



*Statement on
Auditing Standards*

January 2016

131

Issued by the Auditing Standards Board

**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])*

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1 2 3 4 5 6 7 8 9 0 AAS 1 9 8 7 6

CONTENTS

Paragraph

Amendment to Statement on Auditing Standards No. 122 Section 700, *Forming an Opinion and Reporting on Financial Statements*..... 1–3

Statement on Auditing Standards No. 131, 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. Reminds auditors that when an auditor conducts an audit of financial statements 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 conduct the audit in accordance with generally accepted auditing standards (GAAS).
- b. Addresses the different reporting requirements of GAAS and the auditing standards of the PCAOB by requiring, in the situation described in the previous text, that when the auditor refers to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor should use the form of report required by the standards of the PCAOB, amended to state 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 Auditing Standards Board.
- c. Adds application material, including guidance relating to PCAOB reporting requirements for specific circumstances such as reporting on an integrated audit or supplementary information, and examples of circumstances in which dual reporting may arise for audits 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" 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)

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

.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.

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

.44 *When conducting an audit of financial statements 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 conduct the audit in accordance with GAAS. In such circumstances, when the auditor refers to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor should use the form of report required by the standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. (Ref. par. .A43–.A47)*

[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 financial statements of entities whose audits are within the jurisdiction of the PCAOB, which include 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 in accordance with the standards of the PCAOB, and the audit is not required to also be conducted in accordance with GAAS.²⁰*

²⁰ 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 *When the auditor follows the standards of the PCAOB regarding the form of the auditor's report, PCAOB reporting requirements for specific circumstances, such as reporting on an integrated audit or supplementary information, may also be applicable.*

.A45 *The form of the auditor's report required by the standards of the PCAOB states that the audit was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)." 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 the*

*related professional practice standards of the PCAOB, including its independence rules; 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. The auditor of financial statements of an entity whose audits are not within the jurisdiction of the PCAOB may, nevertheless, be responsible for complying with the independence and other related professional practice standards of the PCAOB if, for example, the engagement is subject to regulatory oversight that requires compliance with those rules. Whether the auditor conducts an audit of financial statements in accordance with the standards of the PCAOB or the auditing standards of the PCAOB depends on the circumstances of the engagement.*²¹

²¹ 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.

.A46 Examples of situations in which an auditor may be engaged to conduct an audit in accordance with the standards (or auditing standards) of the PCAOB for an entity whose audit is not within the jurisdiction of the PCAOB include audits for 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 Act of 1933; and circumstances in which a nonissuer company desires, or is required by contractual agreement, to obtain an audit of its financial statements in accordance with the standards of the PCAOB.

.A47 The exhibit, “Illustrations of Auditor’s Reports on Financial Statements,” contains an example of an auditor’s report for the situation described in paragraph .44.

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

.A58.A63

Exhibit—Illustrations of Auditor’s Reports on Financial Statements (Ref: par. .A17 and .A47)

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:

- ***Audit of a complete set of general-purpose consolidated financial statements (comparative) of an entity whose audit is not within the jurisdiction of the PCAOB.***
- ***The auditor has not been engaged to perform an audit 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 financial statements are audited in accordance with the auditing standards of the PCAOB and also 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.***

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 auditing² 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.³

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]

¹ A firm registered with the PCAOB may use the title "Report of Independent Registered Public Accounting Firm."

² When the audit is also conducted in accordance with the other professional practice standards of the PCAOB, omit the word "auditing."

³ *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.

3. This amendment is effective for audits of financial statements for periods ending on or after June 15, 2016.

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