

AU-C Section 9700

Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of Section 700

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

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

.02 Interpretation—Yes. A liquidation basis of accounting is considered generally accepted accounting principles (GAAP) for entities in liquidation or for which liquidation is imminent. Therefore, the auditor is permitted to issue an unmodified opinion on such financial statements, provided that the liquidation basis of accounting has been properly applied and that adequate disclosures are made in the financial statements in accordance with FASB ASC 205-30.

.03 Typically, the financial statements of entities using the liquidation basis of accounting are presented along with financial statements of a period prior to adoption of a liquidation basis that were prepared on the going concern basis in accordance with GAAP. Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, requires the auditor to include an emphasis-of-matter paragraph when a matter that is appropriately presented or disclosed in the financial statements is of such importance, in the auditor's professional judgment, that it is fundamental to users' understanding of the financial statements. If the auditor determines an emphasis-of-matter paragraph is appropriate, the emphasis-of-matter paragraph would state that the entity has changed the basis of accounting used to determine the amounts at which assets and liabilities are carried from the going concern basis to a liquidation basis.

.04 Two examples of auditor's reports with such an emphasis-of-matter paragraph follow.

Example 1

Report on Single-Year Financial Statements in Year of Adoption of Liquidation Basis

We have audited the accompanying financial statements of XYZ Company, which comprise the statement of net assets in liquidation as of December 31, 20X2, the related statement of changes in net assets in liquidation for the period from April 26, 20X2 to December 31, 20X2, and the statements of income, changes in stockholders' equity, and cash flows for the period from January 1, 20X2 to April 25, 20X2, 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.¹ 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 net assets in liquidation of XYZ Company as of December 31, 20X2, the changes in its net assets in liquidation for the period from April 26, 20X2 to December 31, 20X2, and the results of its operations and its cash flows for the period from January 1, 20X2 to April 25, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note X to the financial statements, the stockholders of XYZ Company approved a plan of liquidation on April 25, 20X2, and the Company determined liquidation is imminent. As a result, the Company changed its basis of accounting on April 25, 20X2 from the going concern basis to a liquidation basis. Our opinion is not modified with respect to this matter.

Example 2**Report on Comparative Financial Statements in Year of Adoption of Liquidation Basis**

We have audited the accompanying financial statements of XYZ Company, which comprise the balance sheet as of December 31, 20X1, the related statements of income, changes in stockholders' equity, and cash flows for the

¹ 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.

year then ended, the statements of income, changes in stockholders' equity, and cash flows for the period from January 1, 20X2 to April 25, 20X2, the statement of net assets in liquidation as of December 31, 20X2, the related statement of changes in net assets in liquidation for the period from April 26, 20X2 to December 31, 20X2, 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. 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.

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 Company as of December 31, 20X1, the results of its operations and its cash flows for the year then ended and for the period from January 1, 20X2 to April 25, 20X2, its net assets in liquidation as of December 31, 20X2, and the changes in its net assets in liquidation for the period from April 26, 20X2 to December 31, 20X2, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note X to the financial statements, the stockholders of XYZ Company approved a plan of liquidation on April 25, 20X2, and the Company determined liquidation is imminent. As a result, the Company changed its basis

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.

of accounting on April 25, 20X2 from the going concern basis to a liquidation basis. Our opinion is not modified with respect to this matter.

.05 The auditor may, in subsequent years, continue to include an emphasis-of-matter paragraph in the auditor's report to emphasize that the financial statements are presented on a liquidation basis of accounting.

[Issue Date: December 1984; Revised: June 1993; Revised: February 1997; Revised: October 2000; Revised: June 2009; Revised: October 2011, effective for audits of financial statements for periods ending on or after December 15, 2012; Revised: May 2014; Revised: September 2014.]

2. Sustainability Financial Statements Under Federal Financial Accounting Standards—Auditor Reporting

.06 Question—The Federal Accounting Standards Advisory Board issued Statement of Federal Financial Accounting Standards (SFFAS) No. 36, *Reporting Comprehensive Long-Term Fiscal Projections for the U.S. Government*. SFFAS No. 36, as amended, requires that the statement of long-term fiscal projections be presented in the consolidated financial report of the U.S. government as a basic financial statement starting in fiscal year 2015. The focus of this standard is on forward-looking information intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statement of long-term fiscal projections presents the actuarial present value of the U.S. government's estimated future income to be received and future expenditures to be paid. The statement of long-term fiscal projections includes information drawn from the current statement of social insurance (SFFAS No. 17, *Accounting for Social Insurance*, as amended, a basic statement since fiscal year 2006) and statement of changes in social insurance amounts (SFFAS No. 37, *Social Insurance: Additional Requirements for Management's Discussion and Analysis and Basic Financial Statements*, a basic statement since fiscal year 2011). Collectively, the statement of long-term fiscal projections, the statement of social insurance, and the statement of changes in social insurance amounts are referred to herein as sustainability financial statements. May an auditor report on these basic financial statements in accordance with auditing standards generally accepted in the United States of America (GAAS)? If so, how would an auditor report on these statements?

.07 Interpretation—Yes, consistent with Statement of Position 04-1, *Auditing the Statement of Social Insurance* (AUD sec. 35), an auditor may report on the basic financial statements, which include the statements of social insurance, changes in social insurance amounts, and long-term fiscal projections, in accordance with GAAS. Section 700, *Forming an Opinion and Reporting on Financial Statements*, provides requirements and guidance on forming an opinion on the basic financial statements. An illustration of an auditor's report containing an unmodified opinion on the U.S. government-wide financial statements follows³ (footnotes are provided for necessary adjustments when reporting on component financial statements containing sustainability financial statements):

³ The sustainability financial statements do not articulate with the consolidated financial statements. For that reason, the opinion on the sustainability financial statements ordinarily will not affect the opinion on the consolidated financial statements. For example, the opinion on the sustainability financial statements may be modified, whereas the opinion on the consolidated financial statements may be unmodified.

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Financial Statements

We have audited the accompanying financial statements of *the U.S. government*,⁴ which comprise the consolidated financial statements and the sustainability financial statements. The consolidated financial statements comprise the *consolidated balance sheets as of September 30, 20XX and 20YY, and the related consolidated statements of net cost, of operations and changes in net position, reconciliations of net operating cost and unified budget deficit, and changes in cash balance from unified budget and other activities*⁵ for the years then ended, and the related notes to the consolidated financial statements.

The sustainability financial statements comprise the statements of social insurance as of [*dates—five years presented*], the statements of changes in social insurance amounts for the periods [*dates—two periods presented*], and the *statements of long-term fiscal projections as of September 30, 20XX and 20YY*, and the related notes to the sustainability financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.⁶ Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audits 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

⁴ Italicized text would be applicable only to reports on the consolidated financial statements of the U.S. government. Where appropriate, alternative text applicable to reports on component entity financial statements are provided in other footnotes.

⁵ For reports on component entity financial statements, the financial statements would be tailored to the financial statements presented, for example "...the balance sheets as of September 30, 20XX and 20YY and the related statements of net cost, (*and*) changes in net position, (*and custodial activity*), and combined statements of budgetary resources..."

⁶ Update the Office of Management and Budget bulletin number as applicable.

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 opinions.

Opinions on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, *the financial position of the U.S. government as of September 30, 20XX and 20YY, and its net costs, operations, and changes in net position; reconciliations of net operating cost and unified budget deficit, and changes in cash balance from unified budget and other activities*⁷ for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Also, in our opinion, the sustainability financial statements referred to above present fairly, in all material respects, the *U.S. government's* social insurance information as of [dates—five years presented], its changes in social insurance amounts for the periods [dates—two periods presented], and *the long-term fiscal projections as of September 30, 20XX and 20YY*, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note X to the financial statements, the sustainability financial statements are based on management's assumptions. These sustainability financial statements present the actuarial present value of the U.S. government's estimated future income to be received and future expenditures to be paid using a projection period sufficient to illustrate long-term sustainability. The sustainability financial statements are intended to aid users in assessing whether future resources will likely be sufficient to sustain public services and to meet obligations as they come due. The statements of social insurance and changes in social insurance amounts are based on income and benefit formulas in current law and assume that scheduled benefits will continue after any related trust funds are exhausted. *The statements of long-term fiscal projections are based on the continuation of current policy.* The sustainability financial statements are not forecasts or predictions. The sustainability financial statements are not intended to imply that current policy or law is sustainable. In preparing the sustainability financial statements, management considers and selects assumptions and data that it believes provide a reasonable basis to illustrate whether current policy or law is sustainable. Assumptions underlying such sustainability information do not consider changes in policy or all potential future events that could affect future income, future expenditures, and sustainability, for example, implementation of policy changes to avoid trust fund exhaustion or *unsustainable debt levels*. Because of the large number of factors that affect the sustainability financial statements and the fact that future events and circumstances cannot be estimated with certainty, even if current policy is continued, there will be differences between the estimates in the sustainability financial statements and the actual results, and those differences may be material. Our opinion is not modified with respect to this matter.

⁷ For reports on component entity financial statements, this language would be tailored to the financial statements presented, for example "...the financial position of [name of entity] as of September 30, 20XX and 20YY, and its net costs, changes in net position, (and) and budgetary resources, (and custodial activity)...."

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplemental Stewardship Information sections (collectively referred to as *RSI*) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The [*identify the other information, such as tax burden*] is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated [*date of report*] on our consideration of the *U.S. government's* internal control over financial reporting and our report dated [*report date*] on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the *U.S. government's* internal control over financial reporting and compliance.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

[Issue Date: October 2015.]

New and Revised IAASB Auditor Reporting Standards

In January 2015, the International Auditing and Assurance Standards Board (IAASB) issued new and revised International Standards on Auditing (ISA) relating to reporting on audited financial statements (hereinafter referred to as the *new and revised ISAs*). In April 2015, the IAASB issued ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, which contained conforming amendments to certain of the reporting ISAs. The following is a list of the significant new and revised ISAs relating to reporting on a complete set of general purpose financial statements.

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- **New** ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*
- ISA 570 (Revised), *Going Concern*

The new and revised standards are effective for audits of financial statements for periods ending on or after December 15, 2016.

The following is a brief summary of the key changes in the auditor reporting requirements under the new and revised ISAs. AU-C appendix B, *Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards*, will be updated to reflect the issuance of the new and revised ISAs after their effective date.

For all audits of financial statements:

- a. Requires use of a specific form of report, unless law or regulation of a local jurisdiction prescribe otherwise
- b. Requires the "Basis for Opinion" section of the auditor's report to include an affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities, with disclosure of the origin of those requirements
- c. Expands the description of the responsibilities of management, including when those responsible for the oversight of the financial reporting process differ from those responsible for the preparation of the financial statements
- d. Expands the description of the responsibilities of the auditor and key features of an audit with the provision that certain components of this description may be presented in an appendix to the auditor's report or referenced to a website of an appropriate authority when law or regulation or auditing standards of a specific jurisdiction (national auditing standards) expressly permit such reference
- e. Requires a description of the respective responsibilities of management and the auditor related to going concern
- f. Requires, when applicable, a section that addresses the reporting requirements in ISA 720 (Revised)

For audits of financial statements of listed entities (voluntary for other than listed entities):

- a. Requires key audit matters (KAM) to be communicated for audits of complete sets of general purpose financial statements. When KAM are communicated on a voluntary basis in audits of other than listed entities, ISA 701 should be followed.
- b. Requires the name of the engagement partner to be included in the auditor's report, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

Interpretation No. 3, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing" (paragraphs .08–.13), addresses how the auditor might report when the audit is conducted in accordance with GAAS and the ISAs, and the new and revised ISAs have been adopted.

3. Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing

.08 Question—Section 700 requires the auditor's report to state that the audit was conducted in accordance with GAAS and identifies the United States of America as the country of origin of those standards.⁸ They also state that an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, 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.⁹ In accordance with section 700, when the auditor's report refers to GAAS and another set of auditing standards, the auditor's report should identify the other set of auditing standards as well as their origin.¹⁰ In January 2015, the IAASB released new and revised standards related to auditor reporting. The new and revised ISAs include several revisions to the layout and wording of the auditor's report. Accordingly, what are the implications for the auditor's report when reporting on an audit conducted in accordance with both GAAS and the new and revised ISAs when the auditor intends to refer to both sets of standards?

.09 Interpretation—When the auditor has conducted an audit in accordance with both GAAS and the new and revised ISAs in their entirety, the auditor may refer to both sets of standards in the auditor's report, provided the auditor complies with the requirements of those standards.

.10 In accordance with paragraph 51 of ISA 700 (Revised), the auditor's report may refer to the ISAs in addition to the national auditing standards, but the auditor should do so only if

- a. there is no conflict between the requirements in the national auditing standards and those in the ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an

⁸ Paragraph .42 of section 700, *Forming an Opinion and Reporting on Financial Statements*.

⁹ See footnote 8.

¹⁰ Paragraph .43 of section 700.

emphasis-of-matter paragraph or other-matter paragraph that, in the particular circumstances, is required by the ISAs; and

- b. the auditor's report includes, at a minimum, each of the elements set out in paragraph 50(a)–(o) of ISA 700 (Revised) when the auditor uses the layout or wording specified by the national auditing standards. However, reference to "law or regulation" in paragraph 50(k) of ISA 700 (Revised) should be read as reference to the national auditing standards. The auditor's report should thereby identify such national auditing standards.

.11 Accordingly, paragraph 50 of ISA 700 (Revised) allows the auditor to use the layout or wording of the national auditing standards, provided that (1) there are no conflicts between the requirements in GAAS and the ISAs that would lead to a different conclusion with respect to the opinion, and (2) it addresses, and is not inconsistent with, certain of the required minimum reporting elements in ISA 700 (Revised). The minimum elements exclude certain ISA 700 (Revised) requirements, such as placing the opinion paragraph first in the report.

.12 The following list summarizes the minimum elements set out in paragraph 50 of ISA 700 (Revised) that are required to be included in the auditor's report, if applicable, when reporting in accordance with GAAS and the ISA (*emphasis added* to highlight those elements that allow flexibility in meeting the required elements). The following reporting examples illustrate how an auditor might include these elements in a GAAS form of report:

- a. A title.
- b. An addressee, as required by the circumstances of the engagement.
- c. An "Opinion" section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards).
- d. An identification of the entity's financial statements that have been audited.
- e. A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement should identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code).
- f. When applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of ISA 570 (Revised)
- g. When applicable, a "Basis for Qualified (or "Adverse") Opinion" section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of ISA 570 (Revised).
- h. When applicable, a section that includes the information required by ISA 701, or additional information about the audit that is

prescribed by law or regulation and that *addresses, and is not inconsistent with*, the reporting requirements in that ISA.¹¹

- i. When applicable, a section that addresses the reporting requirements in paragraph 24 of ISA 720 (Revised).
- j. A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that *addresses, and is not inconsistent with*, the requirements in paragraphs 33–36 of ISA 700 (Revised).
- k. A reference to the ISAs and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that *addresses, and is not inconsistent with*, the requirements in paragraphs 37–40 of ISA 700 (Revised).
- l. For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
- m. The auditor's signature.
- n. The auditor's address.
- o. The date of the auditor's report.

.13 The following are two examples of auditor's reports on consolidated comparative financial statements when the audits are conducted in accordance with GAAS and the new and revised ISAs, and the auditor is referencing both standards in the report.

Example 3—Auditor's Report in Accordance With GAAS and ISAs When the Financial Statements Are Prepared in Accordance With International Financial Reporting Standards as Issued by the International Accounting Standards Board

Circumstances include the following:

- Audit of a complete set of general purpose consolidated financial statements (comparative) of a nonissuer. The audit is a group audit of an entity with subsidiaries. (ISA 600 and section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* apply.)
- The consolidated financial statements are prepared by management in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.
- The auditor has concluded that an unmodified opinion is appropriate based on the audit evidence obtained, and no emphasis-of-matter or other-matter paragraphs are included.
- The relevant ethical requirements that apply to the audit comprise AICPA's ethical requirements and the IESBA Code.

¹¹ See paragraphs 11–16 of ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Note: If the auditor were to have concluded that a material uncertainty exists and adequate disclosure about the material uncertainty is made in the financial statements, then the auditor would be required to include a separate section under the heading "Material Uncertainty Related to Going Concern" in accordance with paragraph 22 of ISA 570 (Revised). When reporting in accordance with GAAS and the ISAs, this may be achieved by adding an emphasis-of-matter paragraph to the auditor's report with such a heading and appropriate content.

- KAM are not required to be communicated and have not been communicated as permitted by ISA 701.

Note: When key audit matters are included in the auditor's report, a section that includes the information required by ISA 701 would need to be added to the auditor's report. This may be achieved by placing the information under the heading "Key Audit Matters" in a location that, in the auditor's judgment, is appropriate. In addition, information would be added to the auditor's responsibilities section relating to KAM, in accordance with paragraph 40(c) of ISA 700 (Revised).

- Those responsible for the oversight of the financial reporting process differ from those responsible for the preparation of the financial statements.
- No other information has been obtained as of the date of the auditor's report and, therefore, ISA 720 (Revised) does not apply.

Note: When other information has been obtained prior to the date of the auditor's report, a section that reports in accordance with the reporting requirements in ISA 720 (Revised) would need to be added to the auditor's report. This may be achieved by adding an other-matter paragraph to the auditor's report with an appropriate heading and content.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements¹²

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

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United States of America, together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively.

¹² 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.

Responsibilities of Management and Those Charged With Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board; 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group or to cease operations or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 and the International Standards on Auditing. 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, whether due to fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 Group's internal control. 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, structure, and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also

- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies or material weaknesses in internal control that we identify during our audit.

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 accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

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]

Example 4—Auditor's Report in Accordance With GAAS and ISAs When the Financial Statements Are 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) of a nonissuer. The audit is a group audit of an entity with subsidiaries. (ISA 600 and section 600 apply.)
- The consolidated financial statements are prepared by management in accordance with GAAP.

- The auditor has concluded an unmodified opinion is appropriate based on the audit evidence obtained, and no emphasis-of-matter or other-matter paragraphs are included.
- The relevant ethical requirements that apply to the audit comprise AICPA's ethical requirements and the IESBA Code.
- FASB ASC 205-40 has not been adopted.

Note: If FASB ASC 205-40 has been adopted, then management is expressly required to evaluate whether there are conditions or events in the aggregate that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued). Accordingly, the information under "Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements" that addresses management's responsibilities for assessing the use of the going concern basis of accounting would be revised to reflect the requirements in FASB ASC 205-40. The following is an example of such a paragraph.

In preparing the consolidated financial statements, management is responsible for evaluating whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued, or available to be issued, and disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by the entity.

- Based on the audit evidence obtained, the auditor has concluded that there is no substantial doubt about the entity's ability to continue as a going concern. [*The information contained in this illustration relating to going concern is not inconsistent with the requirements in ISA 570 (Revised) and has been presented to align with the accounting framework, in this case, GAAP.*]

Note: If, after considering identified conditions or events and management's plans, the auditor were to have concluded that there is substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time and adequate disclosure with respect to the entity's ability to continue as a going concern is made in the financial statements, then the auditor would be required to include a separate section in the auditor's report. When reporting in accordance with GAAS and the ISAs, this may be achieved by adding an emphasis-of-matter paragraph to the auditor's report with an appropriate heading and appropriate content.

If adequate disclosure about the entity's ability to continue as a going concern for a reasonable period of time is not made in the financial statements, the auditor would modify the opinion on the financial statements, as appropriate.

- KAM are not required to be communicated and have not been communicated as permitted by ISA 701.

Note: When key audit matters are included in the auditor's report, a section that includes the information required by ISA 701 would need to be added to the auditor's report. This may be achieved by placing the information under the heading "Key Audit Matters" in a location that, in the auditor's judgment, is appropriate. In addition, information would be added to the auditor's responsibilities

section relating to KAM, in accordance with paragraph 40(c) of ISA 700 (Revised).

- Those responsible for the oversight of the financial reporting process differ from those responsible for the preparation of the financial statements.
- No other information has been obtained as of the date of the auditor's report and, therefore, ISA 720 (Revised) does not apply.

Note: When other information has been obtained prior to the date of the auditor's report, a section that reports in accordance with the reporting requirements in ISA 720 (Revised) would need to be added to the auditor's report. This may be achieved by adding an other-matter paragraph to the auditor's report with an appropriate heading and content.

Independent Auditor's Report

[Appropriate Addressee]

Report on the Financial Statements¹³

We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries (the Group), 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.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the United States of America together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively.

Responsibilities of Management and Those Charged With Governance for the Consolidated 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. This also includes assessing that the consolidated financial statements are prepared using the appropriate basis of accounting.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 and the International Standards on Auditing. 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, whether due to fraud or error. Reasonable assurance is a high level of assurance but is not

¹³ 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.

a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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 Group's internal control. 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, structure, and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also

- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether substantial doubt exists related to the Group's ability to continue as a going concern. If we conclude that substantial doubt exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies or material weaknesses in internal control that we identify during our audit.

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 accompanying consolidated financial statements referred to above present fairly, in all material respects, the consolidated 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]

[Issue Date: April 2016.]
