AICPA

Agenda Item 5E

Comparison of PCAOB AS 16, *Communication with Audit Committees* (AS1301), to the Requirements of GAAS

Note: for purposes of the comparison, references to those charged with governance in AU-C 260 are considered the equivalent of the audit committee in AS 16. There are no requirements in GAAS for communications specifically with an audit committee, because only issuers are required to have audit committees.

Proposed amendments for Auditor Reporting are shown in ***blue bold double-underlined*** text; proposed amendments for Disclosures are shown in shaded ***blue bold double-underlined***. Proposed amendments for converge with AS 1301 are shown in highlighted ***black italic*** text.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
1. This standard requires the auditor to communicate with the company's audit committee regarding certain matters related to the conduct of an audit and to obtain certain information from the audit committee relevant to the audit. This standard also requires the auditor to establish an understanding of the terms of the audit engagement with the audit	**.**01 This section addresses the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this section applies regardless of an entity's governance structure or size, particular considerations apply when all of those charged with governance are involved in managing an entity. This section does not establish requirements regarding the auditor's communication with an	Not a requirement	NA

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
committee and to record that understanding in an engagement letter.	entity's management or owners unless they are also charged with a governance role. .02 This section is written in the context of an audit of financial statements but may also be applied, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation and fair presentation of the other historical financial information.		
2. Other Public Company Accounting Oversight Board ("PCAOB") rules and standards identify additional matters to be communicated to a company's audit committee (see Appendix B). Various laws or regulations also require the auditor to communicate certain matters to the audit committee. The communication requirements of this standard do not modify or replace communications to the audit committee required by such other PCAOB rules and	.03 Recognizing the importance of effective two-way communication in an audit of financial statements, this section provides an overarching framework for the auditor's communication with those charged with governance and identifies some specific matters to be communicated. Additional matters to be communicated are identified in other AU-C sections (see exhibit A, "Requirements to Communicate With Those Charged With Governance in Other AU-C Sections"). In addition, section 265, Communicating Internal Control	Not a requirement	NA

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
standards, and other laws or regulations. Nothing in this standard precludes the auditor from communicating other matters to the audit committee.	Related Matters Identified in an Audit, establishes specific requirements regarding the communication of significant deficiencies and material weaknesses in internal control the auditor has identified during the audit to those charged with governance. Further matters not required by generally accepted auditing standards (GAAS) may be required to be communicated by agreement with those charged with governance or management or in accordance with ***law or regulation or other*** external requirements. Nothing in this section precludes the auditor from communicating any other matters to those charged with governance.		
Objectives			
3. The objectives of the auditor are to: a. Communicate to the audit committee the responsibilities of the auditor in relation to the audit and establish an understanding of the terms of the audit engagement with the audit committee;	.05 The objectives of the auditor are to a. communicate clearly with those charged with governance the responsibilities of the auditor regarding the financial statement audit and an overview of the planned scope and timing of the audit.	Not requirements. Note that per the PCOAB comparison, the GAAS objective is broader than the AS16 objective.	NA

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
b. Obtain information from the audit committee relevant to the audit; c. Communicate to the audit committee an overview of the overall audit strategy and timing of the audit; and d. Provide the audit committee with timely observations arising from the audit that are significant to the financial reporting process. Note: "Communicate to," as used in this standard, is meant to encourage effective two-way communication between the auditor and the audit committee throughout the audit to assist in understanding matters relevant to the audit.	b. obtain from those charged with governance information relevant to the audit. c. provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. d. promote effective two-way communication between the auditor and those charged with governance.		
Appointment and Retention ***Significant Issues Discussed with Management in Connection with the Auditor's Appointment or Retention***			
4. The auditor should discuss with the audit committee any significant issues that the auditor discussed with management in connection	14 b. significant findings or issues, if any, arising from the audit that were	Application material includes reference to discussion in connection	No, this is not a performance difference.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
with the appointment or retention of the auditor, including significant discussions regarding the application of accounting principles and auditing standards.	discussed, or the subject of correspondence, with management. A32. … … Discussion or correspondence in connection with the initial or recurring engagement of the auditor including, among other matters, any discussions or correspondence regarding accounting practices or the application of auditing standards.	with the initial or recurring engagement of the auditor.	
Establish an Understanding of the Terms of the Audit			
5. The auditor should establish an understanding of the terms of the audit engagement with the audit committee. This understanding includes communicating to the audit committee the following: a. The objective of the audit; b. The responsibilities of the auditor; and c. The responsibilities of management.	ISA 210 and AU-C 210.09 require the auditor to agree on the terms of the engagement with management and where appropriate TCWG. AU-C 210.10 describes the terms to be included which are the same as in AS 16.5	No incremental requirements.	
6. The auditor should record the understanding of the terms of the audit engagement in an engagement letter and provide the engagement letter to the audit committee	AU-C 210 .13 On recurring audits, the auditor should assess whether circumstances require the terms of the audit engagement to be revised. If the	While AU-C 210 requires the engagement letter to be in writing, the agreement is either with management or those charged with	No, these differences are not unnecessary between audits of issuers and nonissuers.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
annually. The auditor 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 auditor should determine that the audit committee has acknowledged and agreed to the terms of the engagement. Note: Appendix C describes matters that the auditor should include in the engagement letter about the terms of the audit engagement.	auditor concludes that the terms of the preceding engagement need not be revised for the current engagement, the auditor should remind management of the terms of the engagement, and the reminder should be documented. (Ref: par. .A33–.A34)	governance, as appropriate in the circumstances of the audit. Additionally, AU-C 210 does not require that a new letter be sent annually; a reminder may suffice. Note that the ASB basis for conclusion for not requiring a new letter annually is that for some governmental entities, law or regulation require multi-year engagements.	
7. If the auditor cannot establish an understanding of the terms of the audit engagement with the audit committee, the auditor should decline to accept, continue, or perform the engagement.	**.08** If the preconditions for an audit are not present, the auditor should discuss the matter with management. Unless the auditor is required by law or regulation to do so, the auditor should not accept the proposed audit engagement *a*. if the auditor has determined that the financial reporting framework to be applied in the preparation of the financial statements is unacceptable or *b*. if the agreement referred to in paragraph .06*b* has not been obtained.	No difference in requirements.	

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Obtaining Information and Communicating the Audit Strategy ***Obtaining Information Relevant to the Audit***			
8. The auditor should inquire of the audit committee about whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.	AU-C 260 does not address inquiries of TCWG about violations or possible violations of laws or regulations. AU-C 250.14 requires the auditor to inquire of management and when appropriate, TCWG about whether the entity is in compliance with laws and regulations.	GAAS does not require the auditor to inquire of the AC(TCWG) but rather only requires such inquiry when it would be appropriate. GAAS has a condition, not absolute, requirement to inquire of TCWG "when appropriate". Further, inquiry about whether TCWG are aware of matters relevant to the audit, including but not limited to violations or <u>possible</u> violations, differs from whether the entity is in compliance with laws and regulations.	To be addressed as part of NOCLAR.
Overall Audit Strategy, Timing of the Audit, and Significant Risks			
9. The auditor should communicate to the audit committee an overview	**.11** The auditor should communicate with those charged with governance an	No difference as amended.	

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of the overall audit strategy, including the timing of the audit, and discuss with the audit committee the significant risks identified during the auditor's risk assessment procedures. Note: This overview is intended to provide information about the audit, but not specific details that would compromise the effectiveness of the audit procedures.	overview of the planned scope and timing of the audit*, which includes communicating about the significant risks identified by the auditor*. (Ref: par. .A18–.A22) **.A20** Matters communicated may include the following: • How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error		
10. As part of communicating the overall audit strategy, the auditor should communicate the following matters to the audit committee, if applicable: a. The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks; b. The extent to which the auditor plans to use the work of the company's internal auditors in an audit of financial statements; c. The extent to which the auditor plans to use the work of internal auditors, company personnel (in	~~**.A20**~~ *.A21* ~~Matters communicated~~*Other matters regarding the planned scope and timing of the audit* may include the following: • … • … • The auditor's approach to internal control relevant to the audit including, when applicable, whether the auditor will express an opinion on the effectiveness of internal control over financial reporting • … • …	As amended to converge with ISA 260 (Revised), AU-C 260 addresses AS 16 par. 10 in application material.	No, including as a requirement would be overly prescriptive and create an unnecessary difference with the ISA.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
addition to internal auditors), and third parties working under the direction of management or the audit committee when performing an audit of internal control over financial reporting; d. The names, locations, and planned responsibilities of other independent public accounting firms or other persons, who are not employed by the auditor, that perform audit procedures in the current period audit; and e. The basis for the auditor's determination that the auditor can serve as principal auditor, if significant parts of the audit are to be performed by other auditors. Note: The term "other independent public accounting firms" in the context of this communication includes	• ***The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.***[5] • ***…*** • If the entity has an internal audit function, how the auditor and the internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function in obtaining audit evidence and the nature and extent of any planned use of internal auditors to provide direct assistance. AU-C 600 .49 The group engagement team should communicate the following matters with those charged with governance of the group, in addition to those required by section 260, *The Auditor's Communication With Those Charged With Governance*, and other AU-C sections: (Ref: par. .A75)		

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firms that perform audit procedures in the current period audit regardless of whether they otherwise have any relationship with the auditor.	a. An overview of the type of work to be performed on the financial information of the components, including the basis for the decision to make reference to the audit of a component auditor in the auditor's report on the group financial statements b. An overview of the nature of the group engagement team's planned involvement in the work to be performed by the component auditors on the financial information of significant components c. Instances in which the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work d. Any limitations on the group audit (for example, when the group engagement team's access to information may have been restricted) *e.* Fraud or suspected fraud involving group management, component management, employees who have		

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	significant roles in group-wide controls, or others in which a material misstatement of the group financial statements has or may have resulted from fraud		
11. The auditor should communicate to the audit committee **significant changes** to the planned audit strategy or the significant risks initially identified and the reasons for such changes.	***Other Significant Matters Relevant to the Financial Reporting Process (Ref: Par. .12(e))*** ***.A35 AU-C section 300,* Planning an Audit,[14] *notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The auditor may communicate with those charged with governance about such matters, for example, as an update to initial discussions about the planned scope and timing of the audit.***	There is no requirement in AU-C 260 to communicate significant changes to the planned audit strategy. However, proposed amendments to application material for Auditor Reporting address changes to the planned audit strategy.	No, including as a requirement would be more prescriptive than ISA 260.
Results of the Audit ***Accounting Policies and Practices, Estimates, and Significant Unusual Transactions***			

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
12. The auditor should communicate to the audit committee the following matters: a. **Significant accounting policies and practices.** (1) Management's initial selection of, or changes in, significant accounting policies or the application of such policies in the current period; and (2) The effect on financial statements or disclosures of significant accounting policies in (i) controversial areas or(ii) areas for which there is a lack of authoritative guidance or consensus, or diversity in practice. b. **Critical accounting policies and practices. All critical accounting policies and practices to be used, including:**16/ (1) The reasons certain policies and practices are considered critical; and	**.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, ***and significant unusual transactions***. 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	AS 16 distinguishes between significant accounting practices and critical accounting policies and practices, and lists critical accounting estimates separately. GAAS does not have the concept of "critical accounting policies and procedures" and includes accounting estimates in significant accounting practices. AS 16, par. 12d requires communication of significant unusual transactions.	Yes. Significant unusual transactions are not rare for non-issuers and may exist in circumstances other than those involving related party transactions.

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(2) How current and anticipated future events might affect the determination of whether certain policies and practices are considered critical. Note: Critical accounting policies and practices, as defined in Appendix A, are a company's accounting policies and practices that are both most important to the portrayal of the company's financial condition and results, and require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. Critical accounting policies and practices are tailored to specific events in the current year, and the accounting policies and practices that are considered critical might change from year to year.	particularly sensitive accounting estimates, including fair value estimates, and about the basis for the auditor's conclusions regarding the reasonableness of those estimates. *Qualitative Aspects of the Entity's Significant Accounting Practices (Ref: par. ~~.~~12a)* **.A~~24~~*27*** Financial reporting frameworks ordinarily allow for the entity to make accounting estimates and judgments about accounting policies and financial statement disclosures***, for example, the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult,***		

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	subjective or complex judgments made by management in preparing the financial statements. ***.A28 As a result, the auditor's views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph .A27, those charged with governance may be interested in the auditor's evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks.*** Open and constructive communication about qualitative aspects of the entity's significant accounting practices ***also*** may include comment on the acceptability of significant accounting practices ***and the quality of the disclosures***. The appendix, "Qualitative Aspects of Accounting Practices," identifies matters that may be included in this communication.		

PCAOB AS 16, *Communication With Audit Committees*	AU-C 260 (unless otherwise noted)	Analysis – Unnecessary Difference?	Recommend change to GAAS?
c. Critical accounting estimates. (1) A description of the process management used to develop critical accounting estimates; (2) Management's significant assumptions used in critical accounting estimates that have a high degree of subjectivity; and (3) Any significant changes management made to the processes used to develop critical accounting estimates or significant assumptions, a description of management's reasons for the changes, and the effects of the changes on the financial statements.		See above	See above
d. Significant unusual transactions. (1) 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; and (2) The policies and practices management used to account for significant unusual transactions.	**.A47 Appendix—Qualitative Aspects of Accounting Practices** The communication required by paragraph .12a and discussed in paragraphs .A24–.A25 may include such matters as the following: ***Significant Unusual Transactions*** • ***The policies and practices management used to account for significant unusual transactions.***	There is no similar requirement relating to significant unusual transactions in GAAS or the ISA.	Yes, see also AS 16 par. 12a above and AS 16 par. 13d below.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
	• ***The auditor's understanding of the business rationale for significant unusual transactions.*** **Related Matters** • The extent to which the financial statements are affected by unusual transactions, including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements		
Note: As part of its communications to the audit committee, management might communicate some or all of the matters in paragraph 12. If management communicates any of these matters, the auditor does not need to communicate them at the same level of detail as management, as long as the auditor (1) participated in management's discussion with the audit committee, (2) affirmatively confirmed to the audit committee that management has adequately	**.A2** Although the auditor is responsible for communicating specific matters in accordance with this section, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, management's communication of these matters to those charged with governance does not relieve the auditor of the responsibility to also communicate them. However, communication of these matters by management may affect the form or timing of the auditor's communication.	Not a difference.	***See note to par. 25. Proposed revision based on comments received***

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
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 auditor considers critical. The auditor **should** communicate any omitted or inadequately described matters to the audit committee.			
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; and	**.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	No significant differences.	

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
(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.	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. Assessment of critical accounting policies and practices. The auditor's assessment of management's disclosures related to the critical accounting policies and practices, along with any significant modifications to the disclosure of those policies and practices proposed by the auditor that management did not make.	**.A**~~**24**~~***27*** Financial reporting frameworks ordinarily allow for the entity to make accounting estimates and judgments about accounting policies and financial statement disclosures***, for example, the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify***	Application material is being proposed through the Auditor Reporting project that addresses "critical accounting policies and procedures".	No significant differences.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
	***and provide additional information to users about the most difficult, subjective or complex judgments made by management in preparing the financial statements*.**		
c. Conclusions regarding critical accounting estimates. The basis for the auditor's conclusions regarding the reasonableness of the critical accounting estimates.23/	**A~~25~~29** 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. In communicating with those charged with governance 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, the auditor may consider communicating • the nature of significant assumptions, • the degree of subjectivity involved in	Addressed in application material.	No significant differences.

PCAOB AS 16, *Communication With Audit Committees*	AU-C 260 (unless otherwise noted)	Analysis – Unnecessary Difference?	Recommend change to GAAS?
	the development of the assumptions, and • the relative materiality of the items being measured to the financial statements as a whole.		
d. Significant unusual transactions. The auditor's understanding of the business purpose (or the lack thereof) of significant unusual transactions.24/	**.A47** **Appendix—Qualitative Aspects of Accounting Practices** The communication required by paragraph .12*a* and discussed in paragraphs .A24–.A25 may include such matters as the following: **Related Matters** The extent to which the financial statements are affected by unusual transactions, including nonrecurring amounts recognized during the period, and the extent to which such transactions are separately disclosed in the financial statements	The ISAs and AU-C sections do not include a discussion about significant unusual transactions	Yes, see AS 16 par. 12d above.
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		AU-C does not have a specific requirement; however, this is the objective of the audit and covered by the audit	Not a performance difference.

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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.		opinion. This requirement seems overly prescriptive.	
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 that have been issued but are not yet effective and might have a significant effect on future financial reporting.	**.A47** **Appendix—Qualitative Aspects of Accounting Practices** The communication required by paragraph .12*a* and discussed in paragraphs .A24–.A25 may include such matters as the following: **Accounting Policies** • The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements (the communication may include the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity, and the timing of a change in accounting policies with regard to	AU-C 260 does not require this communication; it is addressed in the appendix on qualitative aspects of accounting practice.	No. Elevating this to application material would give undue prominence to one element of several equally important, elements relating to accounting pronouncements discussed in the appendix.

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
	expected new accounting pronouncements)		
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.	**.A47** **Appendix—Qualitative Aspects of Accounting Practices** The communication required by paragraph .12*a* and discussed in paragraphs .A24–.A25 may include such matters as the following: **Accounting Policies** • The appropriateness of the accounting policies to the particular circumstances of the entity, considering the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements (when acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant policies as well as information on accounting policies used by similar entities)	This is not a requirement under GAAS. Addressing through application material is appropriate for non-issuers.	
Other Information in Documents Containing Audited Financial Statements			
14. When other information is presented in documents containing audited financial statements, the	see AU-C 720 paragraphs 8,12,15,18	Similar requirement.	

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auditor should communicate to the audit committee the auditor's responsibility under PCAOB rules and standards for such information, any related procedures performed, and the results of such procedures.			
Difficult or Contentious Matters for which the Auditor Consulted			
15. The auditor should communicate to the audit committee matters that are difficult or contentious for which the auditor consulted outside the engagement team and that the auditor reasonably determined are relevant to the audit committee's oversight of the financial reporting process.	12. The auditor should communicate with those charged with governance 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) ***.A36 To the extent not already addressed by the requirements in paragraph .12(a)–(d) and related application material, the auditor may consider communicating about other matters*** ~~*for which the auditor consulted outside the engagement team or that were*~~ ***discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with AU-C***	Not addressed in GAAS.	Yes. Because accounting policy can have a material effect on the financial statements, include as application material. ***Comments suggested adding as a requirement***

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	section 220, **Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards** ***(AICPA, Professional Standards).*** [15]…		
Management Consultation with Other Accountants			
16. When the auditor is aware that management consulted with other accountants about significant auditing or accounting matters and the auditor has identified a concern regarding such matters, the auditor should communicate to the audit committee his or her views about such matters that were the subject of such consultation.	**.14** Unless all of those charged with governance are involved in managing the entity, the auditor also should communicate *a.* material, corrected misstatements that were brought to the attention of management as a result of audit procedures. (Ref: par. .A31) *b.* significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management. (Ref: par. .A32) *c.* the auditor's views about significant matters that were the subject of management's consultations with other accountants on accounting or auditing matters when the auditor is aware that such consultation has occurred. *d.* written representations the auditor is requesting. (Ref: par. .A33)	No difference in requirement	
Going Concern			

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17. The auditor should communicate to the audit committee, when applicable, the following matters relating to the auditor's evaluation of the company's ability to continue as a going concern: 28/ a. If the auditor believes there is substantial doubt about the company's ability to continue as a going concern for a reasonable period of time, the conditions and events that the auditor identified that, when considered in the aggregate, indicate that there is substantial doubt;29/ b. If the auditor concludes, after consideration of management's plans, that substantial doubt about the company's ability to continue as a going concern is alleviated, the basis for the auditor's conclusion, including elements the auditor identified within management's plans that are significant to overcoming the adverse effects of the conditions and events;30/ c. If the auditor concludes, after consideration of management's plans, that substantial doubt about	AU-C 570, *Going Concern* 28. Unless all those charged with governance are involved in managing the entity,[1] the auditor should communicate with those charged with governance regarding conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time. Such communication with those charged with governance should include the following: *a.* Whether the conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time constitute substantial doubt *b.* The auditor's consideration of management's plans *c.* Whether management's use of the going concern basis of accounting, when relevant, is appropriate in the preparation of the financial statements *d.* The adequacy of related disclosures in the financial statements *e.* The implications for the auditor's	No difference in requirements. Par. 28a, though the use of "whether", addresses both 17a and 17b.	

[1] Paragraph .09 of AU-C section 260, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*).

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
the company's ability to continue as a going concern for a reasonable period of time remains:31/ (1) The effects, if any, on the financial statements and the adequacy of the related disclosure;32/ and (2) The effects on the auditor's report.33/	report		
Uncorrected and Corrected Misstatements			
18. The auditor should provide the audit committee with the schedule of **uncorrected** misstatements related to accounts and disclosures that the auditor presented to management. The auditor should discuss with the audit committee, or determine that management has adequately discussed with the audit committee, the basis for the determination that the uncorrected misstatements were immaterial, including the qualitative factors considered.	**.13** The auditor should communicate with those charged with governance (Ref: par. .A29–.A30) *a.* uncorrected misstatements accumulated by the auditor and the effect that they, individually or in the aggregate, may have on the opinion in the auditor's report. The auditor's communication should identify material uncorrected misstatements individually. The auditor should request that uncorrected misstatements be corrected. *b.* the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions,	GAAS does not include requirement to communicate that uncorrected misstatements could potentially cause future periods to be materially misstated even when the auditor has concluded that uncorrected misstatements are immaterial to the financial statements under audit. Application material refers to "possible implications with regard to future financial statements"	Yes, because this is best practice, elevate to a requirement. Applying the requirement in GAAS audits would result in higher audit quality.

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The auditor also should communicate that uncorrected misstatements or matters underlying those uncorrected misstatements could potentially **cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statements under audit.**	account balances or disclosures, and the financial statements as a whole c. ~~and that~~ That ~~those~~ ***uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even if the auditor has concluded that the uncorrected misstatements are immaterial to the financial statements under audit.*** **.A**~~30~~*38* The auditor may discuss with those charged with governance the reasons for, and the implications of, a failure to correct misstatements, taking into account the size and nature of the misstatement judged in the surrounding circumstances, and possible implications with regard to future financial statements.		
19. The auditor should communicate to the audit committee those **corrected** misstatements, other than those that are clearly trivial, related to accounts and disclosures that might not have been detected except through the auditing procedures performed, and discuss with the audit committee the implications	**.14** Unless all of those charged with governance are involved in managing the entity, the auditor also should communicate *a.* material, corrected misstatements that were brought to the attention of management as a result of audit procedures. (Ref: par. .A31)	AS 16 requires the communication of corrected misstatements, other than those that are trivial, whereas the AU-C section requires communication only of **material** corrected misstatements.	No, not an unnecessary difference.

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that such corrected misstatements might have on the company's financial reporting process.	AU-C 265 .11 The auditor should communicate in writing to those charged with governance on a timely basis significant deficiencies and material weaknesses, including those that were remediated during the audit.	Application material "the auditor also may communicate corrected immaterial misstatements, such as frequently recurring immaterial misstatements that may indicate a particular bias in the preparation of financial statements".	
Material Written Communications			
20. The auditor should communicate to the audit committee other material written communications between the auditor and management.	14 b. significant findings or issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.	GAAS requires that those charged with governance get engagement letter and rep letter, and 14b covers other correspondence.	No performance difference overall.
Departure from the Auditor's Standard Report			
21. The auditor should communicate to the audit committee the following matters related to the auditor's report: a. When the auditor expects to modify the opinion in the auditor's report, the reasons for the modification, and the wording of the report; and	AU-C Section 705, *Modifications to the Opinion in the Independent Auditor's Report* **.29** When the auditor expects to modify the opinion in the auditor's report, the auditor should communicate with those charged with governance the circumstances that led to the expected	No difference in requirements	

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b. When the auditor expects to include explanatory language or an explanatory paragraph in the auditor's report, the reasons for the explanatory language or paragraph, and the wording of the explanatory language or paragraph.	modification and the proposed wording of the modification. (Ref: par. .A31) **AU-C Section 706** **09** If the auditor expects to include an emphasis-of-matter or other-matter paragraph in the auditor's report, the auditor should communicate with those charged with governance regarding this expectation and the proposed wording of this paragraph. (Ref: par. .A12)		
Disagreements with Management			
22. The auditor should communicate to the audit committee any disagreements with management about matters, whether or not satisfactorily resolved, that individually or in the aggregate could be significant to the company's financial statements or the auditor's report. Disagreements with management do not include differences of opinion based on incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts	12. The auditor should communicate with those charged with governance: c. disagreements with management, if any. (Ref: par. A28) *Disagreements With Management* (Ref: par. .12*c*) **.A27** Discussions with those charged with governance include any disagreements with management that arose during the audit, regardless of whether they were satisfactorily resolved, about matters that, individually or in the aggregate, could be significant to the entity's financial statements or the auditor's report. Disagreements with management may	AS16 requirements are not incremental to GAAS.	

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or information prior to the issuance of the auditor's report.	occasionally arise over, among other things, the application of accounting principles to the entity's specific transactions and events and the basis for management's judgments about accounting estimates. Disagreements may also arise regarding the scope of the audit, disclosures to be included in the entity's financial statements, and the wording of the auditor's report. For purposes of this section, disagreements do not include differences of opinion based on incomplete facts or preliminary information that are later resolved.		
Difficulties Encountered in Performing the Audit			
23. The auditor should communicate to the audit committee any significant difficulties encountered during the audit. Significant difficulties encountered during the audit include, but are not limited to:	12. The auditor should communicate with those charged with governance: a. Significant difficulties, if any, encountered during the audit b. Disagreements with management	Similar guidance. No changes	
a. Significant delays by management, the unavailability of company personnel, or an unwillingness by management to provide information needed for the	**.A26** Significant difficulties encountered during the audit may include matters such as	No incremental requirements	

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auditor to perform his or her audit procedures; b. An unreasonably brief time within which to complete the audit; c. Unexpected extensive effort required by the auditor to obtain sufficient appropriate audit evidence; d. Unreasonable management restrictions encountered by the auditor on the conduct of the audit; and e. Management's unwillingness to make or extend its assessment of the company's ability to continue as a going concern when requested by the auditor. Note: Difficulties encountered by the auditor during the audit could represent a scope limitation, which may result in the auditor modifying the auditor's opinion or withdrawing from the engagement.	• significant delays in management providing required information. • an unnecessarily brief time within which to complete the audit. • extensive unexpected effort required to obtain sufficient appropriate audit evidence. • the unavailability of expected information. • restrictions imposed on the auditor by management. • management’s unwillingness to provide information about management’s plans for dealing with the adverse effects of the conditions or events that lead the auditor to believe there is substantial doubt about the entity's ability to continue as a going concern. In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor’s opinion. AU-C 705 requires, if management refuses to remove the limitation on scope, the auditor to communicate the matter to TCWG.		

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Other Matters			
24. The auditor should communicate to the audit committee other matters arising from the audit that are significant to the oversight of the company's financial reporting process. This communication includes, among other matters, complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters.40/ 40/ AU secs. 316.79-.81 and AU sec. 317.17 include specific communication requirements relating to fraud or illegal acts, respectively.	12. The auditor should communicate with those charged with governance: 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. ~~***A36. The auditor may communicate, among other matters, complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters.***~~	GAAS does not specify that this requirement includes ***complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters.***	Yes, add application material. This requirement is more prescriptive than appropriate for principle-based standards but would be useful guidance. ***Comments suggested deleting this as not necessary (because auditors always may communicate matters) and not helpful, in that more guidance is needed to explain it.***
Form and Documentation of Communications			
25. The auditor should communicate to the audit committee the matters in this standard, either orally or in writing, unless otherwise specified in this standard. The auditor must document the communications in	***Forms of Communication*** **.16** The auditor should communicate in writing with those charged with governance significant findings or issues from the audit (see paragraphs .12–.14) if, in the auditor's professional judgment, oral communication would	No incremental requirement.	

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the work papers, whether such communications took place orally or in writing.	not be adequate. This communication need not include matters that arose during the course of the audit that were communicated with those charged with governance and satisfactorily resolved. (Ref: par. .A38–.A40)		
Note: If, as part of its communications to the audit committee, management communicated some or all of the matters identified in paragraphs 12 or 18 and, as a result, the auditor did not communicate these matters at the same level of detail as management, the auditor must include a copy of or a summary of management's communications provided to the audit committee in the audit documentation.	**.A2** Although the auditor is responsible for communicating specific matters in accordance with this section, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, management's communication of these matters to those charged with governance does not relieve the auditor of the responsibility to also communicate them. However, communication of these matters by management may affect the form or timing of the auditor's communication. ~~.A47~~56 **.20** When matters required to be communicated by this section have been communicated orally, the auditor should include them in the audit documentation, including when and to whom they were	AS 16 states that if management communicated some or all of the matters identified in paragraphs 12 or 18 and, as a result, the auditor did not communicate these matters at the same level of detail as management, the auditor must include a copy of or a summary of management's communications provided to the audit committee in the audit documentation.	Yes. This requirement is more prescriptive than appropriate for principle-based standards but would be useful guidance.

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	communicated. [fn 2] When matters have been communicated in writing, the auditor should retain a copy of the communication as part of the audit documentation. ~~Documentation of oral communication may include a copy of minutes prepared by the entity as part of the audit documentation if those minutes are an appropriate record of the communication.~~ ***If, as part of its communication to those charged with governance, management communicated some or all of the matters the auditor is required to communicate, and as a result, the auditor did not communicate these matters at the same level of detail as management, the auditor may include a copy or summary of management's communications provided to those charged with governance in the audit documentation.***		

fn 2 Paragraphs .08–.12 and .A8 of section 230, *Audit Documentation.*

PCAOB AS 16, *Communication With Audit Committees*	**AU-C 260 (unless otherwise noted)**	**Analysis – Unnecessary Difference?**	**Recommend change to GAAS?**
Timing			
26. All audit committee communications required by this standard should be made in a timely manner and prior to the issuance of the auditor's report. The appropriate timing of a particular communication to the audit committee depends on factors such as the significance of the matters to be communicated and corrective or follow-up action needed, unless other timing requirements are specified by PCAOB rules or standards or the securities laws. Note: An auditor may communicate to only the audit committee chair if done in order to communicate matters in a timely manner during the audit. The auditor, however, should communicate such matters to the audit committee prior to the issuance of the auditor's report.	**Timing of Communications** .18 The auditor should communicate with those charged with governance on a timely basis. **.A~~42~~*50*** ~~The~~ ***Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the*** appropriate timing for communications will vary with the circumstances of the engagement. Considerations include the significance and nature of the matter and the action expected to be taken by those charged with governance. ~~The auditor may consider communicating~~***For example:*** • ***Communications regarding*** planning matters ***may often be made*** early in the audit engagement and, for an initial engagement, as part of the terms of the engagement.	AS 16 requires communication to be PRIOR to the issuance of the auditor's report. Proposed amendments to application material for Auditor Reporting add guidance on timing of communication.	No. The ASB directed that a question be asked in the exposure draft document about whether to change the timing of communications to require that communications to those charged with governance occur prior to issuance of the auditor's report..

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	• ***It may be appropriate to communicate*** significant difficulties encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor in overcoming the difficulties or if the difficulties are likely to lead to a modified opinion. • ***When proposed SAS,* Communicating Key Audit Matters in the Independent Auditor's Report*, applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph .A21), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.*** • ***Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards.***		

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	• ***Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made at the conclusion of the audit.***		
C1. The auditor should include the following matters in the engagement letter.[1/] The auditor's description of these matters will vary depending on whether the auditor is engaged in a financial statement audit or in an audit of internal control over financial reporting that is integrated with an audit of financial statements ("integrated audit"). a. The objective of the audit is: 1. Integrated audit: The expression of an opinion on both the effectiveness of internal control over financial reporting and the financial statements. 2. Audit of financial statements: The expression of an opinion on the financial statements. b. Auditor's responsibilities:	Per AU-C 210	No incremental requirements	

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1. The auditor is responsible for conducting the audit in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that the auditor: a. Integrated audit: Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud, and whether effective internal control over financial reporting was maintained in all material respects. Accordingly, there is some risk that a material misstatement of the financial statements or a material weakness in internal control over financial reporting would remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Also, an			

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integrated audit is not designed to detect error or fraud that is immaterial to the financial statements or deficiencies in internal control over financial reporting that, individually or in combination, are less severe than a material weakness. If, for any reason, the auditor is unable to complete the audit or is unable to form or has not formed an opinion, he or she may decline to express an opinion or decline to issue a report as a result of the engagement. b. <u>Audit of financial statements:</u> Plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Accordingly, there is some risk that a material misstatement would	**.10** The agreed-upon terms of the audit engagement should be documented in an audit engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A22–.A26) *a.* The objective and scope of the audit of the financial statements *b.* The responsibilities of the auditor *c.* The responsibilities of management *d.* A statement that because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk		

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remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Also, a financial statement audit is not designed to detect error or fraud that is immaterial to the financial statements. If, for any reason, the auditor is unable to complete the audit or is unable to form or has not formed an opinion, he or she may decline to express an opinion or decline to issue a report as a result of the engagement. 2. An audit includes: a. <u>Integrated audit:</u> In fulfillment of the responsibilities noted above, the auditor communicates: 1. To the audit committee and management: all material weaknesses in internal control over financial reporting	exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with GAAS *e.* Identification of the applicable financial reporting framework for the preparation of the financial statements *f.* Reference to the expected form and content of any reports to be issued by the auditor and a statement that circumstances may arise in which a report may differ from its expected form and content **Per example Engagement Letter(AU-C 210)** "In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit."		

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identified during the audit, in writing. 2. To the audit committee: all significant deficiencies identified during the audit, in writing, and informs the audit committee when the auditor has informed management of all internal control deficiencies. 3. To management: all internal control deficiencies identified during the audit and not previously communicated in writing by the auditor or by others, including internal auditors or others within the company. 4. To the board of directors: any conclusion that the audit committee's oversight of the company's external financial reporting and	**Per example Engagement Letter(AU-C 210)** [*The responsibilities of management and identification of the applicable financial reporting framework*] Our audit will be conducted on the basis that [*management and, when appropriate, those charged with governance*]3 acknowledge and understand that they have responsibility *a.* for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; *b.* for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and *c.* to provide us with i. access to all information of which [*management*] is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;		

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internal control over financial reporting is ineffective, in writing. b. <u>Audit of financial statements:</u> Obtaining an understanding of internal control sufficient to plan the audit and to determine the nature, timing, and extent of audit procedures to be performed.[2/] An audit of financial statements is not designed to provide assurance on internal control or to identify internal control deficiencies. However, the auditor is responsible for communicating: 1. To the audit committee and management: all significant deficiencies and material weaknesses identified during the audit, in writing. 2. To the board of directors: if the auditor becomes aware that the oversight of the	ii. additional information that we may request from [*management*] for the purpose of the audit; and iii. unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As part of our audit process, we will request from [*management and, when appropriate, those charged with governance*], written confirmation concerning representations made to us in connection with the audit.		

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company's external financial reporting and internal control over financial reporting by the audit committee is ineffective, that conclusion, in writing. c. Management's responsibilities: 1. Management is responsible for the company's financial statements, including disclosures. 2. Management is responsible for establishing and maintaining effective internal control over financial reporting. 3. Management is responsible for identifying and ensuring that the company complies with the laws and regulations applicable to its activities. 4. Management is responsible for making all financial records and relevant information available to the auditor. 5. At the conclusion of the engagement, management will provide the auditor with a letter that confirms certain			

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representations made during the audit. 6. Management is responsible for adjusting the financial statements to correct material misstatements relating to accounts or disclosures and for affirming to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.			
C2. In connection with a review of interim financial information, to confirm and document the understanding, the auditor should either: (a) document in the audit engagement letter the nature and objectives of the engagement to review interim financial information and the responsibilities of management and the auditor or (b) issue a separate engagement letter that addresses such matters	**AU-C 930 Interim Financial Information** **.10** The auditor should agree upon the terms of the engagement with management or those charged with governance, as appropriate. The agreed-upon terms of the engagement should be recorded in an engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A6) *a.* The objectives and scope of the engagement	No incremental requirements	

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	b. The responsibilities of management set forth in paragraph .08*b* *c.* The responsibilities of the auditor *d.* The limitations of a review engagement *e.* Identification of the applicable financial reporting framework for the preparation of the interim financial information **A6** The engagement letter or other suitable form of written agreement documenting the agreed-upon terms of the engagement with the entity regarding a review of interim financial information may use the following wording to include the information necessary to meet the requirements of paragraph .10:		