



Deloitte & Touche LLP  
30 Rockefeller Plaza  
New York, New York 10112  
USA

[www.deloitte.com](http://www.deloitte.com)

August 12, 2016

Office of the Secretary  
Public Company Accounting Oversight Board  
1666 K Street, N.W.  
Washington, D.C. 20006-2803

**Re: PCAOB Rulemaking Docket Matter No. 034**

Deloitte & Touche LLP (D&T) is pleased to respond to the request for comments from the Public Company Accounting Oversight Board (the PCAOB or the Board) on its *Proposed Auditing Standard — The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* (the repropoed standard or AS 3101) and *Related Amendments to PCAOB Standards* (the proposed amendments) (collectively, the reproposal); PCAOB Release No. 2016-003; and PCAOB Rulemaking Docket Matter No. 034 (May 11, 2016).

**Overall Comments**

As stated in our prior comment letter to the Board,<sup>1</sup> we support the Board's efforts to increase the informational value, usefulness, and relevance of the auditor's report. We appreciate the substantive efforts of the PCAOB to address concerns and suggestions raised in previous comment letters related to auditor reporting, which we believe have led to substantial enhancements in the repropoed standard. In addition, we commend the PCAOB's consideration of similar auditor reporting efforts undertaken by several international and non-U.S. standard setters and regulators while also recognizing that the regulatory environments in other jurisdictions are different from the United States.

We are supportive of the revised requirements the Board has put forward in its repropoed standard. We believe the revised requirements result in achieving the overall objective of providing meaningful and useful information about the audit to investors and other financial statement users, while alleviating certain concerns of potentially being at odds with the long-standing, historical reporting model of management being responsible for the company's financial statements and disclosures and the auditor attesting to the information within financial statements. In particular, we are supportive of the following changes to the auditor's report:

- Including a statement that the auditor is required to be independent with respect to the company in accordance with U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission (SEC) and the PCAOB.
- Including additional language regarding the auditor's responsibilities with respect to the detection of error or fraud and performing procedures to assess the risks of material misstatement.
- Clarifying that an audit encompasses the financial statements and the related notes.

Each of the above changes will help to clarify the role and responsibilities of the auditor.

---

<sup>1</sup> See D&T's letter to the PCAOB in response to the PCAOB's *Proposed Auditing Standards — The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion; The Auditor's Responsibilities Regarding Other Information in Certain Documents Containing Audited Financial Statements and the Related Auditor's Report; and Related Amendments to PCAOB Standards* filed with the PCAOB on December 12, 2013.

In addition, we are supportive of the revised requirements with respect to critical audit matters (CAMs) as discussed further below. Based on our review of the reproposal, we believe that there are certain limited implementation and other issues that should be further considered by the PCAOB as it moves to finalize the reproposal. We discuss our observations and additional items for consideration below and in Appendix A.

## Critical Audit Matters

***Determination of CAMs.*** We believe the revised requirements for determining CAMs will simplify the process while still resulting in the auditor identifying those matters that would be of most interest and importance to investors. In particular, we are supportive of the following:

- Narrowing the population of potential CAMs to those matters that were communicated or required to be communicated to the audit committee and to matters that relate to accounts or disclosures that are material to the financial statements. Also, further defining CAMs as those matters that involve especially challenging, subjective, or complex auditor judgment.
- Revising the factors to be used in determining whether a matter involved especially challenging, subjective, or complex auditor judgment.
- Retaining the requirement to communicate CAMs only for the current audit period, while providing the option for the auditor to include CAMs related to prior periods in cases of initial public offerings or reaudits.

***Describing the Principal Considerations.*** We agree with the clarification included in the reproposal that the auditor would be required to describe the principal considerations that led to the determination of a CAM. Describing all considerations that led the auditor to determine that each matter was a CAM could make the auditor's report quite lengthy, especially when there are multiple CAMs. Limiting the description of each CAM to the principal considerations that are specific to the circumstances of the matter and providing a clear description of why the matter involved especially challenging, subjective, or complex auditor judgment will be more efficient for auditors while still maintaining the usefulness of the information to investors and other users of the financial statements.

***Describing How CAMs Were Addressed in the Audit.*** While we do have some level of practical concern as to the ability of an auditor to succinctly summarize the myriad of audit procedures that are often performed with respect to complex matters, we understand the value to financial statement users and, therefore, support the proposed requirement to include a description of how each CAM was addressed in the audit. Users will benefit from an appreciation of the rigor that underlies the audit procedures performed related to CAMs. We also appreciate and recognize the objective that the Board is attempting to achieve in allowing the auditor flexibility to exercise professional judgement when describing particular procedures performed as discussed in the release.<sup>2</sup> We note that the release indicates that the auditor may describe "(1) the auditor's response or approach that was most relevant to the matter; (2) a brief overview of procedures performed; (3) an indication of the outcome of the auditor's procedures; and (4) key observations with respect to the matter, or some combination of these elements."<sup>3</sup> We agree with this guidance and believe that auditors will find it useful in making judgments when developing descriptions of how CAMs were addressed in the audit. We suggest that the Board include this guidance directly within the body of the final standard instead of in the release where it might be overlooked.

***Provision of Original Information About the Company.*** We support the PCAOB's acknowledgment that the auditor should generally not be expected to provide original information about the company in the auditor's report.<sup>4</sup> We appreciate the PCAOB's efforts to revise the definition of CAM as relating only to those accounts or disclosures that are material to the financial statements. We also support the

---

<sup>2</sup> The release accompanying the reproposal states that "the repropounded standard does not prescribe the specific way to meet [the requirement for the auditor to describe how each CAM was addressed in the audit]." See page 31 of the release.

<sup>3</sup> See page 31 of the release.

<sup>4</sup> See page 35 of the release.

inclusion of Note 2, which has been added to paragraph 14 of the reproposed standard and indicates that “the auditor is not expected to be the source of original information about the company when describing CAMs in the auditor’s report, unless such information is necessary to describe the principal considerations that led to the determination of a CAM or how the CAM was addressed in the audit.” As this Note acknowledges that circumstances could arise in which the auditor is in the position of communicating original information about the company in the description of a CAM, we believe it would be helpful for the final standard to provide an illustrative example that can be looked to by auditors and preparers.

**Documentation Considerations.** We believe it is appropriate for audit documentation related to determination of CAMs to be focused on why matters considered were determined of such importance that they are included in the auditor’s report (i.e., auditors efforts should be focused on documenting how the determination of actual CAMs was made from the population of matters communicated or required to be communicated to the audit committee that related to accounts or disclosures that are material to the financial statements, as opposed to being overly focused on documenting why potential CAMs were determined not to be CAMs). To provide additional clarity to the documentation requirements, we suggest paragraph 17 be reworded as follows:

*For each matter that:*

- a. Was communicated or required to be communicated to the audit committee; and*
- b. Relates to accounts or disclosures that are material to the financial statements;*

*the auditor must document whether or not the matter was concluded to be a critical audit matter (i.e., document whether the matter involved especially challenging, subjective, or complex auditor judgment) and the basis for such determination.*

## **Other Matters**

**Auditor Tenure.** We understand the calls from investors and other financial statement users for auditor tenure information to be made available in the spirit of transparency. We are, however, concerned about the potential implications and practical challenges of providing auditor tenure information in the auditor’s report. Below we discuss our concerns and suggest an alternative method of disclosure that we believe meets the Board’s transparency objectives in a form that will be more meaningful to investors and others.

Our review of academic literature in connection with our previous letters to the PCAOB<sup>5</sup> and most recently in our letter to the SEC,<sup>6</sup> found evidence that, if audit quality problems do occur, they are less likely to occur later in the auditor’s term; the literature, however, does not support a demonstrable link between auditor tenure and audit quality or independence.<sup>7</sup> We are concerned, therefore, that while auditor tenure is a matter of fact, requiring its inclusion in the auditor’s report suggests or implies that tenure has a direct effect on the conduct and quality of the audit, and may lead to misperceptions regarding auditor independence. We are also concerned about including language in the auditor’s report that “...the auditor is uncertain as to the year the auditor became the company’s auditors...” in cases in which there might be uncertainty due to firm or company mergers, as we believe such language could be misinterpreted by investors and others.<sup>8</sup>

To address these concerns, we believe the most feasible alternative is for the PCAOB to require auditor tenure information be included in the PCAOB’s new form, *Auditor Reporting of Certain Audit Participants*

---

<sup>5</sup> See D&T letters to the PCAOB dated December 8, 2011 and April 20, 2012 in response to PCAOB Release No. 2011-006, *Concept Release on Auditor Independence and Audit Firm Rotation*.

<sup>6</sup> See our comment letter to the SEC dated September 2, 2015 in response to SEC Release No. 33-9862, *Concept Release on Possible Revisions to Audit Committee Disclosures*.

<sup>7</sup> As highlighted by Board member Hanson in his May 11, 2016 statement on the reproposed standard, “the evidence about the impact of auditor tenure on audit quality continues to be mixed, at best.”

<sup>8</sup> See Release, pages A1-6 and A1-7.

(Form AP)<sup>9</sup> and that Form AP also provide for the ability to provide supplementary contextual information regarding auditor tenure, if needed. This approach would have the following benefits:

- Provides an opportunity for the auditor to explain or provide context in relation to any uncertainty as to the year the auditor became the company's auditor (e.g., in cases of firm or company restructurings).
- Would be similar in form to voluntary disclosures provided by audit committees regarding auditor tenure in company proxy statements, in which audit committees can and do provide additional commentary.<sup>10</sup>
- Would result in another factual disclosure being available for inclusion in the PCAOB's searchable Form AP database (i.e., along with the name of the engagement partner and information regarding the involvement of other accounting firms in the audit<sup>11</sup>).

**Addressee of the Accountant's Review Report.** The reproposal includes a revision to paragraph 37 of Auditing Standard 4105, *Reviews of Interim Financial Information* (currently AU sec. 722, *Interim Financial Information*) to require the accountant's review report be addressed to "the shareholders and the board of directors, or equivalents for companies not organized as corporations."<sup>12</sup> From our experience, review reports are not always issued, and when they are, they are often not included with the interim financial information filed with the SEC. Therefore, the reports are not readily available to the shareholders. We suggest the Board revise its proposed requirement to provide for the exclusion of shareholders from the required addressees of the interim review report if such report will not be included in a filing with the SEC.

**Amendments to Auditing Standard 3305, Special Reports.** The reproposal does not include specific revisions to the auditor's reports in Auditing Standard 3305, *Special Reports* (AS 3305) (currently AU sec. 623, *Special Reports*) but instead provides direction to the auditor to include the basic elements of the repropoed standard in situations in which the auditor's report is filed with the SEC. We acknowledge that auditor's reports in connection with the circumstances described in AS 3305 are rarely filed with the SEC. However, we suggest the Board revise AS 3305 to reflect the concepts included in the repropoed standard for clarity and consistency (which would also be consistent with the approach taken by the IAASB in relation to its analogous standards.<sup>13</sup>) We note, however, that these changes may follow in a separate project once the reproposal has been finalized.

**Effective Date Considerations.** We encourage the PCAOB to finalize the repropoed standard quickly. Internationally, new auditor reporting standards are already or will soon become effective.<sup>14</sup> Finalizing the PCAOB standard will provide necessary clarity to all stakeholders as to how the U.S. auditing standards compare to others being implemented elsewhere. However, we also believe that when deciding on the effective date of the auditor reporting standard other changes in the financial

---

<sup>9</sup>Effective for audit reports issued on or after January 31, 2017, registered public accounting firms will be required to disclose the engagement partner name on Form AP, which will be publicly available on the PCAOB's website.

<sup>10</sup> Our [analysis](#) of the 2015 corporate proxy statements filed by the companies included in the S&P 100 index has found that 64 of the companies disclose either the tenure of the incumbent external audit firm, or otherwise gave an indication of how long the firm had been the company's auditor.

<sup>11</sup> Disclosures regarding certain other participants in the audit will be required for the auditor's reports issued on or after June 30, 2017.

<sup>12</sup> See page A2-70 of the release.

<sup>13</sup> Refer to International Standards on Auditing (ISA) 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, and ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

<sup>14</sup> New and revised auditor reporting standards issued in January 2015 by the International Auditing and Assurance Standards Board (IAASB) will be effective for audits of financial statements for periods ending on or after December 15, 2016; European Union (EU) legislation related to audits of public interest entities, including expanded auditor reporting requirements was adopted in April 2014; and revised standards of the Financial Reporting Council (FRC) in the United Kingdom which enhance transparency of the auditor's report and communication to investors is effective for audits of financial statements for periods beginning on or after June 17, 2016.

reporting process such as the timing of the new requirements regarding revenue recognition,<sup>15</sup> leasing,<sup>16</sup> and expected credit losses<sup>17</sup> need to be acknowledged. In addition, we believe that some period of time will be necessary to develop guidance, train our professionals, create appropriate processes, and implement the related system of quality control to support reporting of CAMs in our auditor's reports.

Because of the significance of the effort that will be involved to effectively implement the revised reporting standard, we believe a phased implementation process should be considered by the PCAOB. Phasing in the changes would permit a targeted focus in the first year, and allow the lessons learned and experience gained in the first year to be applied in successive years. For example, the effective date could be phased such that new auditor reporting requirements would first be effective for audits of the largest companies (i.e., Phase 1 could require application to large accelerated filers only. Phase 2 could apply to accelerated filers and Phase 3 to non-accelerated filers.)

**Applicability.** We agree that communication of CAMs should not be required for audits of brokers and dealers reporting under Exchange Act Rule 17a-5, investment companies, other than business development companies, and benefit plans while allowing for voluntary inclusion of CAMs in the auditor's report for such entities.

Consistent with our prior commentary, we do not believe there is a basis for exempting audits of emerging growth companies from the requirements of the final reporting standards. We believe investors of these companies will benefit from the additional information communicated in the auditor's report in the same way that investors of larger companies will.

**Auditor Liability.** While some of the revised requirements discussed in the reproposal address certain concerns that have been raised about auditor liability, the reproposed standard does, of course, present some potential for increased litigation. However, we believe that concerns over auditor liability should not stand in the way of moving forward. Rather, auditor liability concerns should be recognized as the Board moves forward with finalizing the standard. As discussed in our previous comment letter, the reproposed new auditor statements — with respect to CAMs — could lead to new claims under Section 10(b) of the Exchange Act, Section 11 of the Securities Act of 1933, and various state laws. For example, if the reproposed standard is adopted, auditors will be subject to challenge based on the selection of matters considered to be CAMs and those that they do not consider to be CAMs. As also mentioned in our 2013 letter to the PCAOB, another area of concern is the possible effect that disclosing CAMs may have on undermining efforts by Congress, which imposed the stringent pleading standards of the Private Securities Litigation Reform Act of 1995 (PSLRA), to curtail non-meritorious claims against auditors and avoid the costs and burdens associated with them. Plaintiffs may use descriptions of an auditor's procedures in its CAM disclosures to try to plead around the strict requirements of the PSLRA and federal jurisprudence that has interpreted it.

\* \* \*

---

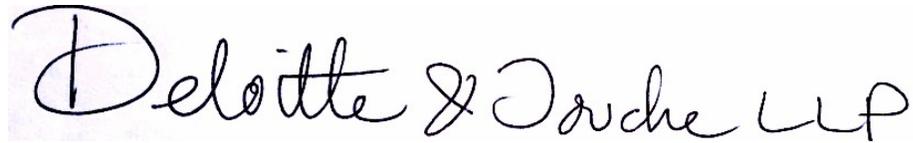
<sup>15</sup> FASB Accounting Standards Update No. 2014-09, *Revenue From Contracts With Customers* (Topic 606) — unless early adoption is elected, public entities reporting under U.S. GAAP are required to implement the provisions of the new revenue standard for annual reporting periods beginning after December 15, 2017 and interim periods therein.

<sup>16</sup> FASB Accounting Standard Update No 2016-02, *Leases* (Topic 842) — public entities reporting under U.S. GAAP are required to implement the provisions of the new leasing standard for annual reporting periods beginning after December 15, 2018 and interim periods therein.

<sup>17</sup> FASB Accounting Standard Update No 2016-13, *Measurement of Credit Losses on Financial Instruments* (Topic 326) — unless early adoption is elected, public entities reporting under U.S. GAAP are required to implement the provisions of the expected credit losses standard for annual reporting periods beginning after December 15, 2019 and interim periods therein.

D&T appreciates the opportunity to provide our perspectives on these important topics. Our comments are intended to assist the PCAOB in analyzing the relevant issues and potential effects of the reproposal. We encourage the PCAOB to engage in active and transparent dialogue with commenters as the reproposed standard is evaluated and changes are considered. If you have any questions or would like to discuss these issues further, please contact Dave Sullivan at 714-436-7788 or Megan Zietsman at 203-761-3142.

Very truly yours,

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style. The word "Deloitte" is written in a larger, more prominent script, followed by "& Touche" and "LLP" in a slightly smaller, similar script.

Deloitte & Touche LLP

cc: James R. Doty, PCAOB Chairman  
Lewis H. Ferguson, PCAOB Member  
Jeanette M. Franzel, PCAOB Member  
Jay D. Hanson, PCAOB Member  
Steven B. Harris, PCAOB Member  
Martin F. Baumann, PCAOB Chief Auditor and Director of Professional Standards

Mary Jo White, SEC Chairman  
Kara M. Stein, SEC Commissioner  
Michael S. Piwowar, SEC Commissioner  
James V. Schnurr, SEC Chief Accountant  
Wesley R. Bricker, SEC Interim Chief Accountant

## APPENDIX A — DETAILED OBSERVATIONS AND RECOMMENDATIONS

Based on our analysis of the reproposal, we have identified several technical modifications that could be made to improve or provide additional clarity in the requirements and which would address certain implementation challenges that would otherwise arise. We describe our recommendations below.

Reference	Recommendation
<b>Requirements and guidance in Appendix 1 and 2 of the reproposal:</b>	
Appendix 1, paragraph 05(b) of AS 3101	Clarify the note in paragraph 05(b) of AS 3101 such that it is clear that the requirements relating to the communication of CAMs would not apply to audits of nonissuers that are performed in accordance with the standards of the PCAOB. <sup>18</sup>
Appendix 1 and 2, paragraph 59 of AS 3105 <sup>19</sup> and AS 3101	Move the requirement regarding how to modify the second paragraph under “Basis for Opinion” of the auditor’s report when the auditor is performing a nonintegrated audit from paragraph 59 of AS 3105 to AS 3101. We believe this guidance should be in the standard related to expressing an unqualified opinion, rather than in the standard regarding departures from unqualified opinions.
Appendix 2, paragraph 46 of AS 3105	<p>Paragraph 46 should include specific requirements regarding how to modify the basic elements included in an unqualified auditor’s report when the auditor is disclaiming an opinion on the financial statements. For example:</p> <ul style="list-style-type: none"> <li>• Modify the first section of the auditor’s report to include the title “Disclaimer of Opinion on the Financial Statements.”</li> <li>• Modify the first sentence of the first paragraph under Disclaimer of Opinion on the Financial Statements to include a statement identifying each financial statement and any related schedule(s) that <i>the auditor was engaged to audit</i>.</li> <li>• Modify the title of the second section to be “Basis for Disclaimer of Opinion.”</li> <li>• Modify element b of paragraph 09 of AS 3101 to include a statement that the auditor’s responsibility is to express an opinion on the financial statements <i>based on conducting the audit</i> in accordance with the standards of the PCAOB.</li> <li>• Add a statement that because of the matter described in the Disclaimer of Opinion on the Financial Statements section of the auditor’s report, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.</li> <li>• Remove elements c-e of paragraph 09 of Section 310.</li> </ul> <p>We also recommend that the Basis for Disclaimer of Opinion section read as follows:</p> <p><i>These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on conducting our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”). We are a public accounting firm registered with the PCAOB and are 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 Securities and Exchange Commission and the PCAOB.</i></p> <p><i>Because of the matter described in the Disclaimer of Opinion on the Financial Statements section of our report, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.</i></p>

<sup>18</sup> Although the PCAOB is only responsible for establishing auditing standards for issuers and brokers and dealers registered with the SEC, in certain situations the SEC requires audits of nonissuers to be performed in accordance with the standards of the PCAOB (e.g., a nonissuer subsidiary, division, branch, component or investment for which an audit report is filed under Rule 2-05 of Regulation S-X, a voluntary filer).

<sup>19</sup> AS 3105, *Departures from Unqualified Opinions and Other Reporting Circumstances* (AS 3105).

Reference	Recommendation
Appendix 2, paragraph 03 of AS 2705 <sup>20</sup> and paragraph 04 of AS 2710 <sup>21</sup>	Clarify placement of the explanatory paragraph in the auditor's report.
Appendix 2, paragraphs 44 and 45 of AS 4105 <sup>22</sup>	Add requirement to include a section title and clarify placement of the explanatory paragraph in the review report.
<b><i>Illustrative report examples in Appendix 1 and 2 of the reproposal:</i></b>	
Appendix 1 and 2, AS 3101	Provide an illustrative example of a nonintegrated auditor's report in AS 3101 and clarify whether each example provided is for an integrated or nonintegrated audit; add the explanatory paragraph required to follow the opinion paragraph when the auditor issues separate opinions on the financial statements and internal control over financial reporting in an integrated audit as required by paragraph 88 of AS 2201.
Appendix 1 AS 3101, paragraphs 15	Revise to say (change indicated by underline): " <u>Communication</u> of critical audit matters does not alter in any way our opinion on the financial statements taken as a whole..."
Appendix 2, paragraphs 85D and 87 of AS 2201 <sup>23</sup>	For consistency, create a section titled "Definition and Inherent Limitations of Internal Control over Financial Reporting" and place it above "[Definition Paragraph]." Revise paragraph 85D of AS 2201 accordingly.
Appendix 2, AS 2201	Include a separate report on internal control over financial reporting in AS 2201.
Appendix 2	Revise the requirements so that explanatory paragraphs, with the exception of those related to substantial doubt about a company's ability to continue as a going concern, immediately follow the "Basis for Opinion" section instead of immediately following the opinion paragraph. We believe it is more appropriate for this information to follow the "Basis of Opinion."
Appendix 1, paragraph 19 of AS 3101	Clarify that an emphasis of a matter paragraph should go in the auditor's report following the section titled "Basis for Opinion" and any explanatory paragraphs included under "Basis for Opinion" (see previous comment). We believe it is more appropriate for this information to follow the "Basis of Opinion."
<b><i>Terminology and related edits Appendix 1 and 2 of the reproposal:</i></b>	
Appendix 1 and 2	Replace references in the illustrative report examples to "operations, stockholders' equity, and cash flows" with "[insert the financial statement titles as they appear in the financial statements, e.g., income, comprehensive income, stockholders' equity, and cash flows]." Currently, the illustrative report examples do not include reference to the statement of comprehensive income.
Appendix 1 and 2	Modify second paragraph under "Basis for Opinion" in the illustrative report examples as follows (change indicated by underline): " <u>Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.</u> "
Appendix 1, AS 3101, paragraph 09(b)	Add "taken as a whole" to make it consistent with paragraph 1.
Appendix 2, paragraph 25 of AS 3105	Include full text of the first paragraph in the illustrative report example.
Appendix 2, paragraphs 38, 39, and 40 of AS 4105	Add "Interim" in first section title (i.e., Results of Review of Interim [Financial Information or Statements]) and a reference to the related notes; define interim financial information or statements and related notes in first sentence of first paragraph (e.g., ...for the three-

<sup>20</sup> AS 2705 (currently AU sec. 558), *Required Supplementary Information* (AS 2705).

<sup>21</sup> AS 2710 (currently AU sec. 550), *Other Information in Documents Containing Audited Financial Statements* (AS 2710).

<sup>22</sup> AS 4105, *Reviews of Interim Financial Information* (currently AU sec. 722, *Interim Financial Information*) (AS 4105).

<sup>23</sup> AS 2201 (currently Auditing Standard No. 5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AS 2201).

Reference	Recommendation
	month and nine-month periods then ended (collectively referred to as the “interim financial information [statements]”).
Appendix 2, paragraph 10 of AS 3315 <sup>24</sup>	Revise the parenthetical that reads “collectively referred to as the financial statements” to “collectively referred to as the 20X3, 20X2, and 20X1 consolidated financial statements” in the illustrative report example because financial statements would have already been defined once in the auditor’s report as it relates to the 20X5 and 20X4 financial statements.
Appendix 2, paragraph 09 of AS 1205 <sup>25</sup>	Revise the parenthetical that reads “collectively referred to as the financial statements” to “collectively referred to as the consolidated financial statements” in the illustrative report example.
Appendix 2, AS 3105	Relocate the illustrative report examples in AS 3105 to an Appendix to be consistent with AS 3101.
Appendix 2	Modify the illustrative report examples, as appropriate, to include two years of balance sheets and three years of statements of income, comprehensive income, stockholder’s equity, and cash flows to be consistent with AS 3101.
Appendix 2	With the exception of the illustrative report examples, revise all references to “generally accepted accounting principles” to “applicable financial reporting framework” to be consistent with AS 3101 or at a minimum revise the references in AS 3105 given the pervasiveness of changes to this standard.
Appendix 2	Replace outdated references to FASB accounting standards with the appropriate FASB Accounting Standards Codification reference.
Appendix 2, AS 3105	Replace (1) “he or she,” “he,” “she,” “him,” and “her” with “the auditor” or other appropriate term and (2) “client” with “management,” “the company,” or other appropriate term, in AS 3105 given pervasiveness of changes to this section and to be consistent with the PCAOB’s drafting conventions for newly issued standards.
Appendix 2, AS 3105	Include sections titled “Introduction” and “Objectives” in AS 3105 given the pervasiveness of changes to this section and to be consistent with AS 3101.
Appendix 2	Replace “evidential matter” with “audit evidence” or other appropriate term to be consistent with AS 1105.
Appendix 2, footnote 13 in paragraph 49 of AS 3105	Remove footnote as it does not appear to be applicable as it references state and local governmental units.
Appendix 2, paragraphs 61 and 62 of AS 3105	Remove these paragraphs as they are no longer applicable given new effective date of revisions to AS 3105.
Appendix 2, paragraph 37B(c) of AS 4105	Revise the first sentence of item c to refer to “applicable financial reporting framework” instead of “generally accepted accounting principles” and the second sentence of item c to state “The statement should also include an identification of the applicable financial reporting framework.”
Appendix 2, paragraph 37C(a) of AS 4105	Replace “entity” with “company.”
<b>Other</b>	
AS 4105	Include a requirement similar to paragraph 09(g) of AS 3101.
Interpretation 14 of AI 23 <sup>26</sup>	Consider whether this interpretation is appropriate in light of the revised reporting requirements in the ISAs or whether the interpretation should be modified to refer to auditing standards generally accepted in the United States of America and whether a new interpretation should be issued to address reporting on audits conducted in accordance with the standards of the PCAOB and the ISAs, taking into account the revised ISAs.

<sup>24</sup> AS 3315 (currently AU sec. 552), *Reporting on Condensed Financial Statement and Selected Financial Data* (AS 3315).

<sup>25</sup> AS 1205, *Part of the Audit Performed by Other Independent Auditors* (currently AU sec. 543, *Part of Audit Performed by Other Independent Auditors*) (AS 1205).

<sup>26</sup> AI 23, *Departures from Unqualified Opinions and Other Reporting Circumstances: Auditing Interpretations of AS 1051* (currently AU sec. 9508, *Reports on Audited Financial Statements: Auditing Interpretations of Section 508*) (AI 23).