

Agenda Item 2A



Summary of Comments Received on Proposed Statements on Auditing Standards, *Amendment to SAS No. 122 section 700, Forming an Opinion and Reporting on Financial Statements*

Comments were received from 14 respondents:

# 1	Laura Lindal	Lindal
# 2	Piercy Bowler Taylor Kern	PBTK
# 3	McGladrey	McG
# 4	North Carolina State Board of CPA Examiners	NC
# 5	Illinois CPA Society	IL
# 6	EY	EY
# 7	PricewaterhouseCoopers LLP	PWC
# 8	BDO	BDO
# 9	Florida Institute of CPAs	FL
#10	WeiserMazaers	WM
#11	KPMG	KPMG
#12	NYSSCPA	NY
#13	Deloitte & Touche	DT
#14	Grant Thornton	GT

Overall, respondents were supportive. All but one respondent supported the proposal to amend AU-C section 700.

1. Requirement to use the wording and layout of the PCAOB standards

One respondent (KPMG) is opposed to the proposal.

“We have previously reported on financial statements audited in accordance with both U.S. generally accepted auditing standards (U.S. GAAS) and the auditing standards of the Public Company Accounting Oversight Board (PCAOB) for entities not under the jurisdiction of the PCAOB following the form of report specified by AU-C 700. To the best of our knowledge, our auditors’ reports in such situations have not been rejected by any third party. Therefore, we do not understand why it is necessary to change current practice for entities not under the jurisdiction of the PCAOB.

...

While we understand the reporting questions raised for audits of entities not under the jurisdiction of the PCAOB that are required to file audited financial statements with regulators, we are concerned that this Proposed Amendment dilutes the AICPA report “brand” and may confuse the public.”

One respondent (GT) believes the requirement in proposed paragraph 44 regarding report layout and wording is unnecessarily prescriptive and should be removed. Currently, AU-C Section 700 does not require specific report layouts when referring to the International Standards on Auditing or Government Auditing Standards.

Although the SEC has indicated that it will not accept reports that are not in accordance with the PCAOB requirements, is that sufficient reason for GAAS to *require* that entities subject to GAAS report in accordance with other standards? Or should the amendment merely *permit* the entities to report in accordance with other standards?

One respondent (EY) recommended, to ensure appropriate and consistent application of the PCAOB guidance, adding the following requirement (new paragraph 45) to clarify that when the auditor is in compliance only with the auditing standards of the PCAOB, the auditor should refer to “the auditing standards of the PCAOB (United States).” The reason is that the distinction between “the auditing standards of the PCAOB” and the “standards of the PCAOB” is as important as the report layout and wording and, therefore, should be a requirement.

The proposed amendment has been revised so that entities are not precluded from reporting in accordance with the standards of the PCAOB. This is included in the requirements section as essential guidance.

Questions for the ASB:

(a) Does the ASB continue to support issuing the amendment?

(b) If yes, should the amendment be revised so that instead of requiring the auditor to use the report layout and wording specified by the auditing standards of the PCAOB, the requirement states that the auditor is not precluded from using the 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?

2. Other Reporting Differences

Two respondents (GT, EY) requested guidance on resolving other, related differences between GAAS and PCAOB requirements. Extant paragraph 42 indicates that the auditor should comply with both sets of standards in their entirety in order for the auditor to refer to both auditing standards generally accepted in the United States of America (GAAS) and another set of auditing standards. However, other reporting requirements also differ, such as the use and presentation of emphasis and other matter paragraphs, and reporting on supplementary information. The Board was requested to consider developing application guidance to assist auditors in resolving differences between the standards and whether any such differences could result in precluding the auditor from issuing a single report that refers to both sets of standards.

Regarding an integrated audit, one respondent (EY) required guidance for reporting on an integrated audit conducted in accordance with both GAAS and PCAOB standards. One respondent (PwC) suggested that the recommended phrase “of the financial statements” in paragraphs .A43 and .A44 be deleted, to be consistent with paragraph 44 and to allow the requirement and application guidance to be applicable in an integrated audit.

Question for the ASB:

Does the ASB believe that application guidance is needed to assist auditors in resolving other differences in reporting requirements between PCAOB standards and GAAS?

Does the ASB agree with the recommendation to delete the phrase “of the financial statements” in paragraphs .A43 and .A44?

3. Description of issuers and broker-dealers

One respondent (GT) noted that the description in paragraph A43 of issuers and nonissuer broker-dealers appears to be inconsistent with the descriptions set forth in Applicability of AICPA Professional Standards Part I, *Applicability of AICPA Professional Standards to Audits of Financial Statements* with respect to defining “nonissuer” and “issuer.” The definition in the forepart of the AICPA standards defines an issuer as an entity not subject to the jurisdiction of the PCAOB, which is different than the SEC definition of issuer.

One respondent (DT) objected to the phrase “... the audit is [not] within the jurisdiction of the PCAOB” because the authority, oversight (and jurisdiction) of the PCAOB runs primarily to the public accounting firm (and not the audit), and then subsequently to audit reports prepared or issued with respect to any issuer or registered broker dealer and recommended replacing it with the phrase “... an entity is [not] an issuer or broker or dealer registered with the SEC...”.

This change, which does not define “issuer”, is reflected in the revised amendment.

Question for the ASB:

Does the ASB agree with use of the phrase “the entity is [not] an issuer or broker-dealer registered with the SEC”?

4. Illustration 6

One respondent (EY) recommended that the second paragraph of the auditor’s report refer to the auditing standards of the PCAOB, to be modified when all the standards of the PCAOB are followed, instead of referring to the standards of the PCAOB, to be modified when only the auditing standards are followed. The reason is that the auditing standards are followed in all instances. This change is reflected in the revised amendment.

One respondent (DT) recommended that, since the proposed SAS paragraph 44 requires the auditor to “use the 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," additional guidance or clarification be provided as to what the appropriate title should be of reports referring to both GAAS and the standards of the PCAOB, including whether registered firms should always use the title "Report of Independent Registered Public Accounting Firm" in reports that refer to both GAAS and the standards of the PCAOB.

Question for the ASB:

Does the ASB agree that the illustration should

- i. use the auditing standards of the PCAOB as the default wording?
- ii. provide guidance regarding the title?

5. Other issues:

Acceptance of report. One respondent (IL) expressed concern that the illustrative report would not be accepted by the SEC. ASB staff has communicated with the SEC and has reason to believe that the reports will be accepted by the SEC and the PCAOB. This could be disclosed in the executive summary and on the AICPA website. This would also address the concern expressed by one respondent (KPMG) that the reason for permitting the use of the PCAOB report wording and layout is not explained in the standard.

Effective date: Three respondents commented on the effective date. Two respondents (PBTk, NY) stated that early adoption should be permitted. Early adoption is always permitted unless explicitly prohibited.

One respondent (DT) recommended that the amendments should only be effective for audits of financial statements for periods ending on or after December 15, 2015, for audits of entities that are required by an agency, regulator, or contractual agreement to obtain an audit performed in accordance with the standards of the PCAOB. For other circumstances in which the entity desires, but is not required, to have such an audit conducted in accordance with both GAAS and the standards of the PCAOB, the proposed effective date should be for audits of financial statements for periods ending on or after December 15, 2016, with early adoption being permitted. However, if the reason for the amendment is that reports will not be accepted by the SEC, there is no benefit to delaying the effective date. If the amendment is revised to not preclude the use of the PCAOB standard, delaying the effective date would only serve to preclude firms from using the PCAOB standards until that delayed date.

Code of Conduct: One respondent (IL) recommended that the Code of Conduct be amended to clarify which standards apply in these circumstances. The ASB had discussed this and concluded that changing the Code of Conduct was beyond its scope.

Questions for the ASB:

Does the ASB agree that the executive summary and AICPA website should address the acceptability of the report by the SEC?

6. Description of other changes:

Par. 44: Paragraph 44 was moved to follow paragraph 42, since it relates to the last sentence in paragraph 42 about complying with both sets of standards in their entirety. As noted in issue 1 above, it was revised not preclude auditors from using the report layout and wording of the PCAOB auditing standards, amended to state that the audit was also conducted in accordance with GAAS.

Par. A43: In addition to the change noted in issue #3 regarding the description of issuers and broker-dealers, revisions were made to more accurately reflect what is stated in the Code of Conduct, and to reiterate that the audit is required to also be in accordance with GAAS.

Par. A44: In addition to the change noted in issue #3 regarding the description of issuers and broker-dealers, revisions were made to clarify the difference between a reference to “the standards of the PCAOB” and “the auditing standards of the PCAOB”, and to note that which standards are used depends on the circumstances of the engagement.

Illustration 6: Revisions for the change noted in issue #3 and to reflect that the audit was performed in accordance with the auditing standards of the PCAOB (see issue #4).