### PCAOB on Reporting on Internal Control in an Integrated Audit (11/15 ~ Study Text)

**REVISED:** Existing sample report at the end of study guide “Sample Combined Audit Report on Financial Statements” has been replaced with updated formatted text in the course. Replacement did not appear in print.

**ADDED:** A sample report (LSN #165 PCAOB Combined Unqualified Report on FS IC for Integrated Audit “Report on Independent Registered Public Accounting Firm”) has been added to the end of study guide in the course. Addition did not appear in print.

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**REVISED SAMPLE REPORT:**

**Report of Independent Registered Public Accounting Firm**

To the shareholders and the board of directors of W Company

*Opinions on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying balance sheets of W Company (the "Company") as of December 31, 20X8 and 20X7, and the related statements of [titles of the financial statements, e.g., income, comprehensive income, stockholders' equity, and cash flows] for each of the years in the three-year period ended December 31, 20X8, and the related notes [and schedules] (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 20X8, based on [Identify control criteria, for example, "criteria..."].
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 20X8 and 20X7, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 20X8 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 20X8, based on [Identify control criteria, for example, "criteria established in Internal Control - Integrated Framework: (20XX) issued by COSO"].

Basis for Opinion

The Company’s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying [title of management’s report]. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are 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 Securities and Exchange Commission and the PCAOB. We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in
the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters [if applicable]
NEW SAMPLE REPORT:

Sample Combined Audit Report on Financial Statements and on the Effectiveness of Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

(Introductory paragraph)

We have audited the accompanying balance sheets of ABC Company as of December 31, 20X2 and 20X1, and the related statements of income, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 20X2. We have also audited ABC Company's internal control over financial reporting as of December 31, 20X2, based on (Identify control criteria, e.g., “criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)” ). ABC Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying (title of management's report). Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

(Scope paragraph)

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

(Definition paragraph)
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

(Inherent limitations paragraph)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(Opinion paragraph)

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X2 and 20X1, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 20X2 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, ABC Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 20X2, based on (identify control criteria, for example, “criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)”).

(Signature)

(City and State or Country)

(Date)