and report in accordance with PCAOB standards. If those audits are not within the jurisdiction of the PCAOB, as set forth in the AICPA Code of Professional Conduct, the auditor must also comply with GAAS in the conduct of the audit. In such circumstances, the auditor may use the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS. (Ref. par. A43)</p>	<p>with PCAOB standards, and the audit is not within the jurisdiction of the PCAOB, as set forth in the AICPA Code of Professional Conduct, the auditor must also comply with GAAS in the conduct of the audit. In such circumstances, the auditor may use the layout and wording specified by the PCAOB for the auditor's report amended to indicate that the audit was also conducted in accordance with GAAS. (Ref. par. A43)</p>
<p>.A43 Auditors of entities that are within the jurisdiction of the PCAOB, such as auditors of issuers and non-issuer broker dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. Regulators may require that audits of entities that are not within the jurisdiction of the PCAOB be conducted under PCAOB auditing standards; however, auditors of such entities are required by the AICPA Code of Professional Conduct to also perform such audits in accordance with GAAS. Examples of entities whose auditors are not within the jurisdiction of the PCAOB include auditors of clearing</p>	<p>.A43 Auditors of entities that are within the jurisdiction of the PCAOB, such as auditors of issuers and non-issuer broker dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. Regulators may require that audits of entities that are not within the jurisdiction of the PCAOB be conducted under PCAOB auditing standards; however, auditors of such entities are required by the AICPA Code of Professional Conduct to also perform such audits in accordance with GAAS. Examples of entities whose auditors are not within the jurisdiction of the PCAOB</p>	<p>.A43 Auditors of entities that are within the jurisdiction of the PCAOB, such as auditors of issuers and non-issuer broker dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. When audits of entities that are not within the jurisdiction of the PCAOB are conducted under PCAOB auditing standards, auditors of such entities are required by the AICPA Code of Professional Conduct to also perform such audits in accordance with GAAS. Examples of situations where an auditor may be engaged to perform a PCAOB audit but the auditor is not within the jurisdiction of the PCAOB include audits of</p>

<p>agencies and futures commission merchants (FCMs) registered with the Commodities Future Trading Commission (CFTC), as well as other entities registered with the CFTC.</p>	<p>include auditors of clearing agencies and futures commission merchants (FCMs) registered with the Commodities Future Trading Commission (CFTC), as well as other entities registered with the CFTC.</p>	<p>clearing agencies and futures commission merchants (FCMs) registered with the Commodities Future Trading Commission (CFTC), as well as other entities registered with the CFTC; circumstances where a non-issuer company is required by contractual agreement (such as a bond indenture) to report as a public company which would include obtaining an audit under PCAOB standards.</p>
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The following is an example of the auditor's report that would be added to the exhibit in AU-C 700. This illustration applies to all three options.

Independent Auditor's Report

[Appropriate Addressee]

We have audited the accompanying consolidated balance sheets of X Company as of December 31, 20X2 and 20X1, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of X Company as of [at] December 31, 20X2 and 20X1, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

[Signature]

[Date]