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PROPOSED FRAMEWORK FOR  
REORGANIZATION OF PCAOB AUDITING  
STANDARDS  
  
AND RELATED AMENDMENTS TO PCAOB  
AUDITING STANDARDS AND RULES

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) PCAOB Release No. 2013-002  
) March 26, 2013  
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) PCAOB Rulemaking  
) Docket Matter No. 40  
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**Summary:** The Public Company Accounting Oversight Board ("PCAOB" or "Board") is proposing a framework for reorganizing the existing interim and PCAOB-issued auditing standards into a topical structure with a single integrated numbering system. In addition, the PCAOB is proposing certain conforming amendments to Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, and Rule 3200T, *Interim Auditing Standards*. The Board also is proposing certain related amendments to the PCAOB auditing standards and proposing to rescind certain interim auditing standards that the Board believes are no longer necessary under the proposed reorganization.

**Public**

**Comment:** Interested persons may submit written comments to the Board. Such comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted via e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's website at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 40 in the subject or reference line and should be received by the Board no later than 5:00 PM EDT on May 28, 2013.

**Board**

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## **I. Introduction**

In April 2003, the Board issued Rule 3200T, which adopted, on an interim transitional basis, generally accepted auditing standards<sup>1/</sup> of the Auditing Standards Board ("ASB") of the American Institute of Certified Public Accountants ("AICPA") that were in existence on April 16, 2003.<sup>2/</sup> For those "interim auditing standards," the Board retained the organization and reference numbers ("AU" sections) used in the ASB's pre-existing codification of its standards.

Since the adoption of the interim auditing standards, the Board has issued 16 new standards that, collectively, have superseded 10 interim standards and amended the majority of the remaining auditing standards to varying degrees. The standards issued by the Board have been numbered sequentially based on the order in which they were issued (AS Nos. 1-16).

Consequently, the Board's existing auditing standards consist of sequentially numbered standards issued by the Board ("the AS standards") and the AU sections representing the remaining interim standards that the Board has not superseded.

To enhance the usability of the Board's auditing standards, the Board is proposing to reorganize its existing auditing standards into a topical structure with a single integrated numbering system. The proposed reorganization is intended to present the standards in a logical order that generally follows the flow of the audit process.

The proposed reorganization also is intended to help users navigate the standards more easily, for example, to find the relevant standard for a particular area of the audit. It also would help avoid potential confusion between the Board's standards and the recently reorganized standards of the ASB,<sup>3/</sup> if the same AU section reference

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<sup>1/</sup> In Rule 3200T, the term "generally accepted auditing standards" refers to generally accepted auditing standards as described by Auditing Standards Board ("ASB") Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*.

<sup>2/</sup> *Establishment of Interim Professional Auditing Standards*, PCAOB Release No. 2003-006 (Apr. 18, 2003).

<sup>3/</sup> The ASB updated the organization of its auditing standards through its Clarity Project. Additional information on the ASB's Clarity Project is available on the AICPA's website at <http://www.aicpa.org/interestareas/frc/auditattest/pages/improvingclarityasbstandards.aspx>. In addition to redrafting the auditing standards, the ASB reorganized its standards to

is used for different standards covering different topics.<sup>4/</sup> In addition, the proposed reorganization framework is intended to provide a structure for updating PCAOB standards in the future.

The proposed reorganization of PCAOB auditing standards would involve reordering and renumbering existing standards in their entirety, without redrafting the auditing standards or making substantive changes to the requirements of the standards. Also, in conjunction with the proposed reorganization of PCAOB auditing standards, the Board is proposing to rescind certain auditing standards that it believes are no longer necessary under the proposed reorganization.<sup>5/</sup> Implementation of the proposed reorganization of PCAOB auditing standards would require a number of amendments, for example, to update the reference numbers and cross references to reflect the new section numbers and to remove references to rescinded standards. Section III of this release describes these changes and other amendments related to the proposed reorganization. The changes to PCAOB auditing standards resulting from the proposed reorganization are not expected to impose new requirements on auditors or substantively change the requirements of PCAOB standards.

The Board is seeking comment on its proposed framework for reorganizing PCAOB auditing standards. After the Board considers comments on this proposal, the Board intends to release and seek comment on all of the amendments necessary to implement the reorganization of the auditing standards. The Board will continue to

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generally conform to the organization of the International Standards on Auditing issued by the International Auditing and Assurance Standards Board ("IAASB").

<sup>4/</sup> For example, the PCAOB's interim auditing standard AU sec. 230, *Due Professional Care in the Performance of Work*, describes the auditor's responsibilities for applying due professional care in planning and performing audits, whereas, the ASB's auditing standard with the same reference number relates to audit documentation.

<sup>5/</sup> The proposed reorganization also would address "interpretive publications," as described in AU sec. 150, *Generally Accepted Auditing Standards*, that is, AICPA auditing interpretations, appendices to the AICPA Statements on Auditing Standards ("SASs"), auditing guidance in AICPA audit and accounting guides, and AICPA auditing Statements of Position. The effects of the proposed reorganization on the "interpretive publications" are discussed in Section III.A of this release.

review and consider changes to individual standards in separate standard-setting projects.<sup>6/</sup>

## **II. Proposed Approach and Consideration of Alternatives**

### **A. Proposed Framework for Reorganization of PCAOB Auditing Standards**

Under this proposal, all PCAOB auditing standards would be reorganized into a topical structure, with the topics grouped into the following categories:

- *General Auditing Standards* – Standards on broad auditing principles, concepts, activities, and communications;
- *Audit Procedures* – Standards for planning and performing audit procedures and obtaining audit evidence;
- *Auditor Reporting* – Standards for auditors' reports;
- *Matters Relating to Filings under Federal Securities Laws* – Standards on certain auditor responsibilities relating to SEC filings for securities offerings and reviews of interim financial information; and
- *Other Matters Associated with Audits* – Standards for other work performed in conjunction with an audit of an issuer or a broker or dealer.<sup>7/</sup>

Within each category are subcategories to further organize similar topics, such as standards related to auditor communications in the General Auditing Standards category. Appendix 1 to this release illustrates the proposed reorganization framework, including the categories and subcategories for PCAOB auditing standards.

The integrated referencing system would use an "AS" prefix to identify the auditing standards, which is consistent with common practice for describing standards issued by the Board (for example, "AS No. 7" for the standard on engagement quality review).

Each standard would be assigned a unique section number, based on a four-digit numbering system. Using a four-digit system would facilitate the grouping of auditing

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<sup>6/</sup> The Board's standard-setting agenda is available at <http://pcaobus.org/Standards/Pages/default.aspx>.

<sup>7/</sup> The proposed framework also has a section reserved for standards on new types of audit engagements, in the event that such standards become necessary.

standards into logical categories and subcategories by topic and would avoid potential confusion with the standards of the IAASB or ASB.<sup>8/</sup> If the proposed reorganization is adopted, future auditing standards would be issued as new or replacement sections and paragraphs within the new framework.

Although the proposed framework for reorganization of PCAOB auditing standards would not mirror the organizational structure of the standards of the IAASB, the reorganized structure could facilitate comparison of PCAOB and IAASB standards.<sup>9/</sup> For example, both the IAASB standards and the proposed reorganization of PCAOB auditing standards begin with general standards, followed by standards for audit procedures and auditor reporting. Many of the differences between the proposed reorganization of PCAOB auditing standards and the organizational structure of the IAASB's standards generally relate to the content of the standards themselves rather than the arrangement of the standards. For example, the topics in multiple PCAOB standards might be covered in one IAASB standard or vice-versa.

## **B. Consideration of Alternatives**

The Board considered a number of alternative approaches in developing its proposal for the reorganization of its auditing standards.

One alternative was to continue issuing sequentially numbered standards until all of the interim standards were replaced. The Board considered this approach but is proposing a topical structure because a chronologically based numbering system would be more difficult to navigate than a topical system. Also, under this alternative, it could take years for users to receive the benefits from the reorganization.

A second alternative was to retain the organizational structure of the existing interim standards and assign section numbers to the Board-issued standards that would fit into the existing organizational structure. This approach was not proposed because the interim standards' organizational structure is based on certain general, field work, and reporting standards (the "10 standards"), many of which have been superseded, as

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<sup>8/</sup> Each standard would retain its current paragraph numbers, but the paragraph number format of the standards issued by the Board would be changed to match the format of the paragraph numbers of its other auditing standards. Under the proposed reorganized auditing standards, each paragraph would be numbered ".01," ".02," etc. For example, the reference for the first paragraph of the standard on audit planning would be "AS 2101.01."

<sup>9/</sup> See Appendix 3 for a comparison of the proposed framework for reorganization to the organizational structure of IAASB and ASB standards.

further discussed in Section III.A of this release.<sup>10/</sup> Also, this approach could be confusing to users if PCAOB standards and ASB standards used the same AU section numbers for standards that address different topics.

A third alternative was to adopt the organizational structure of another standard-setter, such as the IAASB. While this approach might appear to make it easy for users to compare PCAOB standards to IAASB standards, there are a number of potential drawbacks that could make this approach less desirable than the proposed reorganization. Applying IAASB section numbers to existing PCAOB standards could be confusing to users if PCAOB standards and IAASB standards used the same section numbers for standards that address different topics. For example, Auditing Standard No. 14, *Evaluating Audit Results*, addresses both (a) performing analytical procedures as part of the overall review and (b) consideration of identified misstatements as the audit progresses, which are separately described by the IAASB in International Standard on Auditing ("ISA") 520, *Analytical Procedures*, and ISA 450, *Evaluation of Misstatements Identified during the Audit*, respectively. Similar issues would arise if the PCAOB adopted the organizational structure of the recently revised ASB standards.

To avoid such potential confusion, it would be necessary to substantially revise PCAOB auditing standards so that each section of the PCAOB auditing standards covered the same topics as the analogous IAASB or ASB standards. For example, Auditing Standard No. 14 would need to be eliminated and its content assimilated into four other standards before a new organizational structure was implemented.

In addition, the organization and topical content of some standards issued by the Board was intentionally designed to drive changes in the practices of auditors. Revising the content of PCAOB standards as described in the preceding paragraph could result in reversing those efforts and potentially nullifying the benefits they were intended to achieve. For example, the Board's "risk assessment standards" seek to emphasize the auditor's responsibilities for consideration of fraud throughout the whole audit process by incorporating requirements for identifying and responding to the risks of material misstatement due to fraud ("fraud risks") and evaluating audit results into the various risk assessment standards, rather than segregating them into a separate section.<sup>11/</sup> Incorporating these requirements emphasizes that the auditor's responsibilities for assessing and responding to fraud risks are an integral part of the audit process rather than a separate, parallel process. Because the IAASB and ASB have fully separate

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<sup>10/</sup> See AU sec. 150.02.

<sup>11/</sup> See *Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Related Amendments to PCAOB Standards*, PCAOB Release No. 2010-004 (Aug. 5, 2010).

standards on fraud, the PCAOB would need to revise the content of the risk assessment standards to conform to the IAASB and ASB standards if the Board used either of those frameworks for organizing its own standards. Thus, this alternative could eliminate improvements in the Board's standards.

The proposed framework for reorganization of PCAOB auditing standards is intended to strike an appropriate balance between achieving comparability to the organization of the standards of the IAASB and ASB and ease of navigation in the near term and beyond.<sup>12/</sup>

Appendix 3 presents a comparison of the proposed framework for reorganization of PCAOB auditing standards to the organizational structure of existing PCAOB standards and the standards of the IAASB and ASB.

### **III. Summary of Proposed Changes to PCAOB Standards and Rule 3200**

Implementing the proposed reorganization of PCAOB auditing standards would require amendments to PCAOB auditing standards and rules.<sup>13/</sup> These amendments are not expected to impose additional requirements on auditors or substantively change the requirements of PCAOB standards. This section discusses the types of amendments necessary to implement the proposed reorganization of PCAOB auditing standards, including the proposed amendments to PCAOB standards and rules presented in Appendix 4.<sup>14/</sup>

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<sup>12/</sup> More generally, the PCAOB will continue to consider the work of the IAASB and ASB in the PCAOB's standard-setting projects. Although the PCAOB may seek to eliminate unnecessary differences from the standards of the IAASB and ASB, the PCAOB does not necessarily seek to mirror those standards because PCAOB standards must reflect the requirements of the U.S. federal securities laws and rules. See PCAOB Release No. 2010-004 at A10-91-A10-92.

<sup>13/</sup> The scope of the proposed reorganization is limited to reordering and renumbering standards in their entirety and related changes, as discussed in this section of the release. Further technical changes to update the auditing standards will be considered in future standard-setting projects.

<sup>14/</sup> As discussed in Section VI of this release, the Board plans to issue a subsequent proposing release containing all of amendments necessary to implement the proposed reorganization of the auditing standards.

## A. Proposed Changes to PCAOB Standards

As discussed previously, implementing the proposed reorganization of PCAOB auditing standards would require making certain changes to its auditing standards, including changes to update the section numbers and cross references for the new numbering system. In addition, the Board is proposing to change the titles of certain standards to more accurately reflect the content of those standards.<sup>15/</sup>

Also, in conjunction with the reorganization of the auditing standards, the Board is proposing to rescind the following interim auditing standards, which the Board believes are no longer necessary for the reasons discussed below:<sup>16/</sup>

- AU sec. 150, *Generally Accepted Auditing Standards*
- AU sec. 201, *Nature of the General Standards*
- AU sec. 410, *Adherence to Generally Accepted Accounting Principles*<sup>17/</sup>
- AU sec. 532, *Restricting the Use of an Auditor's Report*
- AU sec. 901, *Public Warehouses – Controls and Auditing Procedures for Goods Held*

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<sup>15/</sup> Appendix 1 to this release identifies the proposed title changes to individual standards.

<sup>16/</sup> AU sec. 534, *Reporting on Financial Statements Prepared for Use in Other Countries*, also would not appear in the reorganized PCAOB auditing standards. AU sec. 534 establishes requirements for situations in which an independent auditor practicing in the United States is engaged to report on the financial statements of a company in the United States that have been prepared in conformity with accounting principles generally accepted in another country for use outside the United States. Thus, AU sec. 534 and its related auditing interpretation, AU sec. 9534, *Reporting on Financial Statements Prepared for Use in Other Countries: Auditing Interpretations of Section 534*, have no application to "the preparation or issuance of any audit report," as that phrase is used in Rule 3200T, so AU sec. 534 was not among the interim standards that the Board adopted.

<sup>17/</sup> If AU sec. 410 is rescinded, the related auditing interpretation, AU sec. 9410, *Adherence to Generally Accepted Accounting Principles: Auditing Interpretations of Section 410*, also would be rescinded.



Appendix 4 presents the proposed amendments to remove those standards and delete cross references to those standards.

1. *AU sec. 150*

The interim standard AU sec. 150 states that an independent auditor plans, conducts, and reports the results of an audit in accordance with generally accepted auditing standards ("GAAS") and sets forth the 10 standards that were the organizing framework for the ASB's auditing standards. AU sec. 150 also describes the auditor's responsibilities with respect to the ASB's Statements on Auditing Standards ("SASs"), "interpretive publications," and other auditing literature.

Since the Board's adoption of the interim auditing standards, subsequent rulemaking activities of the Board have superseded, in effect, most of the specific provisions of AU sec. 150. For example, PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, and Rule 3101 set forth the responsibilities of registered firms and their associated persons for complying with PCAOB standards, which, in effect, replaced paragraphs .03 and .04 of AU sec. 150. Also, Board-issued standards have superseded, in effect, all of the field work standards and two of the four reporting standards within the 10 standards by superseding the SASs to which those field work and reporting standards applied.<sup>18/</sup> The remaining general and reporting standards<sup>19/</sup> are repeated in other interim standards besides AU sec. 150.<sup>20/</sup> Section III.A.6 of this release discusses the effects of the proposed reorganization on the "interpretive publications."

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<sup>18/</sup> Specifically, Auditing Standard No. 9, *Audit Planning*, Auditing Standard No. 10, *Supervision of the Audit Engagement*, Auditing Standard No. 12, *Identifying and Assessing Risks of Material Misstatement*, and Auditing Standard No. 15, *Audit Evidence*, superseded the interim auditing standards related to the standards of field work. Likewise, Auditing Standard No. 6, *Evaluating Consistency of Financial Statements*, and Auditing Standard No. 14 superseded the interim auditing standards related to the second and third standards of reporting, respectively.

<sup>19/</sup> The general standards are repeated in AU sec. 210, *Training and Proficiency of the Independent Auditor*, AU sec. 220, *Independence*, and AU sec. 230, *Due Professional Care in the Performance of Work*. The first and fourth standards of reporting are repeated in AU sec 508, *Reports on Audited Financial Statements*.

<sup>20/</sup> To the extent any of the 10 standards are included in sections of the reorganized auditing standards, the text of the standard would be retained but the section would be amended so that the standards are no longer characterized as one of the general or reporting standards. See Appendix 4 for the proposed amendments.

2. *AU sec. 201*

AU sec. 201 consists of one paragraph that describes the primary characteristics of the general standards within the 10 standards. AU sec. 201 does not impose any requirements on the auditor. This standard does not appear to be needed in the proposed PCAOB reorganized auditing standards.

3. *AU sec. 410*

AU sec. 410 restates the first and fourth standards of reporting within the 10 standards. AU sec. 410 appears to be unnecessary because the requirements related to those reporting standards are already covered in AU sec. 508.

4. *AU sec. 532*

AU sec. 532 describes the auditor's general responsibilities regarding restricting the use of reports. This standard appears to be unnecessary because the requirements for restricting the use of specific reports are already covered in the individual standards for the respective reports, such as the internal control communications covered in AU sec. 325, *Communications About Control Deficiencies in an Audit of Financial Statements*.

5. *AU sec. 901*

AU sec. 901 reports the conclusions of a 1966 study of the AICPA Committee on Auditing Procedure on the accountability of warehousemen for goods stored in public warehouses. AU sec. 901 appears to be unnecessary because the specific auditing requirements regarding inventory held in public warehouses are set forth in AU sec. 331, *Inventories*.

6. *AICPA "Auditing Interpretations" and Other "Interpretive Publications"*

When the Board adopted the interim auditing standards, the AICPA presented its auditing standards in a codification framework together with the related "auditing interpretations" issued by its ASB ("auditing interpretations"). However, AU sec. 150.05 states that auditing interpretations are not auditing standards. The auditor's responsibilities with respect to auditing interpretations under AU sec. 150 are, as a practical matter, similar to those for PCAOB guidance. Under AU sec. 150.06, the auditor has a responsibility to be aware of and consider the auditing interpretations in

determining how to comply appropriately with the related auditing standard(s) in the circumstances described therein.<sup>21/</sup>

The Board proposes to retain substantially all<sup>22/</sup> of the AICPA auditing interpretations and to present the auditing interpretations separately from the auditing standards on the Board's website in a manner similar to PCAOB guidance.<sup>23/</sup> The Board does not intend to change the auditor's responsibilities, including those regarding auditing interpretations, through the reorganization of its auditing standards. Accordingly, although the Board is proposing to rescind AU sec. 150, it is proposing to retain the existing requirement to be aware of and consider the auditing interpretations.<sup>24/</sup>

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<sup>21/</sup> Like the AICPA auditing interpretations, PCAOB guidance documents are not auditing standards. Rather, PCAOB guidance provides auditors with insight into how the Board or staff (depending on who issues the guidance) understands and administers the auditing standards. While auditors are not required by a Board rule to consider PCAOB guidance, an auditor who fails to do so may lack important information and, as a result, runs a risk of violating the standard that the Board or staff has interpreted.

<sup>22/</sup> As discussed previously, the Board intends to not retain auditing interpretations related to standards that will not be in the proposed reorganization, specifically, the interpretations of AU sec. 410 and AU sec. 534. Also, the Board intends to not retain interpretation 16 of AU sec. 508 (AU secs. 9508.76-.84), which does not relate to audits of issuers.

<sup>23/</sup> See <http://pcaobus.org/Standards/Pages/Guidance.aspx>.

<sup>24/</sup> The Board proposes to retain the requirement as a provision of AS 1001 (which currently is AU sec. 110, *Responsibilities and Functions of the Independent Auditor*). The remaining interpretive publications identified in AU sec. 150 – AICPA Audit and Accounting Guides and auditing Statements of Position, as in existence on April 16, 2003 – are outdated, so auditors are no longer expected to be aware of and consider them. The Board is proposing to amend its standards to (1) remove references to AICPA Audit and Accounting Guides and AICPA auditing Statements of Position and (2) reduce the scope of the "be aware of and consider" requirement to apply only to "auditing interpretations," that is, the publications entitled "Auditing Interpretation" issued by the AICPA's Auditing Standards Board as in existence on April 16, 2003, and in effect.

In addition, the Board proposes to retain substantially all of the appendices<sup>25/</sup> to the SASs, another form of "interpretive publication" under AU sec. 150. The Board also proposes to continue presenting those appendices together with the related auditing standards like the presentation of appendices to Board-issued standards.<sup>26/</sup> Appendices to the SASs generally consist of examples and illustrations of matters covered in the related standards and do not, themselves, impose requirements. For example, an appendix in AU sec. 316.85 presents examples of fraud risk factors to assist auditors in identifying and assessing fraud risks.<sup>27/</sup>

7. *Amendments Related to Auditing Standard No. 1*

Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, was issued to implement certain changes to auditors' reports when the Board adopted the interim standards. Specifically, the standard requires reports issued under PCAOB standards to reference standards of the PCAOB rather than generally accepted auditing standards. In conjunction with the proposed reorganization, the Board is proposing amendments to this standard to remove references to the interim standards and delete certain paragraphs that are historical in nature and no longer necessary.

**B. Amendments to PCAOB Rule**

PCAOB Rule 3200T, *Interim Auditing Standards*, requires auditors to comply with the Board's interim auditing standards. Originally adopted in 2003 in conjunction with the adoption of the interim auditing standards, the rule states:

In connection with the preparation or issuance of any audit report, a registered public accounting firm, and its associated persons, shall comply with generally accepted auditing standards, as described in the AICPA

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<sup>25/</sup> The Board is proposing to delete certain SAS appendices and exhibits that the Board believes are redundant or otherwise not necessary, as described in Appendix 1 of this release.

<sup>26/</sup> Appendices to Board-issued standards are an integral part of those standards. See PCAOB Release 2003-025 at 3 and PCAOB Release 2010-004 at A10-3.

<sup>27/</sup> In addition, the Board proposes to retain the American Bar Association's Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information, currently included as Exhibit II of AU sec. 337, *Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments*.

Auditing Standards Board's Statement of Auditing Standards No. 95, as in existence on April 16, 2003 (Codification of Statements on Auditing Standards, AU § 150 (AICPA 2002)), to the extent not superseded or amended by the Board.

The Board is proposing amendments to update Rule 3200T to reflect the changes made in the proposed reorganization. The proposed changes would not modify the auditor's existing responsibilities for complying with PCAOB auditing standards. Instead, the proposed changes would update Rule 3200T so that it would describe, in one rule, the auditor's responsibilities for complying with all of the auditing standards included in the proposed framework – those that the Board adopted as interim standards in 2003 and those that the Board has adopted since.

Specifically, the proposed changes to PCAOB Rule 3200T would revise that rule to state:

In connection with the preparation or issuance of any audit report, a registered public accounting firm and its associated persons shall comply with all auditing standards adopted by the Board and approved by the SEC, including, to the extent not superseded or amended by the Board, AICPA Statements on Auditing Standards as in existence on April 16, 2003.

The amended rule, as proposed, would cover all PCAOB auditing standards. The Board also would update the text of the amended rule to remove (1) the reference to AU sec. 150, which would not be included in the reorganized standards, and (2) terms such as "interim auditing standards" and "generally accepted auditing standards." Those terms are not relevant under the proposed reorganization and could be confusing to some users of the standards. In addition, the Board would make the rule a permanent rule rather than a temporary rule and, therefore, would remove the word "Interim" from the title of rule.<sup>28/</sup>

The Board intends to continue reviewing its existing standards, including those AICPA auditing standards adopted in 2003, as part of its standard-setting activities.

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<sup>28/</sup> The Board also is proposing a conforming amendment to Rule 3101, *Certain Terms Used in Auditing and Related Professional Practice Standards*, as described in Appendix 4. The proposed amendment would not change the meaning or scope of Rule 3101.

**IV. Economic Considerations and Application to Audits of Emerging Growth Companies**

It is anticipated that the primary costs of the proposed changes related to the reorganization would be one-time costs to registered firms of updating references within firm methodologies, related reference materials, and practice aids to reflect the new citations to PCAOB auditing standards. The implementation costs of the proposed reorganization might be offset over time because the logical, easier to use organizational structure of the reorganized standards could enable auditors to save time in researching the standards and maintaining their methodologies and guidance as individual standards are updated. The proposed reorganization is likely to have less cost than alternatives discussed in Section II.B. of this release that would involve substantial redrafting of PCAOB auditing standards and therefore, the potential for more extensive modifications to registered firms' methodologies and related materials.

The Board does not anticipate that these cost considerations would be different for audits of emerging growth companies ("EGCs"), as defined by the Jumpstart Our Business Startups Act ("JOBS Act").<sup>29/</sup> Pursuant to Section 104 of the JOBS Act, any rules adopted by the Board subsequent to April 5, 2012, do not apply to the audits of EGCs (as defined in Section 3(a)(80) of the Exchange Act) unless the SEC "determines that the application of such additional requirements is necessary or appropriate in the public interest, after considering the protection of investors, and whether the action will promote efficiency, competition, and capital formation."<sup>30/</sup>

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<sup>29/</sup> See Section 101 of the JOBS Act. As of November 15, 2012, based on the PCAOB's research, 579 entities have identified themselves as EGCs in SEC filings. These entities operate in diverse industries with Standard Industrial Classification codes such as blank checks, pharmaceutical preparations, prepackaged software services, real estate investment trusts, and computer processing/data preparations services. The entities reported assets ranging from zero to approximately \$13 billion, with an average and median of \$122.1 million and approximately \$0.2 million, respectively. The entities reported revenue ranging from zero to approximately \$973.7 million, with an average and median of \$53.7 million and zero, respectively. Approximately 52% of the entities identified themselves as "development stage entities" in their financial statements. Approximately 31% of the entities were audited by accounting firms that have issued audit reports for more than 100 public company audit clients, and the remainder were audited by firms that have issued audit reports for 100 or fewer public company audit clients.

<sup>30/</sup> Pub. L. No. 112-106 (April 5, 2012). See Section 103(a)(3)(C) of the Sarbanes-Oxley Act of 2002, (15 U.S.C. 7213(a)(3)), as added by Section 104 of the JOBS Act.

As discussed in Section III of this release, the proposed reorganization of PCAOB auditing standards would involve amendments that are not expected to impose additional requirements on auditors or substantively change the requirements of PCAOB standards. Thus, the proposed reorganization is not expected to affect the conduct of or reporting on audits under PCAOB standards, including audits of EGCs. Nonetheless, the Board is in the initial stages of considering its proposed reorganization and is soliciting the views of commenters on whether there are any issues relating to EGCs – including issues relating to efficiency, competition, and capital formation – that the Board should be aware of in considering the reorganization of its auditing standards.

## **V. Audits of Brokers and Dealers**

Section 982 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act")<sup>31/</sup> gave the Board oversight of the audits of brokers and dealers registered with the SEC. In September 2010, the Commission issued interpretive guidance clarifying that the references in Commission rules and staff guidance and in the federal securities laws to GAAS or to specific standards under GAAS, as they relate to nonissuer brokers or dealers, should continue to be understood to mean the auditing and attestation standards established by the AICPA, but noted that it intended to revisit this interpretation in connection with a SEC rulemaking project to update the audit and attestation requirements for brokers and dealers in light of the Dodd-Frank Act.<sup>32/</sup>

On June 15, 2011, the SEC proposed to amend its rules, including SEC Rule 17a-5 under the Exchange Act, to require, among other things, that audits of brokers' and dealers' financial statements and examinations of reports regarding compliance with SEC requirements be performed in accordance with the standards of the PCAOB.<sup>33/</sup> If the SEC adopts its proposed amendments to SEC Rule 17a-5 or provides other direction that auditors of brokers and dealers are to comply with PCAOB professional standards, the Board's auditing, attestation, quality control, and, where applicable, independence standards would then apply to audits of brokers and dealers, as required by Section 17 of the Exchange Act and SEC Rule 17a-5.<sup>34/</sup> Thus, the

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<sup>31/</sup> Pub. L. No. 111-203, 124 Stat. 1376 (July 21, 2010).

<sup>32/</sup> SEC, *Commission Guidance Regarding Auditing, Attestation, and Related Professional Practice Standards Related to Brokers and Dealers*, Exchange Act Release No. 62991 (Sept. 24, 2010).

<sup>33/</sup> SEC, *Broker-Dealer Reports*, Exchange Act Release No. 64676 (June 15, 2011).

<sup>34/</sup> 17 C.F.R. § 240.17a-5.

PCAOB's standards, as proposed to be reorganized, would be applicable for all audits, including audits of brokers and dealers.

The Board is seeking comment from auditors, brokers and dealers, and others about whether there are issues specific to brokers and dealers that the Board should be aware of in considering the reorganization of its standards.

## **VI. Next Steps**

The Board will consider comments on this proposal and potential changes to the reorganization framework and related amendments. Then, the Board intends to release and seek public comment on all of the amendments necessary to implement the reorganization of the auditing standards, along with a functioning online version of the proposed reorganized auditing standards.<sup>35/</sup>

The Board also intends to explore additional steps to make its standards easier to use and navigate, such as, enhancing its website to help users locate standards using reference numbers under either the reorganization or the prior organizational structure, or to select a PCAOB standard and identify the analogous standard of the IAASB or ASB.<sup>36/</sup> The Board seeks comments on additional ways to improve the ease-of-use and navigation of its standards and related guidance on its website.

In the future, the Board expects to undertake additional projects to address the organizational structure of the Board's other professional practice standards (that is, quality control, attestation, and ethics and independence).

The Board will continue to review and consider changes to the content of individual standards in separate standard-setting projects.

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<sup>35/</sup> During this period, the auditing standards, in their current form, would remain in effect.

<sup>36/</sup> The Board is not proposing to codify its standards in a manner similar to the Financial Accounting Standards Board ("FASB") codification, for example, to apply an Area, Topic, Subtopic, and Section structure. Also, the Board is not planning at this time to develop a new platform for its standards like the FASB Codification Research System.



**VII. Questions**

1. Is the proposed framework for reorganizing PCAOB auditing standards appropriate and an improvement over the existing structure of the PCAOB auditing standards? Are there ways to improve the proposed reorganization framework?
2. Would the proposed reorganization described in this release help users navigate the standards more easily, help avoid potential confusion between the Board's standards and the standards of the ASB, and provide a structure for updating PCAOB standards in the future? Are there other potential benefits the Board should be aware of in considering its proposed reorganization?
3. Are the categories and subcategories of auditing standards in the proposed reorganization framework appropriate and an improvement over the existing organizational structure of PCAOB auditing standards?
4. Is it appropriate to rescind the auditing standards and related auditing interpretations discussed in Section III.A of this release as part of the proposed reorganization? Are any of those standards or auditing interpretations still necessary to fully describe the auditor's responsibilities for audits under PCAOB standards? Are there other standards or auditing interpretations that should be rescinded?
5. Would the framework for reorganizing PCAOB auditing standards have any consequences that are not addressed in this release? If so, what are those consequences?
6. Are there other costs besides those discussed in this release that the Board should consider? Would initial costs be offset over time, as discussed in this release?
7. Are there any considerations relating to efficiency, competition, and capital formation with respect to audits of EGCs that the Board should take into account in considering the proposed reorganization?
8. Are there costs or other considerations relating to audits of EGCs that the Board should be aware of in considering its proposed reorganization?
9. Does the proposed reorganization raise issues specific to audits of brokers and dealers that the Board should consider?

10. Should the Board limit the scope of the auditing standards reorganization to reordering and renumbering standards in their entirety and related changes as discussed in this release? If not, why not? Are there other related technical changes to the wording or organization of individual standards that should be considered, either as part of the proposed reorganization or a subsequent project, such as eliminating references to generally accepted auditing standards or outdated references to accounting standards?
11. What factors should the Board consider in determining the effective date of the auditing standards reorganization?

**VIII. Opportunity for Public Comment**

The Board will seek comment on the proposed framework for reorganization of PCAOB auditing standards and related amendments for a 60-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to the Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments also may be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's website at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 40 on the subject or reference line and should be received by the Board no later than 5:00 PM EDT on May 28, 2013.

\* \* \*

On the 26th day of March, in the year 2013, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ Phoebe W. Brown

Phoebe W. Brown

Secretary

March 26, 2013

*APPENDIX 1 – Proposed Framework for Reorganization of PCAOB Auditing Standards*

*APPENDIX 2 – Comparison of Existing PCAOB Auditing Standards to Proposed Framework for Reorganization of PCAOB Auditing Standards*

*APPENDIX 3 – Comparison of Proposed Framework for Reorganization of PCAOB Auditing Standards to Existing PCAOB Auditing Standards and the Standards of the International Auditing and Assurance Standards Board and Auditing Standards Board*

*APPENDIX 4 – Proposed Amendments to Rules 3101 and 3200T and PCAOB Auditing Standards*

## **Appendix 1 - Proposed Framework for Reorganization of PCAOB Auditing Standards**

### **General Auditing Standards**

- 1000 General Principles and Responsibilities
- 1001 Responsibilities and Functions of the Independent Auditor
- 1010 Training and Proficiency of the Independent Auditor
- 1011 Independence
- 1012 Due Professional Care in the Performance of Work
  
- 1100 General Concepts
- 1101 Audit Risk
- 1102 Audit Evidence
- 1103 Relationship of Auditing Standards to Quality Control Standards<sup>1/</sup>
  
- 1200 General Activities
- 1201 Supervision of the Audit Engagement
- 1202 Part of Audit Performed by Other Independent Auditors
- 1203 Using the Work of a Specialist
- 1210 Audit Documentation
- 1220 Engagement Quality Review
  
- 1300 Auditor Communications
- 1301 Communications with Audit Committees
- 1302 Communications about Control Deficiencies in an Audit of Financial Statements

### **Audit Procedures**

- 2100 Audit Planning and Risk Assessment
- 2101 Audit Planning
- 2102 Consideration of Materiality in Planning and Performing an Audit
- 2103 Identifying and Assessing Risks of Material Misstatement
  
- 2200 Audit Procedures in Response to Risks—Nature, Timing, and Extent
- 2201 The Auditor's Responses to the Risks of Material Misstatement
- 2202 Substantive Analytical Procedures
- 2203 The Confirmation Process
- 2204 Audit Sampling

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<sup>1/</sup> AU sec. 161 is currently entitled, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*. The Board proposes to amend the title of this standard without changing the substance of the standard.

- 2300 *Auditing Internal Control Over Financial Reporting*  
2301 An Audit of Internal Control Over Financial Reporting That Is Integrated with  
An Audit of Financial Statements  
2302 Reporting on Whether a Previously Reported Material Weakness Continues  
to Exist
- 2400 *Audit Procedures for Specific Aspects of the Audit*  
2401 Consideration of Fraud in a Financial Statement Audit<sup>2/</sup>  
2402 Illegal Acts by Clients  
2403 Related Parties  
2404 The Auditor's Consideration of an Entity's Ability to Continue as a Going  
Concern
- 2500 *Audit Procedures for Certain Accounts or Disclosures*  
2501 Auditing Accounting Estimates  
2502 Auditing Fair Value Measurements and Disclosures  
2503 Auditing Derivative Instruments, Hedging Activities, and Investments in  
Securities  
2504 Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments<sup>3/</sup>  
2505 Inventories
- 2600 *Special Topics*  
2601 Service Organizations  
2602 The Auditor's Consideration of the Internal Audit Function in an Audit of  
Financial Statements  
2603 Communications Between Predecessor and Successor Auditors
- 2700 *Auditor's Responsibilities Regarding Other Information*  
2701 Reporting on Information Accompanying the Basic Financial Statements in  
Auditor-Submitted Documents<sup>4/</sup>

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<sup>2/</sup> The proposed reorganization would delete AU secs. 316.86 and .87, which provide amendments to AU secs. 230 and 333, respectively, that already are reflected in those standards. In addition, the proposed reorganization would delete AU sec. 316.88, which is an exhibit that provides guidance to management regarding antifraud programs and controls.

<sup>3/</sup> The proposed reorganization would delete AU sec. 337B. Such an exhibit does not appear necessary because it merely presents excerpts of Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*. The applicable requirements in U.S. generally accepted accounting principles are set forth in the FASB's *Accounting Standards Codification*.

<sup>4/</sup> The Board has proposed a new auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*. See PCAOB Release No.

- 2702 Unaudited Supplementary Information Included in Audited Financial Statements<sup>5/</sup>
- 2703 Other Information in Documents Containing Audited Financial Statements
- 2800 Concluding Audit Procedures
- 2801 Subsequent Events
- 2802 Management Representations
- 2803 Evaluating Audit Results
- 2804 The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles
- 2805 Evaluating Consistency of Financial Statements
- 2900 Post-Audit Matters
- 2901 Consideration of Omitted Procedures After the Report Date
- 2902 Subsequent Discovery of Facts Existing at the Date of the Auditor's Report

#### **Auditor Reporting**

- 3100 Reporting on Audits of Financial Statements
- 3101 Reports on Audited Financial Statements
- 3105 References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board
- 3110 Dating of the Independent Auditor's Report
- 3200 Reserved
- 3300 Other Reporting Topics
- 3301 Association With Financial Statements
- 3310 Special Reports
- 3311 Special Reports on Regulated Companies<sup>6/</sup>
- 3312 Reporting on Condensed Financial Statements and Selected Financial Data

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2011-05 (July 12, 2011). If adopted by the Board and approved by the SEC, that proposed standard would replace this section and change its title.

<sup>5/</sup> AU sec. 558 is currently entitled, *Required Supplementary Information*. The Board proposes to amend the title of this standard to distinguish it more clearly from proposed AS 2701, without changing the substance of the standard.

<sup>6/</sup> AU sec. 544 is currently entitled, *Lack of Conformity With Generally Accepted Accounting Principles*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

**Matters Relating to Filings under Federal Securities Laws**

- 4101 Responsibilities Regarding Filings under Federal Securities Statutes<sup>7/</sup>
- 4102 Reviews of Interim Financial Information<sup>8/</sup>
- 5000 *Reserved*

**Other Matters Associated with Audits**

- 6101 Letters for Underwriters and Certain Other Requesting Parties
- 6102 Reports on the Application of Accounting Principles
- 6103 Compliance Auditing Considerations in Audits of Recipients of Governmental Financial Assistance<sup>9/</sup>

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<sup>7/</sup> AU sec. 711 is currently entitled, *Filings Under Federal Securities Statutes*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

<sup>8/</sup> AU sec. 722 is currently entitled, *Interim Financial Information*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

<sup>9/</sup> AU sec. 801 is currently entitled, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

## Appendix 2 – Comparison of Existing PCAOB Auditing Standards to Proposed Framework for Reorganization of PCAOB Auditing Standards

This appendix presents the existing PCAOB auditing standards ("AS No. or AU sec.") along with their respective AS references under the proposed framework for reorganization of PCAOB auditing standards.

Standards that note "Rescind" in the Proposed AS Reference column are existing standards that the Board proposes to rescind in conjunction with this proposed reorganization.

<b>Current AS No. or AU sec.</b>	<b>Title</b>	<b>Proposed AS Reference</b>
AS No. 1	References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board	3105
AS No. 3	Audit Documentation	1210
AS No. 4	Reporting on Whether a Previously Reported Material Weakness Continues to Exist	2302
AS No. 5	An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements	2301
AS No. 6	Evaluating Consistency of Financial Statements	2805
AS No. 7	Engagement Quality Review	1220
AS No. 8	Audit Risk	1101
AS No. 9	Audit Planning	2101
AS No. 10	Supervision of the Audit Engagement	1201
AS No. 11	Consideration of Materiality in Planning and Performing an Audit	2102



<b>Current AS No. or AU sec.</b>	<b>Title</b>	<b>Proposed AS Reference</b>
AS No. 12	Identifying and Assessing Risks of Material Misstatement	2103
AS No. 13	The Auditor's Responses to the Risks of Material Misstatement	2201
AS No. 14	Evaluating Audit Results	2803
AS No. 15	Audit Evidence	1102
AS No. 16	Communications with Audit Committees	1301
AU sec. 110	Responsibilities and Functions of the Independent Auditor	1001
AU sec. 150	Generally Accepted Auditing Standards	Rescind
AU sec. 161	The Relationship of Generally Accepted Auditing Standards to Quality Control Standards <sup>1/</sup>	1103
AU sec. 201	Nature of the General Standards	Rescind
AU sec. 210	Training and Proficiency of the Independent Auditor	1010
AU sec. 220	Independence	1011
AU sec. 230	Due Professional Care in the Performance of Work	1012
AU sec. 315	Communications Between Predecessor and Successor Auditors	2603

<sup>1/</sup> The Board proposes to amend the title of this standard to *Relationship of Auditing Standards to Quality Control Standards*, to clarify the subject of the standard without changing its substance.

<b>Current AS No. or AU sec.</b>	<b>Title</b>	<b>Proposed AS Reference</b>
AU sec. 316	Consideration of Fraud in a Financial Statement Audit <sup>2/</sup>	2401
AU sec. 317	Illegal Acts by Clients	2402
AU sec. 322	The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements	2602
AU sec. 324	Service Organizations	2601
AU sec. 325	Communications About Control Deficiencies in an Audit of Financial Statements	1302
AU sec. 328	Auditing Fair Value Measurements and Disclosures	2502
AU sec. 329	Substantive Analytical Procedures	2202
AU sec. 330	The Confirmation Process	2203
AU sec. 331	Inventories	2505
AU sec. 332	Auditing Derivative Instruments, Hedging Activities, and Investments in Securities	2503
AU sec. 333	Management Representations	2802
AU sec. 334	Related Parties	2403
AU sec. 336	Using the Work of a Specialist	1203

<sup>2/</sup> The proposed reorganization would delete AU secs. 316.86 and .87, which provide amendments to AU secs. 230 and 333, respectively, that already are reflected in these standards. In addition, the proposed reorganization would delete AU sec. 316.88, which is an exhibit that provides guidance to management regarding antifraud programs and controls.

<b>Current AS No. or AU sec.</b>	<b>Title</b>	<b>Proposed AS Reference</b>
AU sec. 337	Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments <sup>3/</sup>	2504
AU sec. 341	The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern	2404
AU sec. 342	Auditing Accounting Estimates	2501
AU sec. 350	Audit Sampling	2204
AU sec. 390	Consideration of Omitted Procedures After the Report Date	2901
AU sec. 410	Adherence to Generally accepted Accounting Principles	Rescind
AU sec. 411	The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles	2804
AU sec. 504	Association With Financial Statements	3301
AU sec. 508	Reports on Audited Financial Statements	3101
AU sec. 530	Dating of the Independent Auditor's Report	3110
AU sec. 532	Restricting the Use of an Auditor's Report	Rescind

<sup>3/</sup> The proposed reorganization would delete AU sec. 337B. Such an exhibit does not appear necessary because it merely presents excerpts of the Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*. The applicable requirements in U.S. generally accepted accounting principles are set forth in the FASB's *Accounting Standards Codification*.

Current AS No. or AU sec.	Title	Proposed AS Reference
AU sec. 534	Reporting on Financial Statements Prepared for Use in Other Countries	Not Included <sup>4/</sup>
AU sec. 543	Part of Audit Performed by Other Independent Auditors	1202
AU sec. 544	Lack of Conformity with Generally Accepted Accounting Principles <sup>5/</sup>	3311
AU sec. 550	Other Information in Documents Containing Audited Financial Statements	2703
AU sec. 551	Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents <sup>6/</sup>	2701
AU sec. 552	Reporting on Condensed Financial Statements and Selected Financial Data	3312
AU sec. 558	Required Supplementary Information <sup>7/</sup>	2702

<sup>4/</sup> This standard would not be included in the proposed reorganization, as it does not apply to the audit of an issuer or broker or dealer.

<sup>5/</sup> The Board proposes to amend the title of this standard to *Special Reports on Regulated Companies*, which would clarify the subject of the standard without changing its substance.

<sup>6/</sup> The Board has proposed a new auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*. See PCAOB Release No. 2011-05 (July 12, 2011). If adopted by the Board and approved by the SEC, that proposed standard would replace this section and change its title.

<sup>7/</sup> The Board proposes to amend the title of this standard to *Unaudited Supplementary Information Included in Audited Financial Statements*, to clarify the subject of the standard and distinguish it more clearly from proposed AS 2701.

<b>Current AS No. or AU sec.</b>	<b>Title</b>	<b>Proposed AS Reference</b>
AU sec. 560	Subsequent Events	2801
AU sec. 561	Subsequent Discovery of Facts Existing at the Date of the Auditor's Report	2902
AU sec. 623	Special Reports	3310
AU sec. 625	Reports on the Application of Accounting Principles	6102
AU sec. 634	Letters for Underwriters and Certain Other Requesting Parties	6101
AU sec. 711	Filings Under Federal Securities Statutes <sup>8/</sup>	4101
AU sec. 722	Interim Financial Information <sup>9/</sup>	4102
AU sec. 801	Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance <sup>10/</sup>	6103
AU sec. 901	Public Warehouses – Controls and Auditing Procedures for Goods Held	Rescind

<sup>8/</sup> The Board proposes to amend the title of this standard to *Responsibilities Regarding Filings under Federal Securities Statutes*, to clarify the subject of the standard without changing its substance.

<sup>9/</sup> The Board proposes to amend the title of this standard to *Reviews of Interim Financial Information*, to clarify the subject of the standard without changing its substance.

<sup>10/</sup> The Board proposes to amend the title of this standard to *Compliance Auditing Considerations in Audits of Recipients of Governmental Financial Assistance*, to clarify the subject of the standard without changing its substance.

**Appendix 3 – Comparison of Proposed Framework for Reorganization of PCAOB Auditing Standards to Existing PCAOB Auditing Standards and the Standards of the International Auditing and Assurance Standards Board and Auditing Standards Board**

This appendix presents the proposed framework for reorganization of PCAOB auditing standards ("AS") along with their current references in existing PCAOB auditing standards and the analogous standards of the International Auditing and Assurance Standards Board ("IAASB") and the Auditing Standards Board of the American Institute of Certified Public Accountants ("ASB").

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
1001	Responsibilities and Functions of the Independent Auditor	AU sec. 110	200 <sup>1/</sup>	200
1010	Training and Proficiency of the Independent Auditor	AU sec. 210	200	200
1011	Independence	AU sec. 220	200	200
1012	Due Professional Care in the Performance of Work	AU sec. 230	200	200
1101	Audit Risk	AS No. 8	200	200
1102	Audit Evidence	AS No. 15	500	500

<sup>1/</sup> The responsibilities, functions, training, and proficiency of the independent auditor; independence requirements; exercising due professional care; and audit risk are included in multiple PCAOB standards (AS 1001, 1010, 1011, 1012, and 1101, respectively) but are included in one IAASB standard (ISA 200) and one ASB standard (AU-C 200).

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
1103	Relationship of Auditing Standards to Quality Control Standards	AU sec. 161 <sup>2/</sup>	220 <sup>3/</sup>	220
1201	Supervision of the Audit Engagement	AS No. 10	220	220
1202	Part of Audit Performed by Other Independent Auditors	AU sec. 543	600	600
1203	Using the Work of a Specialist	AU sec. 336	620	620
1210	Audit Documentation	AS No. 3	230	230
1220	Engagement Quality Review	AS No. 7	220	220
1301	Communications with Audit Committees	AS No. 16	210, 260 <sup>4/</sup>	210, 260
1302	Communications about Control Deficiencies in an Audit of	AU sec. 325	265	265

<sup>2/</sup> AU sec. 161 is currently entitled, *The Relationship of Generally Accepted Auditing Standards to Quality Control Standards*. The Board proposes to amend the title of this standard without changing the substance of the standard.

<sup>3/</sup> The relationship of auditing standards to quality control standards, supervision of the audit engagement, and engagement quality review are covered in separate PCAOB standards (AS 1103, 1201, and 1220, respectively) but are included in one IAASB standard (ISA 220) and one ASB standard (AU-C 220).

<sup>4/</sup> Under PCAOB standards, agreeing to the terms of an audit and communications with audit committees are covered in one standard, whereas those subjects are covered by separate standards under IAASB standards (ISA 210 and 260, respectively) and ASB standards (AU-C 210 and 260, respectively).

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
	Financial Statements			
2101	Audit Planning	AS No. 9	300	300
2102	Consideration of Materiality in Planning and Performing an Audit	AS No. 11	320	320
2103	Identifying and Assessing Risks of Material Misstatement	AS No. 12	315	315
2201	The Auditor's Responses to the Risks of Material Misstatement	AS No. 13	330	330
2202	Substantive Analytical Procedures	AU sec. 329	520 <sup>5/</sup>	520
2203	The Confirmation Process	AU sec. 330	505	505
2204	Audit Sampling	AU sec. 350	530	530
2301	An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements	AS No. 5	N/A <sup>6/</sup>	AT 501

<sup>5/</sup> Under PCAOB standards, substantive analytical procedures are covered in a separate standard (AS 2202) and analytical procedures performed in the overall review are included in the standard on evaluating audit results (AS 2803), whereas those subjects are both included in one IAASB standard (ISA 520) and one ASB standard (AU-C 520).

<sup>6/</sup> The PCAOB has a standard for auditing internal control over financial reporting when auditing financial statements. The IAASB does not have a standard on auditing internal control over financial reporting, and the ASB addresses that subject in its attestation standards (AT 501).



<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
2302	Reporting on Whether a Previously Reported Material Weakness Continues to Exist	AS No. 4	N/A	N/A
2401	Consideration of Fraud in a Financial Statement Audit	AU sec. 316 <sup>7/</sup>	240	240
2402	Illegal Acts by Clients	AU sec. 317	250	250
2403	Related Parties	AU sec. 334	550	550
2404	The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern	AU sec. 341	570	570
2501	Auditing Accounting Estimates	AU sec. 342	540 <sup>8/</sup>	540
2502	Auditing Fair Value Measurements and Disclosures	AU sec. 328	540	540

<sup>7/</sup> The proposed reorganization would delete AU secs. 316.86 and .87, which provide amendments to AU secs. 230 and 333, respectively, that already are reflected in those standards. In addition, the proposed reorganization would delete AU sec. 316.88, which is an exhibit that provides guidance to management regarding antifraud programs and controls.

<sup>8/</sup> PCAOB standards have separate standards for auditing accounting estimates (AS 2501) and auditing fair value measurements and disclosures (AS 2502), whereas the IAASB and ASB standards each have one standard on auditing accounting estimates including fair value estimates and disclosures (ISA 540 and AU-C 540, respectively).

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
2503	Auditing Derivative Instruments, Hedging Activities, and Investments in Securities	AU sec. 332	N/A <sup>9/</sup>	501
2504	Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments	AU sec. 337 <sup>10/</sup>	501 <sup>11/</sup>	501
2505	Inventories	AU sec. 331	501 <sup>12/</sup>	501
2601	Service Organizations	AU sec. 324	402	402
2602	The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements	AU sec. 322	610	610

<sup>9/</sup> The PCAOB has a separate standard for auditing derivative instruments, hedging activities, and investments in securities (AS 2503). In ASB standards, that subject is included in the standard on specific consideration regarding audit evidence (AU-C 501). The IAASB has a practice note on auditing financial instruments but does not have a standard on the subject.

<sup>10/</sup> The proposed reorganization would delete AU sec. 337B. Such an exhibit does not appear necessary because it merely presents excerpts of Financial Accounting Standards Board ("FASB") Statement No. 5, *Accounting for Contingencies*. The applicable requirements in U.S. generally accepted accounting principles are set forth in the FASB's *Accounting Standards Codification*.

<sup>11/</sup> The PCAOB has separate standards on inquiry of a client's lawyers (AS 2504) and auditing inventories (AS 2505). In IAASB and ASB standards, those subjects are included in the standard on specific consideration regarding audit evidence (ISA 501 and AU-C 501, respectively).

<sup>12/</sup> *Id.*

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
2603	Communications Between Predecessor and Successor Auditors	AU sec. 315	510	510
2701	Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents	AU sec. 551 <sup>13/</sup>	N/A	725
2702	Unaudited Supplementary Information Included in Audited Financial Statements	AU sec. 558 <sup>14/</sup>	N/A	730
2703	Other Information in Documents Containing Audited Financial Statements	AU sec. 550	720	720
2801	Subsequent Events	AU sec. 560	560 <sup>15/</sup>	560
2802	Management Representations	AU sec. 333	580	580

<sup>13/</sup> The Board has proposed a new auditing standard, *Auditing Supplemental Information Accompanying Audited Financial Statements*. See PCAOB Release No. 2011-05 (July 12, 2011). If adopted by the Board and approved by the SEC, that proposed standard would replace this section and change its title.

<sup>14/</sup> AU sec. 558 is currently entitled, *Required Supplementary Information*. The Board proposes to amend the title of this standard to distinguish it more clearly from proposed AS 2701, without changing the substance of the standard.

<sup>15/</sup> In PCAOB standards, the subjects of subsequent events and subsequent discovery of facts existing at the report date are covered by separate standards (AS 2801 and 2902, respectively). In IAASB and ASB standards, those subjects are included in the standard on subsequent events (ISA 560 and AU-C 560, respectively).

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
2803	Evaluating Audit Results	AS No. 14	240, 330, 450, 520 <sup>16/</sup>	240, 330, 450, 520
2804	The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles	AU sec. 411	700 <sup>17/</sup>	700
2805	Evaluating Consistency of Financial Statements	AS No. 6	N/A	708
2901	Consideration of Omitted Procedures After the Report Date	AU sec. 390	N/A	585
2902	Subsequent Discovery of Facts Existing at the Date of the	AU sec. 561	560	560

<sup>16/</sup> In PCAOB standards, the subject of evaluating audit results is covered in one standard (AS 2803). In IAASB and ASB standards, various topics related to evaluating audit results are covered in multiple standards, particularly, the standards related to the auditor's responsibilities regarding fraud, the auditor's responses to assessed risks, evaluation of misstatements, and analytical procedures (ISA 240, 330, 450, and 520 and AU-C 240, 330, 450, and 520, respectively).

<sup>17/</sup> In PCAOB standards, there are separate standards on the subjects of present fairly in conformity with generally accepted accounting principles (AS 2804) and reporting on audited financial statements, including emphasis paragraphs, departures from the standard opinion, and reporting on comparative statements (AS 3101). In IAASB and ASB standards, the subject of presenting fairly is included in the standard on forming an opinion and reporting on audited financial statements (ISA 700 and AU-C 700, respectively), but there are separate standards for emphasis paragraphs and departures from the standard opinion (ISA 705 and 706, respectively, and AU-C 705 and 706, respectively). In IAASB standards, reporting on comparative financial statements also is covered in a separate standard (ISA 710), whereas that subject is included in the ASB standard on forming an opinion and reporting on audited financial statements (AU-C 700).

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
	Auditor's Report			
3101	Reports on Audited Financial Statements	AU sec. 508	700, 705, 706, 710 <sup>18/</sup>	700, 705, 706
3105	References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board	AS No. 1	N/A	N/A
3110	Dating of the Independent Auditor's Report	AU sec. 530	560, 700 <sup>19/</sup>	560, 700
3301	Association With Financial Statements	AU sec. 504	N/A	Withdrawn by ASB
3310	Special Reports	AU sec. 623	800, 805 <sup>20/</sup>	800, 805, 806

<sup>18/</sup> *Id.*

<sup>19/</sup> Under PCAOB standards, the subject of dating the independent auditor's report is covered in a single standard (AS 3110). Under IAASB and ASB standards, the standard requirement for dating the auditor's report is covered in the reporting standard (ISA 700 and AU-C 700, respectively), and the subject of dating the auditor's report when there is a subsequent discovery of facts is covered in the subsequent events standard (ISA 560 and AU-C 560, respectively).

<sup>20/</sup> Under PCAOB standards, financial statements prepared in accordance with special purpose frameworks and reporting on specified elements, accounts or items of a financial statement are covered in one standard (AS 3310). Under IAASB and ASB standards, those subjects are covered by separate standards (ISA 800 and 805, respectively) and ASB standards (AU-C 800 and 805, respectively). Reporting on compliance with contractual agreements or regulatory requirements in connection with audited financial statements also is covered by the PCAOB standard, whereas that subject is not covered by the IAASB standards and is covered by a separate ASB standard (AU-C 806).

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
3311	Special Reports on Regulated Companies	AU sec. 544 <sup>21/</sup>	210 <sup>22/</sup>	800
3312	Reporting on Condensed Financial Statements and Selected Financial Data	AU sec. 552	810	810
4101	Responsibilities Regarding Filings under Federal Securities Statutes	AU sec. 711 <sup>23/</sup>	N/A	925
4102	Reviews of Interim Financial Information	AU sec. 722 <sup>24/</sup>	ISRE 2410 <sup>25/</sup>	930

<sup>21/</sup> AU sec. 544 is currently entitled, *Lack of Conformity With Generally Accepted Accounting Principles*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

<sup>22/</sup> Under PCAOB standards, the subject of reporting on financial statements prepared in accordance with a regulatory basis of accounting is covered in a separate standard (AS 3311). That subject is covered in the IAASB standard on agreeing to the terms of audit engagements (ISA 210) and in the ASB standard on financial statements prepared in accordance with special purpose frameworks (AU-C 800).

<sup>23/</sup> AU sec. 711 is currently entitled, *Filings Under Federal Securities Statutes*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

<sup>24/</sup> AU sec. 722 is currently entitled, *Interim Financial Information*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

<sup>25/</sup> In PCAOB standards, the subject of conducting a review of interim financial information is covered in AS 4102. Under IAASB standards, that subject is covered in their review standards (ISRE 2410). Reviewing interim financial information is covered by the ASB standards in AU-C 930.

<b>Proposed AS Reference</b>	<b>Title</b>	<b>Current PCAOB Reference (AU section or AS No.)</b>	<b>Analogous IAASB Standard (ISA)</b>	<b>Analogous ASB Standard (AU-C)</b>
6101	Letters for Underwriters and Certain Other Requesting Parties	AU sec. 634	N/A	920
6102	Reports on the Application of Accounting Principles	AU sec. 625	N/A	915
6103	Compliance Auditing Considerations in Audits of Recipients of Governmental Financial Assistance	AU sec. 801 <sup>26/</sup>	N/A	935

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<sup>26/</sup> AU sec. 801 is currently entitled, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*. The Board proposes to amend the title of this standard to clarify the subject of the standard without changing its substance.

## **Appendix 4 – Proposed Amendments to Rules 3101 and 3200T and PCAOB Auditing Standards**

### **I. Proposed Amendments to Rules of the Board**

#### **Rule 3101. Certain Terms Used in Auditing and Related Professional Practice Standards**

Rule 3101. Certain Terms Used in Auditing and Related Professional Practice Standards, is amended as follows:

In paragraph (b), the phrase "adopted in Rules 3200T, 3300T, 3400T, 3500T, and 3600T" is deleted.

#### **Rule 3200T. Interim Auditing Standards**

Rule 3200T. Interim Auditing Standards, is amended as follows:

- The letter "T" is removed from the reference to Rule 3200T.
- The word "Interim" is removed from the title of the rule.
- The text of the rule is replaced with the following:

In connection with the preparation or issuance of any audit report, a registered public accounting firm and its associated persons shall comply with all auditing standards adopted by the Board and approved by the SEC, including, to the extent not superseded or amended by the Board, AICPA Statements on Auditing Standards as in existence on April 16, 2003.

### **II. Proposed Amendments to PCAOB Auditing Standards**

This section presents certain proposed amendments to implement the Board's proposed reorganization of PCAOB auditing standards, specifically, amendments related to rescinding certain auditing standards; deleting certain appendices and exhibits to the SASs; and updating Auditing Standard No. 1. These amendments are discussed in Section III.A of this release.



Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*

Auditing Standard No. 1, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*, is amended as follows:

- a. Paragraphs 1 and 2 are deleted.
- b. Footnote 1 to paragraph 2 is deleted.
- c. In the first sentence of paragraph 3:
  - The word "Accordingly," is deleted.
  - The "i" in the first word "in" is capitalized.
  - The phrase "of the Board" is added after the phrase "interim standards."
  - The term "interim" is deleted.
- d. Paragraphs 4 and 5 are deleted.

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements*

Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements*, as amended, is amended as follows:

- a. In paragraph 4, the phrase "The general standards" is replaced with the phrase "The standards, AS 1010, AS 1011, and AS 1012."
- b. In footnote 6 to paragraph 4, the reference to "AU sec. 150, *Generally Accepted Auditing Standards*" is replaced with "AS 1010, *Training and Proficiency of the Independent Auditor*, AS 1011, *Independence*, and AS 1012, *Due Professional Care in the Performance of Work*."

Auditing Standard No. 16, *Communications with Audit Committees*

Auditing Standard No. 16, *Communications with Audit Committees*, is amended as follows:

Footnote 41 to paragraph 25 is deleted.

AU sec. 110, "Responsibilities and Functions of the Independent Auditor"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 110, "Responsibilities and Functions of the Independent Auditor," as amended, is amended as follows:

a. Paragraph .11 is added as follows:

.11 The auditor should be aware of and consider auditing interpretations applicable to his or her audit. If the auditor does not apply the auditing guidance included in an applicable auditing interpretation, the auditor should be prepared to explain how he or she complied with the provisions of the auditing standard addressed by such auditing guidance.

b. The following note is added after paragraph .11:

Note: The term "auditing interpretations," as used in this paragraph, refers to the publications entitled "Auditing Interpretation" issued by the AICPA's Auditing Standards Board as in existence on April 16, 2003, and in effect.

AU sec. 150, "Generally Accepted Auditing Standards"

SAS No. 95, "Generally Accepted Auditing Standards" (AU sec. 150, "Generally Accepted Auditing Standards"), as amended, is rescinded.

AU sec. 201, "Nature of the General Standards"

SAS No. 1, "Codification of Auditing Standards and Procedures" (AU sec. 201, "Nature of the General Standards"), is amended as follows:

AU sec. 201, "Nature of the General Standards," is rescinded.

AU sec. 210, "Training and Proficiency of the Independent Auditor"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 210 "Training and Proficiency of the Independent Auditor" (AU sec. 210, "Training and Proficiency of the Independent Auditor"), as amended, is amended as follows:

- a. In paragraph .01, the introductory phrase "The first general standard is:" is deleted.
- b. In the first sentence of paragraph .02, the phrase "This standard" is replaced with the phrase "The statement in the preceding paragraph."

AU sec. 220, "Independence"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 220 "Independence" (AU sec. 220, "Independence"), as amended, is amended as follows:

- a. In paragraph .01, the introductory phrase "The second general standard is:" is deleted.
- b. In the first sentence of paragraph .02, the phrase "This standard" is replaced with the phrase "The statement in the preceding paragraph."

AU sec. 230, "Due Professional Care in the Performance of Work"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 230 "Due Professional Care in the Performance of Work" (AU sec. 230, "Due Professional Care in the Performance of Work"), as amended, is amended as follows:

- a. In paragraph .01, the introductory phrase "The third general standard is:" is deleted.
- b. Footnote 1 to paragraph .01 is deleted.
- c. In the first sentence of paragraph .02, the phrase "This standard" is replaced with the phrase "The statement in the preceding paragraph."

AU sec. 316, "Consideration of Fraud in a Financial Statement Audit"

SAS No. 99, "Consideration of Fraud in a Financial Statement Audit" (AU sec. 316, "Consideration of Fraud in a Financial Statement Audit"), as amended, is amended as follows:

- a. Paragraphs .86 - .88 are deleted.
- b. Footnotes 5, 6, and 8, which are related to paragraphs .86 and .87, are deleted.

- c. Footnotes 1-11, which are related to paragraph .88, are deleted.

AU sec. 331, "Inventories"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 331 "Inventories" (AU sec. 331, "Inventories"), as amended, is amended as follows:

Footnote 3 to the heading before paragraph .14, "Inventories Held in Public Warehouses," is deleted.

AU sec. 332, "Auditing Derivative Instruments, Hedging Activities, and Investments in Securities"

SAS No. 92, "Auditing Derivative Instruments, Hedging Activities, and Investments in Securities" (AU sec. 332, "Auditing Derivative Instruments, Hedging Activities, and Investments in Securities"), as amended, is amended as follows:

- a. Footnote 1 to the title of the standard, "Auditing Derivative Instruments, Hedging Activities, and Investments in Securities," is deleted.
- b. Footnote 6 to paragraph .10 is deleted.

AU sec. 333, "Management Representations"

SAS No. 85, "Management Representations" (AU sec. 333, "Management Representations"), as amended, is amended as follows:

- a. Footnote 14 to paragraph .07 is deleted.
- b. The second sentence in item 1 of paragraph .17, "The auditor also should be aware that certain AICPA Audit Guides recommend that the auditor obtain written representations concerning matters that are unique to a particular industry." is deleted.

AU sec. 336, "Using the Work of a Specialist"

SAS No. 73, "Using the Work of a Specialist" (AU sec. 336, "Using the Work of a Specialist"), as amended, is amended as follows:

Within footnote 4 to paragraph .07.c., the parenthetical sentence is deleted.

AU sec. 337, "Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments"

SAS No. 12, "Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments" (AU sec. 336, "Inquiry of a Client's Lawyer Concerning Litigation, Claims, and Assessments"), as amended, is amended as follows:

- a. Within footnote 2 to paragraph .03, the first sentence is deleted.
- b. Exhibit I, AU sec. 337B and related footnotes are deleted.

AU sec. 350, "Audit Sampling"

SAS No. 39, "Audit Sampling" (AU sec. 350, "Audit Sampling"), as amended, is amended as follows:

- a. In the first sentence of paragraph .07, the phrase "referred to in the third standard of fieldwork" is deleted.
- b. The first sentence in paragraph .19 is deleted.

AU sec. 410, "Adherence to Generally Accepted Accounting Principles"

SAS No. 1, "Codification of Auditing Standards and Procedures" (AU sec. 410, "Adherence to Generally Accepted Accounting Principles"), as amended, is amended as follows:

AU sec. 410, "Adherence to Generally Accepted Accounting Principles," is rescinded.

AU sec. 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles"

SAS No. 69, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles" (AU sec. 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles"), as amended, is amended as follows:

Within footnote 1 to paragraph .04, the phrase "sections 150.04," is deleted.

AU sec. 504, "Association With Financial Statements"

SAS No. 26, "Association With Financial Statements" (AU sec. 504, "Association With Financial Statements"), as amended, is amended as follows:

- a. In paragraph .01:
  - The introductory phrase "The fourth standard of reporting is:" is deleted.
  - In the fourth sentence, the phrase "fourth reporting standard" is replaced with the phrase "preceding paragraph."
- b. In the first sentence of paragraph .02, the phrase "the fourth reporting standard" is replaced with the phrase "paragraph .01."
- c. In the second sentence of paragraph .05, the phrase "the fourth standard of reporting" is replaced with the phrase "paragraph .01."
- d. In paragraph .08:
  - In the first sentence, the phrase "The second general standard requires that" is deleted.
  - The quotation marks included in the first sentence are deleted.

AU sec. 508, "Reports on Audited Financial Statements"

SAS No. 58, "Reports on Audited Financial Statements" (AU sec. 508, "Reports on Audited Financial Statements"), as amended, is amended as follows:

- a. Within footnote 1 to paragraph .01, the second sentence is deleted.
- b. In paragraph .03:
  - The second sentence is deleted.
  - In the last sentence, the phrase "fourth reporting standard" is replaced with "requirements in paragraph .04."
- c. In paragraph .04, the introductory phrase "The fourth standard of reporting is as follows:" is deleted.

- d. In paragraph .05:
- In the first sentence, the phrase "fourth standard" is replaced with the phrase "requirements in paragraph .04."
  - In the second sentence, the phrase "the fourth reporting standard" is replaced with the phrase "paragraph .04."
  - In the third sentence, the phrase "fourth standard of reporting" is replaced with the phrase "requirements in paragraph .04."
- e. Footnote 6 to paragraph .08.h. is deleted.
- f. In paragraph .65:
- In the first sentence, the phrase "The fourth standard of reporting" is replaced with the phrase "Paragraph .04."
  - In the second sentence, the phrase "the fourth reporting standard" is replaced with the phrase "paragraph .04."

AU sec. 532, "Restricting the Use of an Auditor's Report"

SAS No. 87, "Restricting the Use of an Auditor's Report" (AU sec. 532, "Restricting the Use of an Auditor's Report"), as amended, is rescinded.

AU sec. 544, "Lack of Conformity With Generally Accepted Accounting Principles"

SAS No. 1, "Codification of Auditing Standards and Procedures" section 544 "Lack of Conformity With Generally Accepted Accounting Principles" (AU sec. 544, "Lack of Conformity With Generally Accepted Accounting Principles"), as amended, is amended as follows:

In the second sentence of paragraph .02, the phrase "first reporting standard" is replaced with the phrase "requirement in paragraph .08.h. of AS 3101, *Reports on Audited Financial Statements*."

AU sec. 558, "Required Supplementary Information"

SAS No. 52, "Omnibus Statement on Auditing Standards – 1987; Required Supplementary Information" (AU sec. 558, "Required Supplementary Information"), as amended, is amended as follows:

In paragraph .07.d., the phrase ", interpretations, guides, or statements of position" is replaced with the phrase "or interpretations."

AU sec. 623, "Special Reports"

SAS No. 62, "Special Reports" (AU sec. 623, "Special Reports"), as amended, is amended as follows:

In paragraph .12:

- In the second sentence, the phrase "first standard of reporting" is replaced with the phrase "requirement in paragraph .08.h. of AS 3101, *Reports on Audited Financial Statements*."
- In the second sentence, the term "ten" is deleted.
- In the third sentence, the phrase "The first standard of reporting" is replaced with the phrase "Paragraph .08.h. of AS 3101."

AU sec. 625, "Reports on the Application of Accounting Principles"

SAS No. 50, "Reports on the Application of Accounting Principles" (AU sec. 625, "Reports on the Application of Accounting Principles"), as amended, is amended as follows:

Within footnote 7 to paragraph .10.f., the first sentence is deleted.

AU sec. 634, "Letters for Underwriters and Certain Other Requesting Parties"

SAS No. 72, "Letters for Underwriters and Certain Other Requesting Parties" (AU sec. 634, "Letters for Underwriters and Certain Other Requesting Parties"), as amended, is amended as follows:

In paragraph .59, the reference "(see section 435, *Segment Information*)" is deleted.



AU sec. 722, "Interim Financial Information"

SAS No. 100, "Interim Financial Information" (AU sec. 722, "Interim Financial Information"), as amended, is amended as follows:

- a. In the second sentence of paragraph .01:
  - The word "three" is deleted.
  - The phrase "discussed in section 150, *Generally Accepted Auditing Standards*, paragraph .02," is deleted.
  - Footnote 1a is added after the term "standards":

<sup>1a/</sup> See AS 1010, *Training and Proficiency of the Independent Auditor*, AS 1011, *Independence*, and AS 1012, *Due Professional Care in the Performance of Work*.

- b. In Appendix C, the last sentence of item C2 to paragraph .56 is deleted.

AU sec. 801, "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance"

SAS No. 74, "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance" (AU sec. 722, "Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance"), as amended, is amended as follows:

- a. Footnote 5 to paragraph .02 is deleted.
- b. Footnote 12 to paragraph .12 is deleted.
- c. Footnote 14 to paragraph .16 is deleted.

AU sec. 901, "Public Warehouses-Controls and Auditing Procedures for Goods Held"

SAS No. 1, "Codification of Auditing Standards and Procedures" (AU sec. 901, "Public Warehouses-Controls and Auditing Procedures for Goods Held"), as amended, is amended as follows:

AU section 901, "Public Warehouses-Controls and Auditing Procedures for Goods Held," is rescinded.