AU-C Section 700

Forming an Opinion and Reporting on Financial Statements

Source: SAS No. 122; SAS No. 131.

See section 9700 for interpretations of this section.

Effective for audits of financial statements for periods ending on or after June 15, 2016.

Introduction

Scope of This Section

.01 This section addresses the auditor's responsibility to form an opinion on the financial statements. It also addresses the form and content of the auditor's report issued as a result of an audit of financial statements.

.02 This section is written in the context of a complete set of general purpose financial statements.

.03 Section 705, *Modifications to the Opinion in the Independent Auditor's Report*, and section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, address how the form and content of the auditor's report are affected when the auditor expresses a modified opinion (a qualified opinion, an adverse opinion, or a disclaimer of opinion) or includes an emphasis-of-matter paragraph or other-matter paragraph in the auditor's report.

.04 Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, addresses special considerations when financial statements are prepared in accordance with a special purpose framework.[1] Section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement. (Ref: par. .A1)

.05 Section 810, *Engagements to Report on Summary Financial Statements*, applies when an auditor is engaged to report separately on summary financial statements[2] derived from financial statements audited in accordance with generally accepted auditing standards (GAAS) by the same auditor. Section 730, *Required Supplementary Information*, addresses the auditor's responsibilities relating to information supplementary to the basic financial statements that is required by a designated accounting standards setter to accompany such financial statements.

.06 Section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*, applies

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[1] See section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, for a definition of *special purpose framework*.

[2] Paragraph .06 of section 810, *Engagements to Report on Summary Financial Statements*, defines the term *summary financial statements*.

when an auditor practicing in the United States is engaged to report on financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country not adopted by a body designated by the Council of the AICPA (Council) to establish generally accepted accounting principles that are intended for use outside the United States.

.07 Section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*, applies when the financial statements of the prior period have been audited by a predecessor auditor or were not audited.

.08 This section promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with GAAS, promotes credibility in the marketplace by making more readily identifiable those audits that have been conducted in accordance with recognized standards. Consistency also helps promote users' understanding and identification of unusual circumstances when they occur.

Effective Date

.09 This section is effective for audits of financial statements for periods ending on or after December 15, 2012.

Objectives

.10 The objectives of the auditor are to

a. form an opinion on the financial statements based on an evaluation of the audit evidence obtained, including evidence obtained about comparative financial statements or comparative financial information, and

b. express clearly that opinion on the financial statements through a written report that also describes the basis for that opinion. (Ref: par. .A2)

Definitions

.11 For purposes of GAAS, the following terms have the meanings attributed as follows:

Comparative financial statements. A complete set of financial statements[3] for one or more prior periods included for comparison with the financial statements of the current period.

Comparative information. Prior period information presented for purposes of comparison with current period amounts or disclosures that is not in the form of a complete set of financial statements. Comparative information includes prior period information presented as condensed financial statements or summarized financial information.

Condensed financial statements. Historical financial information[4] that is presented in less detail than a complete set of financial statements, in accordance with an appropriate financial reporting framework. Condensed financial statements may be separately presented as unaudited financial information or may be presented as comparative information.

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[3] See section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, for a definition of *financial statements*.

[4] Paragraph .14 of section 200 defines the term *historical financial information*.

General purpose financial statements. Financial statements prepared in accordance with a general purpose framework. (Ref: par. .A3)

General purpose framework. A financial reporting framework designed to meet the common financial information needs of a wide range of users.

Unmodified opinion. The opinion expressed by the auditor when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.[5]

.12 Reference to *financial statements* in this section means a complete set of general purpose financial statements, including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

Requirements

Forming an Opinion on the Financial Statements

.13 The auditor should form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

.14 In order to form that opinion, the auditor should conclude whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion should take into account the following: (Ref: par. .A4)

a. The auditor's conclusion, in accordance with section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*, about whether sufficient appropriate audit evidence has been obtained[6]

b. The auditor's conclusion, in accordance with section 450, *Evaluation of Misstatements Identified During the Audit*, about whether uncorrected misstatements are material, individually or in aggregate[7]

c. The evaluations required by paragraphs .15–.18

.15 The auditor should evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation should include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: par. .A5–.A7)

.16 In particular, the auditor should evaluate whether, in view of the requirements of the applicable financial reporting framework

a. the financial statements adequately disclose the significant accounting policies selected and applied;

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[5] See section 200 for a definition of *applicable financial reporting framework*.

[6] Paragraph .28 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

[7] Paragraph .11 of section 450, *Evaluation of Misstatements Identified During the Audit*.

b. the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

c. the accounting estimates made by management are reasonable;

d. the information presented in the financial statements is relevant, reliable, comparable, and understandable;

e. the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: par. .A8)

f. the terminology used in the financial statements, including the title of each financial statement, is appropriate.

.17 The auditor's evaluation about whether the financial statements achieve fair presentation should also include consideration of the following:

a. The overall presentation, structure, and content of the financial statements

b. Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation (Ref: par. .A9)

.18 The auditor should evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: par. .A10–.A13)

Form of Opinion

.19 The auditor should express an unmodified opinion when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

.20 The auditor should modify the opinion in the auditor's report, in accordance with section 705, if the auditor

a. concludes that, based on the audit evidence obtained, the financial statements as a whole are materially misstated or

b. is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

.21 If the auditor concludes that the financial statements do not achieve fair presentation, the auditor should discuss the matter with management and, depending on how the matter is resolved, should determine whether it is necessary to modify the opinion in the auditor's report in accordance with section 705. (Ref: par. .A14–.A15)

Auditor's Report

.22 The auditor's report should be in writing. (Ref: par. .A16–.A17)

Auditor's Report for Audits Conducted in Accordance With GAAS

Title

.23 The auditor's report should have a title that includes the word *independent* to clearly indicate that it is the report of an independent auditor. (Ref: par. .A18)

Addressee

.24 The auditor's report should be addressed as required by the circumstances of the engagement. (Ref: par. .A19)

Introductory Paragraph

.25 The introductory paragraph in the auditor's report should (Ref: par. .A20–.A23)

a. identify the entity whose financial statements have been audited,

b. state that the financial statements have been audited,

c. identify the title of each statement that the financial statements comprise, and

d. specify the date or period covered by each financial statement that the financial statements comprise.

Management's Responsibility for the Financial Statements

.26 The auditor's report should include a section with the heading "Management's Responsibility for the Financial Statements."

.27 The auditor's report should describe management's responsibility for the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. (Ref: par. .A24)

.28 The description about management's responsibility for the financial statements in the auditor's report should not be referenced to a separate statement by management about such responsibilities if such a statement is included in a document containing the auditor's report. (Ref: par. .A25)

Auditor's Responsibility

.29 The auditor's report should include a section with the heading "Auditor's Responsibility."

.30 The auditor's report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: par. .A26)

.31 The auditor's report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards. The auditor's report should also explain that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: par. .A27–.A28)

.32 The auditor's report should describe an audit by stating that

a. an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

b. the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, and accordingly, no such opinion is expressed.

c. an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.

In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase required in paragraph .32*b* that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed.

.33 The auditor's report should state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Auditor's Opinion

.34 The auditor's report should include a section with the heading "Opinion."

.35 When expressing an unmodified opinion on financial statements, the auditor's opinion should state that the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework. (Ref: par. .A9 and .A29–.A30)

.36 The auditor's opinion should identify the applicable financial reporting framework and its origin. (Ref: par. .A31)

Other Reporting Responsibilities

.37 If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under GAAS to report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor's report that should be subtitled "Report on Other Legal and Regulatory Requirements" or otherwise, as appropriate to the content of the section. (Ref: par. .A32–.A33)

.38 If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements, and explanations referred to in paragraphs .25–.36 should be under the subtitle "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" should follow the "Report on the Financial Statements." (Ref: par. .A34)

Signature of the Auditor

.39 The auditor's report should include the manual or printed signature of the auditor's firm. (Ref: par. .A35–.A36)

Auditor's Address

.40 The auditor's report should name the city and state where the auditor practices. (Ref: par. .A37)

Date of the Auditor's Report

.41 The auditor's report should 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

a. the audit documentation has been reviewed;

b. all the statements that the financial statements comprise, including the related notes, have been prepared; and

c. management has asserted that they have taken responsibility for those financial statements. (Ref: par. .A38–.A41)

Auditor's Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards

.42 Paragraph .31 requires that the auditor's report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing [ISAs], the standards of the PCAOB, or *Government Auditing Standards*). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety. (Ref: par. .A42) [As amended, effective for audits of financial statements for periods ending on or after June 15, 2016, by SAS No. 131.]

.43 When the auditor's report refers to both GAAS and another set of auditing standards, the auditor's report should identify the other set of auditing standards, as well as their origin.

Auditor's Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB

.44 When conducting an audit of financial statements in accordance with the standards of the PCAOB and the audit is not within the jurisdiction of the PCAOB as defined by the Sarbanes-Oxley Act of 2002 (the Act), as amended, the auditor is required to also conduct the audit in accordance with GAAS. In such circumstances, when the auditor refers to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor should use the form of report required by the standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. (Ref: par. .A43–.A47) [Paragraph added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131. Revised, February 2017, to better reflect the AICPA Council Resolution designating the PCAOB to promulgate technical standards.]

Comparative Financial Statements and Comparative Information

.45 Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the auditor's report should refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: par. .A48–.A49) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.46 When expressing an opinion on all periods presented, a continuing auditor should update the report on the financial statements of one or more prior periods presented on a comparative basis with those of the current period. The auditor's report on comparative financial statements should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to support the opinion for the most recent audit. (Ref: par. .A50–.A51) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.47 If comparative information is presented but not covered by the auditor's opinion, the auditor should clearly indicate in the auditor's report the character of the auditor's work, if any, and the degree of responsibility the auditor is taking. (Ref: par. .A52–.A53) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.48 If comparative information is presented and the entity requests the auditor to express an opinion on all periods presented, the auditor should consider whether the information included for the prior period(s) contains sufficient detail to constitute a fair presentation in accordance with the applicable financial reporting framework. (Ref: par. .A54) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Audit Procedures

.49 The auditor should perform the procedures required by paragraphs .50–.52 if comparative financial statements or comparative information is presented for the prior period(s). [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.50 The auditor should determine whether the comparative financial statements or comparative information has been presented in accordance with the relevant requirements, if any, of the applicable financial reporting framework. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.51 The auditor should evaluate whether

a. the comparative financial statements or comparative information agree with the amounts and other disclosures presented in the prior period or, when appropriate, has been restated for the correction of a material misstatement or adjusted for the retrospective application of an accounting principle, and

b. the accounting policies reflected in the comparative financial statements or comparative information are consistent with those applied in the current period or if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.[8]

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.52 If the auditor becomes aware of a possible material misstatement in the comparative financial statements or comparative information while performing the current period audit, the auditor should perform such additional

[8] See section 708, *Consistency of Financial Statements*.

audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor audited the prior period's financial statements and becomes aware of a material misstatement in those financial statements, the auditor should also follow the relevant requirements of section 560, *Subsequent Events and Subsequently Discovered Facts*. If the prior period financial statements are restated, the auditor should determine that the comparative financial statements or comparative information agree with the restated financial statements. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.53 As required by section 580, *Written Representations*, the auditor should request written representations for all periods referred to in the auditor's opinion. The auditor also should obtain a specific written representation regarding any restatement made to correct a material misstatement in a prior period that affects the comparative financial statements. (Ref: par. .A55) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.54 When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor should disclose the following matters in an emphasis-of-matter or other-matter paragraph, in accordance with section 706:

- *a.* The date of the auditor's previous report
- *b.* The type of opinion previously expressed
- *c.* The substantive reasons for the different opinion
- *d.* That the auditor's opinion on the amended financial statements is different from the auditor's previous opinion (Ref: par. .A56)

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Prior Period Financial Statements Audited by a Predecessor Auditor

.55 If the financial statements of the prior period were audited by a predecessor auditor, and the predecessor auditor's report on the prior period's financial statements is not reissued,[9] in addition to expressing an opinion on the current period's financial statements, the auditor should state the following in an other-matter paragraph:[10]

- *a.* That the financial statements of the prior period were audited by a predecessor auditor
- *b.* The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore
- *c.* The nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor's report, if any
- *d.* The date of that report

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.56 If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had

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[9] Paragraphs .19–.20 of section 560, *Subsequent Events and Subsequently Discovered Facts.*

[10] See section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report.*

previously reported without modification, the auditor should follow the communication requirements in section 510.[11] If the prior period financial statements are restated, and the predecessor auditor agrees to issue a new auditor's report on the restated financial statements of the prior period, the auditor should express an opinion only on the current period. (Ref: par. .A57) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Prior Period Financial Statements Not Audited

.57 When current period financial statements are audited and presented in comparative form with compiled or reviewed financial statements for the prior period, and the report on the prior period is not reissued, the auditor should include an other-matter paragraph[12] in the current period auditor's report that includes the following:

a. The service performed in the prior period

b. The date of the report on that service

c. A description of any material modifications noted in that report

d. A statement that the service was less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements (Ref: par. .A58–.A59)

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.58 If the prior period financial statements were not audited, reviewed, or compiled, the financial statements should be clearly marked to indicate their status, and the auditor's report should include an other-matter paragraph to indicate that the auditor has not audited, reviewed, or compiled the prior period financial statements and that the auditor assumes no responsibility for them. (Ref: par. .A60) [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Information Presented in the Financial Statements (Ref: par. .A61–.A62)

.59 Information that is not required by the applicable financial reporting framework but is nevertheless presented as part of the basic financial statements should be covered by the auditor's opinion if it cannot be clearly differentiated. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Application and Other Explanatory Material

Scope of This Section (Ref: par. .04)

.A1 Section 800 also addresses the auditor's responsibilities when the auditor is reporting on financial statements prepared in accordance with a special purpose framework and is required by law or regulation to use a specific layout, form, or wording of the auditor's report. When reporting on financial statements prepared in accordance with a general purpose framework, and law or

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[11] Paragraphs .12–.13 of section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*.

[12] See section 706.

regulation requires a specific layout, form, or wording of the auditor's report, the auditor may adapt and apply the requirements in section 800.

Objectives

Considerations Specific to Governmental Entities (Ref: par. .10)

.A2 For audits of governmental entities, the objectives of a financial statement audit are often broader than forming and expressing an opinion on the financial statements. Law, regulation, and *Government Auditing Standards* require that the auditor satisfy additional objectives. These additional objectives include audit and reporting responsibilities, for example, relating to reporting instances of noncompliance with applicable laws and regulations or reporting material weaknesses and significant deficiencies in internal control noted during the audit. Such reporting on compliance and internal control is an integral part of a *Government Auditing Standards* audit.

Definitions

General Purpose Financial Statements

Considerations Specific to Governmental Entities (Ref: par. .11)

.A3 For audits of governmental entities, the term *general purpose financial statements*, in the context of this section, would be considered or referred to as basic financial statements using the terms in the governmental entity's applicable financial reporting framework.

Forming an Opinion on the Financial Statements (Ref: par. .14)

Considerations Specific to Governmental Entities

.A4 For most state or local governmental entities, the applicable financial reporting framework is based on multiple reporting units and, therefore, requires the presentation of financial statements for its activities in various reporting units. Consequently, a reporting unit, or aggregation of reporting units, of the governmental entity represents an opinion unit to the auditor. In the context of this section, the auditor is responsible for forming an opinion on the financial statements for each opinion unit within a governmental entity.

Qualitative Aspects of the Entity's Accounting Practices (Ref: par. .15)

.A5 Management makes a number of judgments about the amounts and disclosures in the financial statements.

.A6 Section 260, *The Auditor's Communication With Those Charged With Governance*, contains a discussion of the qualitative aspects of accounting practices.[13] In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

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[13] The appendix, "Qualitative Aspects of Accounting Practices," of section 260, *The Auditor's Communication With Those Charged With Governance*.

- The selective correction of misstatements brought to management's attention during the audit (for example, correcting misstatements with the effect of increasing reported earnings but not correcting misstatements that have the effect of decreasing reported earnings)
- Possible management bias in the making of accounting estimates

.A7 Section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, addresses possible management bias in making accounting estimates. Indicators of possible management bias, themselves, do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: par. .16e)

.A8 It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, results of operations, and cash flows. In such circumstances, paragraph .16*e* requires the auditor to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, results of operations, and cash flows.

Evaluation of Whether the Financial Statements Achieve Fair Presentation (Ref: par. .17b)

.A9 As described in section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, a *financial reporting framework* is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements. The auditor's professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework. Without that framework, the auditor would have no consistent standard for evaluating the presentation of financial position, results of operations, and cash flows in financial statements.

Description of the Applicable Financial Reporting Framework (Ref: par. .18)

.A10 As explained in section 200, the preparation and fair presentation of the financial statements by management and, when appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.[14] That description is important because it advises users of the financial statements of the framework on which the financial statements are based.

.A11 A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

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[14] Paragraphs .A2–.A3 of section 200.

.A12 A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with International Financial Reporting Standards") is not an adequate description of that framework because it may mislead users of the financial statements.

.A13 Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework. Such information may not be required by the applicable financial reporting framework but may be presented as part of the basic financial statements. As discussed in paragraph .59, such information is considered an integral part of the financial statements if it cannot be clearly differentiated and, accordingly, is covered by the auditor's opinion.

Form of Opinion (Ref: par. .21)

.A14 There may be cases when the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. When this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in unusual circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements, which would be extremely rare.

.A15 The "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct states the following:

> A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

[Revised, January 2015, to reflect conforming changes necessary due to the issuance of the revised AICPA Code of Professional Conduct, effective December 15, 2014.]

Auditor's Report (Ref: par. .22)

.A16 A written report encompasses reports issued in hard copy format and those using an electronic medium.

.A17 The exhibit "Illustrations of Auditor's Reports on Financial Statements" contains illustrations of auditor's reports on financial statements incorporating the elements required by paragraphs .23–.41.

Auditor's Report for Audits Conducted in Accordance With GAAS

Title (Ref: par. .23)

.A18 A title indicating the report is the report of an independent auditor (for example, "Independent Auditor's Report") affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others. Section 200 provides guidance on reporting when the auditor is not independent.

Addressee (Ref: par. .24)

.A19 The auditor's report is normally addressed to those for whom the report is prepared. The report may be addressed to the entity whose financial statements are being audited or to those charged with governance. A report on the financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). Occasionally, an auditor may be retained to audit the financial statements of an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.

Introductory Paragraph (Ref: par. .25)

.A20 The introductory paragraph states, for example, that the auditor has "audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements." If the financial statements include a separate statement of changes in stockholders' equity accounts or a separate statement of comprehensive income, paragraph .25*c* requires such statements to be identified in the introductory paragraph of the report as a statement to which the financial statements are comprised, but they need not be reported on separately in the opinion paragraph because changes in stockholders' equity accounts and comprehensive income are considered part of the presentation of financial position, results of operations, and cash flows.

.A21 When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users identify the financial statements to which the auditor's report relates.

.A22 The auditor's opinion covers the complete set of financial statements, as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements include a balance sheet; an income statement; a statement of changes in equity; and a cash flow statement, including related notes. In some circumstances, additional or different statements, schedules, or information also might be considered to be an integral part of the financial statements.

.A23 The identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

Management's Responsibility for the Financial Statements (Ref: par. .27–.28)

.A24 Section 200 explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an audit in accordance with GAAS is conducted.[15] Management and, when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities because it helps explain to users the premise on which an audit is conducted.

.A25 In some instances, a document containing the auditor's report may include a separate statement by management regarding its responsibility for the preparation of the financial statements. Any elaboration in the auditor's report about management's responsibilities regarding the preparation of the financial statements, or reference to a separate statement by management about such responsibilities if one is included in a document containing the auditor's report, may lead users to erroneously believe that the auditor is providing assurances about representations made by management about their responsibility for financial reporting, internal control, and other matters that might be discussed in the management report.

Auditor's Responsibility (Ref: par. .30–.31)

.A26 The auditor's report states that the auditor's responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the preparation of the financial statements.

.A27 The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards. For example, the auditor's report may refer to auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards.

.A28 In accordance with section 200, the auditor does not represent compliance with GAAS in the auditor's report, unless the auditor has complied with the requirements of section 200 and all other AU-C sections relevant to the audit.[16]

Auditor's Opinion (Ref: par. .35)

.A29 *Description of information that the financial statements present.* The auditor's opinion states that the financial statements present fairly, in all material respects, the information that the financial statements are designed to present.

.A30 The title of the financial statements identified in the introductory paragraph of the auditor's report (see paragraph .25) describes the information that is the subject of the auditor's opinion.

.A31 *Description of the applicable financial reporting framework and how it may affect the auditor's opinion (Ref: par. .36).* The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's

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[15] Paragraphs .05 and .A2 of section 200.

[16] Paragraph .22 of section 200.

opinion is expressed; it is not intended to limit the evaluation required in paragraph .17. For example, the applicable financial reporting framework may be identified as accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles or International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) or *International Financial Reporting Standard for Small and Medium-Sized Entities* promulgated by the IASB.

Other Reporting Responsibilities (Ref: par. .37–.38)

.A32 In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under GAAS to report on the financial statements. The form and content of the "Other Reporting Responsibilities" section of the auditor's report described in paragraph .37 will vary depending on the nature of the auditor's other reporting responsibilities. For example, for audits conducted under *Government Auditing Standards*, the auditor may be required to report on internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements, which may be included in the "Other Reporting Responsibilities" section of the auditor's report.[17] However, when the auditor is engaged or required by law or regulation to perform a compliance audit in accordance with GAAS, *Government Auditing Standards*, and a governmental audit requirement, reporting requirements in section 935, *Compliance Audits*, apply.

.A33 In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

.A34 These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under GAAS to report on the financial statements. When relevant, this section may contain subheading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Signature of the Auditor (Ref: par. .39)

.A35 In certain situations, the auditor's report may be required by law or regulation to include the personal name and signature of the auditor, in addition to the auditor's firm. In addition to the auditor's signature, in certain circumstances, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority.

.A36 *Considerations specific to governmental entities.* This section would not preclude a governmental auditor from including the personal name and signature of the auditor in the auditor's report when, in certain situations, the governmental auditor is required by law or regulation or chooses to do so.

Auditor's Address (Ref: par. .40)

.A37 In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.

Date of the Auditor's Report (Ref: par. .41)

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[17] See the AICPA Audit and Accounting Guide *State and Local Governments* for illustrative auditor reports.

.A38 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 became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in section 560.

.A39 Section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, requires that on or before the date of the auditor's report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.[18] Section 220 also requires that the auditor's report not be released prior to the completion of the engagement quality control review.[19]

.A40 Because the auditor's opinion is provided on the financial statements, and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that the financial statements comprise, including the related notes, have been prepared, and management has accepted responsibility for them.

.A41 *Considerations specific to governmental entities.* In some circumstances, final approval of the financial statements by governmental legislative bodies (or subsets of such legislative bodies) is required before the financial statements are issued. In these circumstances, final approval by such legislative bodies (or subsets of such legislative bodies) is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements, for purposes of GAAS, is the earlier date on which those with the recognized authority determine that all the statements that the financial statements comprise, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

Auditor's Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards (Ref: par. .42)

.A42 If the audit is performed in accordance with both GAAS and ISAs, the auditor may find it helpful to refer to AU-C appendix B, "Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards." This appendix summarizes substantive differences between the ISAs and GAAS to assist the auditor in planning and performing an engagement in accordance with ISAs.

Comparative Financial Statements and Comparative Information

Auditor's Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB (Ref: par. .44)

.A43 Auditors of financial statements of entities whose audits are within the jurisdiction of the PCAOB as defined by the Act, as amended, are required to be registered with, and subject to inspection by, the PCAOB. In such circumstances, the AICPA Code of Professional Conduct requires AICPA members to

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[18] See paragraphs .19 and .A17 of section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, for further discussion.

[19] Paragraph .21 of section 220.

conduct the audit in accordance with the standards of the PCAOB, and the audit is not required to also be conducted in accordance with GAAS.[20] [Paragraph added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131. Revised, February 2017, to better reflect the AICPA Council Resolution designating the PCAOB to promulgate technical standards.]

.A44 When the auditor follows the standards of the PCAOB regarding the form of the auditor's report, PCAOB reporting requirements for specific circumstances, such as reporting on an integrated audit or supplementary information, may also be applicable. [Paragraph added, effective for audits of financial statements for periods ending on or after June 15, 2016, by SAS No. 131.]

.A45 The form of the auditor's report required by the standards of the PCAOB states that the audit was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)." A reference to "the standards" of the PCAOB indicates that the auditor has complied not only with the PCAOB's auditing standards, but also with the related professional practice standards of the PCAOB, including its independence rules; whereas a reference to "the auditing standards of the Public Company Accounting Oversight Board (United States)" is limited to compliance with the auditing standards of the PCAOB. The auditor of financial statements of an entity whose audits are not within the jurisdiction of the PCAOB as defined by the Act, as amended, may, nevertheless, be responsible for complying with the independence and other related professional practice standards of the PCAOB if, for example, the engagement is subject to regulatory oversight that requires compliance with those rules. Whether the auditor conducts an audit of financial statements in accordance with the standards of the PCAOB or the auditing standards of the PCAOB depends on the circumstances of the engagement.[21] [Paragraph added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131. Revised, February 2017, to better reflect the AICPA Council Resolution designating the PCAOB to promulgate technical standards.]

.A46 Examples of situations in which an auditor may be engaged to conduct an audit in accordance with the standards (or auditing standards) of the PCAOB for an entity whose audit is not within the jurisdiction of the PCAOB as defined by the Act, as amended, include audits for clearing agencies and futures commission merchants registered with the U.S. Commodities Futures Trading Commission (CFTC), as well as other entities registered with the CFTC; audits of financial statements included in certain securities offering documents pursuant to Regulation A of the Securities Act of 1933; and circumstances in which a nonissuer company desires, or is required by contractual agreement, to obtain an audit of its financial statements in accordance with the standards of the PCAOB. [Paragraph added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131. Revised, February 2017, to better reflect the AICPA Council Resolution designating the PCAOB to promulgate technical standards.]

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[20] See the "Compliance With Standards Rule" (ET sec. 1.310.001), and appendix A, "Council Resolution Designating Bodies to Promulgate Technical Standards" (ET app. A). [Footnote added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131.]

[21] See Staff Question and Answer, *Audits of Financial Statements of Non-Issuers Performed Pursuant to the Standards of the Public Company Accounting Oversight Board* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 100.01), dated June 30, 2004. [Footnote added, effective for audits of financial statements for periods ending on or after June 15, 2016, by SAS No. 131.]

.A47 The exhibit, "Illustrations of Auditor's Reports on Financial Statements," contains an example of an auditor's report for the situation described in paragraph .44. [Paragraph added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131.]

Comparative Financial Statements (Ref: par. .45–.46)

.A48 The level of information included for the prior periods in comparative financial statements is comparable with that of the financial statements of the current period. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.A49 Because the auditor's report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a different auditor's opinion on one or more financial statements of another period presented. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Updating the Report

.A50 An updated report on prior period financial statements is distinguished from a reissuance of a previous report.[22] When issuing an updated report, the information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor's report on the current period financial statements. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Other Considerations Relating to Comparative Financial Statements

.A51 If one firm of independent auditors merges with another firm, and the new firm becomes the auditor of a former client of one of the two former firms, the new firm may accept responsibility and express an opinion on the financial statements for the prior period(s), as well as for those of the current period. In such circumstances, paragraphs .45–.58 apply. The new firm may indicate in the auditor's report or as part of the signature that a merger took place and may name the firm of independent auditors that was merged with it. If the new firm decides not to express an opinion on the prior period financial statements, the guidance for the reissuance of reports in section 560 would apply. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Comparative Information (Ref: par. .47–.48)

.A52 Comparative information, which may be condensed financial statements or prior period summarized financial information, is not considered comparative financial statements because it is not a complete set of financial statements. For example, entities such as state and local governmental units frequently present total-all-funds information for the prior periods rather than information by individual funds because of space limitations or to avoid cumbersome or confusing formats. Also, not-for-profit organizations frequently present certain summarized financial information for the prior period(s) in total rather

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[22] See section 560. [Footnote renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

than by net asset class. Accordingly, the auditor need not opine on comparative information in accordance with this section. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.A53 Paragraph .47 requires the auditor to clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking in the auditor's report when comparative information is presented but not covered by the auditor's opinion on the financial statements of the current period. The requirements and guidance in section 930, *Interim Financial Information*, may be adapted to report on condensed financial statements or prior period summarized financial information that is derived from audited financial statements and is presented comparatively with the complete set of financial statements of the current period.[23, 24] The exhibit provides examples of auditor's reports when comparative summarized financial information for the prior period is presented.[25] [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.A54 If an entity requests the auditor to express an opinion on all periods presented, and comparative information is presented for one or more prior periods, in most cases, this will necessitate including additional columns or separate detail by fund or net asset class, or the auditor may need to modify the auditor's opinion, as required by section 705. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Written Representations (Ref: par. .53)

.A55 In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor's opinion because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Opinion on Prior Period Financial Statements Different From Previous Opinion (Ref: par. .54)

.A56 When reporting on the prior period financial statements in connection with the current period's audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period. In some circumstances, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial statements.[26] [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

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[23] Paragraph .33 of section 930, *Interim Financial Information*. [Footnote renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

[24] See the AICPA Audit and Accounting Guides *State and Local Governments* and *Not-for-Profit Entities* for further guidance on reporting on summarized comparative financial information. [Footnote renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

[25] Illustration 4, "An Auditor's Report on a Single Year Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information for the Prior Year is Presented," of the exhibit, "Illustrations of Auditor's Reports on Financial Statements." [Footnote renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

[26] See section 560. [Footnote renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: par. .56)

.A57 The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements that have been restated. In this situation, provided that the auditor has audited the adjustments to the prior period financial statements, the auditor may include an other-matter paragraph[27] in the auditor's report indicating that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied about the appropriateness of the restatement, the auditor's report may also include the following paragraph within the other-matter paragraph section:

> As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements as a whole.

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Prior Period Financial Statements Not Audited (Ref: par. .57–.58)

.A58 If the prior period financial statements were reviewed, the following is an example of an other-matter paragraph:

> *Other Matter*
>
> The 20X1 financial statements were reviewed by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.A59 If the prior period financial statements were compiled, the following is an example of an other-matter paragraph:

> *Other Matter*
>
> The 20X1 financial statements were compiled by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.A60 If the prior period financial statements were not audited, reviewed, or compiled, the following is an example of an other-matter paragraph:

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[27] See section 706. [Footnote renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Other Matter

The accompanying balance sheet of X Company as of December 31, 20X1, and the related statements of income and cash flows for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

[Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

Information Presented in the Financial Statements (Ref: par. .59)

.A61 In some circumstances, the entity may be required by law, regulation, or standards, or may voluntarily choose, to include in the basic financial statements information that is not required by the applicable financial reporting framework. The auditor's opinion covers information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

.A62 If the information included in the basic financial statements is not required by the applicable financial reporting framework and is not necessary for fair presentation but is clearly differentiated, then such information may be identified as *unaudited* or as *not covered by the auditor's report*. [Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016.]

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Exhibit—Illustrations of Auditor's Reports on Financial Statements (Ref: par. .A17 and .A47)

Illustration 1—An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general purpose consolidated financial statements (comparative).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements[1]

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[2] Accordingly, we

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[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[2] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

Illustration 2—An Auditor's Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements[1]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[2] Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[2] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

Illustration 3—An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative).
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- The financial statements are audited in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements[1]

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of

[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

the entity's internal control.[2] Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

[2] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

Illustration 4—An Auditor's Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Audited Financial Statements for the Prior Year Is Presented

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year).
- Prior year summarized comparative financial information derived from audited financial statements is presented.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements[1]

We have audited the accompanying financial statements of XYZ Not-for-Profit Organization, which comprise the statement of financial position as of September 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.[2] Accordingly, we express no such

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[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[2] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control

(continued)

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Not-for-Profit Organization as of September 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the XYZ Not-for-Profit Organization's 20X0 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 20X0. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 20X0 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

(footnote continued)

relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

Illustration 5—An Auditor's Report on a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Unaudited Financial Statements for the Prior Year Is Presented

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year).
- Prior year summarized comparative financial information derived from unaudited financial statements is presented.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements[1]

We have audited the accompanying financial statements of XYZ Not-for-Profit Organization, which comprise the statement of financial position as of September 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control.[2] Accordingly, we express no such

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[1] The subtitle "Report on the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

[2] In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control

(continued)

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of XYZ Not-for-Profit Organization as of September 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The summarized comparative information presented herein as of and for the year ended September 30, 20X0, derived from those unaudited financial statements, has not been audited, reviewed, or compiled and, accordingly, we express no opinion on it.

Report on Other Legal and Regulatory Requirements

[*Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

(footnote continued)

relevant to the organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In addition, the next sentence, "Accordingly, we express no such opinion." would not be included.

Illustration 6—An Auditor's Report on Consolidated Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and the Auditing Standards of the Public Company Accounting Oversight Board

Circumstances include the following:

- Audit of a complete set of general-purpose consolidated financial statements (comparative) of an entity whose audit is not within the jurisdiction of the PCAOB as defined by the Sarbanes-Oxley Act of 2002, as amended.
- The auditor has not been engaged to perform an audit of internal control over financial reporting that is integrated with an audit of the financial statements.
- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.
- The financial statements are audited in accordance with the auditing standards of the PCAOB and also auditing standards generally accepted in the United States of America (GAAS).
- The auditor refers to the auditing standards of the PCAOB in addition to GAAS in the auditor's report.

Independent Auditor's Report[1]

[*Appropriate Addressee*]

We have audited the accompanying consolidated balance sheets of X Company and subsidiaries as of December 31, 20X2 and 20X1, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing[2] standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall

[1] A firm registered with the PCAOB may use the title "Report of Independent Registered Public Accounting Firm." [Footnote added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131.]

[2] When the audit is also conducted in accordance with the other professional practice standards of the PCAOB, omit the word "auditing." [Footnote added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131.]

financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.[3]

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of X Company and subsidiaries as of December 31, 20X2 and 20X1, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

[*Signature*]

[*City, State*]

[*Date*]

[As amended, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131. Paragraph renumbered by the issuance of Statement on Auditing Standards No. 131, January 2016. Revised, February 2017, to better reflect the AICPA Council Resolution designating the PCAOB to promulgate technical standards.]

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[3] The last three sentences of this paragraph may be replaced with the following optional language to clarify that the audit performed did not require the level of testing and reporting on internal control over financial reporting required in an integrated audit.

> The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

[Footnote added, effective for audits of financial statements for periods ending on or after June 15, 2016, by Statement on Auditing Standards No. 131.]