



Public Company Accounting Oversight Board

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PROPOSED AUDITING STANDARD –  
REFERENCES IN AUDITORS' REPORTS TO  
THE STANDARDS OF THE PUBLIC COMPANY  
ACCOUNTING OVERSIGHT BOARD

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) PCAOB Release No. 2003-021  
) November 12, 2003  
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) PCAOB Rulemaking  
) Docket Matter No. 010  
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Summary: The Public Company Accounting Oversight Board (the "Board" or "PCAOB") has proposed an Auditing Standard, *References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board*. If adopted, registered public accounting firms would include in their reports on audits of financial statements and other engagements performed pursuant to the Board's auditing and related professional practice standards a reference to the standards of the Public Company Accounting Oversight Board.

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 may also be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 010 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on December 4, 2003.

Board

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## RELEASE

### A. Proposed Auditing Standard

The Sarbanes-Oxley Act of 2002 (the "Act") authorized the PCAOB to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires auditors to comply with all applicable auditing and related professional practice standards established by the PCAOB. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the American Institute of Certified Public Accountants' ("AICPA") Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003 (the "interim standards").

The Board's interim standards – as did the profession's generally accepted auditing standards that preceded the Board's standards – require auditors to make reference in their audit and review reports to the standards that they followed in conducting the audits and reviews. To conform the language of auditors' reports to the requirement that auditors comply with PCAOB standards, the Board's proposed Auditing Standard would require auditors' reports to refer to "the standards of the Public Company Accounting Oversight Board." An appendix to the proposed Auditing Standard provides illustrative reports on an audit of financial statements and a review<sup>1/</sup> of interim financial information of a public company.

In addition, to make the Board's interim standards consistent with the Act and Rule 3100, the proposed Auditing Standard provides that all references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, would mean "the standards of the Public Company Accounting Oversight Board." The proposed Auditing Standard would be effective for auditors' reports dated on or after the later of January 1, 2004 or on the 10th day after final approval of the standard.

The Act and the Board's rules already require the auditor to comply with the Board's standards; therefore, the Board believes that the changes proposed by this

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<sup>1/</sup> Reviews of the interim financial information are integrally related to audits of financial statements. See generally Statement on Auditing Standards ("SAS") No. 100, *Interim Financial Information*. For example, SAS No. 100 makes clear that the general standards on auditing discussed in SAS No. 95 "are applicable to a review of interim financial information."

## **RELEASE**

standard merely conform the references in the interim standards and in auditors' reports to the standards that the Act and Rule 3100 require auditors to use in connection with preparing and issuing audit and related reports on the financial statements of issuers.

Under the Act, this proposed Auditing Standard, if adopted by the Board, will not be effective unless it is approved by the Securities and Exchange Commission. Until such approval, auditors should adhere to the reporting requirements in the interim standards.

### **B. Opportunity for Public Comment**

The Board will seek comment on the proposed Auditing Standard for a 21-day period. Interested persons are encouraged to submit their views to the Board. Written comments should be sent to Office of the Secretary, PCAOB, 1666 K Street, N.W., Washington, D.C. 20006-2803. Comments may also be submitted by e-mail to [comments@pcaobus.org](mailto:comments@pcaobus.org) or through the Board's Web site at [www.pcaobus.org](http://www.pcaobus.org). All comments should refer to PCAOB Rulemaking Docket Matter No. 010 in the subject or reference line and should be received by the Board no later than 5:00 p.m. EST on December 4, 2003.

The Board will carefully consider all comments received. Following the close of the comment period, the Board will determine whether to adopt a final Auditing Standard, with or without amendments. Any final Auditing Standard adopted will be submitted to the Securities and Exchange Commission for approval. Pursuant to Section 107 of the Act, proposed rules of the Board do not take effect unless approved by the Commission.

**RELEASE**

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On the 12th day of November, in the year 2003, the foregoing was, in accordance with the bylaws of the Public Company Accounting Oversight Board,

ADOPTED BY THE BOARD.

/s/ J. Gordon Seymour

J. Gordon Seymour  
Acting Secretary

November 12, 2003

APPENDIX –

Proposed Auditing Standard – References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board

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**Appendix – Proposed Auditing Standard**

**November 12, 2003**

**AUDITING AND RELATED PROFESSIONAL PRACTICE STANDARDS**

*Proposed Auditing Standard—*

***REFERENCES IN AUDITORS' REPORTS TO THE  
STANDARDS OF THE PUBLIC COMPANY  
ACCOUNTING OVERSIGHT BOARD***

## RELEASE

### STATEMENT OF AUTHORITY

The Public Company Accounting Oversight Board (the "Board") is a private-sector, non-profit corporation created by the Sarbanes-Oxley Act of 2002 (the "Act") to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, fair, and independent audit reports.

The Board has adopted Rule 3100 to require all registered public accounting firms to adhere to the Board's auditing and related professional practice standards (including interim professional standards) in the audits of public companies. Any registered public accounting firm that fails to adhere to the Board's standards is subject to disciplinary proceedings in accordance with Section 105 of the Act and the Board's rules.

Reference in the Board's standards to "the auditor" means a registered public accounting firm or an associated person of such a firm as defined in the Act and the Board's rules, unless specifically stated otherwise.

Reference in the Board's standards to the AICPA Professional Standards refers to those professional standards as they existed on April 16, 2003, the date the Board adopted them as interim standards.

The Board has proposed Rule 3101 regarding the use of certain terms in the Board's standards.\* The Board's standards use the words "must," "shall," and "is required" to indicate unconditional obligations. The auditor must accomplish obligations of this type in all cases in which the circumstances exist to which the obligation applies. The auditor's performance of these obligations is necessary to the accomplishment of the audit. The standards use the word "should" to indicate obligations that are presumptively mandatory. The auditor must comply with the requirements of this nature specified in the Board's standards unless the auditor can demonstrate, by verifiable objective and documented evidence, that alternative actions he or she followed in the circumstances were sufficient to achieve the objectives of the standard and serve adequately to protect the interests of investors and further the preparation of informative, fair, and independent audit reports. The Board uses the words "may," "might," "could," or other terms and phrases to describe actions and procedures that auditors have a professional obligation to consider. Matters described in this fashion require the auditor's attention and understanding. How and whether the auditor implements these matters in an audit will depend on the exercise of professional judgment in the circumstances. Additionally, appendices to the Board's standards are

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\* See PCAOB Release No. 2003-018, *Proposed Rule Regarding Certain Terms Used in Auditing and Related Professional Practice Standards*.

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an integral part of the standard and carry the same authoritative weight as the body of the standard.

This Statement of Authority is an integral part of the Board's auditing and related professional practice standards.

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## RELEASE

### **References in Auditors' Reports to the Standards of the Public Company Accounting Oversight Board**

1. The Sarbanes-Oxley Act of 2002 authorized the Public Company Accounting Oversight Board (PCAOB) to establish auditing and related professional practice standards to be used by registered public accounting firms. PCAOB Rule 3100, *Compliance with Auditing and Related Professional Practice Standards*, requires the auditor to comply with all applicable auditing and related professional practice standards of the PCAOB.
2. The Board has adopted as interim standards, on an initial, transitional basis, the generally accepted auditing standards, described in the AICPA Auditing Standards Board's Statement on Auditing Standards No. 95, *Generally Accepted Auditing Standards*, in existence on April 16, 2003. Therefore, for purposes of any engagement performed in accordance with the applicable auditing and related professional practice standards of the PCAOB, references in the interim standards to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, and standards established by the AICPA, mean the standards of the PCAOB.
3. Accordingly, whenever the auditor is required by the interim standards to make reference in a report to generally accepted auditing standards, U.S. generally accepted auditing standards, auditing standards generally accepted in the United States of America, or standards established by the AICPA, the auditor must instead refer to "the standards of the Public Company Accounting Oversight Board."
4. This auditing standard is effective for auditors' reports dated on or after the later of January 1, 2004 or the tenth day after final approval of this auditing standard.

**RELEASE**

**APPENDIX**

**Illustrative Reports**

The following is an illustrative report on an audit of financial statements:

Report of Independent Registered Public Accounting Firm

We have audited the accompanying balance sheets of X Company as of December 31, 20X3 and 20X2, and the related statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 20X3. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of [at] December 31, 20X3 and 20X2, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X3, in conformity with accounting principles generally accepted in the United States of America.

[Signature]

[Date]

## RELEASE

The following is an illustrative report on a review of interim financial information:

### Report of Independent Registered Public Accounting Firm

We have reviewed the accompanying [*describe the interim financial information or statements reviewed*] of X Company as of September 30, 20X3 and 20X2, and for the three-month and nine-month periods then ended. This (these) interim financial information (statements) is (are) the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial (statements) for it (them) to be in conformity with accounting principles generally accepted in the United States of America.

[*Signature*]

[*Date*]