AICPA

Agenda Item 3D

Conforming Amendments from AS 18 (AS 2410)

The following shows the conforming amendments in Release 2014-002, *AS No. 18–Related Parties* AS 18; comparable GAAS paragraphs marked for proposed conforming amendments to eliminate unnecessary differences with the PCAOB standards; and comments. The proposed amendments are shown in ***bold italics.*** The comments column includes explanations and rationales for proposing, or not proposing, amendments to GAAS.

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
1.	**Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements (AS 2201)*** 14. When planning and performing the audit of internal control over financial reporting, the auditor should take into account the results of his or her fraud risk assessment. **10/** As part of identifying and testing entity-level controls, as discussed beginning at paragraph 22, and selecting other controls to test, as discussed beginning at paragraph 39, the auditor should evaluate whether the company's controls sufficiently address identified risks of material misstatement due to fraud and controls intended to address the risk of management	**AU-C 940 An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements** 16. The auditor should evaluate whether the entity's controls sufficiently address identified risks of material misstatement due to fraud and the risk of management override of other controls. (Ref: par. A25) A25. AU-C section 240 addresses the auditor's identification and assessment of the risks of material misstatement due to fraud.13 Controls that might address these risks include	***Impact on PCAOB Standards:*** Conforming change for consistent language. ***Proposed amendment to GAAS:*** No

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#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	override of other controls. Controls that might address these risks include - ~~***Controls over significant, unusual transactions, particularly those that result in late or unusual journal***~~ ~~***entries;***~~ ***Controls over 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 ("significant unusual transactions"), particularly those that result in late or unusual journal entries;10A/*** Controls over journal entries and adjustments made in the period-end financial reporting process; Controls over related party transactions; Controls related to significant management estimates; and Controls that mitigate incentives for, and pressures on, management to falsify or inappropriately manage financial results. ***Footnote 10A*** - ***See paragraphs .66-.67A of AU sec. 316, Consideration of Fraud in a Financial Statement Audit.***	• controls over significant, unusual transactions, particularly those that result in late or unusual journal entries; • controls over journal entries and adjustments made in the period-end financial reporting process; • controls over related party transactions; • controls related to significant management estimates; and • controls that mitigate incentives for, and pressures on, management to falsify or inappropriately manage financial results.	

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#	**PCAOB Amended Standard** ***(amendments in purple bold italic text)***	**AICPA standards** ***(proposed amendments in purple bold italic text)***	**Comments**
2.	**Auditing Standard No. 9, *Audit Planning (AS 2101)*** 12. Factors that are relevant to the assessment of the risks of material misstatement associated with a particular location or business unit and the determination of the necessary audit procedures include: a. The nature and amount of assets, liabilities, and transactions executed at the location or business unit, including, e.g., significant transactions ~~***executed at the location or business unit***~~ that are outside the normal course of business for the company or that otherwise appear to be unusual ~~***given the auditor's understanding of the company and its environment;14/***~~***due to their timing, size, or nature ("significant unusual transactions") executed at the location or business unit;***		***Impact on PCAOB Standards:*** Conforming change for consistent language. ***Proposed amendment to GAAS:*** No
3.	**Auditing Standard No. 12*, Identifying and Assessing Risks of Material Misstatement* (AS 2110)** 4. The auditor should perform risk assessment procedures that are sufficient to provide a reasonable basis for identifying and assessing the risks of material misstatement, whether due to error or fraud,**3/** and designing further audit procedures.**4/**	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement** .05 The auditor should perform risk assessment procedures to provide a basis for the identification and assessment of risks of material misstatement at the financial statement and relevant assertion levels. Risk assessment procedures by themselves, however, do not	***Impact on PCAOB Standards**:* Amendment puts in cross-reference to AS 18, softened from note with "should" (see amendment to par. 10 in #4 below).

#	PCAOB Amended Standard *(amendments in purple bold italic text)*	AICPA standards *(proposed amendments in purple bold italic text)*	Comments
	Footnote 3- AU sec. 316, *Consideration of Fraud in a Financial Statement Audit*, discusses fraud, its characteristics, and the types of misstatements due to fraud that are relevant to the audit, i.e., misstatements arising from fraudulent financial reporting and misstatements arising from asset misappropriation. ***Also, Auditing Standard No. 18, Related Parties, requires the auditor to perform procedures to obtain an understanding of the company's relationships and transactions with its related parties that might reasonably be expected to affect the risks of material misstatement of the financial statements.***	provide sufficient appropriate audit evidence on which to base the audit opinion. (Ref: par. .A1–.A5) A1. Obtaining an understanding of the entity and its environment, including the entity's internal control (referred to hereafter as an *understanding of the entity*), is a continuous, dynamic process of gathering, updating, and analyzing information throughout the audit. The understanding of the entity establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit when, for example … • identifying areas for which special audit consideration may be necessary (for example, related party transactions, the appropriateness of management's use of the going concern assumption, considering the business purpose of transactions, or	***Proposed amendment to GAAS***: No

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		the existence of complex and unusual transactions);… A4. The risks to be assessed include both those due to fraud and those due to error, and both are covered by this section. However, the significance of fraud is such that further requirements and guidance are included in section 240, *Consideration of Fraud in a Financial Statement Audit*, regarding risk assessment procedures and related activities to obtain information that is used to identify the risks of material misstatement due to fraud.	
4.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* (AS 2110)** 10. Obtaining an understanding of the nature of the company includes understanding: The company's organizational structure and management personnel; The sources of funding of the company's operations and investment activities, including the company's capital structure, noncapital funding (e.g., subordinated debt or dependencies on supplier financing), and other debt instruments;	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement** The Entity and Its Environment (Ref: par. .A24) .12 The auditor should obtain an understanding of the following: a. Relevant industry, regulatory, and other external factors, including the applicable financial reporting framework. (Ref: par. .A25–.A29) b. The nature of the entity, including	***Impact on PCAOB Standards:*** Removes note. ***Proposed amendment to GAAS:*** No

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	The company's significant investments, including equity method investments, joint ventures, and variable interest entities; The company's operating characteristics, including its size and complexity; Note: The size and complexity of a company might affect the risks of misstatement and how the company addresses those risks. The sources of the company's earnings, including the relative profitability of key products and services; and Key supplier and customer relationships. ~~***Note: The auditor should take into account the information gathered while obtaining an understanding of the nature of the company when determining the existence of related parties in accordance with AU sec. 334, Related Parties.***~~	i. its operations; ii. its ownership and governance structures; iii. the types of investments that the entity is making and plans to make, including investments in entities formed to accomplish specific objectives; and iv. the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Ref: par. .A30–.A34) c. The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor should evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: par. .A35) d. The entity's objectives and strategies and those related business risks that may result in risks of material misstatement. (Ref: par. .A36–.A42) e. The measurement and review of the entity's financial performance. (Ref: par. .A43–.A48)	

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5.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* (AS 2110)** 10A. ***To assist in obtaining information for identifying and assessing risks of material misstatement of the financial statements associated with a company's financial relationships and transactions with its executive officers (e.g., executive compensation, including perquisites, and any other arrangements), the auditor should perform procedures to obtain an understanding of the company's financial relationships and transactions with its executive officers. The procedures should be designed to identify risks of material misstatement and should include, but not be limited to (1) reading the employment and compensation contracts between the company and its executive officers and (2) reading the proxy statements and other relevant company filings with the Securities and Exchange Commission and other regulatory agencies that relate to the company's financial relationships and transactions with its executive officers.***	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement** **.A31** Examples of matters that the auditor may consider when obtaining an understanding of the nature of the entity include • business operations such as …. • employment arrangements (including the existence of union contracts, pension and other postemployment benefits, stock option or incentive bonus arrangements, and government regulation related to employment matters).	***Impact on PCAOB Standards:*** Incremental specific requirement. ***Proposed amendment to GAAS:*** No. AU-C 315 contains application material regarding obtaining an understanding of employment arrangements, but this is not linked specifically to executive officers. Nonissuers do not have the same requirement to disclose executive compensation, including perquisites, so this does not seem to be an unnecessary difference for non-issuers. Because this is not a common risk in most engagements, making a requirement would be overly

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			prescriptive and not scalable.
6.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement* (AS 2110)** 11. As part of obtaining an understanding of the company as required by paragraph 7, the auditor should consider performing the following procedures and the extent to which the procedures should be performed: Reading public information about the company relevant to the evaluation of the likelihood of material financial statement misstatements and, in an integrated audit, the effectiveness of the company's internal control over financial reporting, e.g., company-issued press releases, company-prepared presentation materials for analysts or investor groups, and analyst reports; Observing or reading transcripts of earnings calls and, to the extent publicly available, other meetings with investors or rating agencies; Obtaining an understanding of compensation arrangements with senior management ***other than executive officers referred to in paragraph 10A***, including incentive compensation arrangements,	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement** .06 The risk assessment procedures should include the following: a. Inquiries of management, appropriate individuals within the internal audit function (if such function exists), others within the entity who, in the auditor's professional judgment, may have information that is likely to assist in identifying risks of material misstatement due to fraud or error (Ref: par. .A6–.A13) b. Analytical procedures (Ref: par. .A14–.A17) c. Observation and inspection (Ref: par. .A18) .A18 Observation and inspection may support inquiries of management and others and also may provide information about the entity and its environment.	***Impact on PCAOB Standards:*** Incremental specific requirement related to requirement in #5 above. ***Proposed amendment to GAAS:*** No.

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	changes or adjustments to those arrangements, and special bonuses; ***and*** Obtaining information about trading activity in the company's securities and holdings in the company's securities by significant holders to identify potentially significant unusual developments (e.g., from Forms 3, 4, 5, 13D, and 13G); ***Inquiring of the chair of the compensation committee, or the compensation committee's equivalent, and any compensation consultants engaged by either the compensation committee or the company regarding the structuring of the company's compensation for executive officers; and*** ***Obtaining an understanding of established policies and procedures regarding the authorization and approval of executive officer expense reimbursements.*** ***Appendix A – Definitions*** ***A3A. Executive officer – For issuers, the president; any vice president of a company in charge of a principal business unit, division, or function (such as sales, administration or finance); any other officer who performs a policy-making function; or any other person who performs similar***	Examples of such audit procedures include observation or inspection of the following: The entity's operations Documents (such as business plans and strategies), records, and internal control manuals Reports prepared by management (such as quarterly management reports and interim financial statements), those charged with governance (such as minutes of board of directors' meetings), and internal audit The entity's premises and plant facilities	

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	policymaking functions for a company. Executive officers of subsidiaries may be deemed executive officers of a company if they perform such policymaking functions for the company. (See Rule 3b-7 under the Exchange Act.) For brokers and dealers, the term "executive officer" includes a broker's or dealer's chief executive officer, chief financial officer, chief operations officer, chief legal officer, chief compliance officer, director, and individuals with similar status or functions. (See Schedule A of Form BD.)		
7.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)*** 13. The following matters, if present, are relevant to the necessary understanding of the company's selection and application of accounting principles, including related disclosures: Significant changes in the company's accounting principles, financial reporting policies, or disclosures and the reasons for such changes; The financial reporting competencies of personnel involved in selecting and applying significant new or complex accounting principles;	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement** 12 The auditor should obtain an understanding of the following: a. Relevant industry, regulatory, and other external factors, including the applicable financial reporting framework. (Ref: par. .A25–.A29) b. The nature of the entity, including i. its operations; ii. its ownership and governance structures;	***Impact on PCAOB Standards:*** Conforming amendment for use of “significant unusual transactions” ***Proposed amendment to GAAS:*** No.

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	The accounts or disclosures for which judgment is used in the application of significant accounting principles, especially in determining management's estimates and assumptions; The effect of significant accounting principles in controversial or emerging areas for which there is a lack of authoritative guidance or consensus; ~~***The methods the company uses to account for significant and unusual transactions; and***~~ ***The methods the company uses to account for 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 ("significant unusual transactions");7A/ and*** Financial reporting standards and laws and regulations that are new to the company, including when and how the company will adopt such requirements.	iii. the types of investments that the entity is making and plans to make, including investments in entities formed to accomplish specific objectives; and iv. the way that the entity is structured and how it is financed, to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Ref: par. .A30–.A34) c. The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor should evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: par. .A35) d. The entity's objectives and strategies and those related business risks that may result in risks of material misstatement. (Ref: par. .A36–.A42) e. The measurement and review of the entity's financial performance. (Ref: par. .A43–.A48)	

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		.A35 An understanding of the entity's selection and application of accounting policies may encompass such matters as the methods the entity uses to account for significant and unusual transactions. the effect of significant accounting policies in controversial or emerging areas for which a lack of authoritative guidance or consensus exists. significant changes in the entity's accounting policies and disclosures and the reasons for such changes. financial reporting standards, and laws and regulations that are new to the entity and when and how the entity will adopt such requirements. the financial reporting competencies of personnel involved in selecting and applying significant new or complex accounting standards. [Paragraph renumbered by the issuance of SAS No. 128, January 2015.]	
8.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)*** 56. The auditor's inquiries regarding fraud risks should include the following:	No comparable requirement in AU-C 315. **AU-C 240 Consideration of Fraud in a Financial Statement Audit**	***Impact on PCAOB Standards:*** Incremental specific requirement based on amendment to AU sec. 316 (AU-C 240).

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	a. Inquiries of management regarding: (1) Whether management has knowledge of fraud, alleged fraud, or suspected fraud affecting the company; (2) Management's process for identifying and responding to fraud risks in the company, including any specific fraud risks the company has identified or account balances or disclosures for which a fraud risk is likely to exist, and the nature, extent, and frequency of management's fraud risk assessment process; (3) Controls that the company has established to address fraud risks the company has identified, or that otherwise help to prevent and detect fraud, including how management monitors those controls; (4) For a company with multiple locations (a) the nature and extent of monitoring of operating locations or business segments and (b) whether there are particular operating locations or business segments for which a fraud risk might be more likely to exist; (5) Whether and how management communicates to employees its views on business practices and ethical behavior; (6) Whether management has received tips or complaints regarding the company's financial reporting (including those received through the audit committee's	Discussions With Management and Others Within the Entity 17 The auditor should make inquiries of management regarding a. management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent, and frequency of such assessments; (Ref: par. .A14–.A15) b. management's process for identifying, responding to, and monitoring the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist; (Ref: par. .A16) c. management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity; and d. management's communication, if any, to employees regarding its views on business practices and ethical behavior. e. ***Whether the entity has entered into any significant unusual transactions and, if so, the***	***Proposed amendment to GAAS:*** Yes. Note: the phrase "significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual", which appears in AU-C 315 29f and AU-C 240 32c and A54, has been changed to "significant unusual transactions"

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	internal whistleblower program, if such program exists) and, if so, management's responses to such tips and complaints; ~~***and***~~ (7) Whether management has reported to the audit committee on how the company's internal control serves to prevent and detect material misstatements due to fraud***; and*** ***(8) Whether the company has entered into any significant unusual transactions and, if so, the nature, terms, and business purpose (or the lack thereof) of those transactions and whether such transactions involved related parties.31A/*** ***Footnote 31A*** - ***See AU secs. 316.66-.67A.***	***nature, terms, and business purpose (or the lack thereof) of those transactions and whether such transactions involved related parties.***	
9.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)*** b. Inquiries of the audit committee, or equivalent, or its chair regarding: (1) The audit committee's views about fraud risks in the company; (2) Whether the audit committee has knowledge of fraud, alleged fraud, or suspected fraud affecting the company;	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** Those Charged With Governance .20 Unless all of those charged with governance are involved in managing the entity, fn 7 the auditor should obtain an understanding of how those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. (Ref: par. .A21–.A23)	***Impact on PCAOB Standards:*** Incremental specific requirement based on amendment to AU sec. 316 (AU-C 240). ***Proposed amendment to GAAS:*** Yes.

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	(3) Whether the audit committee is aware of tips or complaints regarding the company's financial reporting (including those received through the audit committee's internal whistleblower program, if such program exists) and, if so, the audit committee's responses to such tips and complaints; ***and*** (4) How the audit committee exercises oversight of the company's assessment of fraud risks and the establishment of controls to address fraud risks***; and*** ***(5) Whether the company has entered into any significant unusual transactions.***	.21 Unless all of those charged with governance are involved in managing the entity, the auditor should make inquiries of those charged with governance (or the audit committee or, at least, its chair) to determine their views about the risks of fraud and whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity ***or whether the entity has entered into any significant unusual transactions***. These inquiries are made, in part, to corroborate the responses received from the inquiries of management.	Note: the phrase "significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual", which appears in AU-C 315 29f and AU-C 240 32c and A54 has been changed to "significant unusual transactions"

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10.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)*** c. If the company has an internal audit function, inquiries of appropriate internal audit personnel regarding: (1) The internal auditors' views about fraud risks in the company; (2) Whether the internal auditors have knowledge of fraud, alleged fraud, or suspected fraud affecting the company; (3) Whether internal auditors have performed procedures to identify or detect fraud during the year, and whether management has satisfactorily responded to the findings resulting from those procedures; ***and*** (4) Whether internal auditors are aware of instances of management override of controls and the nature and circumstances of such overrides***; and*** ***(5) Whether the company has entered into any significant unusual transactions.***	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** .19 For those entities that have an internal audit function, fn 6 the auditor should make inquiries of appropriate individuals within the internal audit function to obtain their views about the risks of fraud; determine whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity; ***whether the entity has entered into any significant unusual transactions:*** whether they have performed any procedures to identify or detect fraud during the year; and whether management has satisfactorily responded to any findings resulting from these procedures.	***Impact on PCAOB Standards:*** Incremental specific requirement based on amendment to AU sec. 316 (AU-C 240). ***Proposed amendment to GAAS:*** Yes. Note: the phrase "significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual", which appears in AU-C 315 29f and AU-C 240 32c and A54 has been changed to "significant unusual transactions"

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11.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)*** 57. In addition to the inquiries outlined in the preceding paragraph, the auditor should inquire of others within the company about their views regarding fraud risks, including, in particular, whether they have knowledge of fraud, alleged fraud, or suspected fraud. The auditor should identify other individuals within the company to whom inquiries should be directed and determine the extent of such inquiries by considering whether others in the company might have additional knowledge about fraud, alleged fraud, or suspected fraud or might be able to corroborate fraud risks identified in discussions with management or the audit committee. Examples of other individuals within the company to whom inquiries might be directed include: Employees with varying levels of authority within the company, including, e.g., company personnel with whom the auditor comes into contact during the course of the audit (a) in obtaining an understanding of internal control, (b) in observing inventory or performing cutoff procedures, or (c) in obtaining explanations for significant differences identified when performing analytical procedures;	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** .18 The auditor should make inquiries of management, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected, or alleged fraud affecting the entity. (Ref: par. .A17–.A20) .A19 Examples of others within the entity to whom the auditor may direct inquiries about the existence or suspicion of fraud include the following: • Operating personnel not directly involved in the financial reporting process • Employees with different levels of authority • Employees involved in initiating, processing, or recording complex or unusual transactions and those who supervise or monitor such employees • In-house legal counsel • Chief ethics officer or equivalent person • The person or persons charged with dealing with allegations of fraud	***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** No

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	Operating personnel not directly involved in the financial reporting process; Employees involved in initiating, recording, or processing complex or unusual transactions, e.g., a sales transaction with multiple elements***, a significant unusual transaction,*** or a significant related party transaction; and In-house legal counsel.	.A20 Management is often in the best position to perpetrate fraud. Accordingly, when evaluating management's responses to inquiries with professional skepticism, the auditor may judge it necessary to corroborate responses to inquiries with other information.	

12.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)***	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement**	***Impact on PCAOB Standards:*** Conforming amendment
	71. Factors that should be evaluated in determining which risks are significant risks include:		
	a. The effect of the quantitative and qualitative risk factors discussed in paragraph 60 on the likelihood and potential magnitude of misstatements; b. Whether the risk is a fraud risk; Note: A fraud risk is a significant risk. c. Whether the risk is related to recent significant economic, accounting, or other developments; d. The complexity of transactions; e. Whether the risk involves significant transactions with related parties; f. The degree of complexity or judgment in the recognition or measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and g. ***Whether the risk involves significant unusual transactions.*** ***~~Whether the risk involves 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.~~***	.29 In exercising professional judgment about which risks are significant risks, the auditor should consider at least a. whether the risk is a risk of fraud; b. whether the risk is related to recent significant economic, accounting, or other developments and, therefore, requires specific attention; c. the complexity of transactions; d. whether the risk involves significant transactions with related parties; e. the degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and f. whether the risk involves significant ***unusual*** transactions ~~that are outside the normal course of business for the entity or that otherwise appear to be unusual.~~ (Ref: par. .A139–.A143)	***Proposed amendment to GAAS:*** Yes – to change “significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual” to “significant unusual transactions”

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13.	**Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement (AS 2110)*** ***73A. The auditor should obtain an understanding of the controls that management has established to identify, authorize and approve, and account for and disclose significant unusual transactions in the financial statements, if the auditor has not already done so when obtaining an understanding of internal control, as described in paragraphs 18–40 and 72–73 of this standard.***	**AU-C 315 Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement** **.29** In exercising professional judgment about which risks are significant risks, the auditor should consider at least *a.* whether the risk is a risk of fraud; *b.* whether the risk is related to recent significant economic, accounting, or other developments and, therefore, requires specific attention; *c.* the complexity of transactions; *d.* whether the risk involves significant transactions with related parties; *e.* the degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty; and *f.* whether the risk involves significant transactions that are outside the normal	***Impact on PCAOB Standards:*** Incremental specific requirement [Note: SUT amendment] ***Proposed amendment to GAAS:*** No. Par. 29f and par. 30 lead the auditor to understand the controls over significant risks that arise from significant unusual transactions; no performance difference

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		course of business for the entity or that otherwise appear to be unusual. (Ref: par. .A139–.A143) **.30** If the auditor has determined that a significant risk exists, the auditor should obtain an understanding of the entity's controls, including control activities, relevant to that risk and, based on that understanding, evaluate whether such controls have been suitably designed and implemented to mitigate such risks. (Ref: par. .A144–.A146)	
14.	**Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* (AS 2301)** 5. The auditor should design and implement overall responses to address the assessed risks of material misstatement as follows: a. *Making appropriate assignments of significant engagement responsibilities.* The knowledge, skill, and ability of engagement team members with significant engagement responsibilities should be commensurate with the assessed risks of material misstatement.***1/***	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** .29 In determining overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level, the auditor should a. assign and supervise personnel, taking into account the knowledge, skill, and ability of the individuals to be given significant engagement responsibilities and the auditor's assessment of the risks of material misstatement due to fraud for the engagement; (Ref: par. .A39–.A40)	***Impact on PCAOB Standards:*** Amendment adds cross-reference. ***Proposed amendment to GAAS:*** No.

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	b. *Providing the extent of supervision that is appropriate for the circumstances, including, in particular, the assessed risks of material misstatement.* (See paragraphs 5—6 of Auditing Standard No. 10, *Supervision of the Audit Engagement*.) c. *Incorporating elements of unpredictability in the selection of audit procedures to be performed.* As part of the auditor's response to the assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud ("fraud risks"), the auditor should incorporate an element of unpredictability in the selection of auditing procedures to be performed from year to year. Examples of ways to incorporate an element of unpredictability include: (1) Performing audit procedures related to accounts, disclosures, and assertions that would not otherwise be tested based on their amount or the auditor's assessment of risk; (2) Varying the timing of the audit procedures; (3) Selecting items for testing that have lower amounts or are otherwise outside customary selection parameters; (4) Performing audit procedures on an unannounced basis; and	b. evaluate whether the selection and application of accounting policies by the entity, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from management's effort to manage earnings, or a bias that may create a material misstatement; and (Ref: par. .A41) c. incorporate an element of unpredictability in the selection of the nature, timing, and extent of audit procedures. (Ref: par. .A42)/ .A42 Incorporating an element of unpredictability in the selection of the nature, timing, and extent of audit procedures to be performed is important because individuals within the entity who are familiar with the audit procedures normally performed on engagements may be better able to conceal fraudulent financial reporting. This can be achieved by, for example, • performing substantive procedures on selected account balances and assertions not otherwise tested due to their materiality or risk. • adjusting the timing of audit procedures from that otherwise expected. • using different sampling methods.	

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	(5) In multi-location audits, varying the location or the nature, timing, and extent of audit procedures at related locations or business units from year to year.**2/** d. *Evaluating the company's selection and application of significant accounting principles.* The auditor should evaluate whether the company's selection and application of significant accounting principles, particularly those related to subjective measurements and complex transactions,**3/** are indicative of bias that could lead to material misstatement of the financial statements. ***Footnote 3*** - ***See also paragraphs .66-.67A of AU sec. 316, Consideration of Fraud in a Financial Statement Audit, and paragraphs .04 and .06 of AU sec. 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.***	• performing audit procedures at different locations or at locations on an unannounced basis.	
15.	**Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* (AS 2301)** 11. For significant risks, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks. Note: Auditing Standard No. 12 discusses identification of significant risks**10/** and states that fraud risks are significant risks.	**AU-C 330 Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained** .22 If the auditor has determined that an assessed risk of material misstatement at the relevant assertion level is a significant risk, the auditor should perform substantive procedures that are specifically responsive to that risk. When the approach to a significant risk	***Impact on PCAOB Standards:*** .Incremental specific requirement to AS 13 in response to amendment to AU-C 316. ***Proposed amendment to GAAS:*** Add as application material to A58 and make

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	11A. Responding to Risks Associated with Significant Unusual Transactions. Paragraph 71.g. of Auditing Standard No. 12 indicates that one of the factors to be evaluated in determining significant risks is whether the risk involves significant unusual transactions. Also, AU sec. 316.66–.67A establish requirements for performing procedures to respond to fraud risks regarding significant unusual transactions. Because significant unusual transactions can affect the risks of material misstatement due to error or fraud, the auditor should take into account the types of potential misstatements that could result from significant unusual transactions in designing and performing further audit procedures, including procedures performed pursuant to AU secs.316.66–.67A.	consists only of substantive procedures, those procedures should include tests of details. (Ref: par. .A58) .A58 Paragraph .22 requires the auditor to perform substantive procedures that are specifically responsive to risks the auditor has determined to be significant risks. ***Because significant unusual transaction can affect the risks of material misstatements due to error or fraud, substantive audit procedures that take into account the types of potential misstatements that could result from significant unusual transactions may be necessary, including procedures performed pursuant to paragraph .32 of section 240.*** ***A58A.*** Audit evidence in the form of external confirmations received directly by the auditor from appropriate confirming parties may assist the auditor in obtaining audit evidence with the high level of reliability that the auditor requires to respond to significant risks of material misstatement, whether due to fraud or error. For example, if the auditor identifies that management is under pressure to meet earnings expectations, a risk may exist that management is inflating sales by improperly recognizing revenue related to sales agreements with terms that preclude revenue recognition or by invoicing sales before shipment. In	A58 a new paragraph. Drop in footnote to 240 par. 32.

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		these circumstances, the auditor may, for example, design external confirmation procedures not only to confirm outstanding amounts but also to confirm the details of the sales agreements, including date, any rights of return, and delivery terms. In addition, the auditor may find it effective to supplement such external confirmation procedures with inquiries of nonfinancial personnel in the entity regarding any changes in sales agreements and delivery terms.	
16.	**Auditing Standard No. 13, *The Auditor's Responses to the Risks of Material Misstatement* (AS 2301)** 15. Also, AU sec. 316 indicates that the auditor should perform audit procedures to specifically address the risk of management override of controls including: a. Examining journal entries and other adjustments for evidence of possible material misstatement due to fraud (AU secs. 316.58–.62); ***b.*** Reviewing accounting estimates for biases that could result in material misstatement due to fraud (AU secs. 316.63–.65); and ***c. Evaluating whether the business purpose for significant transactions that are outside the normal course of business for the company or that***	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** .32 Even if specific risks of material misstatement due to fraud are not identified by the auditor, a possibility exists that management override of controls could occur. Accordingly, the auditor should address the risk of management override of controls apart from any conclusions regarding the existence of more specifically identifiable risks by designing and performing audit procedures to a. test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, including entries	***Impact on PCAOB Standards:*** Conforming amendment. ***Proposed amendment to GAAS:*** No. GAAS already has similar requirement.

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	otherwise appear to be unusual due to their timing, size, or nature ("significant unusual transactions") indicates that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets (AU secs. 316.66–.67A). ~~c. Evaluating the business rationale for significant unusual transactions (AU secs. 316.66-.67).~~	posted directly to financial statement drafts. In designing and performing audit procedures for such tests, the auditor should (Ref: par. .A47–.A50 and .A55) i. obtain an understanding of the entity's financial reporting process and controls over journal entries and other adjustments, fn 12 and the suitability of design and implementation of such controls; ii. make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments; iii. consider fraud risk indicators, the nature and complexity of accounts, and entries processed outside the normal course of business; iv. select journal entries and other adjustments made at the end of a reporting period; and v. consider the need to test journal entries and other adjustments throughout the period. b. review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, the auditor should i. evaluate whether the judgments and decisions made by management in making the accounting estimates	

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		included in the financial statements, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, the auditor should reevaluate the accounting estimates taken as a whole, and ii. perform a retrospective review of management judgments and assumptions related to significant accounting estimates reflected in the financial statements of the prior year. Estimates selected for review should include those that are based on highly sensitive assumptions or are otherwise significantly affected by judgments made by management. (Ref: par. .A51–.A53) c. evaluate, for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. (Ref: par. .A54)	

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17.	**Auditing Standard No. 16, *Communications with Audit Committees (As 1301)*** **AUDITOR'S EVALUATION OF THE QUALITY OF THE COMPANY'S FINANCIAL REPORTING** 13. The auditor should communicate to the audit committee the following matters: a. Qualitative aspects of significant accounting policies and practices. 1. The results of the auditor's evaluation of, and conclusions about, the qualitative aspects of the company's significant accounting policies and practices, including situations in which the auditor identified bias in management's judgments about the amounts and disclosures in the financial statements;**21/** and 2. The results of the auditor's evaluation of the differences between (i) estimates best supported by the audit evidence and (ii) estimates included in the financial statements, which are individually reasonable, that indicate a possible bias on the part of the company's management.**22/** b. Assessment of critical accounting policies and practices. The auditor's assessment of management's disclosures related to the critical accounting policies and	**AU-C 260 The Auditor's Communication With Those Charged With Governance** 12 The auditor should communicate with those charged with governance (Ref: par. .A23) a. the auditor's views about qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures. When applicable, the auditor should (Ref: par. .A24–.A25) 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 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. b. significant difficulties, if any, encountered during the audit. (Ref: par. .A26)	***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** No.

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	practices, along with any significant modifications to the disclosure of those policies and practices proposed by the auditor that management did not make. c. Conclusions regarding critical accounting estimates. The basis for the auditor's conclusions regarding the reasonableness of the critical accounting estimates.23/ d. Significant unusual transactions. The auditor's understanding of the business ~~***rationale for***~~ ***purpose (or the lack thereof) of*** significant unusual transactions.**24/** e. Financial statement presentation. The results of the auditor's evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial reporting framework, including the auditor's consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items, and the bases of amounts set forth.**25/** f. New accounting pronouncements. Situations in which, as a result of the auditor's procedures, the auditor identified a concern regarding management's anticipated application of accounting pronouncements	c. disagreements with management, if any. (Ref: par. .A28) d. 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)	

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	that have been issued but are not yet effective and might have a significant effect on future financial reporting. g. Alternative accounting treatments. All alternative treatments permissible under the applicable financial reporting framework for policies and practices related to material items that have been discussed with management, including the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the auditor.**26/** Footnote 25- *See* paragraphs 30-31 of Auditing Standard No. 14, which describe the auditor's responsibilities related to the evaluation of whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Other PCAOB standards, such as ~~***AU sec.***~~ ~~***334***~~***Auditing Standard No. 18***, *Related Parties*, and AU sec. 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern,* describe the auditor's responsibilities related to evaluation of specific disclosures in financial statements.		
18.	**AU sec.315, *Communications Between Predecessor and Successor Auditors (AS 2610)***	**AU-C 210 Terms of Engagement**	***Impact on PCAOB Standards:*** Incremental specific guidance

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	.09 The successor auditor should make specific and reasonable inquiries of the predecessor auditor regarding matters that will assist the successor auditor in determining whether to accept the engagement. Matters subject to inquiry should include— □□Information that might bear on the integrity of management. □□Disagreements with management as to accounting principles, auditing procedures, or other similarly significant matters. □□Communications to audit committees or others with equivalent authority and responsibility **fn 4** regarding fraud, illegal acts by clients, and internal-control-related matters.**fn 5** □□The predecessor auditor's understanding as to the reasons for the change of auditors. □□***The predecessor auditor's understanding of the nature of the company's relationships and transactions with related parties and significant unusual transactions.*** The successor auditor may wish to consider other reasonable inquiries.	11 Before accepting an engagement for an initial audit, including a reaudit engagement, the auditor should request management to authorize the predecessor auditor to respond fully to the auditor's inquiries regarding matters that will assist the auditor in determining whether to accept the engagement. If management refuses to authorize the predecessor auditor to respond, or limits the response, the auditor should inquire about the reasons and consider the implications of that refusal in deciding whether to accept the engagement. .12 The auditor should evaluate the predecessor auditor's response, or consider the implications if the predecessor auditor provides no response or a limited response, in determining whether to accept the engagement. (Ref: par. .A27–.A32) .A31 The communication with the predecessor auditor may be either written or oral. Matters subject to the auditor's inquiry of the predecessor auditor may include the following: • Information that might bear on the integrity of management	***Proposed amendment to GAAS:*** Yes

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	fn 5A Footnote 5A - ***Paragraph .66 of AU sec. 316, Consideration of Fraud in a Financial Statement Audit, describes significant unusual transactions.***	• Disagreements with management about accounting policies, auditing procedures, or other similarly significant matters • Communications to those charged with governance regarding fraud and noncompliance with laws or regulations by the entity • Communications to management and those charged with governance regarding significant deficiencies and material weaknesses in internal control • The predecessor auditor's understanding about the reasons for the change of auditors • ***The predecessor auditor's understanding of the nature of the company's relationships and transactions with related parties and significant unusual transactions***	
19.	**AU sec.315, *Communications Between Predecessor and Successor Auditors* Other Communications (AS 2610)** .11 The successor auditor should request that the client authorize the predecessor auditor to allow a review of the predecessor auditor's working papers. The predecessor auditor may wish to request a consent and acknowledgment letter from the client to document this authorization in an effort to reduce misunderstandings	**AU-C 510 Opening Balances—Initial Audit Engagements, Including Reaudit Engagements** .07 In instances in which the prior period financial statements were audited by a predecessor auditor, the auditor should request management to authorize the predecessor auditor to allow a review of the predecessor auditor's audit documentation and for the predecessor	***Impact on PCAOB Standards:*** Incremental specific guidance ***Proposed amendment to GAAS:*** Yes

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	about the scope of the communications being authorized. **fn 6** It is customary in such circumstances for the predecessor auditor to make himself or herself available to the successor auditor and make available for review certain of the working papers. The predecessor auditor should determine which working papers are to be made available for review and which may be copied. The predecessor auditor should ordinarily permit the successor auditor to review working papers, including documentation of planning, internal control, audit results, and other matters of continuing accounting and auditing significance, such as the working ~~paper~~***papers containing an*** analysis of balance sheet accounts, ***and*** those relating to contingencies***, related parties, and significant unusual transactions***. Also, the predecessor auditor should reach an understanding with the successor auditor as to the use of the working papers. **fn 7** The extent, if any, to which a predecessor auditor permits access to the working papers is a matter of judgment.	auditor to respond fully to inquiries by the auditor, thereby providing the auditor with information to assist in planning and performing the engagement. (Ref: par. .A3–.A11) .A4 The predecessor auditor may request a consent and acknowledgment letter from the entity to document this authorization in an effort to reduce misunderstandings about the scope of the communications being authorized. Exhibit B, "Illustrative Entity Consent and Acknowledgment Letter," contains an illustrative entity consent and acknowledgment letter. .A5 It is customary for the predecessor auditor to make himself or herself available to the auditor and to make available for review certain audit documentation. The predecessor auditor determines which audit documentation is to be made available for review and which may be copied. The predecessor auditor ordinarily permits the auditor to review audit documentation, including documentation of planning; risk assessment procedures; further audit procedures; audit results; and other matters of continuing accounting and auditing significance, such as the schedule of uncorrected misstatements, working paper analysis of balance sheet accounts, and those relating to	

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		contingencies***, related parties and significant unusual transactions.*** .A6 Before permitting access to the audit documentation, the predecessor auditor may request written confirmation of the auditor's agreement regarding the use of the audit documentation. Exhibit C, "Illustrative Successor Auditor Acknowledgment Letter," contains an illustrative successor auditor acknowledgment letter.	
20.	**AU sec. 316,*Consideration of Fraud in a Financial Statement Audit (AS 2401)*** ***.66 Evaluating whether the business purpose for significant unusual transactions indicates that the transactions may have been entered into to engage in fraud. 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 ("significant unusual transactions") may be used to engage in fraudulent financial reporting or conceal misappropriation of assets.*** ~~***.66 Evaluating the business rationale for significant unusual transactions. During the course of the***~~	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** See below	Note: The Task Force compared paragraphs 66-67A to AU-C 240 and proposed amendments for incremental concepts/requirements.

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	~~***audit, the auditor may become aware of significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment. The auditor should gain an understanding of the business rationale for such transactions and whether that rationale (or the lack thereof) suggests that the transactions may have been entered into to engage in fraudulent financial reporting or conceal misappropriation of assets.***~~ ***Note: The auditor's identification of significant unusual transactions should take into account information obtained from: (a) the risk assessment procedures required by Auditing Standard No. 12, Identifying and Assessing Risks of Material Misstatement (e.g., inquiring of management and others, obtaining an understanding of the methods used to account for significant unusual transactions, and obtaining an understanding of internal control over financial reporting) and (b) other procedures performed during the audit (e.g., reading minutes of the board of directors meetings and performing journal entry testing).*** ***Note: The auditor should take into account information that indicates that related parties or relationships or transactions with related parties***		

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	previously undisclosed to the auditor might exist when identifying significant unusual transactions. See paragraphs 14–16 of Auditing Standard No. 18, Related Parties. Appendix A of Auditing Standard No. 18, Related Parties, includes examples of such information and examples of sources of such information.		
21.	**AU sec. 316,*Consideration of Fraud in a Financial Statement Audit (AS 2401)*** ***66A The auditor should design and perform procedures to obtain an understanding of the business purpose or the lack thereof) of each significant unusual transaction that the auditor has identified. The procedures should include:*** ***a. Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the transaction;*** ***b. Determining whether the transaction has been authorized and approved in accordance with the company's established policies and procedures;***	See below 32 Even if specific risks of material misstatement due to fraud are not identified by the auditor, a possibility exists that management override of controls could occur. Accordingly, the auditor should address the risk of management override of controls apart from any conclusions regarding the existence of more specifically identifiable risks by designing and performing audit procedures to --- c. evaluate, for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual given the auditor's understanding of the entity and its environment and other information obtained during the audit, whether the business rationale (or the lack thereof) of the	Conforming amendment ***Impact on PCAOB Standards:*** Incremental specific requirement and guidance for procedures around significant unusual transactions, along with rewording of existing requirements and guidance. ***Proposed amendment to GAAS:*** Yes. Proposed amendments reflect incremental requirements and guidance; not rewording of requirements and guidance that have equivalents in GAAS.

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	c. Evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any; fn 24A and ***d. Performing other procedures as necessary depending on the identified and assessed risks of material misstatement.*** ***Note: Paragraph 11A of Auditing Standard No. 13 requires the auditor to take into account the types of potential misstatements that could result from significant unusual transactions in designing and performing further audit procedures.*** ***Footnote 24A*** - ***Examples of information that might be relevant to the auditor's evaluation of the other party's financial capability include, among other things, the audited financial statements of the other party, reports issued by regulatory agencies, financial publications, and income tax returns of the other party, to the extent available.*** ~~.67 In understanding the business rationale for the transactions, the auditor should consider:~~ ~~Whether the form of such transactions is overly complex (for example, involves multiple entities~~	transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets. ***The procedures should include*** (Ref: par. .A54) ***i. Reading the underlying documentation and evaluating whether the terms and other information about the transaction are consistent with explanations from inquiries and other audit evidence about the business purpose (or the lack thereof) of the transaction;*** ***ii. Determining whether the transaction has been authorized and approved in accordance with the company's established policies and procedures;*** ***iii. Evaluating the financial capability of the other parties with respect to significant uncollected balances, loan commitments, supply arrangements, guarantees, and other obligations, if any; and*** ***iv. Evaluating whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements.*** A54 Indicators that may suggest that significant transactions that are outside the normal course of	

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	~~***within a consolidated group or unrelated third parties).***~~ ~~***Whether management has discussed the nature of and accounting for such transactions with the audit committee or board of directors.***~~ ~~***Whether management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.***~~ ~~***Whether transactions that involve unconsolidated related parties, including special purpose entities, have been properly reviewed and approved by the audit committee or board of directors.***~~ ~~***Whether the transactions involve previously unidentified related parties fn 25 or parties that do not have the***~~ ~~***substance or the financial strength to support the transaction without assistance from the entity under audit.***~~ ***.67 The auditor should evaluate whether the business purpose (or the lack thereof) indicates that the significant unusual transaction may have been entered into to engage in fraudulent financial***	business for the entity, or that otherwise appear to be unusual, may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets include the following: • The form of such transactions appears overly complex (for example, the transaction involves multiple entities within a consolidated group or multiple unrelated third parties). • Management has not discussed the nature of and accounting for such transactions with those charged with governance of the entity, and inadequate documentation exists. • Management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction. • Transactions that involve nonconsolidated related parties, including special purpose entities, have not been properly reviewed or approved by those charged with governance of the entity. • Transactions that involve previously unidentified related parties or parties that do not have the substance or the financial strength to support the transaction without assistance from the entity under audit.	

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	reporting or conceal misappropriation of assets. In making that evaluation, the auditor should evaluate whether: ***-The form of the transaction is overly complex (e.g., the transaction involves multiple entities within a consolidated group or unrelated third parties);*** ***-The transaction involves unconsolidated related parties, including variable interest entities;*** ***-The transaction involves related parties or relationships or transactions with related parties previously undisclosed to the auditor; fn 25A*** ***-The transaction involves other parties that do not appear to have the financial capability to support the transaction without assistance from the company, or any related party of the company;*** ***-The transaction lacks commercial or economic substance, or is part of a larger series of connected, linked, or otherwise interdependent arrangements that lack commercial or economic substance individually or in the aggregate (e.g., the transaction is entered into shortly prior to period end and is unwound shortly after period end);*** ***-The transaction occurs with a party that falls outside the definition of a related party (as defined***	***-The transaction lacks commercial or economic substance, or is part of a larger series of connected, linked, or otherwise interdependent arrangements that lack commercial or economic substance individually or in the aggregate (e.g., the transaction is entered into shortly prior to period end and is unwound shortly after period end).*** ***-The transaction occurs with a party that falls outside the definition of a related party (as defined by the accounting principles applicable to that company), with either party able to negotiate terms that may not be available for other, more clearly independent, parties on an arm's-length basis.*** ***-The transaction enables the company to achieve certain financial targets.***	

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	by the accounting principles applicable to that company), with either party able to negotiate terms that may not be available for other, more clearly independent, parties on an arm's-length basis; ***-The transaction enables the company to achieve certain financial targets;*** ***-Management is placing more emphasis on the need for a particular accounting treatment than on the*** ***underlying economic substance of the transaction (e.g., accounting-motivated structured transaction); and*** ***-Management has discussed the nature of and accounting for the transaction with the audit committee or another committee of the board of directors or the entire board.*** ***Note: Paragraphs 20–23 of Auditing Standard No. 14, Evaluating Audit Results, provide requirements regarding the auditor's evaluation of whether identified misstatements might be indicative of fraud.*** ***Footnote 25A*** - ***Related parties or relationships or transactions with related parties previously undisclosed to the auditor includes, to the extent not disclosed to the auditor by management: (1)***		

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	related parties; (2) relationships or transactions with known related parties; and (3) relationships or transactions with previously unknown related parties. Auditing Standard No. 18, Related Parties, requires the auditor to perform certain procedures in circumstances in which the auditor determines that related parties or relationships or transactions with related parties previously undisclosed to the auditor exist. ***.67A*** ***The auditor must evaluate whether significant unusual transactions that the auditor has identified have been properly accounted for and disclosed in the financial statements. This includes evaluating whether the financial statements contain the information regarding significant unusual transactions essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. fn 25B*** ***Note: The auditor considers management's disclosure regarding significant unusual transactions in other parts of the company's Securities and Exchange Commission filing containing the audited financial statements in accordance with AU sec. 550, Other Information in***		

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	Documents Containing Audited Financial Statements. Footnote 25B - ***See paragraphs 30-31 of Auditing Standard No. 14.***		
22.	**AU sec. 316,*Consideration of Fraud in a Financial Statement Audit (AS 2401)*** ***Communication About Possible Fraud to Management, the Audit Committee, the Securities and Exchange Commission, and Others*** ***~~COMMUNICATING ABOUT POSSIBLE FRAUD TO MANAGEMENT, THE AUDIT COMMITTEE, AND~~*** ***~~OTHERS~~*** .81 The auditor also should consider communicating other fraud risks, if any, identified by the auditor. Such a communication may be a part of an overall communication to the audit committee of business and financial statement risks affecting the entity and/or in conjunction with the auditor communication about the qualitative aspects of the entity's accounting policies and practices (see paragraphs 12–13 of Auditing Standard No. 16, *Communications with Audit Committees*). The auditor should communicate these matters to the audit committee in a timely manner and prior to the issuance of the auditor's report.		***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** No

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23.	**AU sec. 316,*Consideration of Fraud in a Financial Statement Audit (AS 2401)*** ***.81A The auditor has a responsibility, under certain conditions, to disclose possible fraud to the Securities and Exchange Commission to comply with certain legal and regulatory requirements. These requirements include reports in connection with the termination of the engagement, such as when the entity reports an auditor change and the fraud or related risk factors constitute a reportable event or are the source of a disagreement, as these terms are defined in Item 304 of Regulation S-K and Item 16F of Form 20-F. These requirements also include reports that may be required pursuant to Section 10A(b) of the Securities Exchange Act of 1934 relating to an illegal act that the auditor concludes has a material effect on the financial statements.***		Not relevant to non-issuers
24.	**AU sec. 316,*Consideration of Fraud in a Financial Statement Audit (AS 2401)*** .82 ~~***The disclosure of possible fraud to parties other than the client's senior management and its audit committee ordinarily is not part of the auditor's responsibility and ordinarily would be precluded by the auditor's ethical or legal obligations of***~~	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** 42 If the auditor has identified or suspects a fraud, the auditor should determine whether the auditor has a responsibility to report the occurrence or suspicion to a	Conforming amendment

#	PCAOB Amended Standard *(amendments in purple bold italic text)*	AICPA standards *(proposed amendments in purple bold italic text)*	Comments
	~~***confidentiality unless the matter is reflected in the auditor's report. The auditor should recognize, however, that in the following circumstances a duty to disclose to parties outside the entity may exist:***~~ ~~***1. To comply with certain legal and regulatory requirements fn 39***~~ ***The auditor also may have a duty to disclose the existence of possible fraud to parties outside the entity in the following circumstances:*** a. To a successor auditor when the successor makes inquiries in accordance with ~~***section***~~***AU sec.*** 315, *Communications Between Predecessor and Successor Auditors* ***.*****fn 40** b. In response to a subpoena***.*** ***2.*** To a funding agency or other specified agency in accordance with requirements for the audits of ~~***entities***~~***companies*** that receive governmental financial assistance ***fn 41*** ~~c.~~ ~~***Because potential conflicts between the auditor's ethical and legal obligations for confidentiality of client matters may be complex, the auditor may wish to consult with legal counsel before discussing matters covered by paragraphs .79 through .81 with parties outside the client***~~	party outside the entity. Although the auditor's professional duty to maintain the confidentiality of client information may preclude such reporting, the auditor's legal responsibilities may override the duty of confidentiality in some circumstances. (Ref: par. .A72–.A74) **.A72** The auditor's professional duty to maintain the confidentiality of client information may preclude reporting fraud to a party outside the client entity. However, in certain circumstances, the duty of confidentiality may be overridden by statute, regulation, courts of law, specific requirements of audits of entities that receive government financial assistance, or waived by agreement. In some circumstances, the auditor has a statutory duty to report the occurrence of fraud to supervisory authorities. Also, in some circumstances, the auditor has a duty to report misstatements to authorities in those cases when management and those charged with governance fail to take corrective action.	

CONFORMING AMENDMENTS

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
25.	**AU sec. 316,*Consideration of Fraud in a Financial Statement Audit (AS 2401)*** **Risk Factors Relating to Misstatements Arising From Fraudulent Financial Reporting** *A.2 The following are examples of risk factors relating to misstatements arising from fraudulent financial reporting.* **Opportunities** *a.* The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following: ***- Related party transactions that are also significant unusual transactions (e.g., a significant related party transaction outside the normal course of business)*** - ***Significant transactions with related parties whose financial statements are not audited or are audited by another firm*** ***~~o Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm~~*** - A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate	**AU-C 240 Consideration of Fraud in a Financial Statement Audit** Appendix A — Examples of Fraud Risk Factors Opportunities The nature of the industry or the entity's operations provides opportunities to engage in fraudulent financial reporting that can arise from the following: ~~• Significant related party transactions not in the ordinary course of business or with related entities not audited or audited by another firm~~ ***- Related party transactions that are also significant unusual transactions (e.g., a significant related party transaction outside the normal course of business)*** - ***Significant transactions with related parties whose financial statements are not audited or are audited by another firm*** • A strong financial presence or ability to dominate a certain industry sector that allows the entity to dictate	***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** Yes

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions - Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate - Significant~~*, unusual,*~~ or highly complex transactions ***or significant unusual transactions***, especially those close to period end, that pose difficult "substance-over-form" questions - Significant operations located or conducted across international borders in jurisdictions where differing business environments and cultures exist - Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification ***- Contractual arrangements lacking a business purpose*** *b.* There is ineffective monitoring of management as a result of the following: - Domination of management by a single person or small group (in a nonowner-managed business) without compensating controls	terms or conditions to suppliers or customers that may result in inappropriate or non-arm's-length transactions • Assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate • Significant, ~~unusual~~, or highly complex transactions ***or significant unusual transactions***,, especially those close to period end that pose difficult "substance over form" questions • Significant operations located or conducted across jurisdictional borders where differing business environments and regulations exist • Use of business intermediaries for which there appears to be no clear business justification • Significant bank accounts or subsidiary or branch operations in tax-haven jurisdictions for which there appears to be no clear business justification ***- Contractual arrangements lacking a business purpose*** The monitoring of management is not effective as a result of the following:	

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	- Ineffective board of directors or audit committee oversight over the financial reporting process and internal control ***- The exertion of dominant influence by or over a related party*** *c.* There is a complex or unstable organizational structure, as evidenced by the following: - Difficulty in determining the organization or individuals that have controlling interest in the entity - Overly complex organizational structure involving unusual legal entities or managerial lines of authority - High turnover of senior management, counsel, or board members *d.* Internal control components are deficient as a result of the following: - Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (where external reporting is required) - High turnover rates or employment of ineffective accounting, internal audit, or information technology staff	• Domination of management by a single person or small group (in a nonowner-managed business) without compensating controls. • Oversight by those charged with governance over the financial reporting process and internal control is not effective. ***- The exertion of dominant influence by or over a related party*** The organizational structure is complex or unstable, as evidenced by the following: • Difficulty in determining the organization or individuals that have controlling interest in the entity • Overly complex organizational structure involving unusual legal entities or managerial lines of authority • High turnover of senior management, legal counsel, or those charged with governance Internal control components are deficient as a result of the following: • Inadequate monitoring of controls, including automated controls and controls over interim financial reporting (when external reporting is required)	

#	PCAOB Amended Standard *(amendments in purple bold italic text)*	AICPA standards *(proposed amendments in purple bold italic text)*	Comments
	- Ineffective accounting and information systems, including situations involving reportable conditions	• High turnover rates or employment of staff in accounting, IT, or the internal audit function who are not effective • Accounting and information systems that are not effective, including situations involving significant deficiencies or material weaknesses in internal control • Weak controls over budget preparation and development and compliance with law or regulation.	
26.	**AU sec. 330, *The Confirmation Process (AS 2310)*** .27 If information about the respondent's competence, knowledge, motivation, ability, or willingness to respond, or about the respondent's objectivity and freedom from bias with respect to the audited entity **fn 2** comes to the auditor's attention, the auditor should consider the effects of such information on designing the confirmation request and evaluating the results, including determining whether other procedures are necessary. In addition, there may be circumstances (such as for significant, unusual year-end transactions that have a material effect on the financial statements or where the respondent is the custodian of a material amount of the audited entity's assets) in which the auditor should exercise a heightened degree of professional skepticism relative to these factors about the respondent. In these	**AU-C 505 External Confirmations** .10 If the auditor identifies factors that give rise to doubts about the reliability of the response to a confirmation request, the auditor should obtain further audit evidence to resolve those doubts. (Ref: par. .A12–.A22)	*Impact on PCAOB Standards:* Added cross-reference *Proposed amendment to GAAS:* No

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	circumstances, the auditor should consider whether there is sufficient basis for concluding that the confirmation request is being sent to a respondent from whom the auditor can expect the response will provide meaningful and appropriate evidence. ***Footnote 2*** ***Auditing Standard No. 18, Related Parties, establishes requirements regarding the auditor's evaluation of relationships and transactions between the company and its related parties.***		
27.	**AU sec. 333, M*anagement Representations (AS 2805)*** .03 The auditor obtains written representations from management to complement other auditing procedures. In many cases, the auditor applies auditing procedures specifically designed to obtain evidential matter concerning matters that also are the subject of written representations. For example, after the auditor performs the procedures described in ~~***in section 334,***~~ ***Auditing Standard No. 18,*** Related Parties, ~~***even if the results of those procedures indicate that transactions with related parties have been properly disclosed,,***~~ the auditor should obtain a written representation that management has no knowledge of any relationships or transactions with related parties that have not been	**AU-C 580 Written Representations** .03 Audit evidence is the information used by the auditor in arriving at the conclusions on which the auditor's opinion is based.fn 1 Written representations are necessary information that the auditor requires in connection with the audit of the entity's financial statements. Accordingly, similar to responses to inquiries, written representations are audit evidence. (Ref: par. .A1) Insert par. 17 of AU-C 580	***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** No

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	properly ***accounted for and adequately*** disclosed***. The auditor should obtain this written representation even if the results of those procedures indicate that relationships and transactions with related parties have been properly accounted for and adequately disclosed.*** In some circumstances, evidential matter that can be obtained by the application of auditing procedures other than inquiry is limited; therefore, the auditor obtains written representations to provide additional evidential matter. For example, if an entity plans to discontinue a line of business and the auditor is not able to obtain sufficient information through other auditing procedures to corroborate the plan or intent, the auditor obtains a written representation to provide evidence of management's intent.		
28.	**AU sec. 333, M*anagement Representations (AS 2805)*** .06 In connection with an audit of financial statements presented in accordance with generally accepted accounting principles, specific representations should relate to the following matters: **fn 3** *Financial Statements* *Completeness of Information*	**AU-C 580 Written Representations** 11. The auditor should request management to provide written representations that a. it has provided the auditor with all relevant information and access, as agreed upon in the terms of the audit engagement, and	***Impact on PCAOB Standards:*** Incremental specific requirement ***Proposed amendment to GAAS:*** Yes Par. 11 is overarching and principles-based; adding specificity regarding related parties diminishes that.

CONFORMING AMENDMENTS

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	c. Availability of all financial records and related data***, including the names of all related parties and all relationships and transactions with related parties***.	b. all transactions have been recorded and are reflected in the financial statements. (Ref: par. .A7–.A10, .A22, and .A29)	
	f. Absence of ***(1)*** unrecorded transactions ***and (2) side agreements or other arrangements (either written or oral) undisclosed to the auditor***. *Recognition, Measurement, and Disclosure* *l.* Information concerning related party transactions and amounts receivable from or payable to related parties***, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.*** **fn 9** ***Footnote 9*** - ***See paragraph 18 of Auditing Standard No. 18, Related Parties.***	.17 The auditor should request management to provide written representations that (Ref: par. .A15–.A16) a. it has disclosed to the auditor the identity of ***all*** the entity's related parties and all the related party relationships and transactions of which it is aware and b. it has appropriately accounted for and disclosed such relationships and transactions. ***Related Parties (Ref: par. .17)*** **.A15** Circumstances in which it may be appropriate to obtain written representations about related parties from those charged with governance in addition to management include the following: • When they have approved specific related party transactions that (*a*) materially affect the financial statements or (*b*) involve management	

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		• When they have made specific oral representations to the auditor on details of certain related party transactions***, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.*** • When they have financial or other interests in the related parties or the related party transactions **.A16** The auditor also may decide to obtain written representations regarding specific assertions that management may have made, such as a representation that specific related party transactions do not involve undisclosed side agreements. **.A18** In addition to the written representations required by paragraphs .10–.18, the auditor may consider it necessary to request other written representations about the financial statements. Such written representations may supplement, but do not form part of, the written representations required by paragraphs	

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
		.10–.18. They may include representations about the following: • Whether the selection and application of accounting policies are appropriate • Whether matters such as the following, when relevant under the applicable financial reporting framework, have been recognized, measured, presented, or disclosed in accordance with that framework: — Plans or intentions that may affect the carrying value or classification of assets and liabilities — Liabilities, both actual and contingent — Title to, or control over, assets and the liens or encumbrances on assets and assets pledged as collateral • Aspects of laws, regulations, and contractual agreements that may affect the financial statements, including noncompliance	

#	PCAOB Amended Standard *(amendments in purple bold italic text)*	AICPA standards *(proposed amendments in purple bold italic text)*	Comments
		• ***The absence of side agreements or other arrangements (either written or oral) undisclosed to the auditor***.	
29.	**AU sec. 333, M*anagement Representations (AS 2805)*** **Appendix A** 4. Certain terms are used in the illustrative letter that are described elsewhere in authoritative literature. ***Examples are fraud, in section 316, Consideration of Fraud in a Financial Statement Audit, and related parties, in Auditing Standard No. 18, Related Parties.*** To avoid misunderstanding concerning the meaning of such terms, the auditor may wish to furnish those definitions to management or request that the definitions be included in the written representations. 2. We have made available to you all— ***a.*** Financial records and related data, ***including the names of all related parties and all relationships and transactions with related parties.***		***Impact on PCAOB Standards:*** Conforming illustration to revised requirements ***Proposed amendment to GAAS:*** Conforming revisions will be made to illustrative representation letter.

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	a.b. Minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. 11. There are no— *a.* Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency. *b.* Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*. **fn 2** *c.* Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5. ***d. Side agreements or other arrangements (either written or oral) that have not been disclosed to you.***		

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#	PCAOB Amended Standard *(amendments in purple bold italic text)*	AICPA standards *(proposed amendments in purple bold italic text)*	Comments
30.	**AU sec. 336, *Using the Work of Specialist (AS 1210)*** .10 The auditor should evaluate the relationship **fn 6** of the specialist to the client, including circumstances that might impair the specialist's objectivity. Such circumstances include situations in which the client has the ability—through employment, ownership, contractual right, family relationship, or otherwise—to directly or indirectly control or significantly influence the specialist. ***Footnote 6*** - ***~~The term relationship includes, but is not limited to, those situations discussed in section 334, Related Parties, footnote 1.~~ The term relationship includes, but is not limited to, those situations meeting the definition of "related parties" contained in the financial reporting framework applicable to the company under audit.***	**AU-C 500 Audit Evidence** .08 If information to be used as audit evidence has been prepared using the work of a management's specialist, the auditor should, to the extent necessary, taking into account the significance of that specialist's work for the auditor's purposes, (Ref: par. .A35–.A37) a. evaluate the competence, capabilities, and objectivity of that specialist; (Ref: par. .A38–.A44) b. obtain an understanding of the work of that specialist; and (Ref: par. .A45–.A48) c. evaluate the appropriateness of that specialist's work as audit evidence for the relevant assertion. (Ref: par. .A49) .A42 A broad range of circumstances may threaten objectivity, for example, self-interest threats, advocacy threats, familiarity threats, self-review threats, and intimidation threats. Safeguards may reduce such threats and may be created either by external structures (for example, the profession, legislation, or regulation of the management's specialist) or by the work of the	***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** No

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		management's specialist environment (for example, quality control policies and procedures). .A43 Although safeguards cannot eliminate all threats to the objectivity of a management's specialist, threats such as intimidation threats may be of less significance to a specialist engaged by the entity than to a specialist employed by the entity, and the effectiveness of safeguards such as quality control policies and procedures may be greater. Because the threat to objectivity created by being an employee of the entity will always be present, a specialist employed by the entity cannot ordinarily be regarded as being more likely to be objective than other employees of the entity. .A44 When evaluating the objectivity of a specialist engaged by the entity, it may be relevant to discuss with management and that specialist any interests and relationships that may create threats to the specialist's objectivity and any applicable safeguards, including any professional requirements that apply to the specialist, and to evaluate whether the safeguards are adequate. Interests and relationships creating threats may include the following: • Financial interests • Business and personal relationships	

#	**PCAOB Amended Standard** ***(amendments in purple bold italic text)***	**AICPA standards** ***(proposed amendments in purple bold italic text)***	**Comments**
		• Provision of other services	
31.	**AU sec. 560, *Subsequent Events (AS 2801)*** 12. In addition, the independent auditor should perform other auditing procedures with respect to the period after the balance-sheet date for the purpose of ascertaining the occurrence of subsequent events that may require adjustment or disclosure essential to a fair presentation of the financial statements in conformity with generally accepted accounting principles. These procedures should be performed at or near the date of the auditor's report. The auditor generally should: a. Read the latest available interim financial statements; compare them with the financial statements being reported upon; and make any other comparisons considered appropriate in the circumstances. In order to make these procedures as meaningful as possible for the purpose expressed above, the auditor should inquire of officers and other executives having responsibility for financial and accounting matters as to whether the interim statements have been prepared on the same basis as that used for the statements under audit. b. Inquire of and discuss with officers and other executives having responsibility for financial and	**AU-C 560 Subsequent Events and Subsequently Discovered Facts** 10. The auditor should perform the procedures required by paragraph .09 so that they cover the period from the date of the financial statements to the date of the auditor's report or as near as practicable thereto. The auditor should take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which should include the following: (Ref: par. .A4–.A5 and .A8–.A10) a. Obtaining an understanding of any procedures that management has established to ensure that subsequent events are identified b. Inquiring of management and, when appropriate, those charged with governance about whether any subsequent events have occurred that might affect the financial statements (Ref: par. .A6) c. Reading minutes, if any, of the meetings of the entity's owners, management, and those charged with governance that have been held after the date of the	***Impact on PCAOB Standards:*** Incremental specific requirement ***Proposed amendment to GAAS:*** Yes. Proposed as application material to be consistent with how other items in AS 2801 are treated in GAAS.

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#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	accounting matters (limited where appropriate to major locations) as to: (i) Whether any substantial contingent liabilities or commitments existed at the date of the balance sheet being reported on or at the date of inquiry. (ii) Whether there was any significant change in the capital stock, long-term debt, or working capital to the date of inquiry. (iii) The current status of items, in the financial statements being reported on, that were accounted for on the basis of tentative, preliminary, or inconclusive data. (iv) Whether any unusual adjustments had been made during the period from the balance-sheet date to the date of inquiry. ***(v) Whether there have been any changes in the company's related parties.*** ***(vi) Whether there have been any significant new related party transactions.*** ***(vii) Whether the company has entered into any significant unusual transactions.*** c. Read the available minutes of meetings of stockholders, directors, and appropriate committees; as	financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available (Ref: par. .A4 and .A7) d. Reading the entity's latest subsequent interim financial statements, if any .A6 In inquiring of management and, when appropriate, those charged with governance about whether any subsequent events have occurred that might affect the financial statements, the auditor may inquire about the current status of items that were accounted for on the basis of preliminary or inconclusive data and may make specific inquiries about the following matters: • Whether new commitments, borrowings, or guarantees have been entered into • Whether sales or acquisitions of assets have occurred or are planned • Whether there have been increases in capital or issuance of debt instruments, such as the issue of new shares or debentures, or an agreement to merge or liquidate has been made or is planned • Whether any assets have been appropriated by the government or destroyed (for example, by fire or flood)	

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	to meetings for which minutes are not available, inquire about matters dealt with at such meetings. d. Inquire of client's legal counsel concerning litigation, claims, and assessments. [As amended, January 1976, by Statement on Auditing Standards No. 12.] (See section 337.) e. Obtain a letter of representations, dated as of the date of the auditor's report, from appropriate officials, generally the chief executive officer, chief financial officer, or others with equivalent positions in the entity, as to whether any events occurred subsequent to the date of the financial statements being reported on by the independent auditor that in the officer's opinion would require adjustment or disclosure in these statements. The auditor may elect to have the client include representations as to significant matters disclosed to the auditor in his performance of the procedures in subparagraphs (*a*) to (*d*) above and (*f*) below. (See section 333, *Management Representations*.) Make such additional inquiries or perform such procedures as he considers necessary and appropriate to dispose of questions that arise in carrying out the foregoing procedures, inquiries, and discussions.	• Whether there have been any developments regarding contingencies • Whether any unusual accounting adjustments have been made or are contemplated • Whether any events have occurred or are likely to occur that will bring into question the appropriateness of accounting policies used in the financial statements, as would be the case, for example, if such events call into question the validity of the going concern assumption • Whether any events have occurred that are relevant to the measurement of estimates or provisions made in the financial statements • Whether any events have occurred that are relevant to the recoverability of assets • ***Whether there have been any changes in the company's related parties.*** • ***Whether there have been any significant new related party transactions.*** • ***Whether the company has entered into any significant unusual transactions.***	

#	PCAOB Amended Standard *(amendments in purple bold italic text)*	AICPA standards *(proposed amendments in purple bold italic text)*	Comments
32.	**AU sec. 722, *Interim Financial Information (AS 4105)*** B1. The following are examples of situations about which the accountant would ordinarily inquire of management: -Business combinations -New or complex revenue recognition methods -Impairment of assets -Disposal of a segment of a business -Use of derivative instruments and hedging activities -Sales and transfers that may call into question the classification of investments in securities, including management's intent and ability with respect to the remaining securities classified as held to maturity -Computation of earnings per share in a complex capital structure -Adoption of new stock compensation plans or changes to existing plans -Restructuring charges taken in the current and prior quarters ~~***Significant, unusual, or infrequently occurring transactions***~~	**AU-C 930 Interim Financial Information** 14. The auditor should make the following inquiries and perform the following other review procedures when conducting a review of interim financial information: a. Read the available minutes of meetings of stockholders, directors, and appropriate committees and inquire about matters dealt with at meetings for which minutes are not available to identify matters that may affect the interim financial information. (Ref: par. .A16) b. Obtain reports from component auditors, if any, related to reviews performed of the interim financial information of significant components of the reporting entity, including its investees, or inquire of those auditors if reports have not been issued. (Ref: par. .A17) c. Inquire of management about i. whether the interim financial information has been prepared and fairly presented in accordance with the applicable financial reporting framework consistently applied. ii. unusual or complex situations that may have an effect on the interim financial information. (Ref: par. .A18)	***Impact on PCAOB Standards:*** Conforming amendment ***Proposed amendment to GAAS:*** No.

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	-The occurrence of infrequent transactions ***-The occurrence of significant unusual transactions*** -Changes in litigation or contingencies -Changes in major contracts with customers or suppliers -Application of new accounting principles -Changes in accounting principles or the methods of applying them -Trends and developments affecting accounting estimates, **fn 36** such as allowances for bad debts and excess or obsolete inventories, provisions for warranties and employee benefits, and realization of unearned income and deferred charges -Compliance with debt covenants -Changes in related parties or significant new related-party transactions -Material off-balance-sheet transactions, special-purpose entities, and other equity investments -Unique terms for debt or capital stock that could affect classification	iii. significant transactions occurring or recognized in the interim period, particularly those in the last several days of the interim period. iv. the status of uncorrected misstatements identified during the previous audit and interim review (that is, whether adjustments had been recorded subsequent to the periods covered by the prior audit or interim review and, if so, the amounts recorded and period in which such adjustments were recorded). v. matters about which questions have arisen in the course of applying the review procedures. vi. events subsequent to the date of the interim financial information that could have a material effect on the fair presentation of such information. vii. its knowledge of any fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others when the fraud could have a material effect on the financial information. viii. whether management is aware of allegations of fraud or suspected fraud affecting the entity communicated by employees, former employees, regulators, or others. ix. significant journal entries and other adjustments.	

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		x. communications from regulatory agencies. xi. significant deficiencies and material weaknesses in the design or operation of internal control as it relates to the preparation and fair presentation of both annual and interim financial information. xii. changes in related parties or significant new related party transactions. d. Obtain evidence that the interim financial information agrees or reconciles with the accounting records. In addition, the auditor should inquire of management about the reliability of the records to which the interim financial information was compared or reconciled. (Ref: par. .A19) e. Read the interim financial information to consider whether, based on the results of the review procedures performed and other information that has come to the auditor's attention, the information to be reported is in accordance with the applicable financial reporting framework. f. Read other information in documents containing the interim financial information to consider whether such information or the manner of its presentation is materially inconsistent with the interim financial information. If the auditor concludes that a material	

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		inconsistency exists or becomes aware of information that the auditor believes is a material misstatement of fact, the auditor should take action based on the auditor's professional judgment. (Ref: par. .A20–.A21)	
33.	**AU sec. 722, *Interim Financial Information (AS 4105)*** 24 Written representations from management should be obtained for all interim financial information presented and for all periods covered by the review. Specific representations should relate to the following matters: **fn 16** *Financial Statements* a. Management's acknowledgement of its responsibility for the fair presentation of the interim financial information in conformity with generally accepted accounting principles. b. Management's belief that the interim financial information has been prepared and presented in conformity with generally accepted accounting principles applicable to interim financial information. *Internal Control* c. Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls which could adversely affect the	**AU-C 930 Interim Financial Information** 21 For all interim financial information presented and for all periods covered by the review, the auditor should request management to provide written representations, as of the date of the auditor's review report (Ref: par. .A29–.A30) a. that management has fulfilled its responsibility for the preparation and fair presentation of the interim financial information, in accordance with the applicable financial reporting framework, as set out in the terms of the engagement. b. that management acknowledges its responsibility for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of interim financial statements, including its responsibility to prevent and detect fraud. c. that management has disclosed to the auditor all significant deficiencies and material weaknesses in the design or operation of internal control of which	***Impact on PCAOB Standards:*** Incremental specific requirement. ***Proposed amendment to GAAS:*** Yes.

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	issuer's ability to record, process, summarize, and report financial data. d. Acknowledgment of management's responsibility for the design and implementation of programs and controls to prevent and detect fraud. e. Knowledge of fraud or suspected fraud affecting the entity involving (1) management, (2) employees who have significant roles in internal control, or (3) others where the fraud could have a material effect on the financial statements. f. Knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others. *Completeness of Information* g. Availability of all financial records and related data***, including the names of all related parties and all relationships and transactions with related parties***. h. Completeness and availability of all minutes of meetings of stockholders, directors, and committees of directors.	management is aware as it relates to the preparation and fair presentation of both annual and interim financial information. d. that management has provided the auditor with all relevant information and access, as agreed upon in the terms of the engagement. e. that all transactions have been recorded and are reflected in the interim financial information. • f. that management has disclosed to the auditor the results of its assessment of the risk that the interim financial information may be materially misstated as a result of fraud. g. that management has disclosed to the auditor its knowledge of fraud or suspected fraud affecting the entity involving i. management, ii. employees who have significant roles in internal control, or iii. others when the fraud could have a material effect on the interim financial information. h. that management has disclosed to the auditor its knowledge of any allegations of fraud or suspected fraud affecting the entity's interim financial information	

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	i. Communications with regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices. j. Absence of ***(1)*** unrecorded transactions ***and (2) side agreements or other arrangements (either written or oral) undisclosed to the auditor.*** *Recognition, Measurement, and Disclosure* k. Management's belief that the effects of any uncorrected financial statement misstatements aggregated by the accountant during the current review engagement and pertaining to the interim period(s) in the current year are immaterial, both individually and in the aggregate, to the interim financial information taken as a whole. (A summary of such items should be included in or attached to the letter.) **fn 17** l. Plans or intentions that may materially affect the carrying value or classification of assets or liabilities. m. Information concerning related party transactions and amounts receivable from or payable to related parties***, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.***	communicated by employees, former employees, regulators, or others. i. that management has disclosed to the auditor all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing interim financial information. j. about whether management believes that the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the interim financial information as a whole. A summary of such items should be included in, or attached to, the written representation. (Ref: par. .A31) k. that management has disclosed to the auditor all known actual or possible litigation and claims whose effects should be considered when preparing the interim financial information, and it has appropriately accounted for and disclosed such litigation and claims in accordance with the applicable financial reporting framework. l. about whether management believes that significant assumptions used by it in making accounting estimates are reasonable. m. that management has disclosed to the auditor the identity of the entity's related parties and all the related	

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	n. Guarantees, whether written or oral, under which the entity is contingently liable. o. Significant estimates and material concentrations known to management that are required to be disclosed in accordance with the AICPA's Statement of Position 94-6, *Disclosure of Certain Significant Risks and* *Uncertainties*. p. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information or as a basis for recording a loss contingency. q. Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. r. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5. s. Satisfactory title to all owned assets, liens or encumbrances on such assets, and assets pledged as collateral.	party relationships and transactions of which it is aware, and it has appropriately accounted for and disclosed such relationships and transactions. n. that all events occurring subsequent to the date of the interim financial information and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed. **.A30** The auditor may request additional representations***, including representations*** regarding • matters specific to the entity's business or industry • ***support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction.*** • ***the absence of side agreements or other arrangements (either written or oral) that have not been disclosed to the auditor.*** .	

#	**PCAOB Amended Standard** ***(amendments in purple bold italic text)***	**AICPA standards** ***(proposed amendments in purple bold italic text)***	**Comments**
	t. Compliance with aspects of contractual agreements that may affect the interim financial information. *Subsequent Events* u. Information concerning subsequent events. The representation letter ordinarily should be tailored to include additional representations from management related to matters specific to the entity's business or industry. Appendix C [paragraph .56] of this section presents illustrative representation letters.		
34.	**AU sec. 722, *Interim Financial Information (AS 4105)*** **Appendix C - ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTERS FOR A REVIEW OF** **INTERIM FINANCIAL INFORMATION** C5. Certain terms are used in the illustrative letters that are described elsewhere in authoritative literature. ***Examples are fraud, in section 316, Consideration of Fraud in a Financial Statement Audit, and related parties, in Auditing Standard No. 18, Related Parties. Examples are fraud, in section 316, Consideration of Fraud in a Financial Statement Audit, and related parties, in section 334, Related Parties, footnote 1).*** To avoid misunderstanding concerning the meaning of such terms, the accountant may wish to furnish those		***Impact on PCAOB Standards:*** Conforming illustration to revised requirements ***Proposed amendment to GAAS:*** Conforming revisions would be made to illustrative representation letter based on amendments to AU-C section 930.

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	definitions to management or request that the definitions be included in the written representations. **Short-Form Representation Letter for a Review of Interim Financial Information (Statements)** 2. We have made available to you: a. All financial records and related data***, including the names of all related parties and all relationships and transactions with related parties***. b. All minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries. **2. Illustrative Representation Letter for a Review of Interim Financial Information (Statements)** 2. We have made available to you— a. All financial records and related data***, including the names of all related parties and all relationships and transactions with related parties***.		

#	PCAOB Amended Standard ***(amendments in purple bold italic text)***	AICPA standards ***(proposed amendments in purple bold italic text)***	Comments
	b. All minutes of the meetings of stockholders, directors, and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries. 12. There are no: a. Violations or possible violations of laws or regulations whose effects should be considered for disclosure in the interim financial information (statements) or as a basis for recording a loss contingency. b. Unasserted claims or assessments that are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*. ***c.*** Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5***.*** d. ***Side agreements or other arrangements (either written or oral) that have not been disclosed to you.***		