

It's a Matter of Opinion... Changes to Auditor's Reports for Audits of Private Funds and Investment Advisors

By Lori Ehleben

This article was originally published in BBD's Investment Company Notebook on July 2, 2019.

Non-public entities, including private funds and investment advisors, will likely see changes to Auditor's Reports, or the Opinion, included beginning with December 2020 audited financial statements.

In May 2019, The Auditing Standards Board of the American Institute of Certified Public Accountants issued a new Statement on Auditing Standards, [SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements](#), "which is effective for periods ending on or after December 15, 2020. Early implementation of the standard is not permitted.

Key changes to look for in your new standard

Auditor's Report:

- Affirmation of the auditor's independence and adherence to relevant ethical requirements
- Management's requirement to evaluate, and the auditor's responsibility to assess, the entity's ability to continue as a going concern
- Further explanation of "reasonable assurance" provided by the auditor
- Auditor's responsibility to communicate certain matters with those charged with governance
- A separate section to address other (regulatory) reporting responsibilities, if applicable

See here for a [sample standard report](#) under the new standards, with changes highlighted.

Bottom Line: *The changes are designed to provide more useful information to management and the users of the financial statements without requiring additional resources from management or the auditor.*

New option for the Auditor's Report, available at your request:

In some cases, management may wish to provide the users of their financial statements an opportunity to enhance their understanding of the audit process, including areas where the auditor devoted significant attention. This option adds greater transparency to the audit. In these instances, your auditor can be engaged to identify and communicate key audit matters in the Auditor's Report at the request of management of a private fund or investment advisor. Key audit matters are defined in SAS No. 134 as "Those matters that, in the auditor's professional judgment, were of most significance in the audit of financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance."

While your auditor, once engaged, would be responsible for identifying the key audit matters, some considerations for these key audit matters would be:

- Areas of higher assessed risk of material misstatement.
- Components in the financial statements that involve significant management judgment, including accounting estimates.
- The effect on the audit of significant events or transactions that occurred during the period.

Bottom Line: *The key audit matter disclosure in the Auditor's Report is optional and would only be added if the auditor is engaged to do so by a client. Determining and reporting on key audit matters would require additional audit procedures.*

About the Author

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