

## SUMMARY COMPARISON BETWEEN THE IAASB AND THE US PCAOB STANDARDS

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This publication has been developed to summarize the key similarities and differences between the IAASB's [new and revised Auditor Reporting standards](#) issued in January 2015 (IAASB Standards) and the PCAOB Standard, AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion*, included in the PCAOB's June 2017 release, PCAOB Release No. 2017-001 [The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion and Related Amendments to PCAOB Standards](#).<sup>1</sup>

Key Feature	IAASB Standards	PCAOB Standard	Similarities / Differences
<b>Key Audit Matters (KAM) / Critical Audit Matters (CAM)</b>			
What is a KAM/ CAM?	KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.	A CAM is any matter arising from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: <ul style="list-style-type: none"> <li>• Relates to accounts or disclosures that are material to the financial statements, and</li> <li>• Involved especially challenging, subjective, or complex auditor judgment.</li> </ul>	The frameworks for determining KAM/CAM are substantially similar and start with those matters communicated or required to be communicated to those charged with governance. There are also commonalities in the underlying criteria regarding matters to be communicated, such that many of the same matters would be communicated.

<sup>1</sup> The PCAOB Standard is subject to the approval of the US Securities and Exchange SEC Commission.

Key Feature	IAASB Standards	PCAOB Standard	Similarities / Differences
			<p>Both standards require KAM/CAM to be communicated in relation to the audit of the current period. However, the PCAOB provides examples of circumstances when it may be appropriate to communicate CAM in relation to a prior period. These examples are not contemplated by the IAASB Standards.</p> <p>The IAASB and PCAOB both indicate that generally there would be at least one KAM/CAM to communicate. However, if there are no KAM/CAM identified, a statement to this effect must be included in the auditor's report.</p> <p>The IAASB's Standards indicate that KAM may not be communicated if the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The PCAOB acknowledges that the auditor is not expected to provide information about the company that has not been made publicly available by the company, unless such information is necessary to describe the principal considerations that led the auditor to determine that the matter is a CAM or how it was addressed in the audit.</p>
Communication in the auditor's report	The description of a KAM is always required to include a reference to the	For each CAM communicated in the auditor's report the auditor must: <ul style="list-style-type: none"> <li>Identify the CAM;</li> </ul>	The requirements and guidance regarding what is communicated in the

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regarding KAM/CAM	<p>related disclosures, if any, in the financial statements and address:</p> <ul style="list-style-type: none"> <li>Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM; and</li> <li>How the matter was addressed in the audit.</li> </ul> <p>Application material explains the type of information that may be communicated.</p>	<ul style="list-style-type: none"> <li>Describe the principal considerations that led the auditor to determine that the matter is a CAM;</li> <li>Describe how the CAM was addressed in the audit; and</li> <li>Refer to the relevant financial statement accounts and disclosures that relate to the CAM.</li> </ul> <p>Guidance explains the type of information that may be communicated.</p>	auditor's report regarding KAM/CAM are similar.
Communication of KAM/CAM when there is a modified opinion	In circumstances when there is a disclaimer of opinion, the auditor's report does not include KAM.	In circumstances when there is a disclaimer of opinion or an adverse opinion, the requirements in relation to the communication of CAM do not apply.	Both standards require the communication of KAM/CAM when there is a qualified opinion. In addition, under both standards, KAM/CAM are not communicated when there is a disclaimer of opinion. However, when ISA 701 <sup>2</sup> applies, the IAASB requires the communication of KAM when the auditor expresses an adverse opinion, whereas under the PCAOB Standard the requirement to communicate CAM does not apply when there is an adverse opinion.
Documentation	Documentation is required of the matters that required significant auditor attention as determined in accordance with paragraph 9 of ISA 701, and the rationale for the auditor's determination as to	For each matter arising from the audit of the financial statements that:	Although the nature of the documentation is somewhat different, both the IAASB and PCAOB require auditors to document important judgments in determining the

<sup>2</sup> ISA 701, [Communicating Key Audit Matters in the Independent Auditor's Report](#)

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	whether or not each of these matters is a KAM in accordance with paragraph 10 of the standard.	<ul style="list-style-type: none"> <li>• Was communicated or required to be communicated to the audit committee; and</li> <li>• Relates to accounts or disclosures that are material to the financial statements;</li> </ul> <p>the auditor must document whether or not the matter was determined to be a CAM (i.e., involved especially challenging, subjective, or complex auditor judgment) and the basis for such determination.</p>	matters to be communicated as KAM/CAM.
<b>Other Enhancements to the Auditor's Report</b>			
Ordering of opinion and basis for opinion	The Opinion section is required to be presented first, followed by the Basis for Opinion section, unless law or regulation prescribes a different placement.	The Opinion section is required to be presented first, followed by the Basis for Opinion section.	The ordering of these sections is the same.
Relevant ethical requirements and independence	In the Basis for Opinion section, there is identification of the relevant ethical requirements and a statement indicating that the auditor is independent and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.	In the Basis for Opinion section, a statement is required that indicates the auditor is a public accounting firm registered with the PCAOB (United States) and is required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the US Securities and Exchange Commission (SEC) and the PCAOB.	Although the provisions are similar in concept, the IAASB requires an affirmative statement that the auditor is independent and has fulfilled the other ethical responsibilities in accordance with the relevant ethical requirements.
Basis for modified opinion or	When the auditor modifies the opinion, the basis for the modification is included in the Basis for Opinion section. A KAM	When there is a departure from an unqualified opinion, the substantive reasons for the opinion are included in	Although the explanation is located in a different section of the report under the two standards, both the IAASB and

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departure from an unqualified opinion	cannot be a substitute for a modified opinion.	one or more separate paragraphs immediately following the opinion paragraph of the auditor's report. Additional information is also required to be included in these paragraphs in the case of an adverse opinion or disclaimer of opinion. A CAM cannot be a substitute for a modified opinion.	PCAOB require the auditor to describe the basis for the modified opinion or departure from an unqualified opinion and the placement of this explanation is similar in the context of the overall auditor's report.
Responsibilities of the auditor, and of management and those charged with governance	There are expanded descriptions of the responsibilities of management and those charged with governance, as well as the auditor's responsibilities and the key features of an audit. These are located in separate sections of the auditor's report.	There have been enhancements to certain standardized language, including reference to "whether due to fraud or error" when describing the auditor's responsibilities under PCAOB standards to obtain reasonable assurance that the financial statements are free of material misstatement.	The description of the responsibilities of the auditor, management and those charged with governance are not as detailed under the PCAOB Standard. Also, under the PCAOB Standard, the responsibilities are included in the Basis for Opinion section, rather than in separate sections.
Name of the engagement partner	Disclosure of the name of the engagement partner is required to be included in the auditor's report for audits of financial statements of listed entities.	Disclosure of the name of the engagement partner and other accounting firms participating in the audit is required to be summarized for all entities that are audited and reported by the audit firm on <a href="#">PCAOB Form AP, Auditor Reporting of Certain Audit Participants</a> . The auditor may include this information in the auditor's report for an individual engagement but is not required to do so.	For audits of listed entities under both the IAASB and the PCAOB standards, the name of the engagement partner's name is required to be made available, although the manner in which the information is provided is different.  The IAASB does not require disclosure of information about other accounting firms participating in the audit; the PCAOB requirements are more extensive in this regard.
Auditor's tenure	There are no requirements regarding the disclosure of the auditor's tenure.	A statement containing the year the auditor began serving consecutively as the company's auditor is required to be included in the auditor's report.	Although the disclosure of the auditor's tenure is not required under IAASB standards, such disclosure may be

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EOM, OM and explanatory paragraphs	EOM and OM paragraphs are required in certain circumstances and are otherwise permitted at the auditor's discretion. If ISA 701 applies, a matter may only be communicated as an EOM or OM if it has not been determined to be a KAM. However, in circumstances when an EOM or OM paragraph is required by the ISAs <sup>3</sup> and the matter is also a KAM, it is communicated in both sections.	Emphasis paragraphs are permitted, although no requirement for such paragraphs exists; however, these paragraphs may not serve as a substitute for CAM.  There is a continued requirement to include explanatory language (or an explanatory paragraph) in certain circumstances. <sup>4</sup> CAM are not a substitute for required explanatory paragraphs. However, there could be situations in which a matter meets the definition of a CAM and also requires an explanatory paragraph, such as going concern. In these situations, both the explanatory paragraph and CAM would be required. The auditor may, however, include the description of the matter in both the explanatory paragraph and the CAM section with a cross-reference between them, or may include the required communication in the explanatory paragraph with a cross-reference in the CAM section to the explanatory paragraph.	required by law or regulation in certain jurisdictions.  The standards are different in terms of the matters that are required to be included in EOM, OM or explanatory paragraphs. There also are some differences in the presentation in the auditor's report when the matter addressed by the EOM, OM or explanatory paragraph is also a KAM/CAM.

<sup>3</sup> See Appendix 2 of ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, regarding ISAs that require the auditor to include an EOM or OM paragraph.

<sup>4</sup> See paragraph .18 of Proposed AS 3101.

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<b>Other Standards</b>			
Going concern	<p>When a material uncertainty related to going concern exists:</p> <ul style="list-style-type: none"> <li>If the disclosure in the financial statements is adequate, a separate section is required in the auditor's report that draws attention to those disclosures, under the heading "Material Uncertainty Related to Going Concern".</li> <li>If the disclosures in the financial statements are inadequate, the auditor is required to express a modified opinion and describe the issues related to going concern in the Basis for Opinion section of the auditor's report.</li> </ul>	<p>When there is substantial doubt about the company's ability to continue as a going concern and:</p> <ul style="list-style-type: none"> <li>The auditor determines that the disclosures in the financial statements are adequate, an explanatory paragraph is included in the auditor's report.<sup>5</sup> The standard notes that CAM are not a substitute for the required explanatory paragraphs, although if a matter is both a CAM and an explanatory paragraph, the auditor may include the matter in both sections and/or cross-reference in those sections.</li> <li>The auditor determines that the disclosures are inadequate, the auditor is required to express a modified opinion.</li> </ul>	<p>The principles of how issues related to going concern are addressed in the auditor's report are similar, as they are communicated in a separate section of the auditor's report, or if the disclosures are inadequate, the auditor expresses a modified opinion.</p> <p>Under the PCAOB Standard if matters related to going concern are also determined to be CAM, it may be addressed in both the CAM section and the explanatory paragraph.</p> <p>The IAASB Standards provide for specific disclosure of the responsibilities of management and the auditor with respect to going concern.</p>
Other information	<p>When ISA 720 (Revised)<sup>6</sup> applies, a separate section relating to other information is required in the auditor's report that includes:</p> <ul style="list-style-type: none"> <li>An explanation of the responsibilities of management</li> </ul>	<p>An explanatory paragraph in the auditor's report is required when the other information in a document containing audited financial statements is materially inconsistent with information appearing in</p>	<p>The standards are similar in that they require the communication of circumstances when there is there is an uncorrected material misstatement of the other information or the other information is materially inconsistent with the</p>

<sup>5</sup> See paragraph .18(a) of AS 3101.

<sup>6</sup> ISA 720 (Revised), [The Auditor's Responsibilities Relating to Other Information](#)

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	<p>and the auditor in respect of other information, including the auditor's work effort.</p> <ul style="list-style-type: none"> <li>• Identification of the other information obtained by the auditor or, for listed entities, to be obtained.</li> <li>• In relation to other information obtained prior to the date of the auditor's report, either a statement that the auditor has concluded that there is no uncorrected material misstatement of the other information or, if such an uncorrected material misstatement exists, a statement that describes the uncorrected material misstatement.</li> </ul>	<p>the financial statements.<sup>7</sup> The standard notes that CAM are not a substitute for the required explanatory paragraph.</p>	<p>information appearing in the financial statements.</p> <p>However, the IAASB standards require more extensive disclosure about the responsibilities of management and the auditor, as well as the identification of the other information.</p>
<b>Effective Date</b>			
Effective date	Periods ending on or after December 15, 2016	<p>Phased effective dates<sup>8</sup>:</p> <ul style="list-style-type: none"> <li>• All provisions other than CAM - audits for fiscal years ending on or after December 15, 2017</li> <li>• Communication of CAM: <ul style="list-style-type: none"> <li>○ Audits for fiscal years ending on or after June 30, 2019, for large accelerated filers.</li> </ul> </li> </ul>	The effective dates are different.

<sup>7</sup> See paragraph .18(l) of AS 3101.

<sup>8</sup> The PCAOB Standard is subject to the approval of the US Securities and Exchange Commission.



Key Feature	IAASB Standards	PCAOB Standard	Similarities / Differences
		<ul style="list-style-type: none"> <li>○ Audits for fiscal years ending on or after December 15, 2020, for all other companies to which the requirements apply.</li> </ul> <p>Early adoption is permitted.</p>	

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