



Agenda Item 2D

Additional Amendments to Various Sections in Statement on Auditing Standards No. 122, Statements on Auditing Standards: Clarification and Recodification, as Amended

(Boldface Italics denotes new language. Deleted text is in strikethrough)

AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards

[No proposed amendments to paragraphs .01-.A48. Paragraph .A49-.A50 are provided for contextual purposes only. There are no proposed amendments to these paragraphs.]

Inherent Limitations of an Audit

.A49 The auditor is not expected to, and cannot, reduce audit risk to zero and cannot, therefore, obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because inherent limitations of an audit exist, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. The principal inherent limitations of an audit arise from

- the nature of financial reporting;
- the nature of audit procedures; and
- the need for the audit to be conducted within a reasonable period of time and so as to achieve a balance between benefit and cost.

The Nature of Financial Reporting

.A50 The preparation and fair presentation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and a range exists of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of variability that cannot be eliminated by the application of additional

auditing procedures. For example, this is often the case with respect to certain accounting estimates that are dependent on predictions of future events. Nevertheless, GAAS require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and to related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments.¹⁵

¹⁵ See section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, and section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**.

[No further proposed amendments to section 200]

AU-C section 220, Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards

[No proposed amendments to paragraphs .01-.A22. Paragraphs .A23-.A24 are provided for contextual purposes only. There are no proposed amendments to these paragraphs.]

Engagement Quality Control Review

Completion of the Engagement Quality Control Review Before Releasing the Auditor's Report (Ref: par. .21c)

.A23 Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant findings or issues to be promptly resolved to the engagement quality control reviewer's satisfaction.

.A24 *Completion of the engagement quality control review* means the completion by the engagement quality control reviewer of the requirements in paragraph .22 and, when applicable, compliance with paragraph .23. Documentation of the engagement quality control review may be completed after the report release date as part of the assembly of the final audit file. Section 230 establishes requirements and provides guidance in this regard.¹¹

¹¹ [Footnote omitted for purposes of this proposed SAS]

.A25 When the engagement quality control review is completed after the auditor's report is dated and identifies instances where additional procedures or additional evidence is necessary, the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with section 700, *Forming*

an Opinion and Reporting on Financial Statements, or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.

[No further proposed amendments to section 220]

AU-C section 240, Consideration of Fraud in a Financial Statement Audit

[No proposed amendments to paragraphs .01-.A58. Paragraphs .A59-.A60, and .A62 are provided for contextual purposes only. There are no proposed amendments to these paragraphs.]

Consideration of Identified Misstatements (Ref: par. .35-.37)

.A59 Because fraud involves incentive or pressure to commit fraud, a perceived opportunity to do so, or some rationalization of the act, an instance of fraud is unlikely to be an isolated occurrence. Accordingly, misstatements, such as numerous misstatements at a specific location even though the cumulative effect is not material, may be indicative of a risk of material misstatement due to fraud.

.A60 The implications of identified fraud depend on the circumstances. For example, an otherwise insignificant fraud may be significant if it involves senior management. In such circumstances, the reliability of evidence previously obtained may be called into question because there may be doubts about the completeness and truthfulness of representations made and the genuineness of accounting records and documentation. There may also be a possibility of collusion involving employees, management, or third parties.

.A61 Section 450, *Evaluation of Misstatements Identified During the Audit*, ~~and~~ section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, address the evaluation and disposition of misstatements and the effect on the auditor's opinion in the auditor's report.

.A62 Section 580, *Written Representations*, addresses obtaining appropriate representations from management in the audit. In addition to acknowledging its responsibility for the financial statements, it is important that, irrespective of the size of the entity, management acknowledges its responsibility for internal control designed, implemented, and maintained to prevent and detect fraud.

[No further proposed amendments to section 240]

AU-C section 330, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor in accordance with section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and to evaluate the audit evidence obtained in an audit of financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, addresses the auditor's responsibility to form an opinion on the financial statements based on the evaluation of the audit evidence obtained.

[No further proposed amendments to section 330]

AU-C section 450, Evaluation of Misstatements Identified During the Audit

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to evaluate the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, addresses the auditor's responsibility in forming an opinion on the financial statements based on the evaluation of the audit evidence obtained. The auditor's conclusion, required by section 700 **or section 703**, takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements, in accordance with this section. Section 320, *Materiality in Planning and Performing an Audit*, addresses the auditor's responsibility to appropriately apply the concept of materiality in planning and performing an audit of financial statements.

[No proposed amendments to paragraphs .02-.06. Paragraphs .07-.09 are provided for contextual purposes only. There are no proposed amendments to these paragraphs.]

Communication and Correction of Misstatements

.07 The auditor should communicate on a timely basis with the appropriate level of management all misstatements accumulated during the audit. The auditor should request management to correct those misstatements. (Ref: par. .A6-.A8)

.08 If, at the auditor's request, management has examined a class of transactions, account balance, or disclosure and corrected misstatements that were detected, the auditor should perform additional audit procedures to determine whether misstatements remain. (Ref: par. .A9-.A11)

.09 If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor should obtain an understanding of management's reasons for not making the

corrections and should take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement.² (Ref: par. .A12–.A15)

² Paragraph .14 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or **paragraph .25 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.**

[No proposed amendments to paragraphs .10–.A5)

Communication and Correction of Misstatements (Ref: par. .07–.09)

[No proposed amendments to paragraphs .A6–.A11)

.A12 Section 700 **and section 703** requires the auditor to evaluate whether the financial statements are presented fairly, in all material respects, in accordance with the requirements of the applicable financial reporting framework.⁹ This evaluation includes consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments, which may be affected by the auditor’s understanding of management’s reasons for not making the corrections (see section 700).¹⁰

⁹ Paragraph .13 of section 700, **and paragraph .24 of section 703, as applicable.**

¹⁰ Paragraph .15 of section 700, **and paragraph .26 of section 703, as applicable.**

[No further proposed amendments to section 450]

AU-C section 501, Audit Evidence—Specific Considerations for Selected Items

[No proposed amendments to paragraphs .01-.A45.]

Communication With the Entity’s Legal Counsel (Ref: par. .18–.24)

[No proposed amendments to paragraphs .A46–.A52]

.A53 In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA**, the auditor is required to date the auditor’s report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements.¹³ Accordingly, it is preferable that the entity’s legal counsel’s response be as close to the date of the auditor’s report as is practicable in the circumstances. Specifying the effective date of the entity’s legal counsel’s response to reasonably approximate the expected date of the auditor’s report may obviate the need to obtain updated information from the entity’s legal counsel.

¹³ Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements*, or **paragraph .72 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.**

[No proposed amendments to paragraphs .A54–.A64]

Evaluation of the Outcome of Litigation, Claims, or Assessment (Ref: par. .22d(ii))

.A65 Although paragraph 5 of the ABA statement states that the legal counsel "may in appropriate circumstances communicate to the auditor his view that an unfavorable outcome is 'probable' or 'remote,'" the legal counsel is not required to use those terms in communicating the evaluation to the auditor. The auditor may find other wording sufficiently clear, as long as the terms can be used to classify the outcome of the uncertainty under one of the three probability classifications established in FASB ASC 450. Some examples of evaluations concerning litigation that may be considered to provide sufficient clarity that the likelihood of an unfavorable outcome is remote, even though they do not use that term, are the following:

- "We are of the opinion that this action will not result in any liability to the company."
- "It is our opinion that the possible liability to the company in this proceeding is nominal in amount."
- "We believe the company will be able to defend this action successfully."
- "We believe that the plaintiff's case against the company is without merit."
- "Based on the facts known to us, after a full investigation, it is our opinion that no liability will be established against the company in these suits."

Absent any contradictory information obtained by the auditor either in other parts of the legal counsel's letter or otherwise, the auditor need not obtain further clarification of evaluations such as the foregoing. Because of inherent uncertainties described in paragraph .A57 and the ABA statement, an evaluation furnished by the legal counsel may indicate significant uncertainties or stipulations about whether the client will prevail. The following are examples of the legal counsel's evaluations that are unclear about the likelihood of an unfavorable outcome:

- "This action involves unique characteristics wherein authoritative legal precedents do not seem to exist. We believe that the plaintiff will have serious problems establishing the company's liability under the act; nevertheless, if the plaintiff is successful, the award may be substantial."
- "It is our opinion that the company will be able to assert meritorious defenses to this action." (The term *meritorious defenses* indicates that the entity's defenses will not be summarily dismissed by the court; it does not necessarily indicate the legal counsel's opinion that the entity will prevail.)
- "We believe the action can be settled for less than the damages claimed."

- "We are unable to express an opinion as to the merits of the litigation at this time. The company believes there is absolutely no merit to the litigation." (If the entity's legal counsel, with the benefit of all relevant information, is unable to conclude that the likelihood of an unfavorable outcome is remote, it is unlikely that management would be able to form a judgment to that effect.)
- "In our opinion, the company has a substantial chance of prevailing in this action." (*A substantial chance, a reasonable opportunity*, and similar terms indicate more uncertainty than an opinion that the company will prevail.)

If the auditor is uncertain about the meaning of the legal counsel's evaluation, clarification either in a follow-up letter or conference with the legal counsel and entity, appropriately documented, may be appropriate. If the legal counsel is still unable to give an unequivocal evaluation of the likelihood of an unfavorable outcome in writing or orally, the auditor is required by section 700, **or section 703, as applicable**, to determine the effect, if any, of the legal counsel's response on the auditor's report.

[No further proposed amendments to section 501]

AU-C section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

[No proposed amendments to paragraphs .01-.A132]

Indicators of Possible Management Bias (Ref: par. .21)

.A133 During the audit, the auditor may become aware of judgments and decisions made by management that give rise to indicators of possible management bias (see paragraph .A9). Such indicators may affect the auditor's conclusion about whether the auditor's risk assessment and related responses remain appropriate, and the auditor may need to consider the implications for the rest of the audit. Further, they may affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement, as discussed in section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**.

[No further proposed amendments to section 540]

AU-C section 550, Related Parties

Introduction

Scope of This Section

[No proposed amendments to paragraph .01]

.02 Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable** requires the auditor to evaluate whether the financial statements achieve fair presentation.¹ Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, requires that, in audits of special purpose financial statements that contain related party transactions, the auditor evaluate whether the financial statements include informative disclosures similar to those required by generally accepted accounting principles (GAAP). Section 800 also requires the auditor to evaluate whether additional disclosures beyond those specifically required by the framework and related to matters that are not specifically identified on the face of the financial statements or other disclosures may be necessary for the financial statements to achieve fair presentation. Thus, this section applies to all audits of financial statements. (Ref: par. .A1–.A3)

¹ Paragraph .17 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **and paragraph .28 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**.

² [Footnote omitted for purposes of this proposed SAS]

³ [Footnote omitted for purposes of this proposed SAS]

[No proposed amendments to paragraphs .03-.25]

Evaluation of the Accounting for, and Disclosure of, Identified Related Party Relationships and Transactions

.26 In forming an opinion on the financial statements, in accordance with section 700, **or section 703, as applicable**, the auditor should evaluate the following: (Ref: par. .A50)

- a. Whether the identified related party relationships and transactions have been appropriately accounted for and disclosed (Ref: par. .A51)
- b. Whether the effects of the related party relationships and transactions prevent the financial statements from achieving fair presentation (Ref: par. .A3)

¹⁶ Paragraphs .13–.18 of section 700, **or paragraphs .24–.29 of section 703, as applicable**.

[No further proposed amendments to section 550]

AU-C section 560, Subsequent Events and Subsequently Discovered Facts

[No proposed amendments to paragraph .01]

Subsequent Events and Subsequently Discovered Facts

[No proposed amendments to paragraph .02]

.03 Section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA** explains that the date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor becomes aware and that occurred up to that date.¹ Accordingly, this section addresses the auditor's responsibilities relating to subsequent events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements. It also addresses the auditor's responsibilities relating to subsequently discovered facts that become known to the auditor after the date of the auditor's report.

¹ Paragraph .A38 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **and paragraph .A106 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.**

[No proposed amendments to paragraphs .04--.06]

Definitions

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Date of the auditor's report. The date that the auditor dates the report on the financial statements, in accordance with section 700 **or section 703, as applicable.**² (Ref: par. .A14)

Date of the financial statements. The date of the end of the latest period covered by the financial statements.

Subsequent events. Events occurring between the date of the financial statements and the date of the auditor's report.

Subsequently discovered facts. Facts that become known to the auditor after the date of the auditor's report that, had they been known to the auditor at that date, may have caused the auditor to revise the auditor's report.

² Paragraph .41 of section 700, **or paragraph .72 of section 703, as applicable.**

[No proposed amendments to paragraphs .08--.A8]

Written Representations

[No proposed amendments to paragraph .A9]

.A10 The applicable financial reporting framework may require management to evaluate subsequent events through the date the financial statements are issued or available to be issued and to disclose the date through which subsequent events were evaluated in the financial statements. In most cases, this will result in the date that management discloses as the date through which management has evaluated subsequent events being the same date as the auditor's report. This is because section 700 *or section 703, as applicable*, requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that the audit documentation has been reviewed; that all the statements that comprise the financial statements, including related notes, have been prepared; and that management has asserted that they have taken responsibility for those financial statements.⁸ Also, the auditor is concerned with subsequent events that require adjustment of, or disclosure in, the financial statements through the date of the auditor's report or as near as practicable thereto. Therefore, management's representations concerning events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure are required to be made as of the date of the auditor's report on the financial statements.⁹ To align the date disclosed by management in the financial statements, the representation letter date, and the auditor's report date, the auditor may discuss the dating requirements with management and may also include, in the terms of the audit engagement,¹⁰ that management will not date the subsequent event disclosure earlier than the date of the representation letter (also the date of the auditor's report).

⁸ Paragraph .41 of section 700, *or paragraph .72 of section 703*.

⁹ [Footnote omitted for purposes of this proposed SAS]

¹⁰ [Footnote omitted for purposes of this proposed SAS]

Subsequently Discovered Facts That Become Known to the Auditor Before the Report Release Date (Ref: par. .12–.14)

Dating the Auditor's Report on the Revised Financial Statements (Ref: par. .13)

[No proposed amendments to paragraphs .A11–.A13]

.A14 As discussed in paragraph .A10, section 700 *or section 703, as applicable*, requires the auditor's report to be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.¹¹ When management revises the financial statements and the auditor reports on the revised financial statements, the new date (or the dual date) included in the auditor's report cannot be earlier than the date on which the auditor carried out the audit procedures necessary in the circumstances on the revision, including that the documentation has been reviewed and management has prepared and asserted that they have taken responsibility for the revised financial statements.

¹¹ Paragraph .41 of section 700, *or paragraph .72 of section 703, as applicable*.

[No proposed amendments to paragraphs .A15–.A28]

Predecessor Auditor's Report Reissued

[No proposed amendments to paragraph .A29]

.A30 Section 700 *and section 703, as applicable*, addresses the auditor's responsibilities when the auditor is engaged to audit and report on a revision to prior period financial statements audited by the predecessor auditor.¹³ It also addresses the auditor's responsibilities when the predecessor auditor's report will not be presented.¹⁴

¹³ Paragraph .A52 of section 700A, *and paragraph .A121 of section 703, as applicable*.

¹⁴ Paragraph .54 of section 700A, *and paragraph .84 of section 703, as applicable*.

[No further proposed amendments to section 560]

Proposed AU-C section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern

[No proposed amendments to paragraphs .01–.A37]

.A38 In accordance with section 700, *Forming an Opinion and Reporting on Financial Statements, and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable*, the auditor is required to date the auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.²⁶ Accordingly, it is preferable that the support letter define a specific date so as to cover the assessment period required by the applicable financial reporting framework. For example, for financial statements prepared under FASB standards, the date would be a year and a day beyond the date the financial statements are issued (or available to be issued, when applicable). By having a date specified in the support letter that reasonably approximates, or is later than, the expected date that the financial statements will be issued (or will be available to be issued, when applicable) may obviate the need to obtain updated information from the supporting parties. The period covered by support letter may be shorter if there is another source of support that management intends to utilize in order to continue as a going concern through the assessment period. Such other support would be subjected to the same auditing procedures discussed in AU-C 570.

²⁶ Paragraph .41 of section 700, *Forming an Opinion and Reporting on Financial Statements, or paragraph .116 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable*.

[No proposed amendments to paragraphs A39–.A59]

Comparative Presentations

.A60 Substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time that arose in the current period does not imply that a basis for such doubt existed in the prior period and, therefore, does not affect the auditor's report on the financial statements of the prior period that are presented on a comparative basis. AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA** provides guidance on reporting when financial statements of one or more prior periods are presented on a comparative basis with financial statements of the current period.

[No further proposed amendments to proposed section 570]

AU-C section 580, Written Representations

[No proposed amendments to paragraphs .01–.A37]

.A38

Exhibit D — List of AU-C Sections Containing Requirements for Written Representations

.A38 This exhibit identifies paragraphs in other AU-C sections that require specific written representations that may not be required for every audit. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections:

- Paragraph .19 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- Paragraph .52 of section 700A, *Forming an Opinion and Reporting on Financial Statements*, **or paragraph .82 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable**
- Paragraph .07g of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- Paragraph .23 of section 935, *Compliance Audits*

In addition, certain AICPA Audit and Accounting Guides suggest written representations concerning matters that are unique to a particular industry.

[No further proposed amendments to section 580]

AU-C section 9700, Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of Section 700

1. Reporting on Financial Statements Prepared on a Liquidation Basis of Accounting

[Note: This interpretation may also be applied to employee benefit plans that report in accordance with proposed AU-C section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA.]

.01 Question—An entity prepares its financial statements using the liquidation basis of accounting in accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 205, Presentation of Financial Statements*, because the entity is either in liquidation or liquidation is imminent. Is the auditor permitted to issue an unmodified opinion on such financial statements?

[No further proposed amendments to section 9700]

AU-C section 708, Consistency of Financial Statements

[No proposed amendments to paragraphs .01–.A6]

Reporting on Changes in Accounting Principles (Ref: par. .08–.11)

[No proposed amendments to paragraphs .A7–.A8]

.A9 If a change in accounting principle does not have a material effect on the financial statements in the current year but the change is expected to have a material effect in later years, the auditor is not required to recognize the change in the auditor's report in the current year. The applicable financial reporting framework may include a requirement for the entity to disclose such situations in the notes to the financial statements. Section 700, *Forming an Opinion and Reporting on Financial Statements*, **section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable** and section 705 require the auditor to evaluate the appropriateness and adequacy of disclosures in connection with forming an opinion and reporting on the financial statements.³

³ Paragraph .16 of section 700, *Forming an Opinion and Reporting on Financial Statements*, **paragraph .27 of section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA** and paragraphs .07 and .A7 of section 705.

[No further proposed amendments to section 708]

AU-C section 935, Compliance Audits

[No proposed amendments to paragraphs .01–.A40]

Appendix — AU-C Sections That Are Not Applicable to Compliance Audits

.A41 The following AU-C sections and individually enumerated requirement paragraphs of specific AU-C sections are not applicable to a compliance audit performed under this section either because (a) they are not relevant to a compliance audit environment, (b) the procedures and guidance would not contribute to meeting the objectives of a compliance audit, or (c) the subject matter is specifically covered in this section. Where the table in this appendix specifies individual requirement paragraphs rather than an entire AU-C section, the application and other explanatory material paragraphs related to such requirement paragraphs also do not apply. However, an auditor may apply these AU-C sections and paragraphs if the auditor believes doing so will provide appropriate audit evidence in the specific circumstances to support the auditor’s opinion on compliance.

| <i>AU-C Section</i> | <i>Paragraphs Not Applicable to Compliance Audits</i> |
|--|---|
| 210, <i>Terms of Engagement</i> | Paragraphs .06a and .08a |
| 240, <i>Consideration of Fraud in a Financial Statement Audit</i> | Paragraphs .26 and .32b |
| 250, <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> | All |
| 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i> | Paragraphs .12c, .26–.27, and .33c |
| 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> | Paragraphs .13–.14, .19–.21, .26, and .31–.32 |
| 501, <i>Audit Evidence—Specific Considerations for Selected Items</i> | All |
| 505, <i>External Confirmations</i> | All |
| 510, <i>Opening Balances—Initial Audit Engagements, Including Reaudit Engagements</i> | Paragraphs .06, .08–.13, and .15–.17 |
| 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> | All |
| 550, <i>Related Parties</i> | All |
| 560, <i>Subsequent Events and Subsequently Discovered Facts</i> | Paragraphs .09–.11 and .19–.20 |
| 570, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i> | All |
| 600, <i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i> | Paragraphs .25a, .38, .40c, .54, and .55c |

^[fn 1] [Footnote deleted, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 122.]

Additional Amendments
ASB Meeting, January 9-12, 2017

| <i>AU-C Section</i> | <i>Paragraphs Not Applicable to Compliance Audits</i> |
|---|--|
| 700A, <i>Forming an Opinion and Reporting on Financial Statements</i> | Paragraphs .14–.18, .21–.41, and .44–.58 |
| 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA | <i>Paragraphs .25-.29, .33-.72, .76-.87, and .91-.125</i> |
| 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i> | Paragraphs .18–.20 |
| 706, <i>Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report</i> | Paragraphs .06–.07 |
| 708, <i>Consistency of Financial Statements</i> | All |
| 720, <i>Other Information in Documents Containing Audited Financial Statements</i> | All |
| 725, <i>Supplementary Information in Relation to the Financial Statements as a Whole</i> | All |
| 730, <i>Required Supplementary Information</i> | All |
| 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> | All |
| 805, <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i> | All |
| 806, <i>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements</i> | All |
| 810, <i>Engagements to Report on Summary Financial Statements</i> | All |
| 910, <i>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i> | All |
| 915, <i>Reports on Application of Requirements of an Applicable Financial Reporting Framework</i> | All |
| 920, <i>Letters for Underwriters and Certain Other Requesting Parties</i> | All |
| 925, <i>Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933</i> | All |
| 930, <i>Interim Financial Information</i> | All |

AU-C Glossary

date of the auditor’s report. The date that the auditor dates the report on the financial statements, in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, **Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.**

financial statements. A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources and obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.

In the context of section 700 *and section 703*, reference to *financial statements* means a complete set of general purpose financial statements, including the related notes. In the context of section 800, reference to *financial statements* means a complete set of special purpose financial statements, including the related notes. Also see audited financial statements, basic financial statements, comparative financial statements, condensed financial statements, date of approval of the financial statements, date of the financial statements, general purpose financial statements, group financial statements, historical financial information, special purpose financial statements, and summary financial statements.