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SUPPLEMENTARY MATERIAL

A Day In The Life Of An Auditor[1]

By Amy Fontinelle

If you like the idea of examining and attesting to a company's financial performance for a living, a career in auditing might be right for you. To help you decide, we've interviewed three auditors to show you what your workdays be like if you enter this profession.

Eric Wolf, Audit Manager, Demetrius Berkower (33 years old)

Audit manager Eric Wolf works for Demetrius Berkower, a regional accounting and consulting firm with offices in New Jersey, Los Angeles and the Cayman Islands. The firm provides accounting and auditing services to clients throughout the United States and has clients whose annual revenues range from several hundred thousand dollars to over $100 million.

Wolf is an audit manager in the firm's hedge-fund practice, so most of his 30-plus clients are hedge funds and other investment companies. Wolf previously worked at two of the larger accounting firms as an audit supervisor specializing in audits of nonprofit and health-care companies. Wolf arrives in the office around 9:00 am and begins his day by reviewing email and organizing his priorities based on regulatory and client deadlines. After communicating with his clients to obtain any additional information he needs, he performs audit procedures. He delegates certain tasks to staff to ensure that the work is performed efficiently.

Hedge funds must be audited to comply with Securities and Exchange Commission and other regulations as well as to satisfy investors. The audit report provides an opinion that the fund's financial statements are presented fairly in all material respects. Wolf learns about the valuation of the fund's investments and performs tests on them. He also examines the fees the hedge fund manager charges its investors and compares that amount to the amount described in the fund's organizational documents.

Wolf participates in client meetings to discuss audit and tax work, industry happenings and

[1] https://www.investopedia.com/articles/professionals/091313/day-life-auditor.asp#ixzz4ybSAcG6n

new accounting standards that are pertinent to the hedge fund industry and specifically to that client. The client updates Wolf and his colleagues on the hedge fund's performance and other business matters. He also attends internal staff meetings to go over work status and discuss clients' priorities. He has meetings with managers and partners to streamline internal processes and general documentation and to ensure that their audits are completed efficiently, effectively and on time. Often, Wolf participates in conference calls with potential hedge fund clients along with Maurice Berkower, the firm's lead hedge fund partner. They discuss the fund's structure and trading strategy and ask what services they are looking for. Wolf provides biographies of the firm and of the partner and manager who will be working on the job. They discuss the various aspects of the audit and negotiate pricing.

Wolf says the culture at Demetrius Berkower is very friendly. Getting time off for vacation is no problem as long as he gives ample notice and communicates his work status to his colleagues so they can assist his clients while he is away. Wolf, even when away, typically checks his email and voice mail. He works about 45 hours a week during the non-busy season, but from mid-January through April, he typically works 11-plus hours a day plus weekends. Much of this work overlaps with tax requirements, such as producing the hedge fund's Schedule K-1 for its investors. Wolf does not prepare tax returns, but he works closely with the tax department. Wolf particularly likes having the opportunity to work with many companies at the same time and get an overall picture of what they are doing. Even within the same industry, different hedge funds employ different trading strategies and styles. He says that every day offers something new and interesting.

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Lindsey Graves, Senior Accountant, EisnerAmper (26 years old)

Lindsey Graves, a Certified Public Accountant, has been with EisnerAmper, an accounting, consulting and tax-services firm, for four years. Graves began as an intern, then took a full-time staff position after graduation. After two years, she was promoted to senior accountant in the firm's hedge fund group. EisnerAmper works with more than 1,000 hedge funds, private equity funds and other fund entities, as well as nearly 100 broker-dealers serving investment banks and retail brokerages. If you like auditing but aren't sure you want to dedicate your days to it exclusively, a career as a CPA will allow you some variety. In addition to working on hedge-fund audits, Graves provides tax accounting, bookkeeping and fund services. "Because I am involved with multiple groups, no two days are exactly the same," she says.

The first thing Graves does when she comes into the office is check her email and voice mail. As a senior staff member, she is usually the main contact for clients, so when she receives a request from them, she decides if it's something she can handle herself, should delegate to staff, or should seek a manager's or partner's guidance on. She also responds to questions from the staff she supervises and completes requests from the managers and partners she works with.

Graves spends most of her day reviewing work prepared by staff. "This includes audit workpapers and testing procedures, financial statements, tax workpapers and completed returns, and various bookkeeping projects," she says. "I also spend time answering any questions from the staff while they prepare the work mentioned above," she adds. She then submits the reviewed work to her manager for another review and helps to finalize the audit or tax return and deliver it to the client. "I also serve as liaison between our team and the client when we have additional questions or items that need clarification," she says.

Once a week, Graves assists her firm's fund administration team with investor services. She also reviews check runs twice a month and supervises month-end closing activities for two clients that her firm performs back-office bookkeeping for. "Once the month has been closed, I review GAAP financials prepared by the staff on the engagement and send these to the client and their investors," she says. The financials are then used for monthly budgeting and regulatory filings. These financials are audited annually, and Graves is the main contact for the auditors, providing any reports or answers they need on the financials.

Graves typically works on about 15 audits and 30 tax returns each year. She says the variety keeps things interesting, because she sees different issues and challenges from each client. During tax season, Graves works from 7:30 am until 10:00 pm and also comes into the office on Saturdays for about five hours. The rest of the year, she works from 7:30 am until 4:30 pm, which lets her have a personal life. The off-season is a good time for vacation, and Graves is allowed eight weeks of paid time off per year.

Graves says that while her colleagues who are audit seniors spend 80% to 90% of their time on auditing work, she dedicates a third of her time to auditing. Her auditing activities focus on testing existence and valuation for the securities her hedge-fund clients hold. She also tests investor capital

activity and related party transactions such as management fees and the performance allocation paid to the general partner. She compares the percentages charged to each investor with those stated in the fund's agreement to ensure their accuracy. For her SEC-registered hedge-fund clients, she prepares the audited financial statements that the funds must file with the SEC within 120 days of year end. These clients also use their audited financial statements to report to current investors and to inform potential new investors.

Daniel R. Montes, Internal Audit Manager, Large Retailer (36 years old)

Internal audit manager Daniel Montes has spent the last eight years as an auditor or consultant and has held many positions, from associate to manager. He currently works for a large retailer as an internal auditor. Montes says he is like the person who helps you clean up your house before your parents come home. "Before the external auditors come for their annual review, internal audit spends a year testing controls to ensure operating effectiveness," he says. Internal auditors also have a greater ability than external auditors to perform operational assessments outside of finance, he adds. Montes arrives at the office at 8:00 am and spends his first hour checking voice mail and email. From 9:00 am to 10:00 am, he meets with the audit director to go over departmental projects and news. He delves into his projects starting at 10:00 am, which typically includes meeting with various departmental personnel to collaborate on solutions to problems and risks identified by management or his department. In a typical day, the projects he works on might include process improvements, internal control identification and testing, reviews of policies and procedures, audit planning, external audit assistance, reviewing work papers, inventory counts, IT audits and, rarely, fraud investigations.

Montes spends a lot of time on operational audits and reviews, which examine how things work and the risks involved in operations. These audits take a month or longer, and the end result is an audit report with recommendations for management's consideration. This work often requires significant collaboration with various departments and different levels of senior and executive management. "People in audit get such great exposure to the company as a whole," Montes says. "This combined with face time with management can really help your career prospects." After an hour lunch break, Montes spends two hours attending meetings similar to his morning meetings. Then from 3:00 pm to 5:00 pm, Montes digests and documents the information gathered during his meetings. "This is where MS Office skills are critical," he says. "I spend a lot of time working

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on process flow, advanced data analytics and writing reports." From 5:00 pm to 6:30 pm, he wraps up any open items and prepares for the following day.

In weekly meetings that last from half an hour to two hours, he updates his firm's vice president and director on audit projects, their status, and any issues, risks or new projects. Twice a week, he attends change-control board meetings related to system and process changes for the company's information technology general controls such as user access, security and operations. Any and all changes made to programs, systems or procedures must be well documented, tested and approved by a board of peers to mitigate risks related to unintended consequences of change, Montes explains. Possible changes might include code changes, hardware and software upgrades, new system implementations and policy and procedure changes.

Quarterly, he prepares presentations to update executive management on change-control audits, which entail verification of development and testing activities, checking for requisite approvals throughout the process, and post-implementation reviews to ensure that all policies and procedures for change management have been adhered to. Once a year, he works with external auditors for his firm's annual audit. He assists in risk identification and in producing an audit plan. Montes most enjoys his job's problem-solving aspect. Identifying risks specific to his company and its different operational areas requires great collaborative and analytical skills, he says. He works an average of 50 hours a week and says his company's culture is very fast paced and high performing. As a relatively new employee, he gets 2.5 weeks of vacation.

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Bottom Line

Whether you work for one of the Big Four a smaller regional firm or a single company, a career in auditing requires not just a deep understanding of regulations and financials but also the ability to work effectively with others. If you can excel in these areas and have the endurance to get through tax season, a career in auditing might be right for you.

Auditor liability: 'fair and reasonable' punishment?[2]

The issue of auditor's liability is included in the syllabus for Paper P7, *Advanced Audit and Assurance*. Candidates need to understand and apply the principles of establishing liability in a particular situation, as well as being able to discuss the ways in which liability may be limited. The specific learning outcomes can be found in the *Syllabus* and *Study Guide*.

This article focuses on the issue of auditor's liability in the UK, and therefore contains references to the UK Companies Act 2006, as well as UK-specific legal cases. Candidates other than those attempting the UK adapted paper are not expected to have UK-specific knowledge. The concepts discussed in this article however are broadly relevant and will help candidates to understand why this is an important issue within the auditing profession.

Over the past two decades the bill for litigation settlements of Big Four audit firms alone has run into billions of dollars. Examples include Deloitte's 2005 settlement of $250m regarding its audit of insurance company Fortress Re and PwC's $229m settlement in the lawsuit brought by the shareholders of audit client Tyco in 2007.

Auditor liability is increasingly concerning, both in terms of audit quality and the reputation of the profession but also in terms of the cost to the industry and the barriers this creates to competition within the audit market.

This article considers the current legal position of auditors in the UK. It also discusses the impact on the competitiveness of the audit market and some of the methods available to limit exposure to expensive litigation.

TYPES OF LIABILITY

Auditors are potentially liable for both criminal and civil offences. The former occur when individuals or organisations breach a government imposed law; in other words criminal law governs relationships between entities and the state. Civil law, in contrast, deals with disputes between individuals and/or organisations.

Criminal offences

[2] http://www.accaglobal.com/uk/en/student/exam-support-resources/professional-exams-study-resources/p7/technical-articles/auditor-liability.html#

Like any individual or organisation auditors are bound by the laws in the countries in which they operate. So under current criminal law auditors could be prosecuted for acts such as fraud and insider trading.

Audit is also subject to legislation prescribed by the Companies Act 2006. This includes many sections governing who can be an auditor, how auditors are appointed and removed and the functions of auditors.

One noteworthy offence from the Companies Act is that of 'knowingly, or recklessly causing a report under section 495 (auditor's report on company's annual accounts) to include any matter that is misleading, false or deceptive in a material particular' (s.507).

This means that auditors could be prosecuted in a criminal court for either knowingly or recklessly issuing an inappropriate audit opinion.

Civil offences

There are two pieces of civil law of particular significance to the audit profession; contract law and the law of tort. These establish the principles for auditor liability to clients and to third parties, respectively.

Under contract law parties can seek remedy for a breach of contractual obligations. Therefore shareholders can seek remedy from an auditor if they fail to comply with the terms of an engagement letter. For example; an auditor could be sued by the shareholders, which was the case in the PwC settlement to Tyco shareholders referred to above.

Under the law of tort auditors can be sued for negligence if they breach a duty of care towards a third party who consequently suffers some form of loss.

CASE HISTORY

The application of the law of tort in the auditing profession, and the way in which auditors seek to limit their exposure to the ensuing liabilities, has been shaped by a number of recent landmark cases. The most notable of these are Caparo Industries Plc (Caparo) v Dickman (1990) and Royal Bank of Scotland (RBS) vs Bannerman Johnstone MacLay (Bannerman) (2002).

In the first case Caparo pursued the firm Touche Ross (who later merged to form Deloitte & Touche) following a series of share purchases of a company called Fidelity plc. Caparo alleges that the

purchase decisions were based upon inaccurate accounts that overvalued the company. They also claimed that, as auditors of Fidelity, Touche Ross owed potential investors a duty of care. The claim was unsuccessful; the House of Lords concluded that the accounts were prepared for the existing shareholders as a class for the purposes of exercising their class rights and that the auditor had no reasonable knowledge of the purpose that the accounts would be put to by Caparo.

It was this case that provided the current guidance for when duty of care between an auditor and a third party exists. Under the ruling this occurs when:

- the loss suffered is a reasonably foreseeable consequence of the defendant's conduct
- there is sufficient 'proximity' of relationship between the defendant and the pursuer, and
- it is 'fair, just and reasonable' to impose a liability on the defendant.

In the second case RBS alleged to have lost over £13m in unpaid overdraft facilities to insolvent client APC Ltd. They claimed that Bannerman had been negligent in failing to detect a fraudulent and material misstatement in the accounts of APC. The banking facility was provided on the basis of receiving audited financial statements each year.

In contrast to Touche Ross, who had no knowledge of Caparo's intention to rely upon the audited financial statements, Bannerman, through their audit of the banking facility letter of APC, would have been aware of RBS's intention to use the audited accounts as a basis for lending decisions. For this reason it was upheld that they owed RBS a duty of care. The judge in the Bannerman case also, and crucially, concluded that the absence of any disclaimer of liability to third parties was a significant contributing factor to the duty of care owed to them.

JOINT AND SEVERAL LIABILITY

The guidance for when an auditor may be liable, either under criminal or civil law, appears to be clear and largely uncontroversial. The same cannot be said of the nature of the fines and settlements, which remains a hotly debated issue.

Before discussing this, it is worth making the point that auditors are only found liable in cases where they have breached their responsibilities to perform work with professional competence and due

care and to act independently of their clients. There is therefore little argument that they should face the penalties of their own failures and that parties that have suffered as a result should be able to seek adequate compensation.

The main criticism of the current system is that the penalties incurred by the audit profession are unfairly high. This arises from the civil law principle of 'joint and several liability' enforced in the UK (as well as the US). This means that even if there are multiple culpable parties in a negligence case the plaintiff may pursue any one of those parties individually for the entire damages sought.

So for example, if a director fraudulently misstates the financial statements, the company's management fail to detect this because of poor controls and the auditor performs an inadequate audit leading to the wrong audit opinion, it would be fair to say all three parties are at fault. Shareholders seeking compensation for any consequent losses, however, could try and recover the full loss from only one of those three parties.

Given that many of the cases arise when companies are facing financial difficulties, as with the examples cited above, and that any individuals involved are unlikely to possess sufficient assets to settle the liabilities, the audit firm, who may be asset rich and possess professional indemnity insurance, is often the sole target for financial compensation.

Regardless of the perceived fairness, this situation does create a number of challenges for the profession, namely:

1. The increasing cost to the industry, firstly from defending and settling claims but also from spiralling insurance premiums.
2. The potential for consequent increases in audit fees to cover these rising costs.
3. The overall lack of sufficient insurance cover in the sector in comparison to the size of some of the claims.(Reference 1)
4. The lack of competition in the audit market for large (listed) entities.

With regard to the final point, auditor liability is not the sole reason for the lack of competition in the audit of listed entities but it is a significant barrier to entering that market. Currently only the Big Four firms have adequate insurance and asset cover to be able to audit an extensive range of listed clients. It may simply be too risky for smaller firms to take on such clients. Given that settlements against the Big Four have topped $300m, one large negligence case could easily bankrupt a mid-tier firm.

MANAGING EXPOSURE TO LIABILITY

Audit quality

There are a number of ways in which audit firms can manage their exposure to claims of negligence. Perhaps the most obvious is not being negligent in the first place. In practical terms this means rigorously applying International Standards on Auditing and the Code of Ethics for Professional Accountants and paying close attention to the terms and conditions agreed upon in the engagement letter.

Of course, improvements in quality controls in comparison to current levels would not happen without investment from the audit firms. With pressure to reduce audit fees it is unlikely that firms will want to commit to further increases in cost unless it is perceived that such action will lead to long-term reductions in legal and insurance costs.

Disclaimers of liability

One of the outcomes of the Bannerman case was the potential exposure of auditors to litigation from third parties to whom they have not disclaimed liability. As a result it became common to include a disclaimer of liability to third parties in the wording of the audit report.

Disclaimers may not entirely eliminate liability to third parties but they do reduce the scope for courts to assume liability to them. It should be noted that whilst this should reduce the threat of litigation in the UK, this protection may not extend overseas because the disclaimer is based on a ruling from a UK court case. It also provides no protection from the threat of litigation from clients under contract law.

There are also critics of the 'Bannerman Paragraph,' who believe that its presence devalues the audit report. They argue that the disclaimer acts as a barrier to litigation, which reduces the pressure to perform good quality audits in the first place. It is plausible that this reduces the credibility of the audit report in the eyes of the reader.

Liability Limitation Agreements

Since 2008 auditors have been permitted, under the terms of the Companies Act, to use Liability Limitation Agreements (LLAs) to reduce the threat of litigation from clients. LLAs are clauses built into the terms of an engagement that impose a cap on the amount of compensation that can be

sought from the auditor. These must be approved by shareholders annually and be upheld by judges as 'fair and reasonable' when cases arise.

Whilst this may sound straightforward it has created problems, including how to define the cap (ie as a fixed monetary amount, a multiple of the fee, proportionate liability on a case by case basis). It is also difficult to decide what is fair and reasonable when setting the terms of the engagement because this is done before any potential litigation, or the scale of potential litigation, is known to the auditor and the client. This is therefore open to the interpretation of the courts. At which point the level of compensation may as well lie at the discretion of the courts in the first place.

Another problem lies with the shareholders; what motivation do they have for agreeing to terms that could potentially reduce their ability to recover any losses they incur due to the negligence of other parties? Once again this may be perceived as a barrier to litigation that audit firms can hide behind, reducing the pressure to perform good quality audits.

CURRENT POSITION

All the methods described contribute to the management of auditor liability but it seems none of them have provided the protection the profession needs to become truly competitive. Remember, the profession is not asking for exemption from litigation, rather that it does not shoulder the entire burden of litigation where others may also be to blame.

In June 2008, the European Commission recommended that member states find a way to limit auditor liability to try and encourage competition in the audit of listed companies and to protect EU capital markets. Given the different legal systems involved the recommendation leaves it to member states to determine an appropriate method but suggests that the solution:

- should not apply in cases of misconduct
- would be ineffective if it did not extend to third parties, and
- should ensure fair compensation of damaged parties.

Whilst no firm decision has been reached in the UK there are an increasing number of advocates for a 'proportional' system of liability replacing the current 'joint and several' one. Under this proposal the audit firm would accept their proportion of the blame in a negligence case and would pay that proportion of the compensation. This system, as introduced in Australia in 2004, would ensure a fair

outcome for the plaintiff without placing the entire financial burden upon the audit profession. It would also meet the EC recommendations listed above.

At the time of writing no solution has been agreed upon in the UK and the debate continues.

CONCLUSIONS

There is an increasing trend of litigation that is costing the audit profession billions of pounds. The potential costs and risks of auditing large, listed businesses may now be prohibitive for any firm of willing auditors outside of the Big Four.

Auditors can reduce their exposure to litigation but there is a rising groundswell of opinion that the audit profession has, for too long, borne the brunt of penalties for misdemeanours shared by other culpable parties. These penalties are prohibitive to competition, which may be damaging to capital markets.

There is widespread agreement that this situation must change. Unfortunately, any decision on the nature and timing of such a change appears to be a long way off. Until such time the audit profession will simply have to bear the burden of liability.

Simon Finley is a teaching fellow at the Aston University Accounting Group

Reference 1 *Auditing: Commission Issues Recommendation on Limiting Audit Firms' Liability*, European Commission, 6 June 2008

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Why was the accountant responsible for auditing ZZZZ Best unable to determine that the company was engaged in a Ponzi scheme?[3]

By Investopedia | June 15, 2015 — 7:45 AM EDT

ZZZZ Best was a company which was started by Barry Jay Minkow as a front for a Ponzi scheme that went undetected for several years. The company was able to use fraudulent means to qualify for listing on Nasdaq. Minkow, who had a controlling stake of 53% after the listing, had stock worth over $100 million when the scheme was uncovered and the company collapsed in 1987. Questions emerged about of why the company's auditors, Ernst & Whinney, were not able to determine that the company was involved in a Ponzi scheme.

Fake Documentation

Ernst & Whinney, the third-largest auditing firm in the United States at the time, was investigated by the House Subcommittee on Oversight and Investigations. The company told the committee it had not detected fraudulent activities when it took over auditing work from the previous auditor, a Mr. Greenspan.

The Ernst & Whinney accountant responsible for auditing ZZZZ Best was unable to detect the Ponzi activities because Minkow and the company's other executives engaged in deliberate falsification of facts about the company's financial status. When the company was audited for listing, Minkow and his colleagues made thousands of fake cash flow documents to create the impression that an insurance restoration business was real and profitable. They also showed fake rented offices that were purportedly the operating offices of the fake company, which the books of accounts indicated accounted for 86% of ZZZZ Best's value.

The Auditors Walked Away

Ernst & Whinney received a tip from one of the company's staff that an insurance restoration contract worth over $7 million was fake. Following this discovery, the audit firm resigned from its auditing role. If the auditors had continued with their auditing work instead of walking away, they would have uncovered more evidence of the Ponzi scheme.

Tied by Law

[3] https://www.investopedia.com/ask/answers/061515/why-was-accountant-responsible-auditing-zzzz-best-unable-determine-company-was-engaged-ponzi-scheme.asp#ixzz4ybSYoeka

Leroy Gardner, a director of accounting and auditing at Ernst & Whinney, said in 1988 that the firm was barred from revealing suspicions about fraud at ZZZZ Best by a California law that prohibited outside auditors from revealing information without the client's permission or a subpoena.

SEC Approves PCAOB Expansion of Auditor's Report[4]

Baker Botts LLP

USA October 27 2017

On October 23, 2017, the SEC approved the PCAOB's new audit standard and related amendments to other auditing standards that will require audit firms to provide new information about the audit, including disclosure regarding critical audit matters ("CAMs"), auditor tenure and other information intended to clarify the auditor's role and responsibilities. The new standard will have a significant impact on companies, auditors and audit committees. Early engagement is recommended to comply with the new standard, portions of which will affect calendar-year companies for year-end audits of 2017.

The new standard, AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, is the culmination of a PCAOB project to enhance the usefulness of the audit report that began in 2010. In approving the standard earlier this week, the SEC balanced the benefits of more specific information about the auditor's opinion against concerns that the disclosure of CAMs may result in increased litigation and chill dialogue between auditors and audit committees. Mindful of these concerns, the PCAOB intends to use its planned phased implementation of required CAMs communication to monitor any unintended consequences of the new standard.

Critical Audit Matters

The most significant change to the auditor's report imposed by the new standard requires auditors to identify CAMs arising from the current period's audit or state that the auditor determined that there are no CAMs. A CAM is any matter that was communicated or required to be communicated to the audit committee and that:

- relates to accounts or disclosures that are material to the financial statements; and
- involves "especially challenging, subjective, or complex auditor judgment."

To determine whether a matter involves especially challenging, subjective or complex auditor judgment, AS 3101 provides factors to be considered along with those specific to the audit:

[4] https://www.lexology.com/library/detail.aspx?g=48ef837f-e779-474d-811f-d61092172775

- the auditor’s assessment of the risks of material misstatement;
- the degree of auditor judgment related to areas in the financial statements that involved the application of significant judgment or estimation by management, including estimates with significant measurement uncertainty;
- the nature and timing of significant unusual transactions and the extent of audit effort and judgment related to these transactions;
- the degree of auditor subjectivity in applying audit procedures to address the matter or in evaluating the results of those procedures;
- the nature and extent of audit effort required to address the matter, including the extent of specialized skill or knowledge needed or the nature of consultations outside the engagement team regarding the matter; and
- the nature of audit evidence obtained regarding the matter.

The audit report must identify each CAM, describe the principal considerations that led the auditor to designate the matter as a CAM and how the CAM was addressed in the audit and the relevant financial statement accounts or disclosures the CAM impacts.

Other Changes to the Auditor’s Report

The new standard requires other changes to the auditor’s report, many of which provide additional information about the auditor or are intended to make the report easier to read:

- auditor tenure – a statement disclosing the year in which the auditor began serving consecutively as the company’s auditor;
- independence – a statement regarding the requirement for the auditor to be independent;
- addressee – the auditor’s report will be addressed to the company’s shareholders and board of directors or equivalents (additional addressees are also permitted);
- amendments to basic elements – certain standardized language in the auditor’s report has been changed, including adding the phrase "whether due to error or fraud," when describing the auditor’s responsibility under PCAOB standards to obtain reasonable assurance about whether the financial statements are free of material misstatement; and

- standardized form of the auditor's report – the opinion will appear in the first section of the auditor's report, and section titles have been added to guide the reader.

Effectiveness

The new standard, except for the portions related to CAMs, will be effective for all audits of fiscal years ending on or after December 15, 2017. The new rule will therefore apply to the 2017 year-end audits of calendar-year companies. The portions of the new rule related to CAMs will be effective for audits of fiscal years ending on or after June 30, 2019 for large accelerated filers and for audits of fiscal years ending on or after December 15, 2020 for all other companies to which the requirements apply. Among other exceptions, the communication of CAMs in the auditor's report is not required for audits of emerging growth companies.

Next Steps

Companies and audit committees should discuss the new standard with their auditors to understand any changes in the timing or substance of the audit process necessary for implementation. Early dialogue regarding CAMs, include notice timelines and sample disclosure, will provide companies and audit committees time to consider their own disclosure of these matters prior to the effectiveness of the standard.

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- **For further reading on this topic, you can visit**
  https://pcaobus.org/News/Releases/Pages/auditors-report-standard-adoption-6-1-17.aspx

- **You can check samples of different types of *Auditor's Report* on**
  http://app1.hkicpa.org.hk/professionaltechnical/assurance/example_auditors/SME-FRS-Jul2009.pdf