
STAFF QUESTIONS AND ANSWERS

AUDITING INTERNAL CONTROL OVER FINANCIAL REPORTING

January 21, 2005

Summary: Staff questions and answers set forth the staff's opinions on issues related to the implementation of the standards of the Public Company Accounting Oversight Board ("PCAOB" or "Board"). The staff publishes questions and answers to help auditors implement, and the Board's staff administer, the Board's standards. The statements contained in the staff questions and answers are not rules of the Board, nor have they been approved by the Board.

The following staff question and answer related to PCAOB Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements* ("Auditing Standard No. 2"), was prepared by the Office of the Chief Auditor. The staff questions and answers related to Auditing Standard No. 2 are sequentially numbered upon issuance. Staff questions and answers numbered 1-36 are available on the Board's web site at <http://www.pcaobus.org>. Additional questions should be directed to Laura Phillips, Associate Chief Auditor (202/207-9111; phillipsl@pcaobus.org) or Greg Fletcher, Assistant Chief Auditor (202/207-9203; fletchergr@pcaobus.org).

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Temporary Transitional Rule 3201T

Q37. The Board's temporary transitional rule, Rule 3201T, *Temporary Transitional Provision for Auditing Standard No. 2, "An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements,"* provides that, notwithstanding Auditing Standard No. 2, in connection with the audit of an issuer that does not file management's annual report on internal control over financial reporting

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in reliance on the SEC's order,^{1/} an auditor need not date the auditor's report on management's assessment of the effectiveness of internal control over financial reporting with the same date as the auditor's report on the issuer's financial statements,^{2/} as long as the date of the auditor's report on management's assessment is later than the date of the report on the financial statements.

Paragraph 14 of PCAOB Auditing Standard No. 3, *Audit Documentation* ("Auditing Standard No. 3"), defines the "report release date" as the date the auditor grants permission to use the auditor's report in connection with the issuance of the company's financial statements. Paragraph 15 of Auditing Standard No. 3 requires that a complete and final set of audit documentation be assembled for retention as of a date not more than 45 days after the report release date (defined as the "documentation completion date").

When an auditor is engaged to perform an integrated audit of the financial statements and internal control over financial reporting under Auditing Standard No. 2, the auditor may prepare a single set of integrated audit documentation for the engagement.

If an auditor that has been engaged to perform an integrated audit of the financial statements and internal control over financial reporting under Auditing Standard No. 2 releases his or her report on the financial statements before releasing his or her report on management's assessment of internal control over financial reporting in reliance on Rule 3201T, does this action create two separate documentation completion dates—one for the auditor's report on the financial statements and one for the auditor's report on management's assessment?

A37. No, there would not be two separate documentation completion dates if the auditor releases his or her report on management's assessment of internal control in reliance on Rule 3201T within the time period described by the SEC's order.^{3/} In normal circumstances, an auditor engaged to perform an integrated

^{1/} See Exchange Act Release No. 50754 (Nov. 30, 2004).

^{2/} See, e.g., Paragraph 171, Auditing Standard No. 2.

^{3/} The SEC's order, among other things, requires an issuer relying on the exemption in the order to file all of the other information required in Form 10-K within the

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audit of the financial statements and internal control over financial reporting under Auditing Standard No. 2 would release his or her reports on the financial statements and management's assessment of internal control over financial reporting on the same date and, as Auditing Standard No. 2 requires, both reports would be dated the same. Therefore, normally, there would be a single documentation completion date associated with the completion of an engagement performed under Auditing Standard No. 2.

In the circumstance in which the auditor releases his or her report on the financial statements *before* releasing his or her report on management's assessment of internal control over financial reporting in reliance on Rule 3201T, the 45-day period specified in paragraph 15 of Auditing Standard No. 3 that determines the documentation completion date for the auditor's report on the financial statements begins on the earlier of (1) the release of the auditor's report on management's assessment of internal control over financial reporting or (2) the date that management was required, under the SEC's order, to file an amendment to its Form 10-K that was to include the omitted management and auditor reports on internal control.

75 day period specified in the form and complete its Form 10-K by filing an amendment to include the omitted management and auditor reports on internal control not later than 45 days after the end of that 75 day period. See Exchange Act Release No. 50754 (Nov. 30, 2004) for further information.