The New Audit Reporting Model

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For:

Northern Virginia Chapter

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Objectives

- Overview of the requirements relating to audit participant reporting (effective for 2017)
  - Information about Engagement Partners (audit reports issued on or after 1/1/17)
  - Information about accounting firms that participate in audits of issuers (audit reports issued on or after 6/30/17)
- Understand key changes to the auditor’s report that are effective for audits of fiscal years ending on or after 12/15/17, including:
  - Determination and reporting of auditor tenure
  - New ICFR explanatory language
- Understand new Critical Audit Matters “CAM” requirements for 2018
- Understand similarities and differences of new international and proposed AICPA changes to the audit report

Overview of Form AP Reporting

- PCAOB Rule 3211: Each PCAOB registered public accounting firm must provide information about engagement partners and accounting firms that participate in audits of issuers by filing Form AP, *Auditor Reporting Of Certain Audit Participants*, for each audit report issued by the firm for an issuer.
- Form AP is due by the 35th day after the date the audit report is first included in a document filed with the SEC.
- If the audit report is first included in a registration statement filed with the SEC under the Securities Act, the firm is required to file Form AP by the 10th day after the date the audit report is first included in a document filed with the SEC.
- Rule 3211 requires the filing of a report on Form AP regarding an *audit report* only the first time the *audit report* is included in a document filed with the *Commission*.

PCAOB Overview

- Nonprofit corporation established by Congress (Sarbanes-Oxley Act of 2002)
- Oversees the audits of public companies and broker-dealers
- No accounting firm may prepare or issue an audit report for a public company or an SEC-registered broker-dealer without being registered with the PCAOB
  - Previously the profession was self-regulated
- Mission is to protect the interests of investors and public interest in the preparation of informative, accurate, and independent audit reports

PCAOB Organization

- Chair and Five Board Members Appointed by the SEC
- Two of the Five Members are CPAs
- Staggered Five Year Terms
- Headquartered In Washington, D.C.
- 800+ Personnel in Offices Throughout the U.S.

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Registration

- More than 2,000 firms registered with the PCAOB
- More than 1,100 domestic firms
- More than 900 non-U.S. firms located in 89 jurisdictions

Standards

- PCAOB sets auditing and related professional practice standards
- Upon its creation in 2002, PCAOB adopted AICPA's Generally Accepted Auditing Standards (GAAS) and called them PCAOB Auditing Standards.
- Has replaced GAAS standards over the years.
- Standards drafted by PCAOB, adopted by Board, and approved by SEC

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Key New Standards

- 2016: PCAOB adopted Rule 3211, *Auditor Reporting of Certain Audit Participants*. Firms required to file Form AP listing names of audit engagement partners, as well as information about other audit firms that participate in the audits. Fully effective March 2018:
  - Filing date is 35 days after the date the auditor's report is first included in a document filed with the SEC (IPO – 10 days).
  - Information on Form AP is available on a searchable database on PCAOB website.
- June 2017: PCAOB adopted AS 3101, "The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion":
  - October 2017: Approved by SEC; goes into effect for auditor's reports as of 2017 calendar year end.
  - First significant changes to auditor reporting in over 70 years.
  - Similar changes have been made by other organizations, including the International Auditing and Assurance Standards Board.

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PCAOB Rule 3211: *Auditor Reporting of Certain Audit Participants*

- (a) For each audit report it issues for an issuer, a registered public accounting firm must file with the Board a report on Form AP in accordance with the instructions to that form.
  - Note 1: A Form AP filing is not required for an audit report of a registered public accounting firm that is referred to by the principal auditor in accordance with AS 1205, *Part of the Audit Performed by Other Independent Auditors*.
  - Note 2: Rule 3211 requires the filing of a report on Form AP regarding an audit report only the first time the audit report is included in a document filed with the Commission. Subsequent inclusion of precisely the same audit report in other documents filed with the Commission does not give rise to a requirement to file another Form AP. In the event of any change to the audit report, including any change in the dating of the report, Rule 3211 requires the filing of a new Form AP the first time the revised audit report is included in a document filed with the Commission.
- (b) Form AP is deemed to be timely filed if—
- 1. The form is filed by the 35th day after the date the audit report is first included in a document filed with the Commission; *provided*, *however*, that
- 2. If such document is a registration statement under the Securities Act, the form is filed by the 10th day after the date the audit report is first included in a document filed with the Commission.
- (c) Unless directed otherwise by the Board, a registered public accounting firm must file such report electronically with the Board through the Board's Web-based system.
- (d) Form AP shall be deemed to be filed on the date that the registered public accounting firm submits a Form AP in accordance with this rule that includes the certification in Part VI of Form AP.

Amendments to Form AP

- Amendments to Form AP are required to:
  - Correct information that was incorrect at the time the form was filed (*i.e.*, if the wrong engagement partner was identified on Form AP, the firm is required to amend the filing to identify the correct engagement partner.
  - Provide information that was omitted from the form and was required to be provided at the time the form was filed.
  - A firm may file an amendment pursuant to Rule 3210 and the Form AP instructions.

Engagement Partner Disclosure on Form AP

- Form AP requires the following information about the engagement partner on the most recent period's audit:
  - Name
  - Partner ID
    - Unique 10-digit identifier assigned by the firm to each partner who serves as engagement partner for issuer audits, and any Partner IDs previously associated with the engagement partner.
      - If an engagement partner previously associated with one registered public accounting firm associates with a new firm, the new firm must assign a new Partner ID to the engagement partner.
      - If the engagement partner was previously identified on Form AP by a different Partner ID, the new firm must report on a Form AP the new Partner ID and all Partner IDs previously associated with the engagement partner.

Other Accounting Firm Disclosure on Form AP

- Form AP requires information to be reported if one or more accounting firms participated in the audit.
- “Other accounting firm” means: (1) a registered public accounting firm other than the firm filing Form AP, or (2) any other person or entity that opines on the compliance of any entity’s financial statements with an applicable financial reporting framework.
- Disclosure of other accounting firms is required irrespective of the other accounting firm’s affiliation with the firm filing Form AP. Accordingly, other accounting firms include affiliated firms such as firms in a global network, and nonaffiliated firms.
- An “other accounting firm” participated in the audit if: (1) the principal auditor assumes responsibility for the work and report of the other accounting firm as described in AS 1205, *Part of the Audit Performed by Other Independent Auditors*; or (2) the other accounting firm or any of its principals or professional employees was subject to supervision under AS 1201, *Supervision of the Audit Engagement*.
- If other accounting firms participated in the audit, the firm filing Form AP is required to compute the extent of participation of each other accounting firm in the most recent period’s audit as a percentage of total audit hours.
  - For each accounting firm that participated in the audit that individually contributed 5% or more of total audit hours, the firm filing Form AP is required to report the other accounting firm’s: legal name, city and state of the headquarters’ office, Firm ID, and percentage of total audit hours.
  - For other accounting firms that individually contributed less than 5% of total audit hours, Form AP requires disclosure of: (1) the total number of other accounting firms that individually contributed less than 5% of total audit hours, and (2) the percentage of total audit hours that all such firms contributed, expressed as either a specific percentage or within the range of percentages listed in the form instructions.

AS 3101 – The New Auditor's Report

- AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion.*
- PCAOB first proposed changes in audit reports in 2013 and received extensive feedback on the proposals. Some thought changes went too far and others thought they did not go far enough.
- May 2016: PCAOB re-proposed the standard, offering ways to enhance the auditor's report to make it more informative for investors by requiring auditors to provide additional information.
- June 2017, the PCAOB adopted the new auditor reporting standard.
- SEC approved the new standard in October 2017.

AS 3101 – The New Auditor’s Report Key Changes

- Retains existing “pass/fail” opinion, but makes significant changes to the form and content of the report.
- Changes make a number of improvements that are primarily intended to clarify the auditor’s role and responsibilities related to the audit, provide additional information about the auditor, and make the auditor’s report easier to read.
- Year-end 2017: Auditors required to disclose audit firm tenure, highlight auditor responsibility towards detecting error and fraud, highlight independence and compliance with securities laws, and change the order of the paragraphs to make the audit opinion first.
- 2019: For certain audits, auditors required to include a description of critical audit matters (“CAM”), as defined, in their reports.

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AS 3101 – Changes Effective December 15, 2017

- Basic Elements and Form of Auditor’s Report
  - Required order of the “Opinion on the Financial Statements” and “Basis for Opinion” sections
  - Section titles
  - Required addressee
  - Indication that the notes are part of the financial statements
  - Statement on auditor independence
  - New phrase “whether due to error or fraud”
  - New language about the nature of the audit that aligns with the risk assessment standards
  - Auditor tenure

Form of the Auditor’s Report

- AS 3101.08-.09 require that the Opinion on the Financial Statements section be the first section, immediately followed by the Basis for Opinion section.
- Allows for consistency in the location of the Opinion on the Financial Statements and Basis for Opinion sections, with flexibility for other elements of the auditor’s report, such as auditor tenure and emphasis paragraphs.
- The order of the remaining sections of the auditor’s report is not specified.
- Section titles have been added to the report to guide the reader. AS 3101.08-.09 require titles for the Opinion on the Financial Statements and Basis for Opinion sections, respectively.
- Other requirements for titles appear where the content of the relevant section is specified.

Addressee

- AS 3101.07 requires the auditor’s report to be addressed to the shareholders and the board of directors, or equivalents for companies not organized as corporations.
- The auditor’s report may include additional addressees. Since inclusion of additional addressees is voluntary, auditors can assess, based on the individual circumstances, whether or not to include additional addressees in the auditor’s report.
- For example, for companies not organized as corporations, the auditor’s report would generally be addressed to:
  - (1) the plan administrator and plan participants for benefit plans;
  - (2) the directors (or equivalent) and equity owners for brokers or dealers; and
  - (3) the trustees and unit holders or other investors for investment companies organized as trusts.

Auditor Independence

- AS 3101.09 requires a statement in the Basis for Opinion section that the auditor is a public accounting firm registered with the PCAOB (United States) and is required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB.
- The statement is required to be in the Basis for Opinion section.

Basic Elements – Other Enhancements

- Added new phrase *whether due to error or fraud*, when describing the auditor’s responsibility under PCAOB standards to obtain reasonable assurance about whether the financial statements are free of material misstatement.
- Updated description of the nature of the audit to align with the language in the PCAOB’s risk assessment standards.

Auditor Tenure

- Most controversial of 2017 changes to the report.
- AS 3101.10.b requires a statement in the auditor’s report containing the year the auditor began serving consecutively as the company’s auditor.
- The disclosure of tenure should reflect the entire relationship between the company and the auditor, including the tenure of predecessor accounting firms and engagement by predecessors of the company under audit.
- Calculate taking into account firm or company mergers, acquisitions, or changes in ownership structure.

Determining Auditor Tenure

- Look to the year when the firm signs an initial engagement letter to audit a company's financial statements or when the firm begins performing audit procedures, whichever is earlier.
- If auditors cannot readily determine when an initial engagement letter was signed, they can determine tenure based on their own records, the company’s records, or publicly available information, such as company filings available on the SEC’s EDGAR system.
- In the absence of other evidence about when the auditor signed an initial engagement letter or began performing audit procedures, tenure can be determined based on the year in which the auditor first issued an audit report on the company’s financial statements or, if earlier, the auditor’s estimate of when work would have commenced to enable the issuance of such report.

Auditor Tenure – Examples

- If the auditor signs the engagement letter in January 2012 to audit a company's financial statements for the year ended December 31, 2012, and the auditor's report is dated February 28, 2013, the auditor would state 2012 as the year the auditor began serving consecutively as the company's auditor.
- If the auditor signs the engagement letter in December 2011 to audit a company's financial statements for the years ended December 31, 2010, 2011, and 2012, the auditor would state 2011 as the year the auditor began serving consecutively as the company's auditor.
- If the auditor signs the engagement letter in January 2013 to audit a company's financial statements for the years ended December 31, 2010, 2011, and 2012, the auditor would state 2013 as the year the auditor began serving consecutively as the company’s auditor.

Determining Auditor Tenure – Investment Company

- For an investment company that is part of a group of investment companies, the auditor's statement regarding tenure will contain the year the auditor began serving consecutively as the auditor of any investment company in the group of investment companies.
  - If Firm A has been auditing investment companies in XYZ group of investment companies since 1980, the current auditor's report for XYZ fixed income fund, whose inception date was in 2010, will state that Firm A has served as the auditor of one or more XYZ investment companies since 1980.

Auditor Tenure – Other Entities

- If the auditor of the company's financial statements also audits the financial statements of related entities, auditor tenure is determined separately for each engagement.
  - Company W is the sponsor of an employee benefit plan that is subject to annual reporting on Form 11-K. Auditor ABC has been the auditor of Company W since 2002 and the auditor of Company W's employee benefit plan since 2011. The auditor's report on Company W's financial statements would show that auditor tenure began in 2002. The auditor's report on the financial statements of Company W's employee benefit plan would show that auditor tenure began in 2011.

Reporting of Tenure

- Auditors have discretion to present auditor tenure in the part of the auditor's report they consider appropriate.
- Auditors have discretion to provide additional information in the auditor’s report about tenure, if the information would provide context or otherwise assist the reader’s understanding of the relationship between the auditor and the company.
- No required location is specified within the auditor's report.
- If there is uncertainty as to the year the auditor began serving as the company's auditor, state that the auditor is uncertain as to the year and provide the earliest year of which the auditor has knowledge.

[Signature]

We are uncertain as to the year we [or our predecessor firms] began serving consecutively as the auditor of the Company's financial statements; however, we are aware that we [or our predecessor firms] have been Company X's auditor [or Company X's auditor subsequent to the Company's merger] consecutively since at least 19XX.

[City and State or Country]

[Date]

Management Reports on ICFR with no Auditor Reporting

- In some circumstances, management is required to report on the company's ICFR but such report is not required to be audited, and the auditor is not engaged to perform an audit of management's assessment of the effectiveness of ICFR.
- In such cases, the auditor is required to include the following explanatory language in the Basis for Opinion section:

  The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Management Reports on ICFR with Auditor Reporting

- The requirements for auditor reporting on management reports on ICFR have been updated to conform to AS 3101.
- AS 2201.87 presents an updated example of a combined report expressing an unqualified opinion on financial statements and an unqualified opinion on ICFR.
- Alternatively, if the auditor issues separate reports on ICFR and the financial statements, under AS 2201.88, the required paragraph referencing the separate report should appear in the Opinion on the Financial Statements section, immediately following the opinion paragraph.

Explanatory Paragraphs

- The standard includes a list of circumstances with references to other PCAOB standards in which the auditor is required to include explanatory paragraph (or explanatory language) in the auditor's report. Those include, among others:
  - Going concern (AS 2415);
  - Other auditors (AS 1205);
  - Change between periods in accounting principles or in the method of their application (AS 2820); and
  - A material misstatement in previously issued financial statements has been corrected.
- Some PCAOB standards specify the location of required explanatory paragraphs within the auditor's report and may also have a requirement for an appropriate section title.
- If the auditor is required to include an explanatory paragraph but the location is not specified, the paragraph may be placed where the auditor considers appropriate.

Emphasis Paragraphs

- Although not required, the standard includes the ability for the auditor to emphasize a matter regarding the financial statements (“emphasis paragraph”).
- An emphasis paragraph may be placed where the auditor considers appropriate.
- If the auditor includes an emphasis paragraph in the auditor's report, the auditor is required to use an appropriate section title.

Critical Audit Matters ("CAMs")

- Will require auditors to disclose critical audit matters that describe the audit matters that relate to material accounts or disclosures and involve especially challenging, subjective, or complex auditor judgments.
- Major change
- Staggered effective dates
  - Auditor communication of CAMS is permissible on a voluntary basis for now but won't be required until audits of fiscal years ending on or after June 30, 2019 (for auditors of large accelerated filers) or December 15, 2020 (for audits of other companies to which the requirements apply).
- Very controversial
  - Supported by investor groups
  - Strongly opposed by issuers
    - Was viewed as potentially harmful towards dialogue between auditors and audit committees

Critical Audit Matters

- A CAM is a matter arising from the audit that:
  - was communicated, or required to be communicated, to the audit committee,
  - relates to accounts or disclosures that are material to the financial statements, and
  - involved especially challenging, subjective, or complex auditor judgment.
- The audit report must identify the CAM and describe:
  - the principal considerations that led the auditor to determine that a particular matter is a CAM,
  - how it was addressed in the audit, and
  - the relevant financial statement accounts and disclosures.

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CAM – Factors

- In determining whether a matter involved especially challenging, subjective, or complex auditor judgment, the auditor should take into account, alone or in combination, the following factors, as well as other factors specific to the audit:
  - The auditor's assessment of the risks of material misstatement, including significant risks;
  - The degree of auditor judgment related to areas in the financial statements that involved the application of significant judgment or estimation by management, including estimates with significant measurement uncertainty;
  - The nature and timing of significant unusual transactions and the extent of audit effort and judgment related to these transactions;
  - The degree of auditor subjectivity in applying audit procedures to address the matter or in evaluating the results of those procedures;
  - The nature and extent of audit effort required to address the matter, including the extent of specialized skill or knowledge needed or the nature of consultations outside the engagement team regarding the matter; and
  - The nature of audit evidence obtained regarding the matter.

CAM – Communication Requirements

- The communication of each critical audit matter in the auditor's report includes:
  - Identification of the critical audit matter;
  - Description of the principal considerations that led the auditor to determine that the matter was a critical audit matter;
  - Description of how the critical audit matter was addressed in the audit; and
  - Reference to the relevant financial statement accounts or disclosures.

Critical Audit Matters

- Phased in effective date for audits of:
  - Large accelerated filers – for fiscal years ending on or after June 30, 2019; and
  - All other companies to which the requirements apply – for fiscal years ending on or after December 15, 2020.
- CAM requirements do not apply to audits of:
  - Brokers and dealers;
  - Investment companies, other than business development companies;
  - Employee benefit plans; and
  - Emerging growth companies.
- Auditors of these entities may choose to include CAMs voluntarily.

Consequences of AS 3101

- Auditor only responsible for statements in the audit report.
- An auditor can be liable under federal securities laws for statements it makes in the auditor's report, and enhanced auditor reporting inevitably increases the risk of litigation over liability.
- Increased litigation costs
  - Private securities class actions
    - Material misstatement about evaluation of a CAM
    - Omitted material information by not including a CAM in the report
  - Malpractice – Professional standards are evidence of the appropriate standard of care
- Increased PCAOB and SEC Enforcement
- Audit Committee

IAASB New Auditor Reporting Standards

- International Auditing and Assurance Standards Board (IAASB) issued new and revised reporting standards in 2015.
  - ISA 700 (Revised)
  - ISA 701 (New)
  - ISA 570 (Revised)
  - ISA 705 (Revised)
  - ISA 706 (Revised)
  - ISA 260 (Revised)
  - ISA 720 (Revised)
- The concept of a KAM was borne out of investor demand for more detail on the audit process: more contextual information to help investors differentiate between the large number of companies that receive 'clean' audit reports.
- The new and revised standards were effective for audits of financial statements for periods ending on or after December 15, 2016.

IAASB New Auditor’s Report

- Applies to “listed entities.” ISA 220 defines a listed entity as:
  - An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange or are marketed under the regulations of a recognized stock exchange or equivalent body.
- Key change is the requirement to communicate key audit matters (KAM) in the auditor’s report.
- KAM under ISA standards is substantially similar to CAM under PCAOB standards.
- KAM are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Similarities and Differences Between KAM and CAM

- The frameworks for determining KAM/CAM are substantially similar and start with those matters communicated or required to be communicated to those charged with governance. There are also commonalities in the underlying criteria regarding matters to be communicated, such that many of the same matters would be communicated.
- Both standards require KAM/CAM to be communicated in relation to the audit of the current period. However, the PCAOB provides examples of circumstances when it may be appropriate to communicate CAM in relation to a prior period. These examples are not contemplated by the IAASB Standards.
- The IAASB and PCAOB both indicate that generally there would be at least one KAM/CAM to communicate. However, if there are no KAM/CAM identified, a statement to this effect must be included in the auditor's report.
- The IAASB's Standards indicate that KAM may not be communicated if the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The PCAOB acknowledges that the auditor is not expected to provide information about the company that has not been made publicly available by the company, unless such information is necessary to describe the principal considerations that led the auditor to determine that the matter is a CAM or how it was addressed in the audit.

Similarities and Differences Between KAM and CAM (cont'd)

- Communication in the auditor's report
  - The requirements and guidance regarding what is communicated in the auditor's report regarding KAM/CAM are similar.
- Communication of KAM/CAM when there is a modified opinion
  - Both standards require the communication of KAM/CAM when there is a qualified opinion. In addition, under both standards, KAM/CAM are not communicated when there is a disclaimer of opinion. However, when ISA 701 applies, the IAASB requires the communication of KAM when the auditor expresses an adverse opinion, whereas under the PCAOB Standard the requirement to communicate CAM does not apply when there is an adverse opinion.
- Documentation
  - KAM – Documentation is required of the matters that required significant auditor attention.
  - CAM – For each matter arising from the audit that (1) was communicated or required to be communicated to the audit committee; and (2) relates to accounts or disclosures that are material to the financial statements, the auditor must document whether or not the matter was determined to be a CAM (*i.e.*, involved especially challenging, subjective, or complex auditor judgment) and the basis for such determination.

Similarities and Differences Between Other IAASB and PCAOB Changes to the Report

- Ordering of Opinion and Basis of Opinion Sections – Both ISA 701 and AS 3101 require the Opinion section to be presented first, followed by the Basis for Opinion section.
- Relevant ethical requirements and independence – Provisions are similar in concept but the IAASB requires an affirmative statement that the auditor is independent and has fulfilled the other ethical responsibilities in accordance with the relevant ethical requirements while PCAOB only requires a statement that the firm is registered with the PCAOB and is required to be independent with respect to the company in accordance with U.S. federal securities laws and applicable rules and regulations of the SEC and PCAOB.
- Both require the name of the engagement partner, but the IAASB requires it to be in the report while PCAOB requires it to be disclosed on Form AP. IAASB does not require disclosure of information about other accounting firms participating in the audit.
- Auditor tenure – PCAOB requires disclosure and IAASB does not.

IAASB Changes One Year In

- IAASB changes were effective for fiscal years ending on or after 12/15/16 (U.K. Financial Reporting Council made similar changes effective for fiscal years on or after 10/1/12).
- Association of Chartered Certified Accountants (ACCA) issued a recent report on the impact of the IAASB changes.
- Report examined 560 audit reports across eleven countries involving 1,321 key audit matters reported.
- Most common KAMs disclosed:
  - Asset impairments (other than goodwill) - 162
  - Revenue (not mentioning fraud) – 102
  - Allowance for doubtful debt – 95
  - Goodwill impairment (90)
  - Taxation, including deferred tax - 88

ACCA Report Key Findings

- The key finding of ACCA's report is that the benefits of KAMs go beyond better information for investors to encompass improved governance, better audit quality and enhanced corporate reporting.
- Specifically the report indicates:
  - KAMs encourage better conversations between the auditor and those charged with governance; this in turn contributes to better governance.
  - KAMs help the auditor to focus on the areas of the audit requiring the most careful judgement; this in turn contributes to higher audit quality.
  - KAMs give preparers incentives for revisiting financial reporting and disclosures in areas related to those KAMs. This in turn leads to better financial reporting.

ACCA Malaysia Survey 2017

- ACCA worked with the Malaysian Institute of Accountants and The Securities Commission Malaysia to explore the impact of the first generation of the Enhanced Auditors’ Report (EAR) issued in Malaysia, focusing on auditors' communication with audit committees, and on the perceptions and behavior of investors.
- Most of the audit committee members (78%) and investors (73%) surveyed agreed that the EAR is an improvement over the old format of the auditors' report.
- Audit committee discussions about financial reporting risks with auditors and management are more focused and robust, putting audit committees in a stronger position to ensure accountability on behalf of investors.
- The audit process has been strengthened through more visible audit partner involvement in discussions with audit committees, due to the need for in-depth deliberation and discussion of KAMs in particular.
- Management are making efforts to improve disclosures in the annual report, following discussion about KAMs.

AICPA Proposed Changes

- On November 28, 2017, the AICPA Auditing Standards Board (ASB) issued an exposure document, Proposed Statements on Auditing Standards – Auditor Reporting. Comments are due by May 15, 2018.
- Changes would impact audit reports for privately held companies (except for KAMs).
- ASB is proposing changes similar to those undertaken by PCAOB and the IAASB:
  - Moving the Opinion to the first paragraph;
  - Adding an auditor statement of compliance with ethical responsibilities and independence;
  - Expanding the discussion of the auditor's responsibilities and the key features of an audit;
  - Expanding the description of management's responsibilities for preparing and fairly presenting the financial statements, and requiring the identification of those responsible for the oversight of the financial reporting process if they differ from those responsible for financial statement preparation;
  - Adding new reporting for other information included in an annual report;
  - Revising the reporting on the entities ability to continue as a going concern; and
  - Providing guidance when the communication of key audit matters is contractually required.

AICPA - Biggest Difference

- AICPA proposed requirement on KAMs was not expanded to privately held companies.
- Only provides a framework in which auditors of non-issuers may communicate KAMs.
- While communicating KAMs is not required for audits of non-issuers, it may be agreed to as part of the engagement. In that case, auditors would follow the rules in proposed Statement on Auditing Standards (SAS) *Communicating Key Audit Matters in the Independent Auditor's Report*.

Questions?

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