



Agenda Item 2A1

Convergence – PCAOB

Proposed Amendments by AU-C section

I. AS 18, Related Parties

Proposed Amendments to AU-C sections, as indicated below:

AU-C section 550, <i>Related Parties</i>	Comments
<p>14. The auditor <i>should</i> inquire of management <i>and others within the entity</i> regarding <i>the following</i>:</p> <p>(a) The identity of the entity’s related parties, including changes from the prior period (Ref: Par. A9-A14)</p> <p>(b) The nature of the relationships between the entity and these related parties <i>and the business purpose of entering into a transaction with a related party versus an unrelated party.</i></p> <p>(c) Whether the entity entered into, <i>modified, or terminated</i> any transactions with these related parties during the period and, if so, the type and purpose of the transactions. <i>(Ref: Par. A14X)</i></p>	<p>To incorporate AS18.5d and AS18.5e</p>
<p>15A <i>The auditor should inquire of those charged with governance regarding:</i></p> <p><i>a. Their understanding of the company's relationships and transactions with related parties that are significant to the company; and</i></p> <p><i>b. Whether any of those charged with governance have concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns.</i></p>	<p>AS18 par. 7</p>
<p>.15B <i>The auditor should perform procedures on intercompany account balances as of concurrent dates, even if fiscal years of the respective companies differ. The procedures performed should address the risks of material misstatement associated with the company's intercompany accounts.</i></p>	<p>AS 18.13 – Intercompany balances</p>

<p>.16 During the audit, the auditor should remain alert <i>evaluate whether the entity has properly identified its related parties and relationships and transactions with related parties by performing procedures to test the accuracy and completeness of the related parties and relationships and transactions with related parties identified by the company, taking into account the information gathered during the audit.</i> when inspecting records or documents for arrangements or other information that may indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. In particular, the auditor should inspect the following for indications of related party relationships or transactions that management has not previously identified or disclosed to the auditor:</p> <ol style="list-style-type: none"> a. Bank and legal confirmations obtained as part of the auditor’s procedures b. Minutes of meetings of shareholders and of those charged with governance c. Such other records or documents as the auditor considers necessary in the circumstances of the entity. 	<p>AS18.14 – Identification of Related Parties</p>
<p><i>.A13X The inquiry about the identity of the entity’s related parties may include background information concerning the related parties; for example, physical location, industry, size, and extent of operations.</i></p>	<p>To incorporate AS 18 paragraph 5b</p>
<p><i>Transactions With Related Parties (Ref. Par. 14c)</i> <i>.A14X Inquiries may include asking about any related party transactions</i></p> <ul style="list-style-type: none"> • <i>that have not been authorized and approved in accordance with the company’s established policies or procedures regarding the authorization and approval of transactions with related parties.</i> • <i>for which exceptions to the company's established policies or procedures were granted and the reasons for granting those exceptions.</i> 	<p>To incorporate AS 18 paragraph 5f and 5g:</p>

<p>A15. Others within the entity are those considered likely to have knowledge of the entity’s related party relationships and transactions and the entity’s controls over such relationships and transactions, <i>as well as the existence of related parties or relationships or transactions with related parties previously undisclosed to the auditor.</i> These may include, to the extent that they do not form part of management, the following:</p> <ul style="list-style-type: none"> • Those charged with governance • Personnel in a position to initiate, <i>authorize</i>, process, or record transactions that are both significant and outside the entity’s normal course of business and those who supervise or monitor such personnel • Internal auditors • In-house legal counsel • The chief ethics officer or equivalent person • Chief compliance officer 	<p>To incorporate AS18.6c:</p>
<p><i>Maintaining Alertness for</i> Evaluating Accuracy and Completeness of <i>Related Party Information When Reviewing Records or Documents</i></p> <p><i>Records or Documents That the Auditor May Inspect (Ref: par. .16)</i></p> <p><i>.A22 Evaluating whether a company has properly identified its related parties and relationships and transactions with related parties involves more than assessing the process used by the company.</i> During the audit, the auditor may inspect records or documents that indicate the existence of related party relationships or transactions that management has not previously identified or disclosed to the auditor. Examples of those records or documents include the following: ...</p>	<p>AS18.14 – Identification of Related Parties</p>
<p><i>.A52</i> Communicating significant findings and issues arising during the audit in connection with the entity’s related parties helps the auditor establish a common understanding with those charged with governance of the nature and resolution of these matters. Examples of significant related party matters include the following:</p> <ul style="list-style-type: none"> • Disagreement with management regarding the accounting for, and disclosure of, significant related party transactions. • Noncompliance with applicable laws or regulations prohibiting or restricting specific types of related party transactions. • Difficulties in identifying the party that ultimately controls the entity • <i>The identification of significant related party transactions that appear to the auditor to lack a business purpose.</i> 	<p>To incorporate AS18.19e</p>

AU-C 600, Group Audits	
<p>.41 The group engagement team should communicate its requirements to a component auditor on a timely basis. This communication should include the following: ...</p> <p>A list of related parties prepared by group management and any other related parties of which the group engagement team is aware, <i>including the nature of the company's relationships and transactions with those related parties</i>. The group engagement team should request the component auditor to communicate on a timely basis related parties not previously identified by group management or the group engagement team. The group engagement team should identify such additional related parties to other component auditors.</p>	AS 18 par. 9 - Communications with Component Auditor

II. AS 16, *Communications With Audit Committees*

Proposed amendments to AU-C 260, *The Auditor's Communication With Those Charged With Governance*

<p>.12 The auditor should communicate with those charged with governance (Ref: par..A23)</p> <p><i>a.</i> the auditor's views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures, and significant transactions that are outside the normal course of business for the company or that otherwise appear to be unusual due to their timing, size, or nature. When applicable, the auditor should (Ref: par..A24-.A25)</p> <p>i. explain to those charged with governance why the auditor considers a significant accounting practice that is acceptable under the applicable financial reporting framework not to be most appropriate to the particular circumstances of the entity and</p> <p>ii. determine that those charged with governance are informed about the process used by management in formulating particularly sensitive accounting estimates, including fair value estimates, and about the basis for the auditor's conclusions regarding the reasonableness of those estimates.</p>	<p>AS 16, par. 12d and 13d</p>
<p><i>b. Significant changes to the planned audit strategy initially identified and</i> significant difficulties, if any, encountered during the audit,. (Ref: par. .A26)</p>	<p>AS 16, par. 11</p>
<p><i>c.</i> disagreements with management, if any. (Ref: par. A28)</p> <p><i>d.</i> other findings or issues, if any, arising from the audit that are, in the auditor's professional judgment, significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process. (Ref: par. .A27 – A27A)</p>	<p>AS 16, paragraph 15</p>

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<p>.13 The auditor should communicate with those charged with governance (Ref: par. .A29–.A30)</p> <p><i>a.</i> uncorrected misstatements accumulated by the auditor and the effect that they, individually or in the aggregate, may have on the opinion in the auditor’s report. The auditor’s communication should identify material uncorrected misstatements individually. The auditor should request that uncorrected misstatements be corrected.</p> <p><i>b.</i> the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole, and possible implications with regard to future financial statements.</p>	AS 16, par. 18
<p>.A20 Matters communicated may include the following:</p> <ul style="list-style-type: none"> • How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error, including the nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks • The auditor’s approach to internal control relevant to the audit including, when applicable, whether the auditor will express an opinion on the effectiveness of internal control over financial reporting • The application of materiality in the context of an audit, as discussed in section 320.. 	AS 16, par. 10
<p>.A24 Financial reporting frameworks ordinarily allow for the entity to make accounting estimates and judgments about accounting policies and financial statement disclosures. Open and constructive communication about qualitative aspects of the entity’s significant accounting practices may include comment on the acceptability of significant accounting practices, including concern regarding management's anticipated application of accounting pronouncements that have been issued but are not yet effective and might have a significant effect on future financial reporting. The appendix, "Qualitative Aspects of Accounting Practices," identifies matters that may be included in this communication.</p>	AS 16, par. 13f

<p>.A26 <i>The auditor may communicate the reasons for the significant changes to the planned audit strategy.</i> Significant difficulties encountered during the audit may include matters such as</p> <ul style="list-style-type: none"> • significant delays in management providing required information. • an unnecessarily brief time within which to complete the audit. • extensive unexpected effort required to obtain sufficient appropriate audit evidence. • the unavailability of expected information. • restrictions imposed on the auditor by management. • management’s unwillingness to provide information about management’s plans for dealing with the adverse effects of the conditions or events that lead the auditor to believe there is substantial doubt about the entity's ability to continue as a going concern. <p>In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor’s opinion.</p>	<p>AS 16, par. 11</p>
<p>A27A. <i>Other findings and issues may include</i></p> <ul style="list-style-type: none"> • <i>matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the audit committee's oversight of the financial reporting process.</i> • <i>complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters</i> 	<p>AS 16, paragraph 15</p> <p>AS 16, par. 24</p>
<p>.A30 The auditor may discuss with those charged with governance the reasons for, and the implications of, a failure to correct misstatements, taking into account the size and nature of the misstatement judged in the surrounding circumstances, and possible implications with regard to future financial statements <i>that uncorrected misstatements or matters</i></p>	<p>AS 16, par. 18</p>

<p><i>underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statements under audit.</i></p>	
<p>.A42 The appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter and the action expected to be taken by those charged with governance. The auditor may consider communicating</p> <ul style="list-style-type: none"> • planning matters early in the audit engagement and, for an initial engagement, as part of the terms of the engagement. • significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor in overcoming the difficulties or if the difficulties are likely to lead to a modified opinion. • <i>all matters required to be communicated by this section, at least orally if not in writing, prior to the release of the auditor’s report.</i> 	<p>AS 16, par. 26</p>
<p>A47. Documentation of oral communication may include a copy of minutes prepared by the entity as part of the audit documentation if those minutes are an appropriate record of the communication. <i>If communication by management affected the form of the auditor’s communication with those charged with governance, a copy of or summary of management’s communications provided to those charged with governance may be included in the audit documentation.</i></p>	<p>AS 16, par. 25</p>
<p>.A48 Appendix—Qualitative Aspects of Accounting Practices The communication required by paragraph .12a and discussed in paragraphs .A24–.A25 may include such matters as the following: <i>Significant Unusual Transactions</i></p> <ul style="list-style-type: none"> • <i>The policies and practices management used to account for significant unusual transactions.</i> • <i>The auditor’s understanding of the business rationale for significant unusual transactions.</i> 	<p>AS 16, par. 12d and 13d</p>

III. AS 17, *Supplementary Information*

Proposed amendments to AU-C 725, *Supplementary Information In Relation to the Financial Statements as a Whole*

<p>.09 When the entity presents the supplementary information with the financial statements, the auditor should report on the supplementary information in either (a) an other-matter paragraph in accordance with section 706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report</i>, or (b) in a separate report on the supplementary information.^{fn 2} The other-matter paragraph or separate report should include the following elements:</p> <p>a. A statement that the audit was conducted for the purpose of forming an opinion on the financial statements as a whole</p> <p>b. A statement that the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements</p> <p>c. A statement that the supplementary information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements</p> <p>d. A statement that the supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America</p> <p><i>e. . A statement that in forming the auditor's opinion, the auditor evaluated whether supplemental information, including its form and</i></p>	<p>AS 17 par 10e and 10f (Auditor's report)</p>
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^{fn 2} [Paragraph .08](#) of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

<p><i>content, complies, in all material respects, with the specified regulatory requirements or other criteria, if applicable.</i></p> <p><i>f. A statement, if applicable, that the supplemental information is presented on a basis that differs from the financial statements and is not prescribed by regulatory requirements. When such a statement is made, the report should describe the basis for the supplemental information presentation.</i></p> <p><i>eg. If the auditor issues an unmodified opinion on the financial statements and the auditor has concluded that the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, a statement that, in the auditor’s opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole</i></p> <p><i>fh. If the auditor issues a qualified opinion on the financial statements and the qualification has an effect on the supplementary information, a statement that, in the auditor’s opinion, except for the effects on the supplementary information of (refer to the paragraph in the auditor’s report explaining the qualification), such information is fairly stated, in all material respects, in relation to the financial statements as a whole</i></p>	
<p>.A14 The auditor may consider whether it is appropriate to address the supplementary information in procedures that the auditor performs in auditing the financial statements, including, but not limited to, the following:</p> <ul style="list-style-type: none"> <i>a. Evaluating misstatements regarding the supplemental information identified during performance of audit procedures in accordance with section 450, Evaluation of Misstatements Identified During the Audit</i> b. Obtaining an updated representation letter, in accordance with section 580, <i>Written Representations</i> eb. Performing subsequent events procedures, in accordance with section 560 de. Sending a letter of audit inquiry to the client’s lawyer specifically regarding the information contained in the supplementary information, in accordance with section 501, <i>Audit Evidence—Specific Considerations for Selected Items</i> 	<p>AS 17, par. 7-8 (Misstatements)</p>

A17. If the supplemental information consists of two or more schedules, and the auditor is able to obtain sufficient appropriate audit evidence to support an opinion on some but not all schedules, the auditor may express an opinion on only those schedules for which sufficient appropriate evidence was obtained and disclaim an opinion on the other schedules.

AS 17, par. 15