



The Next Generation Audit Opinion

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The AICPA significantly changed their standard audit opinion in 2012 for U.S. nonpublic entities. The International Auditing and Assurance Standards Board (“IAASB”) substantially updated their international audit reports in early 2015 and the Public Company Accounting Oversight Board (“PCAOB”) recently presented proposed wide changes to their U.S. public company audit reports in late 2016. In a sophisticated game of leapfrog, the AICPA is again considering an overhaul of the auditor’s standard report for all U.S. nonpublic audits in order to converge to many of the IAASB changes and certain of the PCAOB changes.

A working draft of the U.S. audit opinion was already prepared in August 2016 and is anticipated to be distributed as an exposure draft sometime later this year. Some of the new and changed features of the drafted U.S. audit opinion, which is subject to change, are as follows:

- The opinion paragraph will be modified and will appear first.
- A basis of opinion paragraph, which is not currently required on unmodified opinions, will always be required and is expanded to meet the engagement specifics.
- A declaration that the auditor is independent with reference to the code of ethics.
- A responsibility statement from management and the auditor related to going concern for each and every opinion.
- An inclusion that those charged with governance are part of managements’ responsibilities and are

charged with overseeing the entity’s financial reporting process.

- A separate section on selected key audit matters and difficulties (which is highly controversial as this is deemed to be proprietary in nature) along with the risk based assessment of the audit. Key audit matters and difficulties are currently required to be communicated but privately to those charged with governance.
- Expanded language about auditor’s responsibilities, including fraud, reasonable assurance, and a description of materiality. Materiality is currently only clearly defined in audit standards; however, it is also anticipated that a clear definition for disclosure and accounting principles generally accepted in the United States will be issued in the near term.
- Additional responsibilities in group and component related audits.

Although subject to change, much of the above will likely survive in some manner. As a result, whatever changes that are enacted will no longer allow the audit opinion to be a **perfunctionary** process. It will require significant thought and time, is far more transparent, and will align more with the IAASB opinions (but not identical), while creating a new sensitivity balance between privacy and disclosing proprietary information about both the audit process and the client’s controls.

Any questions you may have about this, contact Eric Lerner at elerner@gettrymarcus.com.



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