

Guidance to Recent Changes to Auditor's Reports

The Public Company Accounting Oversight Board (the "PCAOB") recently issued staff guidance¹ providing direction for implementing the recently adopted changes to the auditor's report.² The staff guidance provides, among other things, an annotated auditor's report³ reflecting the new changes, as well as illustrative examples for the calculation of auditor tenure.

The new rules require that auditors of most public companies communicate in their audit report any critical audit matters, or CAMs, arising from the current period's audit, or state that no CAMs exist. To be considered a CAM, the matter must have arisen from the audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex auditor judgment. For each matter that meets prong (1), the auditor must document whether or not the matter was determined to be a CAM and the basis for that determination.

The auditor report changes, other than those relating to CAMs, will become effective for audits for fiscal years ended on or after December 15, 2017, and the changes relating to the reporting of CAMs will become effective for large accelerated filers for fiscal years ending on or after June 30, 2019, and for all other filers for fiscal years ending on or after December 15, 2020.

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If you have any questions about the issues addressed in this memorandum or if you would like a copy of any of the materials mentioned, please do not hesitate to call or email Bradley J. Bondi at 202.862.8910 or bbondi@cahill.com; Charles A. Gilman at 212.701.3403 or cgilman@cahill.com; Kimberly Petillo-Décossard at 212.701.3265 or kpetillo-decossard@cahill.com; John Schuster at 212.701.3323 or jschuster@cahill.com; or Kaitlyn Pasco at 212.701.3859 or kpasco@cahill.com.

¹ See PCAOB Staff Guidance – Changes to the Auditor's Report Effective for Audits of Fiscal Years Ending on or After December 15, 2017 (December 4, 2017), available at <https://pcaobus.org/Standards/Documents/2017-12-04-Auditors-Report-Staff-Guidance.pdf>.

² For more information regarding the new changes to the auditor's report, please see our memorandum from November 2, 2017 available [here](#).

³ The annotated auditor's report from the staff guidance is attached hereto as Exhibit A.

Exhibit A

Staff Guidance
December 4, 2017
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Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of X Company

Addressee

Opinion on the Financial Statements

Opinion Section

We have audited the accompanying balance sheets of X Company (the "Company") as of December 31, 20X2 and 20X1, the related statements of [titles of the financial statements, e.g., income, comprehensive income, stockholders' equity, and cash flows], for each of the three years in the period ended December 31, 20X2, and the related notes [and schedules] (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of [a] December 31, 20X2 and 20X1, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 20X2, in conformity with [the applicable financial reporting framework].

Basis for Opinion

Basis for Opinion Section

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements 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.

Auditor Independence

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. [The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.]

ICFR Explanatory Language, if applicable

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters [if applicable]

CAMs, when effective

[Signature]

We have served as the Company's auditor since [year]

Auditor Tenure

[City and State or Country]

[Date]