

## AU-C Section 810

# ***Engagements to Report on Summary Financial Statements***

Source: SAS No. 122.

**Effective for audits of financial statements for periods ending on or after December 15, 2012.**

## **Introduction**

### **Scope of This Section**

**.01** This section addresses the auditor's responsibilities relating to an engagement to report separately on summary financial statements derived from financial statements audited in accordance with generally accepted auditing standards (GAAS) by the same auditor. In such an engagement, the auditor forms an opinion about whether the summary financial statements are consistent, in all material respects, with the audited financial statements from which they have been derived, in accordance with the applied criteria.

**.02** This section does not apply to condensed financial statements or summarized financial information presented as comparative information.<sup>1</sup> Section 700, *Forming an Opinion and Reporting on Financial Statements*, addresses the auditor's responsibility for comparative information.<sup>2</sup> (Ref: par. .A1)

**.03** Summary financial statements may be required by a designated accounting standards setter (for example, the Governmental Accounting Standards Board) to accompany the basic financial statements. This section does not apply in such circumstances. 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.

### **Effective Date**

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

### **Objectives**

**.05** The objectives of the auditor are

- a. to determine whether it is appropriate to accept the engagement to report on summary financial statements and,

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<sup>1</sup> Paragraph .11 of section 700, *Forming an Opinion and Reporting on Financial Statements*, defines the terms *condensed financial statements* and *comparative information*.

<sup>2</sup> Paragraphs .44–.51 of section 700A.

- b. if engaged to report on summary financial statements, to
  - i. perform the procedures necessary as the basis for the auditor's opinion on the summary financial statements;
  - ii. form an opinion on whether the summary financial statements are consistent, in all material respects, with the audited financial statements from which they have been derived, in accordance with the applied criteria, based on an evaluation of the conclusions drawn from the evidence obtained; and
  - iii. express clearly that opinion through a written report that also describes the basis for that opinion.

## Definitions

.06 For purposes of this section, the following terms have the meanings attributed as follows:

**Applied criteria.** The criteria applied by management in the preparation of the summary financial statements.

**Summary financial statements.** Historical financial information<sup>3</sup> that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. Summary financial statements are separately presented and are not presented as comparative information.

.07 In this section, the term *audited financial statements* refers to those financial statements<sup>4</sup> audited by the auditor in accordance with GAAS and from which the summary financial statements are derived.

## Requirements

### Engagement Acceptance

.08 The auditor should not accept an engagement to report on summary financial statements in accordance with this section unless the auditor has been engaged to conduct an audit in accordance with GAAS of the financial statements from which the summary financial statements are derived. (Ref: \break par. .A2)

.09 Before accepting an engagement to report on summary financial statements, the auditor should

- a. determine whether the applied criteria are acceptable, including determining that the applied criteria (Ref: par. .A3–.A5)
  - i. are free from bias so that the summary financial statements are not misleading.

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<sup>3</sup> Paragraph .14 of section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, defines the term *historical financial information*.

<sup>4</sup> Paragraph .14 of section 200 defines the term *financial statements*.

- ii. permit reasonably consistent qualitative or quantitative measurements so that the information in the summary financial statements agrees with or can be recalculated from the related information in the audited financial statements.
    - iii. are sufficiently complete so that the summary financial statements contain the information necessary and are at an appropriate level of aggregation, so that they are not misleading in the circumstances.
    - iv. are relevant to the summary financial statements in view of their purpose.
  - b. obtain the agreement of management, in writing, that it acknowledges and understands its responsibility
    - i. for the preparation of the summary financial statements in accordance with the applied criteria.
    - ii. to clearly describe in the summary financial statements where the audited financial statements are available and to make the audited financial statements readily available to the intended users of the summary financial statements when the summary financial statements will not be accompanied by the audited financial statements. (Ref: par .A6–.A7)
    - iii. to provide the auditor with written representations, as described in paragraph .12.
    - iv. to include the auditor's report on the summary financial statements in any document that contains the summary financial statements and indicates the auditor has reported on them.
  - c. obtain the agreement of management, in writing, about the expected form and content of the report on the summary financial statements, including the agreement that there may be circumstances in which the report may differ from its expected form and content. (Ref: par .A8)

**.10** If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in paragraph .09b–c, the auditor should not accept the engagement to report on the summary financial statements.

## Nature of Procedures

**.11** The auditor should perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

- a. Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements. (Ref: par .A9)
- b. When the summary financial statements are not accompanied by the audited financial statements, evaluate
  - i. whether the summary financial statements clearly describe where the audited financial statements are available and

- ii. whether the audited financial statements are readily available to the intended users of the summary financial statements. (Ref: par. .A7)
- c. Evaluate whether the summary financial statements adequately disclose the applied criteria.
- d. Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- e. Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- f. Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so that they are not misleading in the circumstances.

## Written Representations

**.12** The auditor should request management to provide written representations, in the form of a representation letter addressed to the auditor, for the following matters:

- a. Management has fulfilled its responsibility for the preparation of the summary financial statements in accordance with the applied criteria and believes the applied criteria are acceptable
- b. Management has made the audited financial statements readily available to the intended users of the summary financial statements, when the summary financial statements will not be accompanied by the audited financial statements
- c. If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements,
  - i. whether any information has come to management's attention that would cause management to believe that any of the previous representations on the audited financial statements need to be modified
  - ii. whether any events have occurred subsequent to the date of the audited financial statements that may require adjustment of, or disclosure in, the audited financial statements

**.13** The date of the written representations should be as of the date of the auditor's report on the summary financial statements. The written representations should be for all summary financial statements and period(s) referred to in the auditor's report on the summary financial statements.

## Form of Opinion (Ref: par. .A10–.A11)

**.14** When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion should state that the summary financial statements are consistent, in all material respects, with the audited financial statements from which they have been derived, in accordance with the applied criteria.

**.15** If the summary financial statements are not consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor should express an adverse opinion on the summary financial statements. The auditor should state in the opinion paragraph that, in the auditor's opinion, because of the significance of the matter(s) described in the basis for adverse opinion paragraph, the summary financial statements are not consistent, in all material respects, with the audited financial statements from which they have been derived, in accordance with the applied criteria.

**.16** When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor should withdraw from the engagement to report on the summary financial statements, when withdrawal is possible under applicable law or regulation. If it is not possible for the auditor to withdraw from the engagement, the auditor's report on the summary financial statements should

- a. state that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion.
- b. describe the basis for that adverse opinion or disclaimer of opinion.
- c. state that, as a result of the adverse opinion or disclaimer of opinion, it is inappropriate to express, and the auditor does not express, an opinion on the summary financial statements.
- d. include the reporting elements in paragraph .17, except for paragraph .17c(iv–v) and e–f.

## Auditor's Report on Summary Financial Statements

### *Elements of the Auditor's Report (Ref: par. .A12)*

**.17** The auditor's report on summary financial statements should include the following elements:

- a. Title that includes the word *independent* to clearly indicate that it is the report of an independent auditor (Ref: par. .A13)
- b. Addressee
- c. Introductory paragraph that
  - i. identifies the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements (Ref: par. .A14)
  - ii. identifies the audited financial statements from which the summary financial statements have been derived
  - iii. refers to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs .15–.16, the fact that an unmodified opinion is expressed on the audited financial statements
  - iv. if the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, states that the summary financial statements and the audited financial statements do not reflect the effects of events, if any, that occurred subsequent to the date of the auditor's report on the audited financial statements (see paragraph .19) (Ref: par. .A15)

- v. indicates that the summary financial statements do not contain all the disclosures required by the [financial reporting framework applied in the preparation of the financial statements] and that reading the summary financial statements is not a substitute for reading the audited financial statements
- d. Description of management's responsibility for the summary financial statements, explaining that management is responsible for the preparation of the summary financial statements in accordance with the applied criteria
- e. Statement that the auditor is responsible for expressing an opinion about whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on the procedures required by GAAS and an identification of the United States of America as the country of origin of those standards, including the following:
  - i. The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived and evaluating whether the summary financial statements are prepared in accordance with the applied criteria
  - ii. If the date of the auditor's report on the summary financial statements is later than the date of the auditor's report on the audited financial statements, the auditor did not perform any audit procedures regarding the audited financial statements after the date of the report on those financial statements.
- f. A paragraph that clearly expresses an opinion, as described in paragraphs .14–.15
- g. Auditor's signature
- h. Auditor's city and state
- i. Date of the auditor's report

**.18** The auditor should date the auditor's report on the summary financial statements no earlier than

- a. the date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and that management and, when appropriate, those charged with governance, have asserted that they have taken responsibility for them; and
- b. the date of the auditor's report on the audited financial statements.

**.19** When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements, the auditor may become aware of *subsequently discovered facts* as defined in section 560, *Subsequent Events and Subsequently Discovered Facts*. In such cases, the auditor should not release the auditor's report on the summary financial statements until the auditor's consideration of subsequently discovered facts in relation to the audited financial statements, in accordance with section 560, has been completed.

***Modifications to the Opinion, Emphasis-of-Matter Paragraph, or Other-Matter Paragraph in the Auditor's Report on the Audited Financial Statements (Ref: par. .A16)***

**.20** If the auditor's report on the audited financial statements contains a qualified opinion, an emphasis-of-matter paragraph, or an other-matter paragraph, and the auditor expresses an unmodified opinion (see paragraph .14) or an adverse opinion (see paragraph .15) on the summary financial statements, in addition to the elements in paragraph .17, the auditor's report on the summary financial statements should

- a. state that the auditor's report on the audited financial statements contains a qualified opinion, an emphasis-of-matter paragraph, or an other-matter paragraph and
- b. describe
  - i. the basis for the qualified opinion on the audited financial statements and that qualified opinion; or the emphasis-of-matter or other-matter paragraph in the auditor's report on the audited financial statements and
  - ii. the effect on the summary financial statements, if any.

**Restriction on Use or Alerting Readers to the Basis of Accounting**

**.21** When use of the auditor's report on the audited financial statements is restricted or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor should include a similar restriction or alert in the auditor's report on the summary financial statements.

**Comparatives**

**.22** If the audited financial statements contain comparative financial statements but the summary financial statements do not, the auditor should determine whether such omission is reasonable in the circumstances of the engagement. The auditor should determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: par. .A17–.A18)

**.23** Unless the predecessor auditor's report on the prior period's summary financial statements is reissued with the summary financial statements, if the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements should state

- a. that the summary 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 date of that report.

**.24** If the summary financial statements contain comparatives that were not reported on by the auditor or another auditor, the auditor's report on the summary financial statements should state that the comparative summary financial statements were not reported on by the auditor and, accordingly, the auditor does not express an opinion on the comparative summary financial statements.

## Unaudited Information Presented With Summary Financial Statements (Ref: par. .A19)

.25 The auditor should evaluate whether any unaudited information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited information is not clearly differentiated from the summary financial statements, the auditor should ask management to change the presentation of the unaudited information. If management refuses to do so, the auditor should explain in the auditor's report on the summary financial statements that such information is not covered by that report and accordingly, the auditor does not express an opinion on the information.

## Other Information in Documents Containing Summary Financial Statements (Ref: par. .A20)

.26 The auditor should read other information included in a document containing the summary financial statements and related auditor's report to identify material inconsistencies, if any, with the summary financial statements and the audited financial statements.

.27 If, upon reading the other information, the auditor identifies a material inconsistency or becomes aware of an apparent material misstatement of fact, the auditor should discuss the matter with management and should consider appropriate further action in the circumstances. For an identified material inconsistency, the auditor should also determine whether the summary financial statements or the other information needs to be revised.

## Auditor Association (Ref: par. .A21)

.28 If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor should request management to include the auditor's report in the document. If management does not do so, the auditor should determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.

.29 The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor should be satisfied that

- a. the reference to the auditor is made in the context of the auditor's report on the audited financial statements, and
- b. the statement does not give the impression that the auditor has reported on the summary financial statements.

If either *a* or *b* is not met, the auditor should request management to change the statement to meet both of the criteria in *a* and *b*, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary



financial statements in the document containing the summary financial statements, the auditor should advise management that the auditor disagrees with the reference to the auditor, and the auditor should determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document.

## Application and Other Explanatory Material

### Scope of This Section (Ref: par. .02)

**.A1** Financial statements may present comparative information in the form of condensed financial statements or summarized financial information. For example, entities such as state and local governmental units may present prior period financial information in their government-wide financial statements only for the total reporting entity rather than disaggregated by governmental activities, business-type activities, total primary government, and discretely presented component units. Also, not-for-profit organizations frequently present certain information for the prior period in total rather than by net asset class. As described in paragraph .02, this section does not apply to reporting on financial statements containing such comparative information. Summary financial statements differ from comparative information. Summary financial statements may be presented in a document containing financial statements or in a separate document, whereas comparative information is presented within the financial statements. Refer to section 700 for the auditor's responsibilities for reporting on comparative information.<sup>5</sup>

### Engagement Acceptance

**.A2** The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities regarding the summary financial statements, in accordance with this section. Application of this section will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor also has not audited the financial statements from which the summary financial statements are derived. (Ref: par. .08)

### Criteria (Ref: par. .09a)

**.A3** The preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so that they are not misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.

**.A4** Factors that may affect the auditor's determination of the acceptability of the applied criteria include the following:

- The nature of the entity
- The purpose of the summary financial statements

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<sup>5</sup> Paragraphs .44–.51 of section 700A.

- The information needs of the intended users of the summary financial statements
- Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances

**.A5** The criteria for the preparation of summary financial statements may be established by an authorized or recognized standards-setting organization or by law or regulation. In many such cases, the auditor may presume that such criteria are acceptable. When established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry.

### ***Availability of the Audited Financial Statements (Ref: par. .09b(ii) and .11b(ii))***

**.A6** Summary financial statements are presented in considerably less detail than the complete set of financial statements and do not contain all the disclosures required by the financial reporting framework applied in the preparation of the complete set of financial statements. In addition, reading the summary financial statements is not a substitute for reading the audited financial statements. Accordingly, before accepting an engagement to report on summary financial statements, the auditor is required by paragraph .09b(ii) to obtain management's agreement that it acknowledges and understands its responsibility to make the audited financial statements readily available to the intended users of the summary financial statements, when the summary financial statements will not be accompanied by the audited financial statements.

**.A7** Audited financial statements are deemed to be readily available if a third-party user can obtain the audited financial statements without any further action by the entity (for example, financial statements on an entity's website may be considered readily available but being available upon request is not considered readily available).

### ***Agreement on the Expected Form and Content of the Report (Ref: par. .09c)***

**.A8** Agreement with management about the expected form and content of the report on the summary financial statements may include a description of the types of opinions the auditor may express. It is not necessary to describe the type of opinion expected to be issued. The auditor also may indicate that circumstances may arise in which it is necessary for the auditor to withdraw from the engagement.

### ***Nature of Procedures (Ref: par. .11)***

**.A9** Adequate disclosure of the summarized nature of summary financial statements and the identity of the audited financial statements, as referred to in paragraph .11a, may, for example, be provided by a title such as "Summary Financial Statements Prepared From the Audited Financial Statements as of and for the Year Ended December 31, 20X1."

### ***Form of Opinion (Ref: par. .14–.16)***

**.A10** If the summary financial statements are not consistent, in all material respects, with the audited financial statements in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor is required by paragraph .15 to express an adverse opinion on the summary financial statements. Due to the summarized nature of the summary

financial statements, a qualified opinion would not be appropriate; the summary financial statements either are or are not consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.

**.A11** When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, paragraph .16 requires the auditor to withdraw from the engagement to report on the summary financial statements, when withdrawal is possible under applicable law or regulation. When an entity is required by law or regulation to provide a report on summary financial statements, the auditor is neither precluded from withdrawing, nor required to withdraw, from the engagement.

## Auditor's Report on Summary Financial Statements

### *Elements of the Auditor's Report (Ref: par. .17)*

**.A12** An auditor who is engaged to report on summary financial statements does not report in the same manner as the auditor reported on the complete set of financial statements from which they are derived. To do so might lead users to assume, erroneously, that the summary financial statements include all the disclosures necessary for the complete set of financial statements. For the same reason, summary financial statements need to adequately disclose their summarized nature, as referred to in paragraphs .11a and .A9.

#### *Title (Ref: par. .17a)*

**.A13** A title that includes the word *independent* to clearly indicate the report is the report of an independent auditor (for example, *Report of the Independent Auditor*) affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

#### *Introductory Paragraph (Ref: par. .17c(i))*

**.A14** When the auditor is aware that the summary financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers identify the summary financial statements that relate to the auditor's report.

#### *Date of the Auditor's Report on the Summary Financial Statements and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements (Ref: par. .17c(iv))*

**.A15** The auditor's report on the summary financial statements may be dated as of the same date or later than the date of the auditor's report on the audited financial statements, depending on when the procedures in paragraph .11 are performed and, as required by paragraph .18, when the auditor has obtained sufficient appropriate evidence on which to base the opinion. When the auditor reports on the summary financial statements after the completion of the financial statement audit, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements because the summary financial statements are derived from the audited financial statements and do not update them. In such cases, however, paragraph .17c(iv) requires the auditor's report to state that the summary financial statements and the audited financial statements do not reflect the effects of events, if any, that occurred subsequent to the date of the auditor's report on the audited financial statements.

### ***Modifications to the Opinion, Emphasis-of-Matter Paragraph, or Other-Matter Paragraph in the Auditor's Report on the Audited Financial Statements (Ref: par. .20)***

**.A16** If the auditor's report on the audited financial statements contains a qualified opinion, the auditor may determine that, due to the effect on the summary financial statements, it is inappropriate to express an opinion on the summary financial statements. In such circumstances, the auditor may adapt and apply the requirement in paragraph .16.

### **Comparatives (Ref: par. .22)**

**.A17** If the audited financial statements contain comparative financial statements, a presumption exists that the summary financial statements also would contain comparatives. Section 700 addresses the auditor's responsibilities regarding comparative financial statements in an audit of financial statements.<sup>6</sup>

**.A18** Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include:

- The nature and objective of the summary financial statements
- The applied criteria
- The information needs of the intended users of the summary financial statements

### **Unaudited Information Presented With Summary Financial Statements (Ref: par. .25)**

**.A19** Section 700 contains a requirement and guidance related to information presented in the financial statements that is not required by the applicable financial reporting framework.<sup>7</sup> Such requirement and guidance, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph .25.

### **Other Information in Documents Containing Summary Financial Statements (Ref: par. .26–.27)**

**.A20** Section 720, *Other Information in Documents Containing Audited Financial Statements*, contains requirements and guidance relating to reading other information included in a document containing the audited financial statements and related auditor's report and responding to material inconsistencies and material misstatements of fact. Adapted as necessary in the circumstances, these requirements and related guidance may be helpful in applying the requirements in paragraphs .26–.27.

### **Auditor Association (Ref: par. .28–.29)**

**.A21** Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor,

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<sup>6</sup> Paragraphs .44–.51 of section 700A.

<sup>7</sup> Paragraph .58 of section 700A.

including that the auditor did not report, and does not express an opinion on, the summary financial statements. The auditor's course of action depends on the auditor's association with misleading information and the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

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## Exhibit—Illustrations of Reports on Summary Financial Statements

Illustration 1—An Unmodified Opinion Is Expressed on the Summary Financial Statements (the Auditor's Report on the Summary Financial Statements Is Dated Later Than the Date of the Auditor's Report on the Financial Statements From Which the Summary Financial Statements Are Derived)

Illustration 2—An Unmodified Opinion Is Expressed on the Summary Financial Statements and a Qualified Opinion Is Expressed on the Audited Financial Statements

Illustration 3—An Adverse Opinion Is Expressed on the Audited Financial Statements (as a Result of the Adverse Opinion on the Audited Financial Statements, It Is Inappropriate to Express, and the Auditor Does Not Express, an Opinion on the Summary Financial Statements)

Illustration 4—An Adverse Opinion Is Expressed on the Summary Financial Statements Because They Are Not Consistent, in All Material Respects, With the Audited Financial Statements, in Accordance With the Applied Criteria

### Illustration 1—An Unmodified Opinion Is Expressed on the Summary Financial Statements (the Auditor's Report on the Summary Financial Statements Is Dated Later Than the Date of the Auditor's Report on the Financial Statements From Which the Summary Financial Statements Are Derived)

Circumstances include all of the following:

- An unmodified opinion is expressed on the audited financial statements.
- Criteria are developed by management for the preparation of the summary financial statements and are adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.
- An unmodified opinion is expressed on the summary financial statements.
- The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.

#### **Independent Auditor's Report on Summary Financial Statements**

[Appropriate Addressee]

The accompanying summary financial statements, which comprise the summary balance sheet as of December 31, 20X1, the summary income statement, summary statement of changes in stockholders' equity, and summary cash flow

statement for the year then ended, and the related notes, are derived from the audited financial statements of ABC Company as of and for the year ended December 31, 20X1. We expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 20X2. The audited financial statements, and the summary financial statements derived therefrom, do not reflect the effects of events, if any, that occurred subsequent to the date of our report on the audited financial statements.

The summary financial statements do not contain all the disclosures required by [*describe financial reporting framework applied in the preparation of the financial statements of ABC Company*]. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

### ***Management's Responsibility for the Summary Financial Statements***

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion about whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America. The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived, and evaluating whether the summary financial statements are prepared in accordance with the basis described in Note X. We did not perform any audit procedures regarding the audited financial statements after the date of our report on those financial statements.

### ***Opinion***

In our opinion, the summary financial statements of ABC Company as of and for the year ended December 31, 20X1 referred to above are consistent, in all material respects, with the audited financial statements from which they have been derived, on the basis described in Note X.

[*Auditor's signature*]

[*Auditor's city and state*]

[*Date of the auditor's report*]

## Illustration 2—An Unmodified Opinion Is Expressed on the Summary Financial Statements and a Qualified Opinion Is Expressed on the Audited Financial Statements

Circumstances include all of the following:

- A qualified opinion is expressed on the audited financial statements.
- Criteria are developed by management for the preparation of the summary financial statements and are adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.
- An unmodified opinion is expressed on the summary financial statements.

### Independent Auditor's Report on Summary Financial Statements

*[Appropriate Addressee]*

The accompanying summary financial statements, which comprise the summary balance sheet as of December 31, 20X1, the summary income statement, summary statement of changes in stockholders' equity, and summary cash flow statement for the year then ended, and the related notes, are derived from the audited financial statements of ABC Company as of and for the year ended December 31, 20X1. We expressed a qualified audit opinion on those audited financial statements in our report dated February 15, 20X2 (see below).<sup>1</sup>

The summary financial statements do not contain all the disclosures required by *[describe financial reporting framework applied in the preparation of the financial statements of ABC Company]*. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

### ***Management's Responsibility for the Summary Financial Statements***

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion about whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America. The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived, and evaluating whether the summary financial statements are prepared in accordance with the basis described in Note X.<sup>2</sup>

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<sup>1</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements, the following sentence is added to this paragraph: "The audited financial statements, and the summary financial statements derived therefrom, do not reflect the effects of events, if any, that occurred subsequent to the date of our report on the audited financial statements."

<sup>2</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements, the following sentence is added to this paragraph: "We did not perform any audit procedures regarding the audited financial statements after the date of our report on those financial statements."



**Opinion**

In our opinion, the summary financial statements of ABC Company as of and for the year ended December 31, 20X1 referred to above are consistent, in all material respects, with the audited financial statements from which they have been derived, on the basis described in Note X.

The summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company as of and for the year ended December 31, 20X1. The misstatement of the audited financial statements is described in our qualified audit opinion in our report dated February 15, 20X2. Our qualified audit opinion is based on the fact that the Company's inventories are carried in the balance sheet in those audited financial statements at \$XXX. Management has not stated the inventories at the lower of cost or net realizable value but has stated them solely at cost, which constitutes a departure from *[describe financial reporting framework applied in the preparation of the financial statements of ABC Company]*. The Company's records indicate that, had management stated the inventories at the lower of cost or net realizable value, an amount of \$XXX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by \$XXX, and income tax, net income, and stockholders' equity would have been reduced by \$XXX, \$XXX, and \$XXX, respectively. Our qualified audit opinion states that, except for the effects of the described matter, those financial statements 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 *[describe financial reporting framework applied in the preparation of the financial statements of ABC Company]*.

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

### **Illustration 3—An Adverse Opinion Is Expressed on the Audited Financial Statements (as a Result of the Adverse Opinion on the Audited Financial Statements, It Is Inappropriate to Express, and the Auditor Does Not Express, an Opinion on the Summary Financial Statements)**

Circumstances include both of the following:

- An adverse opinion is expressed on the audited financial statements. As a result of the adverse opinion on the audited financial statements, it is inappropriate to express, and the auditor does not express, an opinion on the summary financial statements, as described in paragraph .16.
- Criteria are developed by management for the preparation of the summary financial statements and are adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.

#### **Independent Auditor's Report on Summary Financial Statements**

*[Appropriate Addressee]*

Management derived the accompanying summary financial statements, which comprise the summary balance sheet as of December 31, 20X1, the summary income statement, summary statement of changes in stockholders' equity, and summary cash flow statement for the year then ended, and the related notes, from the audited financial statements of ABC Company as of and for the year ended December 31, 20X1. Management is responsible for the preparation of these summary financial statements on the basis described in Note X.

In our report dated February 15, 20X2, we expressed an adverse audit opinion on the financial statements of ABC Company as of and for the year ended December 31, 20X1. The basis for our adverse audit opinion was *[describe basis for adverse audit opinion]*. Our adverse audit opinion stated that *[describe adverse audit opinion]*.

Because of the significance of the matter discussed above, it is inappropriate to express, and we do not express, an opinion on the summary financial statements of ABC Company as of and for the year ended December 31, 20X1.

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

## **Illustration 4—An Adverse Opinion Is Expressed on the Summary Financial Statements Because They Are Not Consistent, in All Material Respects, With the Audited Financial Statements, in Accordance With the Applied Criteria**

Circumstances include all of the following:

- An unmodified opinion is expressed on the audited financial statements.
- Established criteria for the preparation of summary financial statements exist.
- The auditor expresses an adverse opinion on the summary financial statements because they are not consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.

### **Independent Auditor's Report on Summary Financial Statements**

*[Appropriate Addressee]*

The accompanying summary financial statements, which comprise the summary balance sheet as of December 31, 20X1, the summary income statement, summary statement of changes in stockholders' equity, and summary cash flow statement for the year then ended, and the related notes, are derived from the audited financial statements of ABC Company as of and for the year ended December 31, 20X1. We expressed an unmodified audit opinion on those audited financial statements in our report dated February 15, 20X2.<sup>1</sup>

The summary financial statements do not contain all the disclosures required by *[describe financial reporting framework applied in the preparation of the financial statements of ABC Company]*. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of ABC Company.

### ***Management's Responsibility for the Summary Financial Statements***

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion about whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on our procedures, which were conducted in accordance with auditing standards generally accepted in the United States of America. The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived, and evaluating whether the summary financial statements are prepared in accordance with the basis described in Note X.<sup>2</sup>

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<sup>1</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements, the following sentence is added to this paragraph: "The audited financial statements, and the summary financial statements derived therefrom, do not reflect the effects of events, if any, that occurred subsequent to the date of our report on the audited financial statements."

<sup>2</sup> When the auditor's report on the summary financial statements is dated later than the date of the auditor's report on the audited financial statements, the following sentence is added to this paragraph: "We did not perform any audit procedures regarding the audited financial statements after the date of our report on those financial statements."

***Basis for Adverse Opinion***

*[Describe matter that caused the summary financial statements not to be consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria.]*

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* paragraph, the summary financial statements of ABC Company as of and for the year ended December 31, 20X1 referred to above are not consistent with the audited financial statements from which they have been derived, on the basis described in Note X.

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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