



Agenda Item 2A

Amendment to Statement on Auditing Standards No. 122 Section 700, Forming an Opinion and Reporting on Financial Statements

(*Amendment to AU-C section 700, Forming an Opinion and Reporting on Financial Statements*
[AICPA, Professional Standards])

1. Statement on Auditing Standards (SAS) No. 122 section 700 addresses the auditor's responsibility to form an opinion on the financial statements. It also addresses the form and content of the auditor's report issued as a result of an audit of financial statements. This amendment

- Clarifies that when an auditor conducts an audit and reports in accordance with the auditing standards of the Public Company Accounting Oversight Board (PCAOB) and those audits are not within the jurisdiction of the PCAOB, as set forth in the AICPA Code of Professional Conduct¹, the auditor must also comply with GAAS.
- Clarifies that the auditor is permitted to use the layout and wording of the auditor's report specified by the PCAOB, amended to indicate that the audit was also conducted in accordance with GAAS when the audit is not within the jurisdiction of the PCAOB, the auditor conducts the audit in accordance with both GAAS and the auditing standards of the PCAOB, and the auditor intends to refer to both sets of standards.
- Adds application material to provide examples of entities that are not within the jurisdiction of the PCAOB.
- Adds Illustration 6—*An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance with Both Auditing Standards Generally Accepted in the United States of America and Auditing Standards of the Public Company Accounting Oversight Board*, to the Exhibit—*Illustrations of Auditor's Reports on Financial Statements*

Boldface italic denotes new language. Deleted text is in ~~strikethrough~~.

¹ See paragraph .01 of ET section 202 *Compliance With Standards* (AICPA Professional Standards, volume 2) and ET Appendix A *Council Resolution Designating Bodies to Promulgate Technical Standards* (AICPA Professional Standards, volume 2)

[No amendments to paragraphs .01–.41.]

Auditor’s Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards

.42 Paragraph .31 requires that the auditor’s report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing (ISAs), the standards of the Public Company Accounting Oversight Board, (*PCAOB*), or *Government Auditing Standards*). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety. (Ref: par. A42)

.43 When the auditor’s report refers to both GAAS and another set of auditing standards, the auditor’s report should identify the other set of auditing standards, as well as their origin.

.44 When an auditor conducts an audit and reports in accordance with PCAOB standards, and the audit is not within the jurisdiction of the PCAOB, as set forth in the AICPA Code of Professional Conduct (Code),² the auditor must also comply with GAAS in the conduct of the audit. In this situation, when the auditor intends to refer to both sets of standards in the report, the auditor should follow the reporting requirements set forth in this section, amended to indicate that the audit was also conducted in accordance with PCAOB auditing standards or use the layout and wording specified by the PCAOB auditing standards for the auditor’s report amended to indicate that the audit was also conducted in accordance with GAAS. (Ref. par. A43-A44)

[No amendments to paragraphs .44–.A41. Paragraphs .44–.58 are renumbered as paragraphs .45–.59]

Auditor’s Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards (Ref: par. .42)

[No amendments to paragraph .A42)

.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. In these situations, the Code requires members to perform the audit in accordance with PCAOB standards. When audits of entities that are not

² See paragraph .01 of ET section 202 Compliance With Standards (AICPA Professional Standards, volume 2) and ET Appendix A Council Resolution Designating Bodies to Promulgate Technical Standards (AICPA Professional Standards, volume 2)

within the jurisdiction of the PCAOB are conducted under PCAOB auditing standards, auditors of such entities are required by the Code to perform such audits in accordance with GAAS. Examples of situations in which an auditor may be engaged to perform a PCAOB audit for an entity not within the jurisdiction of the PCAOB include audits 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; and circumstances in which 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.

.A44 In the situation described in paragraph 44, when the report will be filed, furnished, or provided to the SEC, the SEC may accept only a report prepared in accordance with the PCAOB auditing standards with limited amendments as shown in illustration 6 of the exhibit. When using the layout or wording specified by the PCAOB as shown in illustration 6 of the exhibit, in addition to PCAOB AU section 508 Reports on Audited Financial Statements and PCAOB Auditing Standard No. 1 References to Auditors' Reports to the Standards of the Public Company Accounting Oversight Board, other PCAOB auditing standards that relate to reporting may be relevant, depending upon the circumstances of the engagement. For example, the reporting requirements in PCAOB Auditing Standard No. 17 Auditing Supplemental Information Accompanying Audited Financial Statements, or AU section 558 Required Supplementary Information may apply.

[No amendments to paragraphs .A43–.A57. Paragraphs .A43-.A58 renumbered as paragraphs .A45-.A61.]

.A59.A61

Exhibit — Illustrations of Auditor's Reports on Financial Statements (Ref: par. .A17)

Illustration 1 — An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 2 — An Auditor's Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 3 — An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing

Illustration 4 — An Auditor’s Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Audited Financial Statements for the Prior Year Is Presented

Illustration 5 — An Auditor’s Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Unaudited Financial Statements for the Prior Year Is Presented

Illustration 6 — An Auditor’s Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance with Both Auditing Standards Generally Accepted in the United States of America and Auditing Standards of the Public Company Accounting Oversight Board

[No amendments to Illustrations 1-5.]

Illustration 6—An Auditor’s Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance with Both Auditing Standards Generally Accepted in the United States of America and Auditing Standards of the Public Company Accounting Oversight Board

Circumstances include the following:

- *Audit of a complete set of general purpose consolidated financial statements (comparative)*
- *The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America*
- *The auditor conducts an audit and reports in accordance with PCAOB standards, and the audit is not within the jurisdiction of the PCAOB, as set forth in the AICPA Code of Professional Conduct, therefore the auditor must comply with both auditing standards generally accepted in the United States of America and the auditing standards of the Public Company Accounting Oversight Board*

- *The auditor intends to refer to both GAAS and the auditing standards of the PCAOB*

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]