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## LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

### *PPC’s Guide to PCAOB Audits*

#### Thirty-first Edition (April 2021)

##### Highlights of this Edition

The following are some of the important new features of the 2021 Edition of *PPC’s Guide to PCAOB Audits*:

- **New Estimates Practice Aid.** This edition of the *Guide* includes a new practice aid, “Significant Estimates Identification and Retrospective Review” (PCA-CX-3.6), that revises and expands the former estimates checklist to assist you with appropriately identifying and documenting accounting estimates and the required procedures under AS 2501 (Revised).
- **Impact of COVID-19 on Auditing and Accounting.** The effects of the COVID-19 pandemic have had a significant impact on the operations of companies of all sizes across numerous industries, which in turn have significantly increased your audit risk. To help you assess and respond to these risks of material misstatement, your *Guide* includes a new practice aid designed to be used as a reference tool for identifying risks related to COVID-19 and as a repository of factors to consider for relevance to your audit in the current evolving work environment.
- **Recent PCAOB and SEC Developments.** As an auditor of public companies, you know it is critical to stay current with the latest developments at the PCAOB and SEC. Your *Guide* has been updated for recent activities at the PCAOB and SEC that can affect your upcoming audits. We’ve incorporated insights from recent PCAOB activities, including relevant findings from recent PCAOB firm inspections, analyses of the recent implementation of the inclusion of critical audit matters in auditors’ reports, and the recent updates to the PCAOB’s independence requirements. For the SEC, we’ve given you a heads-up on certain recent developments and publications that may be useful to your clients and audits, including recent changes in certain disclosure requirements.
- **Updated Disclosure Checklists.** Why risk your reputation by not using the most current disclosure checklists available? We’ve updated the disclosure checklists for new disclosures required by FASB authoritative literature and applicable SEC requirements.

In addition to these featured items, your *Guide* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Throughout the <i>Guide</i>	<ol style="list-style-type: none"> <li>1. Added references to new practice aid PCA-CX-3.6, “Significant Estimates Identification and Retrospective Review,” which may be used to document the identification and retrospective review performed for significant estimates.</li> <li>2. Added references to new practice aid PCA-CX-6.6, “COVID-19 Audit Considerations.”</li> <li>3. Made minor editorial revisions and updates to the status of various existing PCAOB and FASB standards projects</li> </ol>	<p>Throughout</p> <p>Throughout</p> <p>Throughout</p>

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Overview	1. Added a discussion regarding the determination and reporting of critical audit matters for audits of nonpublic entities performed using PCAOB standards.	Paragraph 101.4
CHAPTER 2 Preliminary Engagement Activities	1. Updated the Independence Requirements section throughout to incorporate relevant independence requirements of both the PCAOB and the SEC. 2. Added independence guidance related to SEC's amendments to Rule 2-01 adopted in Release No. 33-10876, <i>Qualifications of Accounts</i> .	Section 202 Paragraphs 202.78–202.90
CHAPTER 3 Risk Assessment Procedures and Planning	1. Incorporated relevant cybersecurity observations from the PCAOB's <i>Spotlight: Staff Outlook for 2021 Inspections</i> publication, published in April 2021. 2. Added discussions related to recent cybersecurity-related publications, including the SEC's <i>Cybersecurity: Ransomware Alert</i> and the Center for Audit Quality (CAQ)'s <i>Understanding Cybersecurity and the External Audit in the COVID-19 Environment</i> , both of which were issued in July 2020.	Paragraph 303.40 Paragraphs 303.44–303.46
CHAPTER 4 Management's Responsibility for Internal Control	1. Updated the section on COSO thought papers to incorporate recently issued papers, including COSO's <i>Blockchain and Internal Control: The COSO Perspective</i> .	Paragraphs 402.62–402.63
CHAPTER 5 Auditing Internal Control Over Financial Reporting	1. Incorporated relevant cybersecurity observations from the PCAOB's <i>Spotlight: Staff Outlook for 2021 Inspections</i> publication, published in April 2021.	Paragraph 501.16
CHAPTER 7 Substantive Procedures and Documentation	1. Expanded the discussion on testing the completeness of the population of journal entries.	Paragraph 706.19
CHAPTER 8 General Procedures and Summary Documentation	1. Updated the discussion on expectations for upcoming PCAOB inspections related to accounting estimates, based upon the PCAOB's outlook publications for 2021 inspections.	Paragraph 807.19
CHAPTER 9 Reporting and Other Auditing Considerations	1. Expanded the discussion on PCAOB staff guidance related critical audit matters to incorporate recently issued resources. 2. Added illustrative explanatory paragraph related to the evaluation of an entity's ability to continue as a going concern.	Paragraphs 905.10–905.11 Appendix 9A-3
CHAPTER 10 Other SEC and PCAOB Matters	1. Added a discussion related to SEC Releases No. 33-10786, <i>Amendments to Financial Disclosures about Acquired and Disposed Businesses</i> and No. 33-10825, <i>Modernization of Regulation S-K Items 101, 103, and 105</i> , including discussion related to resources provided by the SEC to assist with the adoption of the amendments in these releases. 2. Added a discussion on the SEC-issued <i>Accelerated Filer and Large Accelerated Filer Definitions: A Small Entity Compliance Guide</i> .	Paragraphs 1002.63–1002.65 Paragraph 1002.73

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	3. Updated the exhibit that outlines the scaled requirements of Regulation S-K for smaller reporting companies to incorporate amendments in SEC Release No. 33-10825.	Exhibit 10-4
	4. Updated the discussions on Management's Discussion and Analysis requirements to incorporate the amendments in SEC Release No. 33-10890.	Paragraphs 1003.28–1003.31
	5. Added a discussion on SEC Release No. 34-90679, <i>Disclosure of Payments by Resource Extraction Issuers</i> , which was issued by the SEC in December 2020.	Paragraph 1003.71
	6. Updated the discussion on recent PCAOB inspection-related publications to incorporate insights and key areas of inspection focus outlined in <i>PCAOB's Spotlight: Staff Outlook for 2021 Inspections</i> .	Paragraphs 1005.38–1005.51
SECTION PCA-CL Confirmation and Correspondence Letters	1. Significantly modified the Benefit Plan Confirmations and Letters.	PCA-CL-11.1 and PCA-CL-11.2
SECTION PCA-AP Audit Programs	1. Expanded the audit procedures related to related parties, significant unusual transactions, and undisclosed related parties, relationships, or transactions.	PCA-AP-2 and PCA-AP-2A
	2. Added a practical consideration on proposed ASU, <i>Leases (Topic 842)—Targeted Improvements</i>	PCA-AP-7A
	3. Added a practical consideration for the issuance of the new edition of the Audit and Accounting Guide (AAG), <i>Special Considerations in Auditing Financial Instruments</i> .	PCA-AP-8
	4. Added a practical consideration on proposed ASU, <i>Business Combinations (Topic 805)—Accounting for Contract Assets and Contract Liabilities from Contracts with Customers</i> .	PCA-AP-8A
	5. Added a practical consideration for auditing PPP loans.	PCA-AP-11
	6. Added a practical consideration for the issuance of ASC 2020-06, <i>Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity</i> .	PCA-AP-11
	7. Added a practical consideration discussing the evaluation of realizability of a deferred tax asset.	PCA-AP-12
SECTION PCA-IR Interim Review Practice Aids	1. Updated the disclosure checklist, where applicable, through ASU 2021-03.	PCA-IR-5
SECTION PCA-CX Checklists and Practice Aids	1. Added a new practice aid, "Significant Estimates Identification and Retrospective Review."	PCA-CX-3.6

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	2. Added a new resource practice aid, "COVID-19 Audit Considerations."	PCA-CX-6.6
	3. Expanded the discussion in the instructions for identified risks/assertions affected, significant risk, significant audit area, and linkage/comments.	PCA-CX-7.1
	4. Added the risk of incorrect acceptance as a percentage in the sample size calculation risk factors table.	PCA-CX-8.2
	5. Updated the checklist for disclosure requirements of recently issued professional accounting standards and SEC disclosure requirements through ASU 2021-03.	PCA-CX-13.1 and PCA-CX-13.3