Supplement to the Exposure Draft of Proposed Statement on Auditing Standards Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134

Marked Drafts of Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement, and AU-C section 810, Engagements to Report on Summary Financial Statements

The following matrices identify the proposed changes to the Statements on Auditing Standards (SASs) included in the exposure draft of proposed SAS Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134. New language is underlined, and deleted language is shown in strikethrough. The exposure draft is available at https://www.aicpa.org/research/exposuredrafts/accountingandauditing.html.

**Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks** (Marked from Extant AU-C Section 800)

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**Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)**

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<td>.01 AU-C sections 200–700 apply to an audit of financial statements. This section addresses special considerations in the application of those AU-C sections to an audit of financial statements prepared in accordance with a special purpose framework, which is a cash, a tax, a regulatory, a contractual, or an other basis of accounting. This section does not purport to address all special considerations that may be relevant in the circumstances. (Ref: par. .A1–.A5)</td>
<td>.A1 The following are examples of special purpose frameworks (Ref: par. .01):</td>
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<tr>
<td></td>
<td>a. <strong>Cash basis.</strong> A basis of accounting the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).</td>
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<td></td>
<td>b. <strong>Tax basis.</strong> A basis of accounting the entity uses to file its tax return for the period covered by the financial statements.</td>
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<td>c. <strong>Regulatory basis.</strong> A basis of accounting the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).</td>
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<td></td>
<td>d. <strong>Contractual basis.</strong> A basis of accounting the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor.</td>
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<td></td>
<td>e. <strong>Other basis.</strong> A basis of accounting that comprises a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.</td>
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The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as *other comprehensive bases of accounting.*

**Definitions**

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* All AU-C sections can be found in AICPA *Professional Standards.*
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<td><strong>Special Purpose Financial Statements and Special Purpose Frameworks (Ref: par. .07)</strong></td>
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<td><strong>A2 A1</strong> Special purpose financial statements may be prepared for use by regulatory bodies, the parties to a contract or agreement, or other specified parties. For example, a loan agreement may require the borrower to prepare consolidated financial statements for the lender presented on a contractual basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards promulgated by the International Accounting Standards Board.</td>
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<td><strong>A3 A2</strong> There may be circumstances in which when a regulatory or contractual basis of accounting is based on a general purpose framework such as U.S. GAAP, established by an authorized or recognized standard-setting organization or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of U.S. GAAP. If the financial statements purport to be prepared in accordance with a general purpose framework and such financial statements are materially misstated due to a departure from that framework, section 705 applies.</td>
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<td><strong>A4 A3</strong> When it is acceptable in the circumstances of the engagement to report, in accordance with this section, on special purpose financial statements that purport to be prepared in accordance with a regulatory or contractual basis of accounting that is based on a general purpose framework, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial</td>
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1212 The term *general purpose framework* is defined in paragraph 1044 of section 700.
Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

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<td>statements to imply full compliance that the special purpose framework includes all requirements of, or is the same as, the financial reporting framework on which the special purpose framework is based with the general purpose framework. In the example of the contract in paragraph 0, the description of the applicable financial reporting framework would refer to the financial reporting provisions of the contract, rather than make any reference to U.S. GAAP. The requirements in paragraphs .19–.21 are designed to avoid misunderstandings about compliance with the general purpose framework.</td>
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.02 This section is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement. |

.45.64 Financial statements prepared in accordance with a special purpose framework each basis, tax basis, or an other basis of accounting may be the only financial statements an entity prepares. Such special purpose financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements, the financial statements are still considered to be special purpose financial statements for purposes of GAAS. The requirement in paragraph .19 is designed to avoid misunderstandings about the framework used to prepare the financial statements.
Proposed AU-C Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (Marked from Extant AU-C Section 800)

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<td><strong>.03</strong> Section 910, <em>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</em>, addresses circumstances in which an auditor practicing in the United States is engaged to report on financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country not adopted by a body designated by the Council of the AICPA (Council) to promulgate generally accepted accounting principles (GAAP) when such audited financial statements are intended for use outside the United States.</td>
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<tr>
<td><strong>.03</strong> Section 570, <em>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</em>, applies to audits of special purpose financial statements, as discussed in paragraph .14 of this section.</td>
<td></td>
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<tr>
<td><strong>.04</strong> Section 806, <em>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements</em>, addresses the auditor’s responsibility and the form and content of the report when the auditor is requested to report on the entity’s compliance with aspects of contractual agreements or regulatory requirements in connection with the audit of financial statements.</td>
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**Effective Date**

**.05** This amendment section is effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2012. Early implementation is not permitted.

**Objective**

**.06** The objective of the auditor, when applying generally accepted auditing standards (GAAS) in an audit of financial statements
Proposed AU-C Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (Marked from Extant AU-C Section 800)

### Introduction, Objectives, Definitions and Requirements

Prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to

- the acceptance of the engagement,
- the planning and performance of that engagement, and
- forming an opinion and reporting on the financial statements.

### Definitions

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

**Special purpose financial statements.** Financial statements prepared in accordance with a special purpose framework. (Ref: par. .A1)

**Special purpose framework.** A financial reporting framework other than GAAP designed to meet the financial information needs of specific users, that is one of the following bases of accounting: (Ref: par. .A2–.A5.A6)

- **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.
- **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the

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**Special Purpose Frameworks (Ref: par. .07)**

.A5.A6 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on a framework promulgated by an authorized or recognized standard-setting organization (for example, FASB or GASB). U.S. GAAP but does not comply with include all of the requirements of U.S. GAAP that framework. Such frameworks are regulatory bases of accounting, as defined described in paragraph .07.A1. In some circumstances, however, the cash or tax basis of accounting may be permitted by a regulator. For purposes of this section, the cash and tax bases of accounting are not regulatory bases of accounting.
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<th>Entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).</th>
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<td><strong>d. Contractual basis.</strong> A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor.</td>
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<tr>
<td><strong>e. Other basis.</strong> A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.</td>
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The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as other comprehensive bases of accounting.

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

**.09 Reference to GAAP in GAAS** means generally accepted accounting principles promulgated by bodies designated by Council pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the AICPA Code of Professional Conduct.

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1 Paragraphs .14 and .A9 of section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards.

† All ET sections can be found in AICPA Professional Standards.
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**.10** Section 210, *Terms of Engagement*, requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements. In an audit of special purpose financial statements, the auditor should obtain an understanding of

a. the purpose for which the financial statements are prepared,
b. the intended users, and
c. the steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

**.A6, A7** In the case of special purpose financial statements, the financial information needs of the intended users are a factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.

**.A7, A8** The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some circumstances, law or regulation may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such an entity.

**.A8, A9** The acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks. Section 210 discusses the

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2 Paragraph .06a of section 210, *Terms of Engagement.*
**Introduction, Objectives, Definitions and Requirements**

Attributes of acceptable financial reporting frameworks, which provide management with an appropriate basis for preparing the financial statements and the auditor with suitable criteria for auditing the financial statements. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the seller and purchaser may have agreed that conservative estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information may be biased when compared with financial information prepared in accordance with a general purpose framework.

**Preconditions for an Audit (Ref: par. .A10.A11)**

Section 210 requires the auditor to establish whether the preconditions for an audit are present, including determining whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable. In an audit of financial statements prepared in accordance with a contractual basis of accounting, the parties to the contract or agreement may need to agree on the significant interpretations of the contract on which the special purpose financial statements are based. If agreement cannot be reached, the auditor may determine that the framework is not acceptable.

**Preconditions for an Audit (Ref: par. .11)**

Section 210 also requires the agreed-upon terms of the audit engagement to include references to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form.

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1. Paragraphs .A2-.A3 of section 210, Terms of Engagement.
2. Paragraph .06a of section 210.
Proposed AU-C Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (Marked from Extant AU-C Section 800)

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| special purpose financial statements, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility to include all informative disclosures that are appropriate for the special purpose framework used to prepare the entity's financial statements, including  
  
  a. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effects of which need not be quantified.  
  
  b. informative disclosures similar to those required by GAAP, in the case of special purpose financial statements that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.  
  
  c. a description of any significant interpretations of the contract on which the special purpose financial statements are based, in the case of special purpose financial statements prepared in accordance with a contractual basis of accounting.  
  
  d. additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose financial statements to achieve fair presentation. (Ref: par. A12, A110) | and content. The auditor may discuss with management and, when appropriate, those charged with governance how an auditor's audit report on financial statements prepared in accordance with a special purpose framework differs from an auditor's audit report on financial statements prepared in accordance with a general purpose framework. Discussing the expected form and content of the auditor's report may assist management in understanding its responsibilities related to the audit engagement. |

**Achieving Fair Presentation (Ref: par. 11d)**

**A11, A12** In accordance with section 700, the auditor's evaluation about of whether the financial statements achieve fair presentation in accordance with the applicable financial reporting framework requires consideration of the following:  

  a. **The overall presentation, structure, and content of the financial statements**  
  
  b. **Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that**

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1413 Paragraph .107 of section 210.  
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<td><strong>Considerations When Planning and Performing the Audit (Ref: par. .A12–.A13–A16)</strong></td>
<td>achieves fair presentation</td>
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<tr>
<td>.12 Section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, requires the auditor to comply with all AU-C sections relevant to the audit. In planning and performing an audit of special purpose financial statements, the auditor should adapt and apply all AU-C sections relevant to the audit as necessary in the circumstances of the engagement.</td>
<td>Also see paragraphs .A24–.A28 .A20–.A24 of this section.</td>
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<tr>
<td>.13 Section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement, requires the auditor to obtain an understanding of the entity’s selection and application of accounting policies. In the case of special purpose financial statements prepared in accordance with a contractual basis of accounting, the auditor should obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation...</td>
<td>.A12 .A13 Section 200 requires the auditor to comply with (a) relevant ethical requirements relating to financial statement audit engagements and (b) all AU-C sections relevant to the audit. It also requires the auditor to comply with each requirement of an AU-C section unless, in the circumstances of the audit, the entire AU-C section is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In rare circumstances, the auditor may judge it necessary to depart from a relevant presumptively mandatory requirement in an AU-C section by performing alternative audit procedures to achieve the intent of that requirement.</td>
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<td>.14 An AU-C section is relevant to the audit when the AU-C section is in effect and the circumstances addressed by the AU-C section exist. In an audit of special purpose financial statements, some of the requirements within the relevant AU-C sections may need to be adapted by the auditor. For example, in section 320, Materiality in Planning and Performing an Audit, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In an audit of special purpose financial statements, those...</td>
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4 Paragraph .20 of section 200.
5 Paragraphs .16, .20, and .24–.26 of section 200.
6 Paragraph .12c of section 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.
7 Paragraph .20 of section 200.
8 Paragraph .02 of section 320, Materiality in Planning and Performing an Audit.
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<td>would have produced a material difference in the information presented in the financial statements.</td>
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| | .A14 Special purpose financial statements may or may not be prepared in accordance with an applicable financial reporting framework for which the going concern basis of accounting is relevant. As a result, when the going concern basis of accounting is not relevant, the requirement to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management’s use of the going concern basis of accounting does not apply. However, irrespective of whether the going concern basis of accounting is relevant in the preparation of the special purpose financial statements, the requirements in section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern, apply regarding the auditor’s responsibilities to perform the following:
| a. Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity’s ability to continue as a going concern for a reasonable period of time
| b. Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity’s ability to continue as a going concern for a reasonable period of time |
| A15 In the case of special purpose financial statements, such as those prepared in accordance with a contractual basis of accounting, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not apply. Paragraph 19 of section 570, The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern. |
| Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800) |
|---|---|
| **Introduction, Objectives, Definitions and Requirements** | **Application and Other Explanatory Material** |
| relieve the auditor from the requirement to determine materiality in accordance with section 320 for purposes of planning and performing the audit of the special purpose financial statements. With respect to interpretations of the contract on which the special purpose financial statements are based, the auditor may determine that an interpretation is significant based on qualitative considerations. |
| .**A16** Communication with those charged with governance in accordance with GAAS is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility; for example, when the financial information is prepared solely for management's use. In such cases, the requirements of section 260, *The Auditor's Communication With Those Charged With Governance*, may not be relevant to the audit of the special purpose financial statements, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed to communicate with those charged with governance of the entity relevant matters identified during the audit of the special purpose financial statements. |
| **Auditor’s Responsibilities Regarding the Entity’s Ability to Continue as a Going Concern** | **Auditor’s Responsibilities Regarding the Entity’s Ability to Continue as a Going Concern (Ref: par. 0)** |
| **.14** Irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements, the requirements of section 570 apply regarding the auditor’s responsibilities to perform the following tasks: (Ref: par. .A17) |
| Relevance of Going Concern Basis of Accounting to a Special Purpose Framework |
| .**A14-A17** Special purpose financial statements may or may not be prepared in accordance with an applicable financial reporting |
### Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

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<td><strong>a.</strong> Based on the audit evidence obtained, conclude whether, in the auditor’s judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time.</td>
<td>framework for which the going concern basis of accounting is relevant. <strong>The going concern basis of accounting is relevant to a special purpose framework if the special purpose framework requires management, in specified circumstances, to use a basis of accounting other than the going concern basis of accounting.</strong> For example, the AICPA’s Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs accounting framework) requires management to assess whether the going concern basis of accounting is appropriate, and if not, to use the liquidation basis of accounting. In contrast, the cash or tax bases of accounting do not specify any alternative basis of accounting to be considered and thus do not require management to assess whether the going concern basis of accounting is appropriate. Therefore, the going concern basis of accounting is not relevant to special purpose financial statements prepared using those bases of accounting. Depending on the applicable financial reporting framework used in the preparation of the special purpose financial statements, the description in the auditor’s report of management’s responsibilities relating to going concern may need to be adapted as necessary. <strong>The description in the auditor’s report of the auditor’s responsibilities may also need to be adapted as necessary depending on how section 570 applies in the circumstances of the engagement.</strong> As a result, when the going concern basis of accounting is not relevant, the requirement to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management’s use of the going concern basis of accounting does not apply. However, irrespective of whether the</td>
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<td><strong>b.</strong> When such substantial doubt exists, evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework.</td>
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6 Paragraphs .20–.22 and .A46 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern.*

19 Paragraph .32b of section 700.

20 Paragraph .36e of section 700.

18 Paragraph 19 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern.*
**Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)**

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<td>going concern basis of accounting is relevant in the preparation of the special purpose financial statements, the requirements in section 570, <em>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</em>, apply regarding the auditor’s responsibilities to perform the following:</td>
<td></td>
</tr>
<tr>
<td>a. Conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity’s ability to continue as a going concern for a reasonable period of time</td>
<td></td>
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<tr>
<td>b. Evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity’s ability to continue as a going concern for a reasonable period of time</td>
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**Forming an Opinion and Reporting Considerations**

*15.14* When forming an opinion and reporting on special purpose financial statements, the auditor should apply the requirements in section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. When, in forming an opinion, the auditor concludes that a modification to the auditor’s opinion on the financial statements is necessary, the auditor should apply the requirements in section 705, *Modifications to the Opinion in the Independent Auditor’s Report*. (Ref: par. A17–A21)

*15.15* 

**Forming an Opinion and Reporting Considerations (Ref: par. 0.14)**

*15.17, 15.18* Appendix A, “Overview of Reporting Requirements,” provides an overview of the reporting requirements depending on the special purpose framework. The exhibit, “Illustrations of Auditor’s Reports on Special Purpose Financial Statements,” contains illustrations of auditor’s reports on special purpose financial statements.

**Application of Section 700 When Reporting on Special Purpose Financial Statements**

*15.19* Paragraph .15 of this section requires the auditor to apply the
### Proposed AU-C Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (Marked from Extant AU-C Section 800)

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<tr>
<td>Requirements in section 700 or section 703 when forming an opinion and reporting on special purpose financial statements. In doing so, the auditor is also required to apply the reporting requirements in other AU-C sections and may find the special considerations addressed in paragraphs 0 and 0–0 of this section helpful.</td>
<td></td>
</tr>
</tbody>
</table>

#### Key Audit Matters

**A20** For audits of special purpose financial statements, section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, applies only when the auditor is engaged to communicate key audit matters.

#### Other Information

**A21** Section 720 addresses the auditor’s responsibilities relating to other information in an entity’s annual report. In the context of this section, an annual report is a document or combination of documents, the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the special purpose financial statements. The term *similar stakeholders* includes specific users whose financial information needs are met by the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue an annual report, the requirements in section 720 apply to the audit of the special purpose financial statements.

**Description of the Applicable Financial Reporting Framework** (Ref: par. A18-A19,A22–A23)

- Section 700 requires the auditor to evaluate whether the
- Terms such as balance sheet, statement of financial
Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

<table>
<thead>
<tr>
<th>Introduction, Objectives, Definitions and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>financial statements adequately refer to or describe the applicable financial reporting framework. In an audit of special purpose financial statements, the auditor should evaluate whether the financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor should evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.</td>
<td>position, statement of income, statement of operations, and statement of cash flows, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP. Accordingly, the auditor is required by paragraph .15.16 to evaluate whether the financial statements are suitably titled. For example, cash basis financial statements might be titled as a statement of assets and liabilities arising from cash transactions or as a statement of revenue collected and expenses paid; a financial statement prepared on a regulatory basis of accounting might be titled as a statement of income—regulatory basis.</td>
</tr>
</tbody>
</table>

16. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor should evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

Fair Presentation (Ref: par. 0 A-20-A24,A24—A28)

.17 Section 700 requires the auditor to evaluate whether the financial statements achieve fair presentation. In an audit of special purpose financial statements when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor

Fair Presentation (Ref: par. .17)

.24 Financial statements, including the disclosures related notes, that achieve a fair presentation include all informative disclosures that are appropriate for the applicable financial reporting framework, including matters that affect their use, understanding, and interpretation. Also refer to paragraph .0 .A11.

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76 Paragraph .15.18 of section 700A, Forming an Opinion and Reporting on Financial Statements.
82 Paragraph .17 of section 700A.
## Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

### Introduction, Objectives, Definitions and Requirements

<table>
<thead>
<tr>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>should evaluate whether</td>
</tr>
<tr>
<td>a. the financial statements include informative disclosures similar to those required by GAAP, when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP.</td>
</tr>
<tr>
<td>b. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation.</td>
</tr>
</tbody>
</table>

| A25-A24 When the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, informative disclosures similar to those required by GAAP are necessary to achieve fair presentation. For example, financial statements prepared on a tax basis or on a modified cash basis of accounting usually reflect depreciation, long-term debt, and owners' equity. Thus, the informative disclosures for depreciation, long-term debt, and owners' equity in such financial statements would be comparable to those in financial statements prepared in accordance with GAAP. |

| A26-A22 Disclosures in special purpose financial statements may substitute qualitative information for some of the quantitative information required by GAAP or may provide information that communicates the substance of those requirements. For example, disclosing estimated percentages of revenues, rather than amounts that GAAP presentations would require, may sufficiently convey the significance of sales or leasing to related parties or major customers. |

<p>| A27-A23 The auditor is also required by paragraph .17 to evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures may be necessary for the special purpose financial statements to achieve fair presentation. For example, these disclosures may include matters about related party transactions, restrictions on assets and owners' equity, subsequent events, and significant uncertainties. In such circumstances, the special purpose financial statements would include |</p>
<table>
<thead>
<tr>
<th>Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction, Objectives, Definitions and Requirements</strong></td>
</tr>
<tr>
<td>the same disclosure required by GAAP or disclosure that communicates the substance of those requirements.</td>
</tr>
<tr>
<td><strong>Appendix B, &quot;Fair Presentation and Adequate Disclosures,&quot; provides additional guidance on evaluating the adequacy of disclosures in financial statements prepared in accordance with a special purpose framework, including matters related to the presentation of financial statements.</strong></td>
</tr>
<tr>
<td><strong>Auditor’s Report</strong></td>
</tr>
<tr>
<td><strong>.18 Section 700 addresses the form and content of the auditor's report, including the specific ordering for certain elements. In the case of an auditor's report on special purpose financial statements, the auditor's report should also describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information, when the financial statements are prepared in accordance with</strong></td>
</tr>
<tr>
<td><strong>a.</strong> the auditor's report should also describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information, when the financial statements are prepared in accordance with</td>
</tr>
<tr>
<td>i. a regulatory or contractual basis of accounting or</td>
</tr>
<tr>
<td>ii. an other basis of accounting, and the auditor is required to restrict use of the auditor's report pursuant to paragraph .06a–b of section 905, Alert That Restrictions the Use of the Auditor's Written Communication. (Ref: par. .29.25)</td>
</tr>
<tr>
<td><strong>b.</strong> if management has a choice of financial reporting frameworks in the preparation of the special purpose financial statements, the explanation of management's responsibility for the financial statements should also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances; when</td>
</tr>
<tr>
<td>Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td><strong>Introduction, Objectives, Definitions and Requirements</strong></td>
</tr>
<tr>
<td>management has a choice of financial reporting frameworks in the preparation of such financial statements.</td>
</tr>
<tr>
<td>.19 Except for the circumstances described in paragraph .21, the auditor's report on special purpose financial statements should include an emphasis-of-matter paragraph,(^9) under an appropriate heading, that a. indicates that the financial statements are prepared in accordance with the applicable special purpose framework, b. refers to the note to the financial statements that describes that framework, and c. states that the special purpose framework is a basis of accounting other than GAAP. For special purpose financial statements prepared in accordance with a contractual basis or other basis of accounting, the emphasis-of-matter paragraph should also state that, as a result, the financial statements may not be suitable for another purpose.</td>
</tr>
<tr>
<td>.A30-.A26 Special purpose financial statements may be used for purposes other than those for which they were intended. To avoid misunderstandings, paragraph .19 requires the auditor to include an emphasis-of-matter paragraph in the auditor's report that alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that the basis of accounting is a basis of accounting other than GAAP.</td>
</tr>
<tr>
<td>.20 Except for the circumstances described in paragraph .21, the auditor's report on special purpose financial statements should include an other-matter paragraph,(^10) under an appropriate heading, that restricts the use of the auditor's report when the special</td>
</tr>
<tr>
<td><strong>Restricting the Use of the Auditor's Report in an Other-Matter Paragraph (Ref: par. .20)</strong></td>
</tr>
<tr>
<td>.A31-.A27 Special purpose financial statements prepared in accordance with a contractual or regulatory basis of accounting are suitable only for a limited number of users who can be presumed to have an adequate understanding of such bases of accounting. For</td>
</tr>
</tbody>
</table>

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\(^10\) Paragraph .08 of section 706A, Consistency of Financial Statements.

\(^11\) See paragraph .06a-b and .07 of section 905, Alert That Restricts the Use of the Auditor’s Written Communication.
Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

<table>
<thead>
<tr>
<th>Introduction, Objectives, Definitions and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purpose financial statements are prepared in accordance with</td>
<td></td>
</tr>
<tr>
<td>a. a contractual basis of accounting,</td>
<td></td>
</tr>
<tr>
<td>b. a regulatory basis of accounting, or</td>
<td></td>
</tr>
<tr>
<td>c. an other basis of accounting when required pursuant to paragraph .06a–b of section 905.</td>
<td></td>
</tr>
</tbody>
</table>

| Regulatory Basis Financial Statements Intended for General Use (Ref: par. .29 .33) |  |
| .21 If the special purpose financial statements are prepared in accordance with a regulatory basis of accounting, and the special purpose financial statements together with the auditor's report are intended for general use, the auditor should not include the emphasis-of-matter or other-matter paragraphs required by paragraphs .19–.20. Instead, the auditor should express an opinion about whether the special purpose financial statements are presented fairly, in all material respects, in accordance with GAAP. The auditor should also, in a separate paragraph, express an opinion about whether the financial statements are prepared in accordance with the special purpose framework. |  |

| Regulatory Basis Financial Statements Intended for General Use (Ref: par. .21) |  |
| .33A29 Special purpose financial statements prepared in accordance with a regulatory basis of accounting may be intended for general use. Such special purpose financial statements are intended for general use when the financial statements together with the auditor's report are intended for use by parties other than those within the entity and the regulatory agencies to whose jurisdiction the entity is subject or when the financial statements together with the auditor's report are distributed by the entity to parties other than the regulatory agencies to whose jurisdiction the entity is subject, either voluntarily or upon specific request. In such circumstances, the emphasis of matter and other matter paragraphs described in paragraphs .19–.20 are not required because the auditor is required, in accordance with paragraph .21, to express an opinion about whether the special purpose financial statements are prepared in accordance with GAAP and an opinion... |  |
### Proposed AU-C Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (Marked from Extant AU-C Section 800)

<table>
<thead>
<tr>
<th>Introduction, Objectives, Definitions and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Auditor’s Report Prescribed by Law or Regulation (Ref: par. .A30–A33 0A34–.A37)</strong></td>
<td>about whether the financial statements are prepared in accordance with the special purpose framework.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>.22</th>
<th>Auditor’s Report Prescribed by Law or Regulation (Ref: par. .22–.24 .22–.23)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>If the auditor is required by law or regulation to use a specific layout, form, or wording of the auditor's report, the auditor's report should refer to GAAS only if the auditor's report includes, at a minimum, each of the following elements:</strong></td>
</tr>
<tr>
<td></td>
<td><strong>A.</strong> A title that clearly indicates that it is the report of an independent auditor</td>
</tr>
<tr>
<td></td>
<td><strong>B.</strong> An addressee</td>
</tr>
<tr>
<td></td>
<td><strong>C.</strong> An introductory paragraph that identifies the special purpose financial statements audited</td>
</tr>
<tr>
<td></td>
<td><strong>D.</strong> An opinion section that</td>
</tr>
<tr>
<td></td>
<td>i. identifies the special purpose financial statements that have been audited and</td>
</tr>
<tr>
<td></td>
<td>ii. contains an expression of opinion on the special purpose financial statements and a reference to the special purpose framework used to prepare the financial statements</td>
</tr>
<tr>
<td></td>
<td><strong>A.34-A30</strong> The auditor may be required to comply with legal or regulatory requirements in addition to GAAS. When this is the case, the auditor may be required to use a layout, form, or wording in the auditor's report that differs from that described in this section, such as when printed forms or schedules designed or adopted by the bodies with which they are to be filed prescribe the wording of the auditor's report.</td>
</tr>
</tbody>
</table>
### Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

<table>
<thead>
<tr>
<th>Introduction, Objectives, Definitions and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>df.</strong> A description of the purpose for which the financial statements are prepared when required by paragraph .18ab</td>
<td></td>
</tr>
<tr>
<td><strong>e.</strong> A statement that the auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit</td>
<td></td>
</tr>
<tr>
<td><strong>f.</strong> When applicable, a section that addresses the reporting requirements in paragraphs .24–.27 of section 570</td>
<td></td>
</tr>
<tr>
<td><strong>g.</strong> A description of management’s responsibilities for the preparation and fair presentation of the special purpose financial statements that addresses, and is not inconsistent with, the requirements in paragraphs .31–.33 of section 700</td>
<td></td>
</tr>
<tr>
<td><strong>he.</strong> A reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when required by paragraph .18ba</td>
<td></td>
</tr>
<tr>
<td><strong>g.</strong> A description of the auditor's responsibility to express an opinion on the special-purpose financial statements and the scope of the audit, that includes</td>
<td></td>
</tr>
<tr>
<td><strong>i.</strong> A reference to GAAS and, if applicable, the law or regulation</td>
<td></td>
</tr>
<tr>
<td><strong>ii.</strong> A description of an audit in accordance with those standards</td>
<td></td>
</tr>
<tr>
<td><strong>h.</strong> An opinion paragraph containing an expression of opinion on</td>
<td></td>
</tr>
</tbody>
</table>
The special purpose financial statements and a reference to the special purpose framework used to prepare the financial statements (including identifying the origin of the framework) and, if applicable, an opinion on whether the special purpose financial statements are presented fairly, in all material respects, in accordance with GAAP when required by paragraph .21

i. A reference to GAAS and, if applicable, the law or regulation and a description of the auditor’s responsibilities for an audit of financial statements that addresses, and is not inconsistent with, the requirements in paragraphs .35–.37 of section 700

j. When applicable, a section that addresses the reporting requirements in paragraph .24 of section 720, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*

ki. An emphasis-of-matter paragraph that indicates that the financial statements are prepared in accordance with a special purpose framework when required by paragraph .19 and states that the special purpose framework is a basis of accounting other than GAAP

lj. An other-matter paragraph that restricts the use of the auditor’s report when required by paragraph .20

mk. The auditor’s signature of the auditor’s firm

nl. The auditor’s city and state where the auditor’s report is issued
### Proposed AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks (Marked from Extant AU-C Section 800)

<table>
<thead>
<tr>
<th>Introduction, Objectives, Definitions and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦♦♦ The date of the auditor's report</td>
<td>♦♦♦ When the differences between the legal or regulatory requirements and GAAS relate only to the layout, form, and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph .22 are included in the auditor's report, the auditor's report may refer to GAAS. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of GAAS, even when the layout, form, and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Section 210 addresses circumstances in which law or regulation prescribes the layout, form, or wording of the auditor's report in terms that are significantly different from the requirements of GAAS.</td>
</tr>
</tbody>
</table>

.23 If the prescribed specific layout, form, or wording of the auditor's report is not acceptable or would cause an auditor to make a statement that the auditor has no basis to make, the auditor should reword the prescribed form of report or attach an appropriately worded separate report.

.35 - .34 Some report forms can be made acceptable by inserting additional wording to include the elements identified in paragraph .22. Other report forms can be made acceptable only by complete revision because the prescribed language of the report calls for statements by the auditor that are not consistent with the auditor's function or responsibility; for example, a report form that requests the auditor to certify the financial statements.

.37 - .33 This guidance can be applied to other circumstances, for example, reports on financial statements prepared in accordance with a general purpose framework for which a specific layout, form, or wording of the auditor's report is required.

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Paragraph .18 of section 210.
## Appendix A — Overview of Reporting Requirements

The following table provides an overview of the reporting requirements depending on the special purpose framework:

<table>
<thead>
<tr>
<th>Opinion(s)</th>
<th>Cash Basis</th>
<th>Tax Basis</th>
<th>Regulatory Basis</th>
<th>Regulatory Basis (General Use)</th>
<th>Contractual Basis</th>
<th>Other Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single opinion on special purpose framework</td>
<td>Single opinion on special purpose framework</td>
<td>Single opinion on special purpose framework</td>
<td>Dual opinion on special purpose framework and generally accepted accounting principles&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Single opinion on special purpose framework</td>
<td>Single opinion on special purpose framework</td>
</tr>
<tr>
<td>Description of purpose for which special purpose financial statements are prepared&lt;sup&gt;2&lt;/sup&gt;</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>As required by paragraph .18&lt;sub&gt;a&lt;/sub&gt;&lt;sup&gt;b&lt;/sup&gt;ii</td>
</tr>
<tr>
<td>Emphasis-of-matter paragraph alerting readers regarding the preparation in accordance with a special purpose framework&lt;sup&gt;3&lt;/sup&gt;</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Other-matter paragraph including an alert restricting the use of the auditor’s report&lt;sup&gt;4&lt;/sup&gt;</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>As required by section 905, Alert That Restricts the Use of the Auditor's Written Communication&lt;sup&gt;5&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

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1. Paragraph .21.
2. Paragraph .18<sub>a</sub><sup>b</sup>.
5. Paragraph .06a–b of section 905.
<table>
<thead>
<tr>
<th></th>
<th>Cash Basis</th>
<th>Tax Basis</th>
<th>Regulatory Basis</th>
<th>Regulatory Basis (General Use)</th>
<th>Contractual Basis</th>
<th>Other Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit A Illustrations</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B — Fair Presentation and Adequate Disclosures

(Ref: par. 0–0.A20–A23)

When special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with generally accepted accounting principles (GAAP), paragraph .17a requires the auditor to evaluate whether, the financial statements include informative disclosures similar to those required by GAAP. The auditor is also required to evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation. This appendix provides guidance, in addition to paragraphs 0–0.A20–A23, on evaluating the adequacy of disclosures in financial statements prepared in accordance with a special purpose framework, including matters related to the presentation of financial statements.

If special purpose financial statements contain items for which GAAP would require disclosure, the financial statements may either provide the relevant disclosure that would be required for those items in a GAAP presentation or provide information that communicates the substance of that disclosure. Likewise, if GAAP sets forth requirements that apply to the presentation of financial statements, special purpose financial statements may either comply with those requirements or provide information that communicates the substance of those requirements, without modifying the format of the special purpose financial statements. This may result in substituting qualitative information for some of the quantitative information required for GAAP presentations, as in the following examples: For example:

- Disclosure of the repayment terms of significant long-term borrowings may sufficiently communicate information about future principal reduction without providing the summary of principal reduction during each of the next five years.

- Information about the effects of accounting changes, discontinued operations, and extraordinary items, if applicable, could be disclosed in a note to the financial statements without following the GAAP presentation requirements in the statement of results of operations, using those terms, or disclosing net-of-tax effects.¹

- Instead of showing expenses by their functional classifications in certain industries, a statement of activities could present expenses according to their natural classifications, and a note to the statement could use estimated percentages to communicate information about expenses incurred by the major program and supporting services.

- Instead of showing the amounts of, and changes in, the unrestricted and temporarily and permanently restricted classes of net assets without donor-imposed restrictions and with

¹ FASB Accounting Standards Update (ASU) No. 2015-01, Income Statement — Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, eliminated the concept of extraordinary items; however, GASB generally accepted accounting principles (GAAP) retains this concept.
donor-imposed restrictions in certain industries, a statement of assets and liabilities could report total net assets or fund balances, a related statement of activities could report changes in those totals, and a note to the financial statements could provide information, using estimated or actual amounts or percentages, about the restrictions on those amounts and on any deferred restricted amounts, describe the major restrictions, and provide information about significant changes in restricted amounts.²

For special purpose financial statements, GAAP disclosure requirements that are not relevant to the measurement of the item need not be considered, as illustrated by the following:

- Fair value disclosures for debt and equity securities would not be relevant when the basis of presentation does not adjust the cost of such securities to their fair value.

- For a sponsor of a defined benefit plan, disclosures related to actuarial calculations for contributions to its defined benefit plans would not be relevant in financial statements prepared in accordance with the cash or tax basis of accounting.

- Disclosures related to the use of estimates would not be relevant in a presentation that has no estimates, such as the cash basis of accounting.

Special purpose financial statements may not include a statement of cash flows. If a presentation of cash receipts and disbursements is presented in a format similar to a statement of cash flows or if the entity chooses to present such a statement, the statement would either conform to the requirements for a GAAP presentation or communicate their substance. As an example, the statement of cash flows might disclose noncash acquisitions through captions on its face.

² FASB ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.
Exhibit — Illustrations of Auditor’s Reports on Special Purpose Financial Statements (Ref: par. 0.A17)

Illustration 1 — An Auditor's Report on a Complete Set of Financial Statements Prepared in Accordance With the Cash Basis of Accounting
Illustration 2 — An Auditor's Report on a Complete Set of Financial Statements Prepared in Accordance With the Tax Basis of Accounting

Note: The illustrative reports are not marked from the extant reports because the extent of the changes would make the revised reports difficult to read. However, each revised report is followed by the extant report shown in strikethrough.

Illustration 1 — An Auditor’s Report on a Complete Set of Financial Statements Prepared in Accordance With the Cash Basis of Accounting

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the cash basis of accounting (that is, a special purpose framework).
- Management has a choice of financial reporting frameworks.¹

Independent Auditor's Report

[Appropriate Addressee]

Report on the Audit of Financial Statements²

Opinion

¹ If management does not have a choice of financial reporting frameworks, the auditor is not required by paragraph 0b to make reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
² The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances in which the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.
We have audited the financial statements of ABC Partnership, which comprise the statement of assets and liabilities arising from cash transactions as of December 31, 20X1, and the related statement of revenue collected and expenses paid for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and liabilities arising from cash transactions of ABC Partnership as of December 31, 20X1, and its revenue collected and expenses paid during the year then ended in accordance with the cash basis of accounting described in Note X.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Partnership, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting
We draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note X, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

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3 Another appropriate heading may be used.
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC Partnership’s internal control. Accordingly, no such opinion is expressed. 4

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Partnership’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and internal control-related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor's report]

Illustration 1—An Auditor’s Report on a Complete Set of Financial Statements Prepared in Accordance With the Cash Basis of Accounting

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the cash basis of accounting (that is, a special purpose framework).

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4 In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: “but not for the purpose of expressing an opinion on the effectiveness of ABC Partnership’s internal control. Accordingly, no such opinion is expressed.”
• Management has a choice of financial reporting frameworks.  

Independent Auditor’s Report

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Partnership, which comprise the statement of assets and liabilities arising from cash transactions as of December 31, 20X1, and the related statement of revenue collected and expenses paid for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 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 partnership’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 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 assets and liabilities arising from cash transactions of ABC Partnership as of December 31, 20X1.

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1. If management does not have a choice of financial reporting frameworks, the auditor is not required by paragraph .18a to make reference to management’s responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

2. 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.

3. 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.
20X1, and its revenue collected and expenses paid during the year then ended in accordance with
the cash basis of accounting described in Note X.

Basis of Accounting

We draw attention to Note X of the financial statements, which describes the basis of accounting.
The financial statements are prepared on the cash basis of accounting, which is a basis of
accounting other than accounting principles generally accepted in the United States of America.
Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

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

[Auditor’s signature]
[Auditor’s city and state]
[Date of the auditor’s report]

Illustration 2 — An Auditor’s Report on a Complete Set of Financial Statements Prepared
in Accordance With the Tax Basis of Accounting

Circumstances include the following:
• The financial statements have been prepared by management of a partnership in accordance
  with the basis of accounting the partnership uses for income tax purposes (that is, a special
  purpose framework).
• Based on the partnership agreement, management does not have a choice of financial
  reporting frameworks.1

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Partnership, which comprise the statements of
assets, liabilities, and capital-income tax basis as of December 31, 20X1, and the related
statements of revenue and expenses — income tax basis and of changes in partners’ capital
accounts — income tax basis for the year then ended, and the related notes to the financial
statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the
assets, liabilities, and capital of ABC Partnership as of December 31, 20X1, and its revenue and

4 Another appropriate heading may be used.
1 If management has a choice of financial reporting frameworks, paragraph .18b requires that the explanation
  of management’s responsibility for the financial statements also make reference to its responsibility for
determining that the applicable financial reporting framework is acceptable in the circumstances.
2 The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the
  second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.
expenses and changes in partners’ capital accounts for the year then ended in accordance with the basis of accounting the Partnership uses for income tax purposes described in Note X.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Partnership, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting
We draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Partnership uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the basis of accounting the Partnership uses for income tax purposes; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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3 Another appropriate heading may be used.
• Obtain an understanding of internal control relevant to the audit 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 ABC Partnership’s internal control. Accordingly, no such opinion is expressed.4

• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

• Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Partnership’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Other Legal and Regulatory Requirements
[The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.]

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor’s report]

Illustration 2 — An Auditor’s Report on a Complete Set of Financial Statements Prepared in Accordance With the Tax Basis of Accounting

Circumstances include the following:

• The financial statements have been prepared by management of a partnership in accordance with the basis of accounting the partnership uses for income tax purposes (that is, a special purpose framework).

• Based on the partnership agreement, management does not have a choice of financial reporting frameworks.

Independent Auditor’s Report

[Appropriate Addressee]

4 In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: “but not for the purpose of expressing an opinion on the effectiveness of ABC Partnership’s internal control. Accordingly, no such opinion is expressed.”

4 If management has a choice of financial reporting frameworks, paragraph .18a requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Partnership, which comprise the statements of assets, liabilities, and capital income tax basis as of December 31, 20X1, and the related statements of revenue and expenses — income tax basis and of changes in partners' capital accounts — income tax basis for the year then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting the Partnership uses for income tax purposes; 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 partnership'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 partnership's internal control.\(^3\) 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 assets, liabilities, and capital of ABC Partnership as of December 31, 20X1, and its revenue and expenses and changes in partners' capital accounts for the year then ended in accordance with the basis of accounting the Partnership uses for income tax purposes described in Note X.

**Basis of Accounting**\(^4\)

We draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Partnership uses for income tax purposes.

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\(^2\) 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.

\(^3\) 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.

\(^4\) Another appropriate heading may be used.
tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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]


Circumstances include the following:

• The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulatory agency basis of accounting prescribed by state statutes applicable to the government entity (that is, a special purpose framework).
• The financial statements together with the auditor’s report are not intended for general use.
• Based on the regulatory requirements, management does not have a choice of financial reporting frameworks.¹

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements ²

Opinion

We have audited the financial statements of ABC Government Authority, which comprise the statement of net position — regulatory basis as of December 31, 20X1, and the related statements of revenues, expenses, and changes in net position — regulatory basis; and statement of cash flows — regulatory basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the regulatory basis net position of ABC Government Authority as of December 31, 20XX, and the regulatory basis changes in net position and regulatory basis cash flows thereof for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State Statutes described in Note X.

Basis for Opinion

¹ If management has a choice of financial reporting frameworks, paragraph .18b requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
² The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC government Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of Matter — Basis of Accounting**

We draw attention to Note X of the financial statements, which describes the basis of accounting. As described in Note X to the financial statements, the financial statements are prepared by ABC Government Authority on the basis of the financial reporting provisions of Section Y of Regulation Z of Any State Statutes, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Any State Statutes. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State Statutes. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit ‘in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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3 Another appropriate heading may be used.
4 The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may need to be included in this section of the report, adapted as necessary, depending on whether the going concern basis of accounting is relevant. See paragraph .A17 of this section.
• Obtain an understanding of internal control relevant to the audit 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 ABC Government Authority’s internal control. Accordingly, no such opinion is expressed.\(^5\)

• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

• Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Government Authority’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Restriction on Use**\(^6\)

Our report is intended solely for the information and use of ABC Government Authority and is not intended to be and should not be used by anyone other than these specified parties.

**Report on Other Legal and Regulatory Requirements**

[The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.]

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\(^5\) In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: “but not for the purpose of expressing an opinion on the effectiveness of ABC Government Authority’s internal control. Accordingly, no such opinion is expressed.”

\(^6\) Another appropriate heading may be used.
Based on the regulatory requirements, management does not have a choice of financial reporting frameworks.

Independent Auditor’s Report

Report on the Financial Statements

We have audited the accompanying financial statements of ABC City, Any State, which comprise cash and unencumbered cash for each fund as of December 31, 20X1, and the related statements of cash receipts and disbursements and disbursements—budget and actual for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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

1 If management has a choice of financial reporting frameworks, paragraph .18a requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

2 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.

3 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.
In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash of each fund of ABC City as of December 31, 20X1, and their respective cash receipts and disbursements, and budgetary results for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State described in Note X.

**Basis of Accounting**

We draw attention to Note X of the financial statements, which describes the basis of accounting. As described in Note X to the financial statements, the financial statements are prepared by ABC City on the basis of the financial reporting provisions of Section Y of Regulation Z of Any State, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Any State. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of ABC City and Any State and is not intended to be and should not be used by anyone other than these specified parties.

**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


Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulatory agency basis of accounting prescribed by state statutes applicable to the government entity (that is, a special purpose framework).
- The regulatory basis financial statements together with the auditor’s report are intended for general use.
- Based on the regulatory requirements, management does not have a choice of financial reporting frameworks.\(^1\)

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\(^4\) Another appropriate heading may be used.

\(^5\) Another appropriate heading may be used.

\(^1\) If management has a choice of financial reporting frameworks, paragraph .18ab requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.
• The variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America (U.S. GAAP) are not reasonably determinable and are presumed to be material.

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinions
We have audited the financial statements of ABC Government Authority, which comprise the statement of net position — regulatory basis as of December 31, 20X1, and the related statements of revenues, expenses, and changes the statement of net position—regulatory basis in net position — regulatory basis for the year then ended, and the related notes to the financial statements.

Unmodified Opinion on Regulatory Basis of Accounting
In our opinion, the accompanying financial statements present fairly, in all material respects, the regulatory basis net position of ABC Government Authority as of December 31, 20X1, and the regulatory basis changes in net position and regulatory basis cash flows thereof for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State Statutes described in Note X.

Adverse Opinion on U.S. Generally Accepted Accounting Principles
In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" section of our report, the financial statements do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of ABC Government Authority as of December 31, 20X1, or the changes in net position and position and cash flows thereof for the year then ended.

Basis for Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Government Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

2 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.
As described in Note X of the financial statements, the financial statements are prepared by ABC Government Authority on the basis of the financial reporting provisions of Section Y of Regulation Z of Any State Statutes, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Any State Statutes. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note X and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State Statutes. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 ABC Government Authority’s internal control. Accordingly, no such opinion is expressed.³

³ The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may need to be included in this section of the report, adapted as necessary, depending on whether the going concern basis of accounting is relevant. See paragraph .A17 of this section.

⁴ In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: “but not for the purpose of expressing an opinion on the effectiveness of ABC Partnership’s internal control. Accordingly, no such opinion is expressed.”
• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

• Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Government Authority’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and internal control–related matters that we identified during the audit.

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.]

[Signature of the auditor’s firm]
[Auditor’s city and state]
[Date of the auditor’s report]


Circumstances include the following:
- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulatory agency (that is, a special purpose framework).
- The financial statements together with the auditor’s report are intended for general use.
- Based on the regulatory requirements, management does not have a choice of financial reporting frameworks. ²
- The variances between the regulatory basis of accounting and accounting principles generally accepted in the United States of America (U.S. GAAP) are not reasonably determinable and are presumed to be material.

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Financial Statements ²

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¹ If management has a choice of financial reporting frameworks, paragraph .18a requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

² 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.
We have audited the accompanying financial statements of XYZ City, Any State, which comprise cash and unencumbered cash for each fund as of December 31, 20X1, and the related statements of cash receipts and disbursements and disbursements—budget and actual for the year then ended, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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. 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 opinions.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note X of the financial statements, the financial statements are prepared by XYZ City on the basis of the financial reporting provisions of Section Y of Regulation Z of Any State, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of Any State.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note X and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of XYZ City as of December 31, 20X1, or changes in financial position or cash flows thereof for the year then ended.
Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash and unencumbered cash of each fund of XYZ City as of December 31, 20X1, and their respective cash receipts and disbursements, and budgetary results for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z of Any State described in Note X.

Report on Other Legal and Regulatory Requirements

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

[Auditor’s signature]

[Auditor’s city and state]

[Date of the auditor’s report]

Illustration 5 — An Auditor’s Report on a Complete Set of Financial Statements Prepared in Accordance With a Contractual Basis of Accounting

Circumstances include the following:

• The financial statements have been prepared by management of the entity in accordance with a contractual basis of accounting (that is, a special purpose framework) to comply with the provisions of that contract.

• Based on the provisions of the contract, management does not have a choice of financial reporting frameworks.¹

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Audit of the Financial Statements²

Opinion

We have audited the financial statements of ABC Company, which comprise the assets and liabilities—contractual basis as of December 31, 20X1, and the revenues and expenses — contractual basis, changes in equity — contractual basis, and cash flows — contractual basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets and liabilities of ABC Company as of December 31, 20X1, and revenues, expenses, changes in equity, and cash flows for the year then ended in accordance with the financial reporting provisions of Section Z of the contract.

¹ If management has a choice of financial reporting frameworks, paragraph .18b requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

² The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.
Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting
We draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared by ABC Company on the basis of the financial reporting provisions of Section Z of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions of Section Z of the contract between ABC Company and DEF Company dated January 1, 20X1 (the contract). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

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3 Another appropriate heading may be used.
4 The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may need to be included in this section of the report, adapted as necessary, depending on whether the going concern basis of accounting is relevant. See paragraph .A17 of this section.
Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company’s internal control. Accordingly, no such opinion is expressed.\(^5\)

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and internal control–related matters that we identified during the audit.

**Restriction on Use**\(^6\)

Our report is intended solely for the information and use of ABC Company and DEF Company and is not intended to be and should not be used by anyone other than these specified parties.

**Report on Other Legal and Regulatory Requirements**

[The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.]

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor’s report]

**Illustration 5 — An Auditor’s Report on a Complete Set of Financial Statements Prepared in Accordance With a Contractual Basis of Accounting**

Circumstances include the following:

- The financial statements have been prepared by management of the entity in accordance with a contractual basis of accounting (that is, a special purpose framework) to comply with the provisions of that contract.

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\(^5\) In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: “but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed.”

\(^6\) Another appropriate heading may be used.
Based on the provisions of the contract, management does not have a choice of financial reporting frameworks.  

**Independent Auditor’s Report**

[Appropriate Addressee]

**Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Company, which comprise the assets and liabilities–contractual basis as of December 31, 20X1, and the revenues and expenses—contractual basis, changes in equity—contractual basis, and cash flows—contractual basis for the year then ended, and the related notes to the financial statements.

**Management’s Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section Z of the contract between ABC Company and DEF Company dated January 1, 20X1 (the contract). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**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. These 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. 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**

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1. If management has a choice of financial reporting frameworks, paragraph .18a requires that the explanation of management’s responsibility for the financial statements also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

2. 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.

3. 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.
In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities of ABC Company as of December 31, 20X1, and revenues, expenses, changes in equity, and cash flows for the year then ended in accordance with the financial reporting provisions of Section Z of the contract.

**Basis of Accounting**

We draw attention to Note X of the financial statements, which describes the basis of accounting. The financial statements are prepared by ABC Company on the basis of the financial reporting provisions of Section Z of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract referred to above. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of ABC Company and DEF Company and is not intended to be and should not be used by anyone other than these specified parties.

**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]

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4 Another appropriate heading may be used.

5 Another appropriate heading may be used.
## Proposed AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* (Marked From Extant AU-C Section 805)

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<tr>
<td><strong>Introduction</strong></td>
<td><strong>Scope of This Section (Ref: par. .01 and .06b)</strong></td>
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### Scope of This Section

.01 AU-C sections 200–700* apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This section addresses special considerations in the application of those AU-C sections to an audit of a single financial statement or of a specific element, account, or item of a financial statement. The single financial statement or the specific element, account, or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, also applies to the audit. (Ref: par. .A1–.A4, A3)

### Scope of This Section

.A1 Section 200 defines the term *historical financial information* as information expressed in financial terms regarding a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past. It also defines the term *financial statements* as a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term *financial statements* ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.⁶

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* All AU-C sections can be found in AICPA *Professional Standards.*

⁶ Paragraph 14 of section 200.
**Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)**

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<tr>
<td>.A2 A1 Section 200 also defines the term financial statements as a structured representation of historical financial information, including related notes disclosures, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term financial statements ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.</td>
<td></td>
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</tbody>
</table>
| .A3 A2 Paragraph .A9 of section 200 provides guidance on what constitutes a complete set of financial statements and also provides the following examples of single financial statements, each of which would include related notes disclosures:
  - Balance sheet
  - Statement of income or statement of operations
  - Statement of retained earnings
  - Statement of cash flows
  - Statement of assets and liabilities
  - Statement of changes in owner's equity
  - Statement of revenue and expenses
  - Statement of operations by product lines |
| .A4 A3 An attest engagement other than an audit of historical financial information is performed in accordance with Statements on Standards for Attestation Engagements. For example, AT-C section 215, Agreed-Upon Procedures Engagements,† applies |

† All AT-C sections can be found in AICPA Professional Standards.
### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

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<td>when reporting on the results of applying agreed-upon procedures to one or more specific elements of a financial statement, and AT-C section 210, Review Engagements, provides guidance when reporting on a review of one or more specific elements of a financial statement. Paragraph 0 describes circumstances in which an engagement performed in accordance with the attestation standards may be more practicable than an audit performed in accordance with this section.</td>
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</table>

.02 This section does not apply to the report of a component auditor issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see section 600, Special Considerations — Audits of Group Financial Statements [Including the Work of Component Auditors]).

.03 This section does not override the requirements of the other AU-C sections nor does it purport to address all special considerations that may be relevant in the circumstances of the engagement.

### Effective Date

.04 This amendment section is effective for audits of single financial statements and or specific elements, accounts, or items of a financial statement as of or for periods ending on or after December 15, 2020. Early implementation is not permitted.

### Objective

.05 The objective of the auditor, when applying generally accepted auditing standards (GAAS) in an audit of a single financial statement or of a specific element, account, or item of a financial statement, is to
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<tr>
<td><strong>Introduction, Objective, Definitions, and Requirements</strong></td>
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</table>
| address appropriately the special considerations that are relevant to  
  a. the acceptance of the engagement;  
  b. the planning and performance of that engagement; and  
  c. forming an opinion and reporting on the single financial  
    statement or the specific element, account, or item of a financial  
    statement. |
| **Application and Other Explanatory Material** |
| **Definitions** |
| .06 For purposes of this section, reference to  
  a. an *element of a financial statement* or an *element* means an  
    *element, account, or item of a financial statement.* (Ref: par. .A5 .A4)  
  b. a *single financial statement* or a *specific element of a financial  
    statement* includes the related *disclosures* notes. The related  
    notes ordinarily comprise a summary of significant accounting  
    policies and other explanatory information relevant to the  
    financial statement or the specific element. (Ref: par. .A2) |
| **Requirements** |
| .07 Reference to *generally accepted accounting principles* (GAAP) in  
  GAAS means GAAP promulgated by bodies designated by the  
  Council of the AICPA pursuant to the “Compliance With Standards  
  Rule” (ET sec. 1.310.001)\(^1\) and the “Accounting Principles Rule” (ET  
  sec. 203 1.320.001) of the AICPA Code of Professional Conduct. |

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\(^1\) All ET sections can be found in AICPA *Professional Standards*. 

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### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

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<th>Application of GAAS (Ref: par. A6–A8, A5–A7)</th>
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<tr>
<td><strong>Considerations When Accepting the Engagement</strong></td>
<td><strong>Application of GAAS (Ref: par. .08–.09)</strong></td>
</tr>
</tbody>
</table>

**.08** Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, requires the auditor to comply with all AU-C sections relevant to the audit. In the case of an audit of a single financial statement or a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements.

**.09** If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor should determine whether the audit of a single financial statement or a specific element of those financial statements in accordance with GAAS is practicable. The auditor should also determine whether the auditor will be able to perform procedures on interrelated items, as required by paragraph .13.

**Complying With Relevant Requirements**

**.A6** Compliance with the requirements of AU-C sections relevant to the audit of a single financial statement or a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have

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1. Paragraph .20 of section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.
2. Paragraphs .16, .20, and .24–.26 of section 200.
<table>
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<tr>
<th>Proposed AU-C Section 805, <em>Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</em> (Marked From Extant AU-C Section 805)</th>
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<td><strong>Introduction, Objective, Definitions, and Requirements</strong></td>
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<td>.A8,.A7 In the case of an audit of a specific element of a financial statement, certain AU-C sections require audit work that may be disproportionate to the specific element being audited. For example, although the requirements of section 570, <em>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</em>, are likely to may be relevant in the circumstances of an audit of a schedule of accounts receivable (see paragraph .A14,.A12), complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or a specific element of a financial statement in accordance with GAAS may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable, such as an engagement performed in accordance with the <em>Statements on Standards for Attestation Engagements</em> as described in paragraph .A4,.A3.</td>
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<tr>
<td>.10 Section 210, <em>Terms of Engagement</em>, requires the auditor to determine the acceptability of the financial reporting framework</td>
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<tr>
<td>Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)</td>
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<tr>
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| applied in the preparation of the financial statements. In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should obtain an understanding of  
   a. the purpose for which the single financial statement or specific element of a financial statement is prepared,  
   b. the intended users, and  
   c. the steps taken by management to determine that the application of the financial reporting framework is acceptable in the circumstances. | needs of the intended users are relevant in determining the acceptability of the financial reporting framework applied in the preparation of the single financial statement or the specific element. |
| .11 The auditor's determination required by paragraph .10 should include consideration of whether the application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the specific element and the effect of material transactions and events on the information conveyed in the financial statement or the specific element. | A10 A9 A single financial statement or a specific element of a financial statement may be prepared in accordance with relevant requirements of a financial reporting framework established by an authorized or recognized standards-setting organization for the preparation of a complete set of financial statements (for example, accounting principles generally accepted in the United States of America [U.S. GAAP] or International Financial Reporting Standards promulgated by the International Accounting Standards Board). If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework that are relevant to the presentation of a single financial statement or a specific element of a financial statement that provides adequate disclosures. |
| .11 The determination of the acceptability of the applicable framework may also include consideration of the following: | The remainder of this paragraph is now in paragraph 0. |

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2 Paragraph .06a of section 210, Terms of Engagement.
<table>
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<tr>
<th>Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)</th>
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<td><strong>Application and Other Explanatory Material</strong></td>
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<td>- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.</td>
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<td>- Whether the single financial statement or the specific element of a financial statement will</td>
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<tr>
<td>— comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element and the presentation of the financial statement or the specific element of a financial statement, including the related disclosures notes. For example, when reporting on a schedule of long-term debt prepared in accordance with U.S. GAAP relevant to that schedule, the schedule of long-term debt, including the related notes, would be comparable to such information in financial statements prepared in accordance with U.S. GAAP.</td>
</tr>
<tr>
<td>— provide, if necessary, to achieve fair presentation, disclosures beyond those specifically required by the framework or, in extremely rare circumstances, depart from a requirement of the framework.28 A single financial statement or a specific element of a financial statement, including the related notes, that achieves a fair presentation includes all informative disclosures that are appropriate for the applicable financial reporting framework, including matters that affect their use, understanding, and interpretation.</td>
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</tbody>
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28 See paragraph .14 of section 200 for a definition of financial reporting framework.
<table>
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<tr>
<th>Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)</th>
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Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

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<td>to the regulatory or contractual basis of accounting, rather than make reference to GAAP. As indicated in paragraph .01, if the presentation is prepared in accordance with a special purpose framework, which includes the regulatory and contractual bases of accounting, section 800 also applies to the audit.</td>
<td></td>
</tr>
</tbody>
</table>

**Considerations When Planning and Performing the Audit**

| .12 Section 200 states that GAAS is written in the context of an audit of financial statements; it is to be adapted as necessary in the circumstances when applied to audits of other historical financial information. In planning and performing the audit of a single financial statement or a specific element of a financial statement, the auditor should adapt all AU-C sections relevant to the audit as necessary in the circumstances of the engagement. (Ref: par. .A12–A14, A14–A17) |
| .A14 .A15 Section 260, The Auditor’s Communication With Those Charged With Governance, requires the auditor to determine the appropriate person(s) within the entity’s governance structure with whom to communicate. Section 260 notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this circumstance. When a complete set of |

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3 Paragraph .02 of section 200.

20 Paragraph .20 of section 200.
### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

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<tr>
<td>- financial statements is also prepared by the entity, the person(s) responsible for oversight of the preparation of the single financial statement or the element may not be the same as those responsible for the oversight of the preparation of the complete set of financial statements.</td>
<td></td>
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<tr>
<td>- Furthermore, GAAS is written in the context of an audit of financial statements; it is to be adapted as necessary in the circumstances when applied to the audit of a single financial statement or a specific element of a financial statement. For example, written representations from management about the complete set of financial statements would be replaced by written representations about the presentation of the single financial statement or the specific element, in accordance with the applicable financial reporting framework.</td>
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</tr>
<tr>
<td>- When auditing Matters included in the auditor’s report on the complete set of financial statements may have implications for the audit of a single financial statement or of an element of a financial statement (see paragraph .19). When planning and performing an audit of a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the single financial statement or the specific element. GAAS, however, requires the auditor to plan and perform the audit of the single financial statement or specific element to obtain sufficient</td>
<td></td>
</tr>
</tbody>
</table>

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210 Paragraph .02 of section 200.
Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Introduction, Objective, Definitions, and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>.13 In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should perform procedures on interrelated items as necessary to meet the objective of the audit. In the case of an audit of a specific element of a financial statement (Ref: par. A15, A18)</td>
<td>A18, A15 The individual financial statements that comprise make up a complete set of financial statements, and many of the specific elements of those financial statements, including their related disclosures notes, are interrelated. For example, sales and receivables, inventory and payables, and buildings and equipment and depreciation each are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the single financial statement or the specific element in isolation. Consequently, paragraph .13 requires the auditor to perform procedures on interrelated items as necessary to meet the objective of the audit. In the case of an audit of a specific element that is, or is based upon, the entity's stockholders' equity or net income (or the equivalents thereto), paragraph.13 requires the auditor to perform procedures necessary to obtain sufficient appropriate audit evidence about financial position, or financial position and results of operations, respectively, because of the interrelationship between the specific element and the balance sheet accounts and the income statement accounts. However, matters related to classification or disclosure may not be relevant to the audit of the specific element; therefore, audit procedures on such matters may not be necessary in an audit of a specific element.</td>
</tr>
<tr>
<td>a. the auditor should, if the specific element is, or is based upon, the entity's stockholders' equity or the equivalent, perform procedures necessary to obtain sufficient appropriate audit evidence to enable the auditor to express an opinion about financial position, excluding matters related to classification or disclosure that are not relevant to the audit of the specific element.</td>
<td></td>
</tr>
<tr>
<td>b. the auditor should, if the specific element is, or is based upon, the entity's net income or the equivalent, perform procedures necessary to obtain sufficient appropriate audit evidence to enable the auditor to express an opinion about financial position and results of operations, excluding matters related to classification or disclosure that are not relevant to the audit of the specific element.</td>
<td></td>
</tr>
</tbody>
</table>

Materiality (Ref: par. A16, A19)

.14 Section 320, Materiality in Planning and Performing an Audit, requires the auditor to determine, when establishing the overall audit | Materiality (Ref: par. .14) |

A19, A46 The materiality determined for a single financial statement or a specific element of a financial statement differs from
Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Introduction, Objective, Definitions, and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>strategy, materiality for the financial statements as a whole. In the case of an audit of a single financial statement, the auditor should determine materiality for the single financial statement being reported on rather than for the complete set of financial statements. In the case of an audit of one or more specific elements of a financial statement, the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statement.</td>
<td>the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing, and extent of the audit procedures and the evaluation of uncorrected misstatements. In the case of an audit of a single financial statement, paragraph .14 requires the auditor to determine materiality for the single financial statement being reported on rather than for the complete set of financial statements. In the case of an audit of one or more specific elements of a financial statement, the auditor's opinion is on each of the specific elements; therefore, paragraph .14 requires the auditor to determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements. Consequently, an audit of one or more specific elements of a financial statement is usually more extensive than if the same information was being considered in conjunction with an audit of the complete set of financial statements.</td>
</tr>
</tbody>
</table>

Forming an Opinion and Reporting Considerations

<table>
<thead>
<tr>
<th>Forming an Opinion and Reporting Considerations (Ref: par. .15)</th>
<th>Forming an Opinion and Reporting Considerations (Ref: par. .15)</th>
</tr>
</thead>
<tbody>
<tr>
<td>.15 When forming an opinion and reporting on a single financial statement or a specific element of a financial statement, the auditor should apply the requirements in section 700, Forming an Opinion and Reporting on Financial Statements, or section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, and when applicable, section 800, Special</td>
<td>A20 .A47 Sections 700 and 703 requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements. In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should determine materiality for the single financial statement being reported on rather than for the complete set of financial statements.</td>
</tr>
</tbody>
</table>
## Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th><strong>Introduction, Objective, Definitions, and Requirements</strong></th>
<th><strong>Application and Other Explanatory Material</strong></th>
</tr>
</thead>
</table>
| **Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks**, adapted as necessary in the circumstances of the engagement. (Ref: par. 0 .A17–A18) | statement, it is important, in view of the requirements of the applicable financial reporting framework, that the disclosures enable the intended users to understand  
- the information conveyed in the financial statement or the specific element and  
- the effect of material transactions and events on the information conveyed in the financial statement or the specific element. |

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</thead>
<tbody>
<tr>
<td><strong>Going Concern</strong></td>
<td><strong>A21</strong> The applicable financial reporting framework may not specifically address whether management is required to make a going concern assessment for a single financial statement or a specific element, account, or item of a financial statement. Therefore, the description in the auditor's report of management’s responsibilities relating to going concern may not be relevant or may need to be adapted as necessary. The description in the auditor’s report of the auditor’s responsibilities relating to going concern may also need to be adapted as necessary depending on whether section 570 is determined to be relevant to the audit in accordance with paragraph .12. In making that determination, the auditor may consider whether the auditor’s responsibilities relating to going concern are likely to be relevant to users for the intended purpose of the single financial statement or specific element, account, or item of a financial statement presented.</td>
</tr>
</tbody>
</table>

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11 Paragraphs .32b of section 700.
12 Paragraphs .36c of section 700.
### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Introduction, Objective, Definitions, and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
</table>

**Reporting on the Entity's Complete Set of Financial Statements and a Single Financial Statement or a Specific Element of Those Financial Statements**

.16 If, in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor undertakes an engagement to audit a single financial statement or a specific element of a financial statement, the auditor should

  a. issue a separate auditor's report and express a separate opinion for each engagement.

  b. indicate in the report on a specific element of a financial statement the date of the auditor's report on the complete set of financial statements and the nature of opinion expressed on those financial statements under an appropriate heading.

.17 Except as required by paragraph 0 an audited single financial statement or an audited specific element of a financial statement may be published together with the entity’s audited complete set of financial statements, provided that the presentation of the single financial statement or the specific element is sufficiently differentiated from the complete set of financial statements. The auditor should also
<table>
<thead>
<tr>
<th><strong>Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction, Objective, Definitions, and Requirements</strong></td>
</tr>
<tr>
<td>Differentiate the report on the single financial statement or the specific element of a financial statement from the report on the complete set of financial statements.</td>
</tr>
</tbody>
</table>

**.18** If the auditor concludes that the presentation of the audited single financial statement or the audited specific element does not differentiate it sufficiently from the complete set of financial statements, as described in paragraph .17, the auditor should ask management to remedy the situation. The auditor should not release the auditor's report containing the opinion on the single financial statement or the specific element of a financial statement until satisfied with the differentiation. |

<table>
<thead>
<tr>
<th><strong>Application and Other Explanatory Material</strong></th>
</tr>
</thead>
</table>

If the opinion in the auditor's report on an entity's complete set of financial statements includes a modified opinion, an emphasis-of-matter or other-matter paragraph, a going concern section, a communication of key audit matters, or a statement describing an uncorrected material misstatement of other information, as modified, the auditor should consider the implications, if any, determine the effect that these matters may have on for the auditor's opinion on of the a single financial statement or of the a specific element of a financial statement. |

**.19** Considering whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgment. |
### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Introduction, Objective, Definitions, and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>those financial statements and for the auditor’s report thereon—in accordance with section 705, Modifications to the Opinion in the Independent Auditor’s Report. (Ref: par. .A23–.A26)</td>
<td>.A24 Factors that may be relevant in considering those implications include the following:</td>
</tr>
<tr>
<td></td>
<td>• The nature of the matters described in the auditor’s report on the complete set of financial statements and the extent to which they relate to what is included in the single financial statement or a specific element of a financial statement</td>
</tr>
<tr>
<td></td>
<td>• The pervasiveness of the matters described in the auditor’s report on the complete set of financial statements</td>
</tr>
<tr>
<td></td>
<td>• The nature and extent of the differences between the applicable financial reporting frameworks</td>
</tr>
<tr>
<td></td>
<td>• The extent of the difference between the periods covered by the complete set of the financial statements compared with the periods or dates of the single financial statement or element of a financial statement</td>
</tr>
<tr>
<td></td>
<td>• The time elapsed since the date of the auditor’s report on the complete set of the financial statements</td>
</tr>
<tr>
<td>.A25 When applicable, key audit matters communicated in the auditor’s report on a complete set of financial statements may have implications for an audit of a single financial statement or specific element of a financial statement. The information included in the “Key Audit Matters” section about how the matter was addressed in the audit of a complete set of financial statements may be useful</td>
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<tr>
<td>Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)</td>
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<tr>
<td><strong>Introduction, Objective, Definitions, and Requirements</strong></td>
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<tr>
<td><strong>Application and Other Explanatory Material</strong></td>
<td></td>
</tr>
<tr>
<td>to the auditor’s determination of how to address the matter when it is relevant to an audit of a single financial statement or specific element of a financial statement.</td>
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<tr>
<td><strong>Modifications to the Opinion in the Independent Auditor’s Report</strong></td>
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<tr>
<td><strong>A26</strong> If the auditor is engaged to communicate key audit matters in the auditor’s report on a single financial statement or a specific element of a financial statement, section 701, <em>Communicating Key Audit Matters in the Independent Auditor’s Report</em>, applies in its entirety.</td>
<td></td>
</tr>
<tr>
<td><strong>Modifications to the Opinion in the Independent Auditor’s Report (Ref: par. .20)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>A27-A19</strong> In the case of an audit of a specific element of a financial statement, if the opinion in the auditor's report on an entity's complete set of financial statements is modified and the modification is relevant to the audit of the specific element, the modification is material and pervasive with respect to the specific element. Modifications related to an interrelated item of the specific element may also be relevant to the audit of the specific element. Conversely, modifications related solely to classification or disclosure may not be relevant to the audit of the specific element.</td>
<td></td>
</tr>
<tr>
<td><strong>A28</strong> For example, when there is a qualification of the auditor’s opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements and the single financial statement includes accounts receivable or the specific element of a financial statement.</td>
<td></td>
</tr>
</tbody>
</table>

.20 In the case of an audit of a specific element of a financial statement, if the auditor's modified opinion on the entity's complete set of financial statements as a whole is relevant to the audit of the specific element, the auditor should (Ref: par. A19—A20, A27—A29)

- express an adverse opinion on the specific element when the modification of the auditor's opinion on the complete set of financial statements as a whole arises from a material misstatement in such financial statements.
- disclaim an opinion on the specific element when the modification of the auditor's opinion on the complete set of financial statements as a whole arises from an inability to obtain sufficient appropriate audit evidence.

.27. A19 In the case of an audit of a specific element of a financial statement, if the opinion in the auditor's report on an entity's complete set of financial statements is modified and the modification is relevant to the audit of the specific element, the modification is material and pervasive with respect to the specific element. Modifications related to an interrelated item of the specific element may also be relevant to the audit of the specific element. Conversely, modifications related solely to classification or disclosure may not be relevant to the audit of the specific element.

A28 For example, when there is a qualification of the auditor’s opinion in relation to accounts receivable in the auditor’s report on the complete set of financial statements and the single financial statement includes accounts receivable or the specific element of a financial statement.
<table>
<thead>
<tr>
<th>Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Introduction, Objective, Definitions, and Requirements</strong></td>
</tr>
<tr>
<td><strong>Application and Other Explanatory Material</strong></td>
</tr>
<tr>
<td>financial statement relates to accounts receivable, there likely would be implications for the audit. On the other hand, if the qualification of the auditor’s opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the income statement, or if the specific element of the financial statement relates to accounts receivable.</td>
</tr>
</tbody>
</table>
| **Modifications to the Opinion in the Independent Auditor's Report**  
*(Ref: par. .20)*  
*A29* - *A20* Even when certain matters included the modified opinion, emphasis of matter paragraph, or other matter paragraph in the auditor's report on the entity's complete set of financial statements does not have implications for the audit of, or for the auditor’s report on, relate to the audited single financial statement or the specific audited element of a financial statement, the auditor may nevertheless deem it appropriate to refer to the matter modification in an other-matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement (see section 706). For example, the auditor may consider it appropriate to refer in the auditor’s report on because the auditor judges it to be relevant to the users' understanding of the audited single financial statement or the audited a specific element of the financial statement to a going concern section included in or the related auditor's report on the complete set of financial statements (see section 706). |
### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Adverse Opinion or Disclaimer of Opinion in the Auditor’s Report on the Entity’s Complete Set of Financial Statements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>.21</strong> If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, an unmodified opinion on a specific element in the same auditor's report would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole and would be tantamount to expressing a piecemeal opinion. In the context of a separate audit of a specific element of that is included in those financial statements, when the auditor nevertheless considers it appropriate to express an unmodified opinion on that specific element, the auditor should only do so if</td>
<td></td>
</tr>
<tr>
<td><strong>.22</strong> A single financial statement is deemed to constitute a major portion of a complete set of financial statements. Therefore, the auditor should not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole, even if the auditor's</td>
<td></td>
</tr>
<tr>
<td><strong>.23</strong> In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, when relevant, and an unmodified opinion regarding the financial position are permitted because the disclaimer of opinion is being issued on the</td>
<td></td>
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</tbody>
</table>
### Proposed AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Introduction, Objective, Definitions, and Requirements</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td>report on the single financial statement is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion. (Ref: par. .A24)</td>
<td>results of operations and cash flows only and not on the financial statements as a whole. ¹³¹²</td>
</tr>
<tr>
<td><strong>.23</strong> If the auditor's report on an entity's complete set of financial statements includes an emphasis-of-matter paragraph or an other-matter paragraph that is relevant to the audit of the single financial statement or the specific element, the auditor should include a similar emphasis-of-matter paragraph or an other-matter paragraph in the auditor's report on the single financial statement or the specific element, in accordance with section 706A, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report. (Ref: par. .A20)</td>
<td></td>
</tr>
<tr>
<td><strong>Reporting on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles (Ref: par. .A22—.A23)</strong></td>
<td><strong>Reporting on an Incomplete Presentation but One That Is Otherwise in Accordance With GAAP (Ref: par. .24)</strong></td>
</tr>
<tr>
<td><strong>.24</strong> When the auditor reports on an incomplete presentation but one that is otherwise in accordance with GAAP, the auditor should include an emphasis-of-matter paragraph ⁵ in the auditor's report that</td>
<td><strong>.A31 .A22</strong> As described in paragraph .A12—.A10, the auditor may be requested to audit an incomplete presentation but one that is otherwise in accordance with GAAP. When the auditor reports on an incomplete presentation but one that is otherwise in accordance with GAAP, paragraph .24 requires the auditor to include an emphasis-of-matter paragraph in the auditor’s report, which alerts</td>
</tr>
<tr>
<td>a. states the purpose for which the presentation is prepared and refers to a note in the financial statements that describes the</td>
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Proposed AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* (Marked From Extant AU-C Section 805)

<table>
<thead>
<tr>
<th>Basis of Presentation and</th>
<th>Application and Other Explanatory Material</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>b.</strong> indicates that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, or expenses.</td>
<td>users as to the purpose of the presentation and that the presentation is incomplete. The exhibit illustrates such a paragraph.</td>
</tr>
</tbody>
</table>

| **A32** **A23** If the presentation is prepared in accordance with a regulatory or contractual basis of accounting, the requirement in paragraph0 .24 does not apply. In such circumstances, refer to section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* section 800. See also paragraph **A13** **A11** of this section. | |
Appendix

Examples of Specific Elements, Accounts, or Items of a Financial Statement (Ref: par. A4, A5)

The following are examples of specific elements, accounts, or items of a financial statement:

- Accounts receivable; allowance for doubtful accounts receivable; inventory; the liability for accrued benefits of a private benefit plan; the recorded value of identified intangible assets; or the liability for incurred but not reported claims in an insurance portfolio, including related notes
- A schedule of externally managed assets and income of a private benefit plan, including related notes
- A schedule of disbursements regarding a lease property, including related notes
- A schedule of profit participation or employee bonuses, including related notes
Exhibit — Illustrations of Auditor's Reports on a Single Financial Statement and a Specific Element of a Financial Statement (Ref: par. 2.18 and 2.31)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Illustration 3</td>
<td>An Auditor's Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a General Purpose Framework</td>
</tr>
<tr>
<td>Illustration 4</td>
<td>An Auditor's Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a Special Purpose Framework</td>
</tr>
<tr>
<td>Illustration 5</td>
<td>An Auditor's Report on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles</td>
</tr>
</tbody>
</table>

Note: The illustrative reports are not marked from the extant reports because the extent of changes would make the revised reports difficult to read. However, each revised report is followed by the extant report shown in strikethrough.


Circumstances include the following:

- Audit of a balance sheet (that is, a single financial statement).

- The balance sheet has been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report

[Appropriate Addressee]
Report on the Audit of the Financial Statement

Opinion

We have audited the balance sheet of ABC Company as of December 31, 20X1, and the related notes (the financial statement).

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statement

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

Auditor’s Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of the financial statement.

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1 The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances in which the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.
2 The auditor may refer to the financial statement as the balance sheet.
3 The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.\(^4\)

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Report on Other Legal and Regulatory Requirements**

*The form and content of this section of the auditor's report would vary depending on the nature of the auditor’s other reporting responsibilities.*

\[^4\] This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.

Circumstances include the following:

• Audit of a balance sheet (that is, a single financial statement).

• The balance sheet has been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Financial Statement

We have audited the accompanying balance sheet of ABC Company as of December 31, 20X1, and the related notes (the financial statement).  

Management’s Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement 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 the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

1 The subtitle “Report on the Financial Statement” is unnecessary in circumstances when the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.

2 The auditor may refer to the financial statement as the balance sheet.

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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 statement referred to above presents fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, 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]


Circumstances include the following:

- Audit of a statement of cash receipts and disbursements (that is, a single financial statement).

- The financial statement has been prepared by management of the entity in accordance with the cash basis of accounting (a special purpose framework) to respond to a request for cash flow information received from a creditor. ¹

- Management has a choice of financial reporting frameworks. ²

**Independent Auditor’s Report**

[Appropriate Addressee]

**Report on the Audit of the Financial Statement**³

**Opinion**

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¹ Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

² Paragraph .18b of section 800.

³ The subtitle "Report on the Financial Statement" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.
We have audited the statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, and the related notes (the financial statement).4

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, in accordance with the cash basis of accounting described in Note X.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting 5
We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statement 6
Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note X, and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibilities for the Audit of the Financial Statement
Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of certain internal control. Misstatements are considered material if, individually or in the

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4 The auditor may refer to the financial statement as the statement of cash receipts and disbursements.
5 Another appropriate heading may be used.
6 The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.
aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Report on Other Legal and Regulatory Requirements**

[The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.]

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor’s report]


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7 This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.
Circumstances include the following:

- Audit of a statement of cash receipts and disbursements (that is, a single financial statement).
- The financial statement has been prepared by management of the entity in accordance with the cash basis of accounting (a special purpose framework) to respond to a request for cash flow information received from a creditor.\(^1\)
- Management has a choice of financial reporting frameworks.\(^2\)

**Independent Auditor’s Report**

[Appropriate Addressee]

**Report on the Financial Statement**\(^3\)

We have audited the accompanying statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, and the related notes (the financial statement).\(^4\)

**Management’s Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note X; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

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\(^1\) Section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

\(^2\) Paragraph 18a of section 800.

\(^3\) The subtitle “Report on the Financial Statement” is unnecessary in circumstances when the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.

\(^4\) The auditor may refer to the financial statement as the “statement of cash receipts and disbursements.”
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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

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 statement referred to above presents fairly, in all material respects, the cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, in accordance with the cash basis of accounting described in Note X.

**Basis of Accounting**

We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

**Report on Other Legal and Regulatory Requirements**

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

[Auditor’s signature]
[Auditor’s city and state]
[Date of the auditor’s report]

**Illustration 3 — An Auditor’s Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a General Purpose Framework**

Circumstances include the following:

- Audit of a schedule of accounts receivable (that is, a specific element, account, or item of a financial statement).

- The schedule of accounts receivable has been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America.

- The audit of the schedule of accounts receivable was performed in conjunction with an engagement to audit the entity’s complete set of financial statements. The opinion on

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5 Another appropriate heading may be used.
those financial statements was not modified, and the report did not include an emphasis-of-matter paragraph or other-matter paragraph.\(^1\)

\(\text{Independent Auditor’s Report}\)

[Appropriate Addressee]

Report on the Audit of the Schedule \(^2\)

**Opinion**

We have audited the schedule of accounts receivable of ABC Company as of December 31, 20X1, and the related notes (the schedule).\(^3\)

In our opinion, the accompanying schedule presents fairly, in all material respects, the accounts receivable of ABC Company as of December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management for the Schedule**\(^4\)

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

**Auditor’s Responsibilities for the Audit of the Schedule**

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\(^1\) If the auditor undertakes an engagement to audit a specific element of a financial statement in conjunction with an engagement to audit the entity’s complete set of financial statements, paragraph .16 requires the auditor to indicate in the report on the specific element of a financial statement the date of the auditor’s report on the complete set of financial statements and the nature of opinion expressed on those financial statements under an appropriate heading.

\(^2\) The subtitle "Report on the Audit of the Schedule" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

\(^3\) The auditor may refer to the schedule as the schedule of accounts receivable.

\(^4\) The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.
Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of the schedule.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate 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 schedule.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.  

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Other Matter**
We have audited, in accordance with GAAS, the financial statements of ABC Company as of and for the year ended December 31, 20X1, and our report thereon, dated March 15, 20X2,

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5 This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph A21.
expressed an unmodified opinion on those financial statements.

**Report on Other Legal and Regulatory Requirements**

*The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.*

[Signature of the auditor’s firm]

[City and state where the auditor’s report is issued]

[Date of the auditor’s report]

**Illustration 3—An Auditor’s Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a General Purpose Framework**

Circumstances include the following:

- Audit of a schedule of accounts receivable (that is, a specific element, account, or item of a financial statement).
- The schedule of accounts receivable has been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America.
- The audit of the schedule of accounts receivable was performed in conjunction with an engagement to audit the entity’s complete set of financial statements. The opinion on those financial statements was not modified, and the report did not include an emphasis-of-matter paragraph or other-matter paragraph.

**Independent Auditor’s Report**

[Appropriate Addressee]

**Report on the Schedule.**^1^ We have audited the accompanying schedule of accounts receivable of ABC Company as of December 31, 20X1, and the related notes (the schedule).^2^

**Management’s Responsibility for the Schedule**

Management is responsible for the preparation and fair presentation of this schedule 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 the schedule that is free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibility**

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^1^ The subtitle "Report on the Schedule" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

^2^ The auditor may refer to the schedule as the schedule of accounts receivable.
Our responsibility is to express an opinion on the schedule 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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 schedule referred to above presents fairly, in all material respects, the accounts receivable of ABC Company as of December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of ABC Company as of and for the year ended December 31, 20X1, and our report thereon, dated March 15, 20X2, expressed an unmodified opinion on those financial statements.

Report on Other Legal and Regulatory Requirements

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

[Auditor’s signature]
[Auditor’s city and state]
[Date of the auditor’s report]

Illustration 4 — An Auditor’s Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a Special Purpose Framework

Circumstances include the following:

- Audit of a schedule of royalties applicable to engine production (that is, a specific element, account, or item of a financial statement)
• The financial information has been prepared by management of the entity in accordance with a contractual basis of accounting (that is, a special purpose framework) to comply with the provisions of that contract. ¹

• Based on the provisions of the contract, management does not have a choice of financial reporting frameworks. ²

• The audit of the schedule was not performed in conjunction with an engagement to audit the entity’s complete set of financial statements. ³

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**Independent Auditor’s Report**

[Appropriate Addressee]

**Report on the Audit of the Schedule**

**Opinion**

We have audited the schedule of royalties applicable to engine production of the Q Division of ABC Company for the year ended December 31, 20X1, and the related notes (the schedule). ⁴

In our opinion, the accompanying schedule presents fairly, in all material respects, the royalties applicable to engine production of the Q Division of ABC Company for the year ended December 31, 20X1, in accordance with the financial reporting provisions of Section Z of the license agreement between ABC Company and XYZ Corporation dated January 1, 20X1 (the contract).

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in

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¹ Section 800 Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

² Paragraph .18b of section 800.

³ If the auditor undertakes an engagement to audit a specific element of a financial statement in conjunction with an engagement to audit the entity’s complete set of financial statements, paragraph .16 requires the auditor to indicate in the report on the specific element of a financial statement the date of the auditor’s report on the complete set of financial statements and the nature of opinion expressed on those financial statements under an appropriate heading.

⁴ The subtitle "Report on the Audit of the Schedule" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

⁵ The auditor may refer to the schedule as the schedule of royalties.
accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of Matter — Basis of Accounting**

We draw attention to Note X to the schedule, which describes the basis of accounting. The schedule was prepared by ABC Company on the basis of the financial reporting provisions of Section Z of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Schedule**

Management is responsible for the preparation and fair presentation of the schedule in accordance with the financial reporting provisions of Section Z of the contract, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

**Auditor’s Responsibilities for the Audit of the Schedule**

Our objectives are to obtain reasonable assurance about whether the schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

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6 Another appropriate heading may be used.

7 The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.
an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time. 8

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

*Other Matter Paragraph — Restriction on Use* 9

Our report is intended solely for the information and use of ABC Company and XYZ Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Report on Other Legal and Regulatory Requirements*

[The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.]

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor’s report]

*Illustration 4 — An Auditor’s Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a Special Purpose Framework*

Circumstances include the following:

- Audit of a schedule of royalties applicable to engine production (that is, a specific element, account, or item of a financial statement)

- The financial information has been prepared by management of the entity in accordance with a contractual basis of accounting (that is, a special purpose framework) to comply with the provisions of that contract. 1

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8 This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.

9 Another appropriate heading may be used.

1 Section 800 contains requirements and guidance on the form and content of financial statements prepared...
Based on the provisions of the contract, management does not have a choice of financial reporting frameworks.²

The audit of the schedule was not performed in conjunction with an engagement to audit the entity’s complete set of financial statements.³

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Schedule⁴

We have audited the accompanying schedule of royalties applicable to engine production of the Q Division of ABC Company for the year ended December 31, 20X1, and the related notes (the schedule).⁵

Management’s Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the schedule in accordance with the financial reporting provisions of Section Z of the license agreement between ABC Company and XYZ Corporation dated January 1, 20X1 (the contract). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the schedule 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the schedule, 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 schedule 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 reasonableness

² Paragraph .18 of section 800.
³ If the auditor undertakes an engagement to audit a specific element of a financial statement in conjunction with an engagement to audit the entity’s complete set of financial statements, paragraph .16 requires the auditor to indicate in the report on the specific element of a financial statement the date of the auditor’s report on the complete set of financial statements and the nature of opinion expressed on those financial statements under an appropriate heading.
⁴ The subtitle “Report on the Schedule” is unnecessary in circumstances when the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.
⁵ The auditor may refer to the schedule as the schedule of royalties.
of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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 schedule referred to above, presents fairly, in all material respects, the royalties applicable to engine production of the Q Division of ABC Company for the year ended December 31, 20X1, in accordance with the financial reporting provisions of Section Z of the contract.

**Basis of Accounting**

We draw attention to Note X to the schedule, which describes the basis of accounting. The schedule was prepared by ABC Company on the basis of the financial reporting provisions of Section Z of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the contract referred to above. Our opinion is not modified with respect to this matter.

**Restriction on Use**

Our report is intended solely for the information and use of ABC Company and XYZ Corporation and is not intended to be and should not be used by anyone other than these specified parties.

**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.*

[Author’s signature]
[Author’s city and state]
[Date of the auditor’s report]

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6. Another appropriate heading may be used.
7. Another appropriate heading may be used.
Illustration 5 — An Auditor’s Report on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles

Circumstances include the following:

- Audit of the historical summaries of gross income and direct operating expenses (that is, a single financial statement).

- The historical summaries have been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America but are an incomplete presentation of revenues and expenses.

Independent Auditor’s Report

[Appropriate Addressee]

Report on the Historical Summaries

Opinion
We have audited the Historical Summaries of Gross Income and Direct Operating Expenses of ABC Apartments for each of the three years in the period ended December 31, 20X1, and the related notes (the historical summaries).

In our opinion, the accompanying historical summaries present fairly, in all material respects, the gross income and direct operating expenses described in Note X of ABC Apartments for each of the three years in the period ended December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Historical Summaries section of our report. We are required to be independent of ABC Apartments and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter — Basis of Accounting

1 The subtitle "Report on the Audit of the Historical Summaries" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

2 The auditor may refer to the historical summaries as the financial statement.
We draw attention to Note X to the historical summaries, which describes that the accompanying historical summaries were prepared for the purpose of complying with the rules and regulations of Regulator DEF (for inclusion in the filing of Form Z of ABC Company) and are not intended to be a complete presentation of the Company’s revenues and expenses. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

**Responsibilities of Management for the Historical Summaries**

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

**Auditor’s Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the historical summaries as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of the historical summaries.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the historical summaries, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the historical summaries.

- Obtain an understanding of internal control relevant to the audit 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 ABC Company’s internal control. Accordingly, no such opinion is expressed.

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3 The description of management’s responsibilities relating to going concern required by paragraph .32b of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.
• Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the historical summaries.

• Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company’s ability to continue as a going concern for a reasonable period of time.  

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Report on Other Legal and Regulatory Requirements**

*The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities.*

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor’s report]

**Illustration 5—An Auditor’s Report on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles**

Circumstances include the following:

- Audit of the historical summaries of gross income and direct operating expenses (that is, a single financial statement).

- The historical summaries have been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America but are an incomplete presentation of revenues and expenses.

**Independent Auditor’s Report**

[Appropriate Addressee]

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4 This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.
Report on the Historical Summaries
We have audited the accompanying Historical Summaries of Gross Income and Direct Operating Expenses of ABC Apartments for each of the three years in the period ended December 31, 20X1, and the related notes (the historical summaries).  

Management’s Responsibility for the Historical Summaries
Management is responsible for the preparation and fair presentation of these historical summaries 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 the historical summaries that are free from material misstatement, whether due to fraud or error. 

Auditor’s Responsibility
Our responsibility is to express an opinion on the historical summaries 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 historical summaries are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the historical summaries. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the historical summaries, 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 historical summaries 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the historical summaries.

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 historical summaries referred to above present fairly, in all material respects, the gross income and direct operating expenses described in Note X of ABC Apartments for each of the three years in the period ended December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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1 The subtitle "Report on the Historical Summaries" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

2 The auditor may refer to the historical summaries as the financial statement.
We draw attention to Note X to the historical summaries, which describes that the accompanying historical summaries were prepared for the purpose of complying with the rules and regulations of Regulator DEF (for inclusion in the filing of Form Z of ABC Company) and are not intended to be a complete presentation of the Company’s revenues and expenses. Our opinion is not modified with respect to this matter.

**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}
### Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements
(Marked from Extant AU-C Section 810)

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<tr>
<td><strong>Introduction</strong></td>
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#### 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.\(^1\) Section 700, *Forming an Opinion and Reporting on Financial Statements*,\(^2\) addresses the auditor’s responsibility for comparative information.\(^2\) (Ref: par. .A1)

#### 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

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1 Paragraph .11.08 of section 700, *Forming an Opinion and Reporting on Financial Statements*, defines the terms *condensed financial statements* and *comparative information*.

2 All AU-C sections can be found in AICPA *Professional Standards*.

2 Paragraphs .45–.52, .46–.55 of section 700.
**Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements**
(Marked from Extant AU-C Section 810)

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<td>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.</td>
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.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 amendment section is effective for engagements to report

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5 Paragraphs .46–55 of section 700.
Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements
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<td>on summary financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.</td>
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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,
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.
**Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements**  
(Marked from Extant AU-C Section 810)

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<td><strong>Summary financial statements.</strong> Historical financial information(^3) 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</td>
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\(^{0.07}\) In this section, the term *audited financial statements* refers to those financial statements\(^4\) audited by the auditor in accordance with GAAS and from which the summary financial statements are derived.

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<th>Requirements</th>
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| **Engagement Acceptance**\(^{0.08}\) 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: par. .A2) | **Engagement Acceptance (Ref: par. .08)**\(^{.A2}\) 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.

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\(^3\) 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*.

\(^4\) Paragraph .14 of section 200 defines the term *financial statements*. 

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

1. determine whether the applied criteria are acceptable, including determining that the applied criteria (Ref: par. .A3–.A5) are free from bias so that the summary financial statements are not misleading.
2. 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.
3. 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.
4. 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 for the preparation of the summary financial statements in accordance with the applied criteria.

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
- 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
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<td>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)</td>
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<tr>
<td>summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry.</td>
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<td>iii. to provide the auditor with written representations, as described in paragraph .12.</td>
</tr>
<tr>
<td><em>Availability of the Audited Financial Statements (Ref: par. .09bii and .11bii)</em></td>
</tr>
<tr>
<td>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.</td>
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<td>.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 .09bii 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.</td>
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<td>.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).</td>
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<td><strong>c.</strong> 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)**</td>
<td><strong>Agreement on the Expected Form and Content of the Report (Ref: par. .09c)</strong></td>
</tr>
<tr>
<td><strong>.10 If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management in accordance with set out in paragraph .09b–c, the auditor should not accept the engagement to report on the summary financial statements.</strong></td>
<td><strong>Nature of Procedures (Ref: par. .11)</strong></td>
</tr>
<tr>
<td><strong>.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:</strong></td>
<td><strong>.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 &quot;Summary Financial Statements Prepared From the Audited Financial Statements as of and for the Year Ended December 31, 20X1.&quot;</strong></td>
</tr>
<tr>
<td>a. Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements. (Ref: par. .A9)</td>
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<td>b. When the summary financial statements are not accompanied by the audited financial statements, evaluate i. whether the summary financial statements clearly describe from whom or where the audited financial statements are available and</td>
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<td>ii. whether the audited financial statements are readily available to the intended users of the summary financial statements. (Ref: par. .A7)</td>
</tr>
<tr>
<td>c. Evaluate whether the summary financial statements adequately disclose the applied criteria.</td>
</tr>
<tr>
<td>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.</td>
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<tr>
<td>e. Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.</td>
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<tr>
<td>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.</td>
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**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
### Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements  
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<td>statements, when the summary financial statements will not be accompanied by the audited financial statements</td>
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<tr>
<td>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,</td>
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<tr>
<td>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</td>
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<tr>
<td>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</td>
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<tr>
<td>.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.</td>
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<tr>
<td><strong>Form of Opinion</strong> (Ref: par..A10 and .A11)</td>
<td>[Extant paragraph .A10 was moved to new paragraph .A18.]</td>
</tr>
<tr>
<td>.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 accompanying 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.</td>
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<td>[Extant paragraph .15 was moved to new paragraph .20.]</td>
<td>[Extant paragraph .A11 was moved to new paragraph .A17.]</td>
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<td>[Extant paragraph .16 was moved to new paragraph .19.]</td>
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<tr>
<td><strong>Elements of the Auditor’s Report (Ref: par. .A12 .A14)</strong> .15 .17</td>
<td><strong>Elements of the Auditor’s Report (Ref: par. .A17 .A15)</strong> .A10 .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.</td>
</tr>
<tr>
<td>a. Title that includes the word <code>independent</code> to clearly indicate that it is the report of an independent auditor (Ref: par. .A11 .A13)</td>
<td>Title (Ref: par. .A17 .15a) .A11 .A13 A title that includes the word <code>independent</code> to clearly indicate the report is the report of an independent auditor (for example, <code>Report of the Independent Auditor</code>) 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.</td>
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<tr>
<td>b. An addresssee</td>
<td>Introductory Paragraph Identification of the Summary Financial Statements (Ref: par. .A17 .15c)</td>
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<tr>
<td>ci. Introductory paragraph that 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. .A12 .A14)</td>
<td>.A12 .A14 When the auditor is aware that the summary financial statements will be included in a document that contains</td>
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<td><strong>e</strong> Id. Identification of the audited financial statements from which the summary financial statements have been derived</td>
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<td><strong>f</strong>g. A paragraph that clearly expresses an opinion. Subject to paragraphs .19–.20, a clear expression of an opinion, as described in paragraphs .14–.15</td>
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<tr>
<td><strong>e</strong>vf. A statement indicating 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 and the auditor’s report thereon is not a substitute for reading the audited financial statements and the auditor’s report thereon</td>
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<tr>
<td><strong>e</strong>vg. 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, a statement 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 .17.49) (Ref: par. 1.15.18)</td>
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<tr>
<td><strong>A13</strong>.<strong>A15</strong> 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 information other than the summary financial statements and the auditor's report thereon, 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.</td>
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<td>1.12–1.15)</td>
<td>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 1.17c(iv) 1.15g 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.</td>
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<td>eiii. Reference to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 1.15–1.16 1.19–20, the fact that an unmodified opinion is expressed on the audited financial statements</td>
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<td>di. A 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</td>
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<tr>
<td>eii. A Statement that the auditor is responsible for expressing an opinion based on the auditor’s procedures conducted in accordance with GAAS about whether the summary financial statements are consistent, in all material respects,</td>
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<td>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:</td>
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<td>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</td>
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<tr>
<td>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.</td>
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<td><strong>gk.</strong> The Auditor’s signature of the auditor’s firm</td>
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<td><strong>hl.</strong> The Auditor’s city and state where the auditor’s report is issued</td>
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<td><strong>im.</strong> The Date of the auditor’s report</td>
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<tr>
<td>The auditor should date the auditor's report on the summary financial statements no earlier than</td>
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<tr>
<td>a. the date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including</td>
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<td>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</td>
</tr>
<tr>
<td>b. the date of the auditor's report on the audited financial statements.</td>
</tr>
<tr>
<td><strong>.17 .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</strong></td>
</tr>
<tr>
<td>.18 .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, a going concern section, or communication of key audit matters, and the auditor expresses an unmodified opinion (see paragraph .14) on the summary financial statements, in</td>
</tr>
<tr>
<td>Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements</td>
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<tr>
<td>(Marked from Extant AU-C Section 810)</td>
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<tr>
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<tr>
<td>addition to the elements in paragraph .15, the auditor's report on the summary financial statements should</td>
<td>apply the requirement in paragraph .19.</td>
</tr>
<tr>
<td>a. state that the auditor's report on the audited financial statements contains a qualified opinion, an emphasis-of-matter paragraph, an other-matter paragraph, a going concern section, or communication of key audit matters and</td>
<td>.15 Paragraph .18a requires the auditor to include a statement in the auditor’s report on the summary financial statements when the auditor’s report on the audited financial statements includes communication of one or more key audit matters in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor’s Report. However, the auditor is not required to describe the individual key audit matters in the auditor’s report on the summary financial statements.</td>
</tr>
<tr>
<td>b. describe</td>
<td>.16 The statement(s) and description(s) required by paragraph .18 are intended to draw attention to those matters and are not a substitute for reading the auditor’s report on the audited financial statements. The required descriptions are intended to convey the nature of the matter(s) and need not repeat the corresponding text in the auditor’s report on the audited financial statements in its entirety.</td>
</tr>
<tr>
<td>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 thereof, if any, on the summary financial statements</td>
<td></td>
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<tr>
<td>ii. the matter referred to in the emphasis-of matter paragraph, other-matter paragraph, or going concern section in the auditor's report on the audited financial statements and the effect(s) thereof, if any, on the summary financial statements</td>
<td></td>
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</table>

.19 .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 contains an adverse opinion or a disclaimer of opinion, paragraph .16 .19 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
### Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements (Marked from Extant AU-C Section 810)

<table>
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<tr>
<td>statements should, <strong>in addition to the elements in paragraph .15</strong>,</td>
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<tr>
<td>a. state that the auditor's report on the audited financial statements</td>
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<tr>
<td>contains an adverse opinion or disclaimer of opinion.</td>
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<tr>
<td>b. describe the basis for that adverse opinion or disclaimer of</td>
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<td>opinion.</td>
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<tr>
<td>c. state that, as a result of the adverse opinion or disclaimer of</td>
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<tr>
<td>opinion, it is inappropriate to express, and the auditor does not</td>
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<tr>
<td>express, an opinion on the summary financial statements.</td>
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<td>d. include the reporting elements in paragraph .17, except for</td>
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<td>paragraph 17e(iv-v) and e and f.</td>
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<tr>
<td>summary financial statements, the auditor is neither precluded from</td>
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<td>withdrawing, nor required to withdraw, from the engagement.</td>
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**Form of Opinion (Ref: par. .A10–.A11)**

<table>
<thead>
<tr>
<th><strong>Modified Opinion on the Summary Financial Statements</strong></th>
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<tbody>
<tr>
<td><strong>.20 .15</strong> If the summary financial statements are not consistent, in all</td>
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<td>material respects, with the audited financial statements, in</td>
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<tr>
<td>accordance with the applied criteria, and management does not agree</td>
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<td>to make the necessary changes, the auditor should express an</td>
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<tr>
<td>adverse opinion on the summary financial statements. The auditor</td>
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<tr>
<td>should state in the opinion paragraph that, in the auditor's opinion,</td>
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<td>because of the significance of the matter(s) described in the basis for</td>
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<tr>
<td>adverse opinion, the summary financial statements are not consistent, in all</td>
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<tr>
<td>material respects, with the audited financial statements from which they</td>
</tr>
<tr>
<td>have been derived, in accordance with the applied criteria. (Ref: par. .A18)</td>
</tr>
</tbody>
</table>

**Modified Opinion on the Summary Financial Statements (Ref: par. .20)**

| **.A18 .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 .20.15 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. |

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

| **.21 When use of the auditor's report on the audited financial** |

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| Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements  
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<td><strong>Application and Other Explanatory Material</strong></td>
</tr>
<tr>
<td>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.</td>
<td></td>
</tr>
<tr>
<td><strong>Comparatives</strong></td>
<td><strong>Comparatives (Ref: par. .22 )</strong></td>
</tr>
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</table>
| .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, A19–A20.) | .A19  
.A17 If the audited financial statements contain comparative financial statements, a presumption exists that the summary financial statements also would contain comparatives. Section 700A addresses the auditor's responsibilities regarding comparative financial statements. 
56  |
| .A20  
.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 |  |
| .23 Unless the predecessor auditor's report on the prior period's summary financial statements is reissued with the summary financial statements is reissued with the summary financial statements |  |

56 Paragraphs .45–.52, .46–.55 of section 700.
### Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements
(Marked from Extant AU-C Section 810)

<table>
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| 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. |  |
| .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. | .A21 .A19 Section 700A contains a requirement and guidance related to information presented in the financial statements that is not required by the applicable financial reporting framework. Paragraph .25. Such requirement and guidance, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph .25. |

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[A21 .A19] Section 700A contains a requirement and guidance related to information presented in the financial statements that is not required by the applicable financial reporting framework. Paragraph .25. Such requirement and guidance, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph .25.
| Proposed AU-C Section 810, *Engagements to Report on Summary Financial Statements*  
(Marked from Extant AU-C Section 810) |
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<tr>
<td><strong>Introduction, Effective Date, Objective, Definitions, and Requirements</strong></td>
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<tr>
<td>Statements that such information is not covered by that report and accordingly, the auditor does not express an opinion on the information.</td>
</tr>
<tr>
<td><strong>Other Information in Documents Containing Summary Financial Statements (Ref: par. .A20,.A22)</strong></td>
</tr>
<tr>
<td>.26 The auditor should read the other information included in a document containing the summary financial statements and the auditor’s report thereon and consider whether a related auditor’s report to identify material inconsistencies exists between that information and, if any, with the summary financial statements and the audited financial statements.</td>
</tr>
<tr>
<td>.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</td>
</tr>
<tr>
<td><strong>Auditor Association (Ref: par. .A21,.A23)</strong></td>
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</table>
| Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements  
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<td><strong>.28</strong> 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.</td>
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</table>
| **.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. |
| **Application and Other Explanatory Material** |
| **A23 A24** 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, 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. |
| **A23 A24** 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... |
**Proposed AU-C Section 810, Engagements to Report on Summary Financial Statements**  
(Marked from Extant AU-C Section 810)

<table>
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<tr>
<td>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.</td>
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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

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 Information

[Appropriate Addressee]

Opinion

The 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.

In our opinion, the accompanying 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.

Summary 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 and the auditor’s report hereon, therefore, is not a substitute for reading the audited financial statements and the auditor’s report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

Responsibility of Management for the Summary Financial Statements

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Management is responsible for the preparation of the financial statements in accordance with the criteria described in Note X.

**Auditor’s Responsibility**
Our responsibility is to express an opinion on 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.

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[Date of the auditor's report]


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.

• The auditor’s report on the summary financial statements is dated the same as the date of the auditor’s report on the financial statements from which the summary financial statements are derived.¹

Independent Auditor's Report on Summary Financial Statements

[Appropriate Addressee]

¹ 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.”
Opinion
The 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).

In our opinion, the accompanying 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, in accordance with the criteria described in Note X.

Summary 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 and the auditor’s report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor’s report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

The Audited Financial Statements and Our Report Thereon
The basis for our qualified audit opinion was that 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.

Responsibilities of Management for the Summary Financial Statements
Management is responsible for the preparation of the summary financial statements in accordance with the criteria described in Note X.

Auditor’s Responsibility
Our responsibility is to express an opinion on 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.

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[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).

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.²

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 .19.46.

- 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.

- The auditor’s report on the summary financial statements is dated the same as 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]

Disclaimer of Opinion

The 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.
As a result of the adverse opinion on the audited financial statements discussed in the *Audited Financial Statements and our Report Thereon* section of our report, it is inappropriate to express, and we do not express, an opinion on the accompanying summary financial statements.

**Summary Financial Statements**
The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor’s report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor’s report thereon.

**The Audited Financial Statements and Our Report Thereon**
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].

**Responsibility of Management for the Summary Financial Statements**
Management is responsible for the preparation of these summary financial statements on the basis described in Note X.

**Auditor’s Responsibility**
We were engaged to express an opinion on 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. However, as a result of the adverse opinion on the audited financial statements as discussed above, we do not express an opinion on the accompanying summary financial statements.

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[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.

• The auditor’s report on the summary financial statements is dated the same as the date of the auditor’s report on the financial statements from which the summary financial statements are derived.1

1 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."
Independent Auditor's Report on Summary Financial Statements

[Appropriate Addressee]

Adverse Opinion
The 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.

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.

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.]

Summary 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 and the auditor’s report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor’s report thereon.

Responsibilities of Management 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.

[Signature of the auditor’s firm]
[City and state where the auditor’s report is issued]
[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, 20X2.¹

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.²

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.]

¹ 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.”

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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]