

Agenda Item 1B
Proposed SAS marked from November 23 draft



PROPOSED STATEMENT ON AUDITING STANDARDS
AMENDMENT TO STATEMENT ON AUDITING STANDARDS NO. 122 SECTION 700,
FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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Proposed Statement on Auditing Standards, 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 accomplishes the following:

- a. Clarifies that when an auditor conducts an audit in accordance with the standards of the PCAOB and the audit is not within the jurisdiction of the PCAOB, the auditor is required to also comply with GAAS in the conduct of the audit.
- b. Addresses the different reporting requirements of GAAS and the auditing standards of the PCAOB by requiring, in the situation described in the previous bullet, that when the auditor plans to refer to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor should use the form of the report specified by the auditing standards of the PCAOB, amended to indicate that the audit was also conducted in accordance with GAAS. This approach was developed pursuant to discussions with the staff of the SEC who observed the open meetings of the ASB.
- c. Adds application material, including that auditors may need to also consider other PCAOB reporting requirements for specific circumstances such as reporting on supplemental information or issuing a modified report, and examples of circumstances where dual reporting may arise for entities that are not within the jurisdiction of the PCAOB.
- d. 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 the Auditing Standards of the Public Company Accounting Oversight Board, as Required by Paragraph .44," to the exhibit "Illustrations of Auditor's Reports on Financial Statements."

2. The proposed amendment follows.

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

[No amendment 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 conducting an audit of an entity that is not an issuer or a broker-dealer registered with the SEC, an auditor may conduct the audit in accordance with GAAS and, in addition, the standards or the auditing standards of the PCAOB. In such circumstances, in complying with the requirement in paragraph 42, the auditor is not precluded from using the report layout and wording required by the auditing standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. (Ref. par. .A43)~~

[Paragraph .43 is reproduced for contextual purposes only. No amendment to paragraph .43.]

~~.43.44.43~~ 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. (Ref. par. .A44-.A46)

[No amendment to paragraphs .44-.A42 other than paragraph and footnote renumbering.]

Auditor's Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB (Ref: par. .44)

~~.4344 When conducting an audit in accordance with PCAOB standards of an entity that is not within the jurisdiction of the PCAOB of an entity that is not an issuer or a broker-dealer registered with the SEC, the auditor is required to may conduct the audit in accordance with GAAS, and, in addition, the standards or the auditing standards of the PCAOB. In such circumstances, in complying with the requirement in paragraph 42 when the auditor plans to refer to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor is not precluded from using should use the form of report layout and wording required by the auditing standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. (Ref. par. .A43-.A46)~~

[No amendment to paragraphs .44-.A42 other than paragraph renumbering.]

Auditor's Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB (Ref: par. .44)

~~.A43 Auditors of entities whose audits are within the jurisdiction of the PCAOB, which include audits of issuers (as defined by the SEC) and nonissuer brokers- and dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. In such circumstances, the AICPA Code of Professional Conduct requires AICPA members to conduct the audit of the financial statements of those entities in accordance with the standards of the PCAOB and the audit is not required to be conducted in accordance with GAAS. ⁸~~

~~However, when conducting an audit in accordance with the standards⁸ In following the form of report specified by the PCAOB of an entity that is not an issuer or broker-dealer registered with the SEC, the auditor is required may need to also comply with GAAS. consider other PCAOB reporting requirements for specific circumstances such as reporting on supplemental information or issuing a modified report.~~

⁸ See the "Compliance With Standards Rule" (AICPA, Professional Standards, ET sec. 1.310.001), and appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards" (AICPA, Professional Standards, ET appendix A).

~~.A44 A reference to The form of the auditor's report specified by the auditing standards of the PCAOB states that the audit was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)" includes). A reference to "the standards of the PCAOB" indicates that the auditor has complied not only with the PCAOB's auditing standards, but also with all the PCAOB rules, auditing and related attestation standards, and quality control, ethics, and independence, and other standards relating to the preparation and issuance of audit reports standards, whereas a reference to "the auditing standards of the Public Company Accounting Oversight Board (United States)" is limited to compliance with the auditing standards of the PCAOB. Whether the auditor conducts an audit of financial statements of an entity that is whose audits are not an issuer or broker-dealer registered with the SEC within the jurisdiction of the PCAOB in accordance with, and includes a reference in the report to, the standards of the PCAOB or the auditing standards of the PCAOB depends on the circumstances of the engagement.²⁰ In certain circumstances, the auditor of financial statements of an entity that is whose audits are not an issuer or broker-dealer registered with within the SEC jurisdiction of the PCAOB may, nevertheless, be responsible for complying with the independence and other professional practice standards of the PCAOB—for example, if the engagement is subject to regulatory oversight that requires compliance with those rules.~~

²⁰ See Staff Question and Answer, Audits of Financial Statements of Non-Issuers Performed Pursuant to the Standards of the Public Company Accounting Oversight Board (AICPA, PCAOB Standards and Related Rules, PCAOB Staff Guidance, sec. PC 100.01), dated June 30, 2004.

~~.A45 Examples of situations in which an auditor may be engaged to conduct an audit in accordance with the standards of the PCAOB for an entity that whose audit is not an issuer or broker-dealer registered with within the SEC jurisdiction of the PCAOB include audits of clearing agencies and futures commission merchants registered with the U.S. Commodities Futures Trading Commission (CFTC), as well as other entities registered with the CFTC; audits of financial statements included in certain securities offering documents pursuant to Regulation A of the Securities and Exchange Act of 1933; and circumstances in which a nonissuer company desires, or is required by contractual agreement, to obtain an audit in accordance with the standards of the PCAOB.~~

.A46 The exhibit, “Illustrations of Auditor’s Reports on Financial Statements,” contains an example of an auditor’s report ~~that illustrates~~for the situation described in paragraph .A344.

[No amendment to paragraphs .A43–.A57. Subsequent paragraphs and footnotes further renumbered.]

~~.A59.A62~~

Exhibit—Illustrations of Auditor’s Reports on Financial Statements (Ref: par. .A17 and A.46)

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 the Auditing Standards of the Public Company Accounting Oversight Board

[No amendment 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 the Auditing Standards of the Public Company Accounting Oversight Board”

Circumstances include the following:

- *The audit is of a complete set of general-purpose consolidated financial statements (comparative) when the auditor has not been engaged to perform an audit of management’s assessment of the effectiveness of internal control over financial reporting that is integrated with an audit of the financial statements.*
- *The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.*
- *The auditor conducts an audit in accordance with the auditing standards of the PCAOB of an entity that is not ~~an issuer or broker-dealer registered with the SEC.~~ within the jurisdiction of the PCAOB. As a result, the auditor also conducts the audit in accordance with auditing standards generally accepted in the United States of America (GAAS).*
- *The auditor refers to the auditing standards of the PCAOB in addition to GAAS in the auditor’s report and, therefore, the auditor uses the form of report ~~layout and wording~~ specified by the auditing standards of the PCAOB, amended to indicate that the audit was also conducted in accordance with GAAS.*

Independent Auditor's Report¹

[Appropriate Addressee]

We have audited the accompanying consolidated balance sheets of X Company and subsidiaries as of December 31, 20X2 and 20X1, and the related consolidated statements of income, changes in stockholders’ equity, 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 ~~[when complying with all the standards of the PCAOB, delete the word “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 consolidated 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.²

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

[Signature]

[City, State]

[Date]

² *The last three sentences of this paragraph may be replaced with the following optional language to clarify that the audit performed did not require the level of testing and reporting on internal control over financial reporting required in an integrated audit.*

The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, 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.

1.3. This amendment is effective for ~~audits of financial statements for periods ending audit reports issued~~ on or after ~~December 15, 2015.~~ February 1, 2016.

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Note: Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the Institute designated to issue pronouncements on auditing matters. The “Compliance With Standards Rule” of the Institute’s Code of Professional Conduct requires compliance with these standards in an audit of a nonissuer.