Agenda Item 3E

Conforming Amendments from AS 16 (AS 1301)

The following shows the conforming amendments in Release 2012-004, *AS No. 16–Related Parties*; comparable GAAS paragraphs; and comments.

PCAOB AS 16, *Communication With Audit Committees*	GAAS	Analysis - Incremental Requirements of AS 16 Over GAAS?
Appendix 3 – Amendments to PCAOB Standards (additions shown in bold, deletions in strikethrough text)		
AS 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS 2201), par. 80: 80. The auditor also should consider whether there are any deficiencies, or combinations of deficiencies, that have been identified during the audit that are significant deficiencies and must communicate such deficiencies, in writing, to the audit committee. ***This communication***	AU-C 940 59. The auditor should communicate in writing to management and those charged with governance significant deficiencies and material weaknesses identified during the integrated audit, including those that were remediated during the integrated audit and	No incremental requirement

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should be made in a timely manner and prior to the issuance of the auditor's report on internal control over financial reporting.	those that were previously communicated but have not yet been remediated.) 61. The written communications referred to in paragraphs .59-.60 should be made by the report release date, which is the date the auditor grants the entity permission to use the auditor's report. ...	
AS 5 (AS 2201), par. 81: 81. The auditor also should communicate to management, in writing, all deficiencies in internal control over financial reporting (i.e., those deficiencies in internal control over financial reporting that are of a lesser magnitude than material weaknesses) identified during the audit and inform the audit committee when such a communication has been made. **The auditor should communicate this information to the audit committee in a timely manner and prior to the issuance of the auditor's report on internal control over financial reporting.** When making this communication, it is not necessary for the auditor to	62. The auditor should communicate in writing to management all deficiencies identified during the integrated audit on a timely basis, but **no later than 60 days following the report release date**, and inform those charged with governance when such a communication was or is expected to be made. In making the written communication referred to in this paragraph, the auditor is not required to communicate those deficiencies that are not material weaknesses or significant deficiencies that were included in previous written communications, regardless of whether those communications were made by the auditor,	AS 16 requires the communication prior to the report release date; GAAS requires no later than 60 days following the report release date, which is considered appropriate for non-issuers.

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repeat information about such deficiencies that has been included in previously issued written communications, whether those communications were made by the auditor, internal auditors, or others within the organization.	internal auditors, or others within the organization.	
AS 9 (AS 2101), Audit Planning: 6. The auditor should perform the following activities at the beginning of the audit: a. Perform procedures regarding the continuance of the client relationship and the specific audit engagement,3/ b. Determine compliance with independence and ethics requirements, and Note: The determination of compliance with independence and ethics requirements is not limited to preliminary engagement activities and should be reevaluated with changes in circumstances.		Only a wording change.

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c. ~~Establish an understanding with the client regarding the services to be performed on the engagement.~~ **Establish an understanding of the terms of the audit engagement with the audit committee in accordance with Auditing Standard No. 16, Communications with Audit Committees**		
AU sec. 316, Consideration of Fraud in a Financial Statement Audit (AS 2101) .79 Whenever the auditor has determined that there is evidence that fraud may exist, that matter should be brought to the attention of an appropriate level of management. This is appropriate even if the matter might be considered inconsequential, such as a minor defalcation by an employee at a low level in the entity's organization. ~~Fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material misstatement of the financial statements should be reported directly to the audit committee.~~ **Fraud involving senior management and fraud (whether caused by senior management or**		AU-C 240 does not require communication "prior to the issuance of the auditor's report".

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other employees) that causes a material misstatement of the financial statements should be reported directly to the audit committee in a timely manner <u>and prior to the issuance of the auditor's report.</u> In addition, the auditor should reach an understanding with the audit committee regarding the nature and extent of communications with the committee about misappropriations perpetrated by lower-level employees.		
AU sec. 316 (AS 2101): .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 quality of the entity's accounting principles ~~(see section 380.11).~~ **(see paragraphs 12–13 of Auditing Standard No.16, Communications with Audit Committees). The auditor should communicate these matters to the**		AU-C 240 does not require communication "prior to the issuance of the auditor's report"

PCAOB AS 16, *Communication With Audit Committees*	GAAS	Analysis - Incremental Requirements of AS 16 Over GAAS?
audit committee in a timely manner and prior to the issuance of the auditor's report.		
AU sec. 317, Illegal Acts by Clients (AS 2405): .08 Normally, an audit in accordance with generally accepted auditing standards does not include audit procedures specifically designed to detect illegal acts. However, procedures applied for the purpose of forming an opinion on the financial statements may bring possible illegal acts to the auditor's attention. For example, such procedures include reading minutes; inquiring of the client's management and legal counsel concerning litigation, claims, and assessments; performing substantive tests of details of transactions or balances. The auditor should make inquiries of management . **and the audit committee**[1] concerning the client's compliance with laws and regulations **and knowledge of violations or possible violations of laws or regulations.** Where applicable, the auditor should also inquire of management concerning—	AU-C 240, par. 14 14. The auditor should perform the following audit procedures that may identify instances of noncompliance with other laws and regulations that may have a material effect of the financial statements (see paragraph 6*b*): (Ref: par. .A12-.A15) a. Inquiring of management and, when appropriate, those charged with governance about whether the entity is in compliance with such laws and regulations.	As noted above, GAAS only requires inquiry of TCWG "when appropriate" and the inquiry is different: whether the entity is in compliance, rather than knowledge of violations or possible violations. NOCLAR project will address inquiries about noncompliance.

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•The client's policies relative to the prevention of illegal acts. •The use of directives issued by the client and periodic representations obtained by the client from management at appropriate levels of authority concerning compliance with laws and regulations. The auditor also obtains written representations from management concerning the absence of 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. (See section 333, Management Representations.) The auditor need perform no further procedures in this area absent specific information concerning possible illegal acts. [1] **For this standard, audit committee is defined as a committee (or equivalent body) established by and among the board of directors of an entity for the purpose of overseeing the accounting and financial reporting processes of the entity and audits of the financial statements of the entity; if no such committee exists with respect to the entity, the entire**		

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board of directors of the entity. For audits of nonissuers, if no such committee or board of directors (or equivalent body) exists with respect to the entity, the person(s) who oversee the accounting and financial reporting processes of the entity and audits of the financial statements of the entity.		
AU sec. 317 (AS 2405): The auditor should assure himself that the audit committee, ~~or others with equivalent authority and responsibility~~, is adequately informed **as soon as practicable and prior to the issuance of the auditor's report** with respect to illegal acts that come to the auditor's attention. fn 1 The auditor need not communicate matters that are clearly inconsequential and may reach agreement in advance with the audit committee on the nature of such matters to be communicated. The communication should describe the act, the circumstances of its occurrence, and the effect on the financial statements. Senior management may wish to have its remedial actions communicated to the audit committee simultaneously. Possible remedial actions include disciplinary action against involved personnel, seeking restitution, adoption of preventive or corrective		GAAS does not include the phrase "**as soon as practicable and prior to the issuance of the auditor's report".**

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company policies, and modifications of specific control activities. If senior management is involved in an illegal act, the auditor should communicate directly with the audit committee. The communication may be oral or written. If the communication is oral, the auditor should document it.		
AU sec. 328, Auditing Fair Value Measurements and Disclosures (AS 2502) .50 ~~Section 380, Communication With Audit Committees, requires auditors to determine that certain matters related to the conduct of an audit are communicated to audit committees. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The auditor should determine that the audit committee is 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. For example, the auditor considers communicating the nature of significant assumptions~~		Conforming amendment, no impact on requirement.

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~~used in fair value measurements, the degree of subjectivity involved in the development of the assumptions, and the relative materiality of the items being measured at fair value to the financial statements as a whole. The auditor considers the guidance contained in section 380 when determining the nature and form of communication.~~ **Paragraphs 12-13 of Auditing Standard No. 16, Communications with Audit Committees, require the auditor to communicate to the audit committee matters related to critical accounting estimates, which may include fair value measurements.**		
AU sec. 333, Management Representations (AS 2805): .05 Written representations from management should be obtained for all financial statements and periods covered by the auditor's report. For example, if comparative financial statements are reported on, the written representations obtained at the completion of the most recent audit should address all periods being reported on. The specific written representations obtained by the auditor will depend on the circumstances of the engagement and the nature and basis of presentation of the financial statements. **The auditor should provide a**		GAAS requires that the auditor communicate to TCWG the written representations requested, but does not require that the auditor provide a copy of the rep letter to TCWG.

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copy of the representation letter to the audit committee if management has not already provided the representation letter to the audit committee.		
AU sec. 341, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern (AS 2415) **Communications with Audit Committees** **.17A Paragraph 17 of Auditing Standard No. 16, Communications with Audit Committees, describes matters an auditor is required to communicate to the audit committee related to the auditor's evaluation of a company's ability to continue as a going concern for a reasonable period of time.**		Conforming amendment, no impact on requirement.
AU sec. 550, Other Information in Documents Containing Audited Financial Statements (AS 2710) .04 Other information in a document may be relevant to an audit performed by an independent auditor or to the continuing propriety of his report. The auditor's responsibility with respect to information in a document does not extend beyond the financial information	AU-C 720 .12 When the auditor identifies an material inconsistency prior to the report release date that requires revision of the other information and management refuses to make the	No incremental requirement

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identified in his report, and the auditor has no obligation to perform any procedures to corroborate other information contained in a document. However, he should read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. If the auditor concludes that there is a material inconsistency, he should determine whether the financial statements, his report, or both require revision. If he concludes that they do not require revision, he should request the client to revise the other information. If the other information is not revised to eliminate the material inconsistency, he should **communicate the material inconsistency to the audit committee and** consider other actions such as revising his report to include an explanatory paragraph describing the material inconsistency, withholding the use of his report in the document, and withdrawing from the engagement. The action he takes will depend on the particular circumstances and the significance of the inconsistency in the other information.	revision, the auditor should communicate this matter to those charged with governance	

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AU sec. 550 (AS 2710) .06 If, after discussing the matter as described in paragraph .05, the auditor concludes that a material misstatement of fact remains, the action he takes will depend on his judgment in the particular circumstances. ~~He should~~ **communicate the material misstatement of fact to the client and the audit committee, in writing, and** consider ~~steps such as notifying his client in writing of his views concerning the information and~~ consulting his legal counsel as to further appropriate action in the circumstances	**AU-C 720** **.18** When the auditor concludes that there is a material misstatement of fact in the other information that management refuses to correct, the auditor should notify those charged with governance of the auditor's concerns regarding the other information and take any further appropriate action.	No incremental requirement
AU sec. 711, Filings Under Federal Securities Statutes (AS 4101) .13 If an accountant concludes on the basis of facts known to him that unaudited financial statements or unaudited interim financial information presented or incorporated by reference in a registration statement are not in conformity with generally accepted accounting principles, he should insist on appropriate revision. Failing that, ../		GAAS (AU-C 925) does not include a requirement to communicate the matter to TCWG.

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In either case, the accountant should **communicate the matter to the audit committee and** also consider, probably with the advice of his legal counsel, withholding his consent to the use of his report on the audited financial statements in the registration statement.		
AU sec. 722, Interim Financial Information (AS 4105) Establishing an Understanding with ~~the Client~~ **Audit Committee** .08 ~~The accountant should establish an understanding with the client regarding the services to be performed in an engagement to review interim financial information. Such an understanding reduces the risk that either the accountant or the client may misinterpret the needs or expectations of the other party. This understanding should include the objectives of the engagement, management's responsibilities, the accountant's responsibilities, and the limitations of the engagement. The accountant should document this understanding, preferably through a written communication with the client. If the accountant believes an understanding with~~		AS 16 amendments to AU 722 par. 08 include requirements incremental to GAAS to • Establish an understanding with the audit committee specifically, not "management or those charged with governance as appropriate". • Provide the engagement letter to the audit committee. • Have the engagement letter executed.

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~~the client has not been established, he or she should decline to accept or perform the engagement.~~ **The accountant should establish an understanding of the terms of an engagement to review interim financial information with the audit committee or others with equivalent authority and responsibility** **(hereafter referred to as the audit committee).[6] This understanding includes the objective of the review of interim financial information, the responsibilities of the accountant, and the responsibilities of management. Such an understanding reduces the risk that either the accountant or the audit committee may misinterpret the needs or expectations of the other party. The accountant should record this understanding of the terms of the engagement in an engagement letter and should provide the engagement letter to the audit committee. The accountant should have the engagement letter executed by the appropriate party or parties on behalf of the** **company. If the appropriate party or parties are other than the audit committee, or its chair on behalf of the audit committee, the accountant should determine that the audit committee has acknowledged**		• Require that the accountant determine that the audit committee has agreed to the terms of the engagement. Note that these requirements are incremental to AU-C section 210 as well as to AU-C section 930.

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<u>and agreed to the terms of the engagement. If the accountant believes he or she cannot establish an understanding of the terms of an engagement to review interim financial information</u> **<u>with the audit committee, the accountant should decline to accept, continue, or perform the engagement.</u>** **[6] See paragraph .16 of QC sec. 20, System of Quality Control for a CPA Firm's Accounting and Auditing Practice.**		
AU sec. 722 (AS 4105): .09 An understanding with the ~~client~~ **audit committee** regarding a review of interim financial information generally includes the following matters: *(remainder of paragraph unchanged)*		No change in requirement
AU sec. 722 (AS 4105): .30 ~~If, in the accountant's judgment, management does not respond appropriately to the accountant's communication within a reasonable period of time, the~~		No incremental requirement

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~~accountant should inform the audit committee or others with equivalent authority and responsibility (hereafter referred to as the audit committee) of the matters as soon as practicable. This communication may be oral or written. If information is communicated orally, the accountant should document the communication.~~ **If management does not respond appropriately to the accountant's communication within a reasonable period of time, the accountant should communicate these matters to the audit committee as soon as practicable and prior to the registrant filing its periodic report with the SEC. The communications to the audit committee should be made and documented in accordance with paragraph 25 of Auditing Standard No. 16, Communications with Audit Committees.**		
AU sec. 722 (AS 4105): .33 When conducting a review of interim financial information, the accountant may become aware of matters relating to internal control that may be of interest to the audit committee. Matters that should be reported to the audit committee are referred to as significant deficiencies. A significant deficiency is a deficiency, or a	**.28** The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance, including the following: *a.* Significant deficiencies or material weaknesses in internal control as it	Note: AU sec. 722 par. 33-.36 were combined into par. 28 and .A35-.A38 when clarified as AU-C 930. GAAS does not include explicit requirement that

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combination of deficiencies, in internal control over financial reporting, that is less severe than a material weakness yet important enough to merit attention by those responsible for oversight of the company's financial reporting. **The accountant should communicate significant deficiencies or material weaknesses of which the accountant has become aware to the audit committee or those responsible for oversight of the company's financial reporting in a timely manner and prior to the registrant filing its periodic report with the SEC.**	relates to the preparation and fair presentation of annual and interim financial information (Ref: par. .A35) *b.* Any of the matters described in section 260, *The Auditor's Communication With Those Charged With Governance*, that have been identified, as they relate to the interim financial information (Ref: par. .A36–.A38) .A38 The communications required by paragraphs .23-.28 may be oral or written. The communications are most helpful when made on a sufficiently timely basis to enable management or those charged with governance to take appropriate action.	the communication be timely.
AU sec. 722 (AS 4105): .34 ~~When conducting a review of interim financial information, the accountant also should determine whether any of the matters described in section 380, Communication With Audit Committees, as they relate to the interim financial information, have been identified. If such matters have been identified, the accountant~~	**.28** The auditor should communicate relevant matters of governance interest arising from the review of interim financial information to those charged with governance, including the following: *a.* Significant deficiencies or material weaknesses in internal control as it	GAAS does not address the effect on the auditor's responsibility to communicate if management has communicated any of these matters to TCWG; this

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~~should communicate them to the audit committee or be satisfied, through discussion with the audit committee, that such matters have been communicated to the audit committee by management. For example, the accountant should determine that the audit committee is informed about the process used by management to formulate particularly sensitive accounting estimates; about a change in a significant accounting policy affecting the interim financial information; about adjustments that, either individually or in the aggregate, could have a significant effect on the entity's financial reporting process; and about uncorrected misstatements aggregated by the accountant that were determined by management to be immaterial, both individually and in the aggregate, to the interim financial statements taken as a whole.~~ **When conducting a review of interim financial information, the accountant also should determine whether any of the matters described in Auditing Standard No. 16, Communications with Audit** **Committees, as they relate to interim financial information, have been identified. If such matters have been identified, the accountant should communicate them to the audit committee in a timely**	relates to the preparation and fair presentation of annual and interim financial information (Ref: par. .A35) *b.* Any of the matters described in section 260, *The Auditor's Communication With Those Charged With Governance*, that have been identified, as they relate to the interim financial information (Ref: par. .A36–.A38) .A38 The communications required by paragraphs .23-.28 may be oral or written. The communications are most helpful when made on a sufficiently timely basis to enable management or those charged with governance to take appropriate action.	does not create an incremental requirement.

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manner and prior to the registrant filing its periodic report with the **SEC. For example, the accountant should communicate a description of the process management used to develop the critical accounting estimates; a change in a significant accounting policy affecting the interim financial information; misstatements that, either individually or in the aggregate, could have a significant effect on the entity's financial reporting process; and uncorrected** **misstatements aggregated by the accountant that management determined to be immaterial, both individually and in the aggregate, to the interim financial statements taken as a whole.[23] As part of its communications to the audit committee, management might communicate some or all of the matters related to the company's accounting policies, practices, estimates, and significant unusual transactions described in paragraph 12 of Auditing Standard No. 16, Communications with the Audit Committees. If management communicates any of these matters, the accountant does not need to communicate them at the same level of detail as management, as long as the**		

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accountant (1) participated in management's discussion with the audit committee, (2) affirmatively confirmed to the audit committee that management has adequately communicated these matters, and (3) with respect to critical accounting policies and practices, identified for the audit committee those accounting policies and practices that the accountant considers critical. The accountant should communicate any omitted or inadequately described matters to the audit committee. **[23] The schedule of uncorrected misstatements related to accounts and disclosures provided to the audit committee should be the same schedule that was included in or attached to the management representation letter that is described in paragraph .24(k) of this section.**		
AU sec. 722 (AS 4105): .35 The objective of a review of interim financial information differs significantly from that of an audit. Therefore, any communication the accountant may make		Amendment conforms language, no additional requirement

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about ~~the quality, not just the acceptability, of~~ the entity's accounting ~~principles~~ **policies, practices, estimates, and significant unusual transactions** as applied to its interim financial reporting generally would be limited to the effect of significant events, transactions, and changes in accounting estimates that the accountant considered when conducting the review of interim financial information. Further, interim review procedures do not provide assurance that the accountant will become aware of all matters that might affect the accountant's judgments about the quality of the entity's accounting principles that would be identified as a result of an audit.		
AU sec. 722 (AS 4105): .36 ~~If the accountant has identified matters to be communicated to the audit committee, the accountant should attempt to make such communications with the audit committee, or at least its chair, and a representative of management before the entity files its interim financial information with a regulatory agency (such as the SEC). If such communications cannot be made before the filing, they should be made as soon as practicable in the circumstances. The communications may be oral or written. If information is communicated orally, the~~		See comment above on AU sec. 722 par. 33 re: timeliness. Requirement to document is not incremental.

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~~accountant should document the communications.~~ **If the accountant has identified matters to be communicated to the audit committee, the accountant should communicate such matters to the audit committee, or at least its chair, in a timely manner and prior to the registrant filing its periodic report with the SEC. The communications to the audit committee should be made and documented in accordance with paragraph 25 of Auditing Standard No. 16, Communications with Audit Committees.**		