



CPCAF Alert #12 - July 2, 2004

Dear Center Member:

- [ASB Issues Interpretations on SAS 58 Regarding Audits of Nonissuers](#)
- [PCAOB Issues FAQs on Audits of Nonissuers](#)

Background Information - PCAOB and AICPA ASB

You may recall that on June 16, 2004, we sent you a communication regarding the AICPA's governing Council's resolution, at a meeting on May 23, 2004, to designate the Public Company Accounting Oversight Board (PCAOB) as the body authorized to promulgate standards for audits of financial statements of issuers. More specifically, Council designated PCAOB as the body authorized to promulgate auditing and related professional practice standards for audits of financial statements of issuers pursuant to Rules 201- *General Standards* and 202 - *Compliance with Standards* of the *AICPA Code of Professional Conduct*. This was done due to the passage of the Sarbanes-Oxley Act (the Act), and the need to integrate the provisions of the Act in the AICPA's governing documents (i.e., the *AICPA Code of Professional Conduct*) when performing audits of issuers and other entities subject to the Act.

In addition, AICPA's governing Council, at that same meeting on May 23, 2004, designated the Auditing Standards Boards (ASB) as the body authorized to promulgate standards (i.e., auditing, attestation and quality control standards and procedures) on audits of financial statements of entities that are not subject to the rules of the Securities and Exchange Commission or the Act (i.e., nonissuers) also under Rules 201 - *General Standards* and 202 - *Compliance with Standards* of the *AICPA Code of Professional Conduct*.

The action taken by Council ensures that our governing documents provide appropriate guidance to you as to which standards are to be followed. As always, our goal is to keep you apprised of these developments.

ASB Issues Interpretations on SAS 58 Regarding Audits of Nonissuers

Interpretation No. 17 of SAS No. 58

The ASB has issued Auditing Interpretation No. 17 of *Statement on Auditing Standards* (SAS) No. 58 (AU § 508) entitled, "*Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance with Generally Accepted Auditing Standards.*" Interpretation No. 17 can be found at the following link:

http://www.aicpa.org/download/auditstd/announce/2004_06_interpretation17.pdf

Interpretation No. 17 provides guidance for auditors of *nonissuers*. It clarifies that an audit performed in accordance with generally accepted auditing standards (GAAS) does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer subject to Section 404(a) of the Act. Consequently, the auditor may expand his or her audit report to indicate that the purpose and extent of the auditor's testing of internal control over financial reporting was to determine the auditor's procedures and *was not* sufficient to express an opinion on the effectiveness of internal control over financial reporting.

Sample language that can be used in an independent auditor's report is provided in the interpretation.

Interpretation No. 18 of SAS No. 58

The ASB has also issued Auditing Interpretation No. 18 of SAS No. 58 (AU § 508) entitled, "*Reference to PCAOB Standards in an Audit Report on a Nonissuer.*" Interpretation No. 18 can be found at the following link:

http://www.aicpa.org/download/auditstd/announce/2004_06_interpretation18.pdf

Interpretation No. 18 clarifies that an audit of a nonissuer *must be* performed in accordance with GAAS and additionally provides guidance on how the auditor should report if engaged to perform an audit of a *nonissuer* in accordance with both auditing standards established by the ASB and PCAOB auditing standards.

Sample language to be used in an independent auditor's report is provided in the interpretation to demonstrate how the auditor's report may be modified to reference both auditing standards established by the ASB and auditing standards established by the PCAOB.

PCAOB Issues FAQs on Audits of Nonissuers

On June 30, 2004, the Office of the Chief Auditor of the PCAOB issued guidance in the form of questions and answers on issues related to the implementation of PCAOB Auditing Standard No. 1 *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board* [<http://www.pcaobus.org/rules/Release2003-025.pdf>]. This guidance specifically addresses questions related to audits of nonissuers in the areas of firm registration, references in the audit reports, auditor independence requirements, PCAOB inspection, and Section 404 implications.

The full text of the document can be found at the following link:

http://www.pcaobus.org/documents/Staff_Q_and_A/Audits%20of%20Financial%20Statements%20of%20Non-Issuers.pdf.

Stay Informed

As a member of the Center for Public Company Audit Firms (the Center), your firm will receive periodic updates on important developments related to the PCAOB and the SEC, as well as the activities of the Center, particularly with respect to the submission of comment letters on PCAOB and SEC proposals. To stay abreast of these and other relevant events in public company audit practice, please visit the Center website at <http://www.aicpa.org/cpcf>. Also, we welcome any suggestions or questions - please send them by e-mail at center@aicpa.org.

Sincerely,

Lillian Ceynowa, CPA
Director - Center for Public Company Audit Firms
(201) 938-3759
lcynowa@aicpa.org

Jeanne Parsons, CPA
Senior Technical Manager - Center for Public Company Audit Firms
(201) 938-3099
jparsons@aicpa.org

Annette Schumacher Barr, CPA
Technical Manager - Center for Public Company Audit Firms
(202) 434-9212
aschumacher@aicpa.org



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