

Accounting & Auditing Update

PCAOB Adopts New Auditing Standard to Enhance Relevancy and Usefulness of Auditor's Report

By John M. Haslbauer, CPA, Partner

After many years of deliberations, outreach and exposure drafts, the Public Company Accounting Oversight Board (PCAOB) adopted a new standard aimed at expanding the audit report to provide information that they believe is important and informative to investors. On June 1, 2017, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, and related amendments to PCAOB standards, was issued by the PCAOB and is subject to SEC final approval.

By and large, the new rules will apply to publicly-held companies – although there are certain exceptions. The new standard retains the pass/fail model of the existing auditor's report.

The highlights of the new standard follow, along with other pertinent information.

Critical Audit Matters (CAMs)

The new standard and related amendments requires the auditor to communicate in the auditor's report any critical audit matters (CAMs) arising from the current period's audit of the financial statements, or state that the auditor determined that there were no critical audit matters.

A CAM is defined as a matter that was communicated or required to be communicated to the audit committee that:

- Relates to accounts or disclosures that are material to the financial statements;
and
- Involved especially challenging, subjective, or complex auditor judgment

Additional Changes to the Auditor's Report

The final standard also includes a number of other changes to the auditor's report that are primarily intended to clarify the auditor's role and responsibilities related to the audit of the financial statements, provide additional information about the auditor, and make the auditor's report easier to read. They include:

- **Auditor tenure:** The auditor's report will include a statement disclosing the year in which the auditor began serving consecutively as the company's auditor.
- **Independence:** The auditor's report also will include a statement that the auditor is required to be independent.
- **Enhancements to basic elements:** Certain standardized language in the auditor's report has been changed, including adding the 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 from material misstatements.

- **Standardized form of the auditor's report:** The opinion will appear in the first section of the auditor's report. Section titles have been added to guide the reader.
- **Addressees:** The auditor's report will be addressed to the company's shareholders and board of directors or equivalents (additional addressees also are permitted).

Effective Dates

The PCAOB is adopting a phased approach to the effective dates for the new requirements to provide accounting firms, companies, and audit committees more time to prepare for implementation of the critical audit matter requirements, which are expected to require more effort to implement than the other changes to the auditor's report. Subject to the approval of the SEC, the final standard and amendments will take effect as follows:

All provisions other than those related to critical audit matters will take effect for audits for fiscal years ending on or after December 15, 2017; and,

Provisions related to critical audit matters will take effect as follows:

- **Large accelerated filers:** for audits of fiscal years ending on or after June 30, 2019
- **All other companies to which the requirements apply:** for audits of fiscal years ending on or after December 15, 2020

Auditors may elect to comply before the effective date, at any point after SEC approval of the final standard.

Reporting of CAMs: Certain Exceptions

The final standard applies to audits conducted under PCAOB standards. However, communication of CAMs is not required for audits of broker-dealers; investment companies other than business development companies; employee stock purchase, savings and similar plans; and emerging growth companies.

Full Text

For the full text of *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, and related amendments to PCAOB standards, can be accessed on the [PCAOB's website](#).

Contact Us

For more information or if you have any questions, please contact John Haslbauer, CPA, Partner at jhaslbauer@pkfod.com or your PKF O'Connor Davies' advisor.

About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 28th on Accounting Today's 2017 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by Accounting Today. In 2017, PKF O'Connor Davies was named one of the 50 best accounting employers to work for in North America, by Vault.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in 440 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.