

---

# EXPOSURE DRAFT

---

## PROPOSED STATEMENT ON AUDITING STANDARDS

### AMENDMENTS TO AU-C SECTIONS 800, 805, AND 810 TO INCORPORATE AUDITOR REPORTING CHANGES FROM SAS NO. 134

*Amends the following sections of Statement on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification:*

- *Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, as amended (AICPA, Professional Standards, AU-C sec. 800)*
- *Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement, as amended (AICPA, Professional Standards, AU-C sec. 805)*
- *Section 810, Engagements to Report on Summary Financial Statements (AICPA, Professional Standards, AU-C sec. 810)*

**August 28, 2019**

**Comments are requested by October 28, 2019**

Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.

Comments should be addressed to Sharon Macey at [Sharon.Macey@aicpa-cima.com](mailto:Sharon.Macey@aicpa-cima.com).



*Copyright © 2019 by*

*American Institute of Certified Public Accountants, Inc.*

*New York, NY 10036-8775*

*Permission is granted to make copies of this work provided that such copies are for personal, intraorganizational, or educational use only and are not sold or disseminated and provided further that each copy bears the following credit line: "Copyright © 2019 by American Institute of Certified Public Accountants, Inc. Used with permission."*



## CONTENTS

---

	Page
<b>Explanatory Memorandum</b>	
Introduction .....	6
Background .....	6
Effective Date .....	9
Significant Changes From Existing Standards .....	9
Guide for Respondents.....	11
Supplements to the Exposure Draft .....	11
Comment Period .....	11
Auditing Standards Board Members.....	12
 <b>Exposure Draft</b>	
Proposed Statement on Auditing Standards <i>Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134</i> .....	
<i>Amendment to AU-C Section 800, Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> .....	13
<i>Amendment to AU-C Section 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i> .....	40
<i>Amendment to AU-C Section 810, Engagements to Report on Summary Financial Statements</i> .....	59



# Explanatory Memorandum

## Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134*.<sup>1</sup>

If issued as final, the proposed SAS will amend the following sections of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended:

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

In this explanatory memorandum, these sections of the auditing standards are sometimes referred to as “the AU-C 800 series.”

## Background

### Auditor Reporting

In May 2019 the Auditing Standards Board (ASB) issued SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. The overall objective of SAS No. 134 was to update the form and content of auditors’ reports on the financial statements of nonissuers to be more consistent with standards of the International Auditing and Assurance Standards Board (IAASB) and recent updates to PCAOB standards. This proposed SAS aligns the AU-C 800 series with the relevant auditor reporting standards in SAS No. 134.

Following are some of the more significant changes introduced by SAS No. 134, categorized by the AU-C section in which the change occurs:

- AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*
  - Requires the “Auditor’s Opinion” section of the report to be the first section of the report for enhanced visibility; requires the “Basis for Opinion” section of the report to immediately follow the “Auditor’s Opinion” section.

---

<sup>1</sup> All AU-C sections can be found in AICPA *Professional Standards*.

- Requires the auditor’s report to include 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 relevant ethical requirements relating to the audit.
- Enhances auditor reporting related to going concern by requiring a description of the respective responsibilities of management, when required by the applicable financial reporting framework, and responsibilities of the auditor relating to going concern.
- Expands the description of the auditor’s responsibilities, including those relating to professional judgment and skepticism, and the auditor’s communications with those charged with governance.
- AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*
  - Addresses the auditor’s responsibility to communicate key audit matters (KAMs) in the auditor’s report when engaged to do so; does not otherwise require the communication of KAMs.
- AU-C section 705, *Modifications to the Opinion in the Independent Auditor’s Report*
  - Aligns the form and content of the auditor’s report with the changes in AU-C section 700 when the auditor concludes that an unmodified auditor’s opinion in accordance with AU-C section 700 is not appropriate (qualified, adverse, or disclaimer of opinion). (The revisions to AU-C section 705 do not change existing requirements regarding circumstances in which a modification to the auditor’s opinion is required or for determining the type of modification to the auditor’s opinion.)
- AU-C section 706, *Emphasis-of-Matter and Other-Matter Paragraphs*
  - Clarifies the relationship between emphasis-of-matter (EOM) paragraphs and the communication of KAMs. When engaged to communicate KAMs, the use of an EOM paragraph is not a substitute for including the matter in the KAM section if the matter meets the definition of a KAM.
  - Requires that an appropriate heading be used. When KAMs are communicated, the heading is required to include the term “Emphasis of Matter.”
- AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*
  - Amends AU-C section 570 to require inclusion of a separate section in the auditor’s report when substantial doubt exists and to require that the heading of

that section be titled “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern.”

The amendments to the AU-C 800 sections also reflect the issuance of the following SASs:

- SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. SAS No. 136 addresses the auditor’s responsibility to form an opinion on the financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA). It also addresses the form and content of the auditor’s report issued as a result of an audit of ERISA plan financial statements and prescribes certain new performance requirements for such audits. This SAS applies to audits of single employer, multiple employer, and multiemployer plans subject to ERISA.
- SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*, which supersedes SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*, as amended and codified in AU-C section 720. SAS No. 137 provides transparency related to the auditor’s responsibility for other information included in an entity’s annual report when the auditor has obtained all other information at the date of the auditor’s report on the financial statements. Other information may include amounts or other items intended to be the same as, to summarize, or to provide more detail about amounts or other items in the financial statements. It also may include other amounts or items about which the auditor has obtained knowledge in the audit along with nonfinancial information.

The amendments to the AU-C 800 series do not reflect the amendments proposed by the exposure draft of proposed SAS *Amendments to the Description of the Concept of Materiality*. If that proposed SAS is issued as final, conforming amendments will be made to the AU-C 800 series.

## **Convergence**

In 2015, the IAASB issued new and revised International Standards on Auditing (ISAs) related to reporting on audited financial statements. In 2016, the IAASB made limited amendments to the ISA 800 series, which includes ISA 800 (Revised), *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; ISA 805 (Revised), *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Rather than converging with the IAASB’s changes to the ISA 800 series at that time, the ASB decided to reconsider revisions to the AU-C 800 series after the ASB had made further progress



on its auditor reporting standards. Now that SAS No. 134 has been issued, the ASB is amending the AU-C 800 series to align with the relevant provisions in SAS No. 134.

### *Compliance Frameworks*

In generally accepted auditing standards (GAAS), all special purpose frameworks are considered fair presentation frameworks. A fair presentation framework requires compliance with the requirements of the framework and

1. acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
2. acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

In addition to fair presentation frameworks, the ISAs contain the concept of a *compliance framework*, which is a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgments in items (1) and (2) of the preceding list. When the ASB first converged with ISA 800 with the issuance of SAS No. 122 in 2011, the ASB did not include the concept of a compliance framework, believing that all financial reporting frameworks in the United States are fair presentation frameworks. The ASB considered incorporation of the concept of a compliance framework for certain types of special purpose frameworks; after discussion, however, the ASB reaffirmed its 2011 position with respect to this matter and acknowledged that the topic of compliance frameworks may be revisited in a future ASB project.

Accordingly, the ASB identified auditor reporting changes that would be needed to conform with the revisions to the AU-C 700 series in SAS No. 134. In doing so, a limited number of revisions to converge with ISA 800 (Revised) are also proposed, such as identifying the various types of special purpose frameworks in the application material rather than including them as part of the definition of the term *special purpose frameworks*.

### **Effective Date**

If issued as final, the proposed SAS will be effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

### **Significant Changes From Existing Standards**

The following list summarizes what the ASB believes will be the most significant changes — in addition to changes to the format and contents of the auditor’s report consistent with SAS No. 134 — to existing standards if the proposed SAS is issued as final. Unless otherwise indicated, paragraph references are to the relevant requirements in the respective proposed SAS, which should be read together with the related application material.

### **Changes to AU-C Section 800**

- The designation of the cash, tax, regulatory, contractual, and other bases of accounting as examples of special purpose frameworks rather than as part of the definition of *special purpose framework*
- The addition of an introductory paragraph stating that section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, applies to audits of special purpose financial statements
- Clarification that, in all audits of special purpose financial statements (irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements), the auditor is required to do the following:
  - Conclude whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time.
  - When substantial doubt exists, evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework.
- For special purpose financial statements prepared in accordance with a contractual or other basis of accounting, a new requirement that the EOM paragraph in the auditor's report state that the financial statements may not be suitable for another purpose

### **Changes to AU-C Section 805**

- Addition of paragraph .A21, which indicates that the applicable financial reporting framework may not have a requirement for management to assess going concern for a single financial statement or element (or going concern may not be relevant at all to the framework). In those circumstances, the required statements in the auditor's report regarding management's and the auditor's responsibility for going concern would need to be adapted as necessary (or omitted if not relevant).
- Examples of factors that may be relevant in considering whether a matter included in the auditor's report on a complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element, account, or item of a financial statement.

### **Changes to AU-C Section 810**

- Amendment to paragraph .15e — which addresses the paragraph in the auditor's report describing the auditor's responsibilities — that deletes the description of procedures performed by the auditor

## **Guide for Respondents**

Respondents are asked to comment on the proposed changes to existing standards, including the illustrative reports, and whether they are consistent with SAS No. 134.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after October 28, 2019, until a final standard is issued. Responses should be sent to Sharon Macey at [Sharon.Macey@aicpa-cima.com](mailto:Sharon.Macey@aicpa-cima.com) and received by October 28, 2019.

## **Supplements to the Exposure Draft**

To assist respondents in identifying changes and in responding to this request for comment on the proposed SAS, the Audit and Attest Standards staff has prepared a series of documents that show the proposed amendments in the context of the entire extant AU-C section.

This supplementary material is available on the AICPA website. It is for informational purposes only and does not form part of the exposure draft; however, it may be useful for respondents in formulating comments.

## **Comment Period**

The comment period for this exposure draft ends on October 28, 2019.

**Auditing Standards Board  
(2018–2019)**

Michael J. Santay, *Chair*  
Brad C. Ames  
Monique Booker  
Jay D. Brodish, Jr.  
Dora A. Burzenski  
Joseph S. Cascio  
Harry Cohen  
Jeanne Dee  
Lawrence Gill  
Audrey A. Gramling

Gaylen R. Hansen  
Tracy W. Harding  
Jon Heath  
Jan C. Herringer  
Kristen A. Kociolek  
G. Alan Long  
Sara Lord  
Marcia L. Marien  
Aaron Saito

**Auditor Reporting Task Force**

Daniel D. Montgomery, *Chair*  
Frank Crawford  
Audra Harrington  
Jan Herringer  
Susan Jones

Richard I. Miller  
Jeffrey Rapaglia  
Richard N. Reisig  
Mike Westervelt

**AICPA Staff**

Robert Dohrer  
*Chief Auditor*  
*Professional Standards and Services*

Teighlor March  
*Assistant General Counsel*

Judith Sherinsky  
*Senior Manager*  
*Audit and Attest Standards*  
*— Public Accounting*

**PROPOSED STATEMENT ON AUDITING STANDARDS**  
**AMENDMENTS TO AU-C SECTIONS 800, 805, AND 810**  
**TO INCORPORATE AUDITOR REPORTING CHANGES FROM SAS No. 134**

**TABLE OF CONTENTS**

---

	Paragraph
Amendment to AU-C Section 800, <i>Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> .....	13
Amendment to AU-C Section 805, <i>Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i> .....	39
Amendment to AU-C Section 810, <i>Engagements to Report on Summary Financial Statements</i> .....	62

**Proposed Statement on Auditing Standards Amendments to AU-C  
Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes  
From SAS No. 134**

**Amendment to SAS No. 122, AU-C Section 800, *Special Considerations —  
Audits of Financial Statements Prepared in Accordance With Special Purpose  
Frameworks***

AU-C section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*,\* addresses special considerations in applying AU-C sections 200–700 to an audit of financial statements prepared in accordance with a special purpose framework. In May 2019, the ASB issued Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, which updates the form and content of auditors’ reports on the financial statements of nonissuers to be more consistent with the standards of the International Auditing and Assurance Standards Board and recent updates to PCAOB standards. If issued as final, the proposed amendments in this exposure draft will amend AU-C section 800 to align with relevant auditor reporting standards in SAS No. 134. It also will align AU-C section 800 to incorporate changes introduced by SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, and SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*, which supersedes SAS No. 118, *Other Information in Documents Containing Audited Financial Statements*.

***Boldface italic*** denotes new language. Deleted text is in ~~strikethrough~~.

**.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***)

[No amendment to paragraph .02.]

**.03** ~~Section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*, 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. **Section 570, The Auditor’s**~~

---

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

**Consideration of an Entity’s Ability to Continue as a Going Concern, *applies to audits of special purpose financial statements, as discussed in paragraph .14 of this section.***

[No amendment to paragraphs .04–.06.]

**.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**)

- ~~a. **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).~~
- ~~b. **Tax basis.** A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.~~
- ~~c. **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 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).~~
- ~~d. **Contractual basis.** 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.~~
- ~~e. **Other basis.** A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.~~

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.~~”<sup>1</sup> ~~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.

<sup>1</sup> [Footnote omitted for purposes of this proposed SAS.]

[No amendment to paragraphs .09–.13.]

### ***Auditor’s Responsibilities Regarding the Entity’s Ability to Continue as a Going Concern***

**.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)*

- a. *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.*
- b. *When such substantial doubt exists, evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework.<sup>6</sup>*

<sup>6</sup> Paragraphs .20–.22 and .A46 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.

[Subsequent footnotes are renumbered.]

~~.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–A18–.A21~~)

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

~~.16-15~~ Section 700 requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.<sup>67</sup> 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.*

<sup>67</sup> [Footnote omitted for purposes of this proposed SAS.]

~~.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. ~~A-20–A24.A24–.A28~~)*

~~.17~~ Section 700 requires the auditor to evaluate whether the financial statements achieve fair presentation.<sup>78</sup> 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 should evaluate whether

- 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.*

- 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.

<sup>78</sup> [Footnote omitted for purposes of this proposed SAS.]

**.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~~

- ~~ab.~~ 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
  - i. a regulatory or contractual basis of accounting or
  - 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 Restricts the Use of the Auditor's Written Communication*. (Ref: par. ~~A29–A25~~)

- ~~ba.~~ *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 management has a choice of financial reporting frameworks in the preparation of such financial statements.~~

*Alerting Readers in an Emphasis-of-Matter Paragraph That the Financial Statements Are Prepared in Accordance With a Special Purpose Framework* (Ref: par. ~~A26~~ **.A30**)

**.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<sup>89</sup> under an appropriate heading, that ~~a~~ indicates that the financial statements are prepared in accordance with ~~the applicable~~ **a** special purpose framework, ~~b~~ refers to the note to the financial statements that describes that framework, and ~~e~~ 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.*

<sup>89</sup> [Footnote omitted for purposes of this proposed SAS.]

[No amendment to paragraphs .20–.21.]

Auditor's Report Prescribed by Law or Regulation (Ref: par. ~~A30–A33~~ **.A34–A37**)

.22 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:

- a. A title *that clearly indicates that it is the report of an independent auditor*
- b. An addressee
- ~~e. An introductory paragraph that identifies the special purpose financial statements audited~~
- c. *An opinion section that*
  - i. *identifies the special purpose financial statements that have been audited and*
  - 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*
- ~~d. A description of the responsibility of management for the preparation and fair presentation of the special purpose financial statements~~
- df. A description of the purpose for which the financial statements are prepared when required by paragraph .18ba
- e. *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*
- f. *When applicable, a section that addresses the reporting requirements in paragraphs .24–.27 of section 570*
- g. *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*
- he. A reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when required by paragraph .18ba
- ~~g. 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~~
  - i. ~~A reference to GAAS and, if applicable, the law or regulation~~
  - ii. ~~A description of an audit in accordance with those standards~~
- ~~h. An opinion paragraph containing an expression of opinion on 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*
- om. *The date of the auditor's report*

[No amendment to paragraph .23.]

### ***Introduction***

#### ***Scope of This Section (Ref: par. .01 and .07)***

***.A1 The following are examples of special purpose frameworks (Ref: par. .01):***

- a. *Cash basis. 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).*
- b. *Tax basis. A basis of accounting the entity uses to file its tax return for the period covered by the financial statements.*
- c. *Regulatory basis. 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).*
- d. *Contractual basis. 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.*

- e. *Other basis. A basis of accounting that comprises a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.*

*The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as other comprehensive bases of accounting.*

[The following heading and subheading are removed above former paragraph .A1.]

**Definitions**

**~~Special Purpose Financial Statements and Special Purpose Frameworks (Ref: par. .07)~~**

[Former paragraph .A1 is renumbered as paragraph .A2. The content is unchanged.]

~~.A3A2~~ 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.<sup>†12</sup> 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.

<sup>†12</sup> The term *general purpose framework* is defined in paragraph **.10 .44** of section 700.

~~.A4A3~~ 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 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 ~~.A2A3~~, 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.

~~.A5A4~~ 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.

**Definitions**

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

~~.A6A5~~ 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.

[Former paragraphs .A6–.A9 are renumbered as paragraphs .A7–.A10. The content is unchanged.]

~~.A11~~<sup>A10</sup> 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 and content.<sup>14</sup> 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.

<sup>14</sup> [Footnote omitted for purposes of this proposed SAS.]

~~.A12~~<sup>A11</sup> 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*:<sup>15</sup>

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

Also see paragraphs ~~.A24–.A28~~ ~~.A20–.A24~~ of this section.

<sup>15</sup> [Footnote omitted for purposes of this proposed SAS.]

[Former paragraphs .A12–.A13 are renumbered as paragraphs .A13–.A14. The content is unchanged.]

[No amendment to paragraphs .A15–.A16.]

### ***Auditor’s Responsibilities Regarding the Entity’s Ability to Continue as a Going Concern (Ref: par. .14)***

#### ***Relevance of Going Concern Basis of Accounting to a Special Purpose Framework***

~~.A17~~ <sup>A14</sup> 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. *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. 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.*<sup>19</sup> *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.*<sup>20</sup> ~~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<sup>18</sup> 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~~

<sup>18</sup> ~~Paragraph .19 of section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.~~

<sup>19</sup> *Paragraph .32b of section 700.*

<sup>20</sup> *Paragraph .36e of section 700.*

[Former paragraph .A17 is renumbered as paragraph .A18. The content is unchanged.]

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

***.A19 Paragraph .15 of this section requires the auditor to apply the 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 .A17 and .A20–.A21 of this section helpful.***

## ***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.***

[Former paragraphs .A18–.A19 are renumbered as paragraphs .A22–.A23. The content is unchanged.]

***.A24 ~~.A20~~ 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 *.A12* ~~.A11~~.***

[Former paragraphs .A21–.A22 are renumbered as paragraphs .A25–.A26. The content is unchanged.]

***.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 the same disclosure required by GAAP or disclosure that communicates the substance of those requirements.***

[Former paragraphs .A24–.A28 are renumbered as paragraphs .A28–.A32. The content is unchanged.]

***.A33 ~~A29~~ 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 about whether the financial statements are prepared in accordance with the special purpose framework.~~

[Former paragraphs .A30—.A34 are renumbered as paragraphs .A34—.A38. The content is unchanged.]

~~.A39.A35~~

## **Appendix B — Fair Presentation and Adequate Disclosures (Ref: par. ~~.A20—.A23.A24—.A28~~)**

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 ~~.A24—.A28~~~~.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.<sup>1</sup>



<sup>1</sup> ***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.***

- 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 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.<sup>2</sup>

<sup>2</sup> ***FASB ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.***

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*** ~~To illustrate:~~

- 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,*** ~~d~~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.

~~A36~~ **A40** Exhibit — Illustrations of Auditor's Reports on Special Purpose Financial Statements (Ref: par. . ~~A18~~ **A17**)

**Note: The following illustrative reports have been revised to conform with the proposed amendments to AU-C section 800. They are not marked from the extant reports because the extent of the changes to conform with SAS No. 134 would make the revised reports difficult to read.**

### **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.<sup>1</sup>

#### **Independent Auditor’s Report**

*[Appropriate Addressee]*

#### **Report on the Audit of Financial Statements<sup>2</sup>**

##### ***Opinion***

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

---

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

<sup>2</sup> 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.

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<sup>3</sup>***

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.

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.<sup>4</sup>

---

<sup>3</sup> Another appropriate heading may be used.

<sup>4</sup> 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 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 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.<sup>1</sup>

### **Independent Auditor’s Report**

*[Appropriate Addressee]*

---

<sup>1</sup> If management has a choice of financial reporting frameworks, paragraph .18*b* 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 Audit of the Financial Statements**<sup>2</sup>

### ***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 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***<sup>3</sup>

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,

---

<sup>2</sup> 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

<sup>3</sup> Another appropriate heading may be used.

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 Partnership’s internal control. Accordingly, no such opinion is expressed.<sup>4</sup>
- 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 3 — An Auditor’s Report on a Complete Set of Financial Statements Prepared in Accordance With a Regulatory Basis of Accounting (the Financial Statements Together With the Auditor’s Report Are Not Intended for General Use)**

---

<sup>4</sup> 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.”

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.<sup>1</sup>

## Independent Auditor’s Report

[Appropriate Addressee]

### Report on the Audit of the Financial Statements <sup>2</sup>

#### ***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***

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***<sup>3</sup>

---

<sup>1</sup> If management has a choice of financial reporting frameworks, paragraph .18**ab** 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.

<sup>2</sup> 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.

<sup>3</sup> Another appropriate heading may be used.

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***<sup>4</sup>

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.
- 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.<sup>5</sup>

---

<sup>4</sup> 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.

<sup>5</sup> 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."



- 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***<sup>6</sup>

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.]*

*[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 Complete Set of Financial Statements Prepared in Accordance With a Regulatory Basis of Accounting (the Financial Statements Together With the Auditor’s Report Are Intended for General Use)**

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.

---

6 Another appropriate heading may be used.

- Based on the regulatory requirements, management does not have a choice of financial reporting frameworks.<sup>1</sup>
- 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<sup>2</sup>

#### *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 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.

#### *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

---

<sup>1</sup> If management has a choice of financial reporting frameworks, paragraph .18*b* 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.

<sup>2</sup> 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.

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*

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***<sup>3</sup>

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

---

<sup>3</sup> 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.

effectiveness of ABC Government Authority’s internal control. Accordingly, no such opinion is expressed.<sup>4</sup>

- 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**

*[The 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]*

### **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.<sup>1</sup>

---

<sup>4</sup> 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.”

<sup>1</sup> If management has a choice of financial reporting frameworks, paragraph .18*b* 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.

## Independent Auditor's Report

[Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>2</sup>

#### *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.

#### *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*<sup>3</sup>

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*<sup>4</sup>

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*

---

<sup>2</sup> 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.

<sup>3</sup> Another appropriate heading may be used.

<sup>4</sup> 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.

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 Company’s internal control. Accordingly, no such opinion is expressed.<sup>5</sup>
- 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***<sup>6</sup>

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**

---

<sup>5</sup> 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.”

<sup>6</sup> Another appropriate heading may be used.

*[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]*

This amendment is effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2020. Early implementation is not permitted.

## **Amendment to SAS No. 122, AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement***

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. AU-C section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, 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. In May 2019, the Auditing Standards Board issued SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, which updates the form and content of auditors’ reports on the financial statements of nonissuers to be more consistent with the standards of the International Auditing and Assurance Standards Board and recent updates to PCAOB standards. If issued as final, the proposed amendments in this exposure draft will amend AU-C section 805 to align with the relevant auditor reporting standards in SAS No. 134. It will also align AU-C section 805 by incorporating changes introduced by SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

[No amendment to paragraphs .01–.05.]

**.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)~~

[No amendment to paragraphs .07–.14.]

**.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 Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks**, adapted as necessary in the circumstances of the engagement. (Ref: par. ~~.A20–.A22 .A17–.A18~~)

[No amendment to paragraphs .16–.18.]

~~*Modified Opinion, Emphasis of Matter Paragraph, or Other Matter Paragraph in the Auditor’s Report on the Entity’s Considering the Implications of Certain Matters Included in the Auditor’s Report on the*~~

---

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



### *Entity's Complete Set of Financial Statements*

**.19** 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*, is modified, the auditor should *consider the implications, if any*, determine the effect that *these matters* ~~this may have on~~ *for the audit* ~~auditor's opinion on~~ *of the* a single financial statement or *of the* a specific element of *a* 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)

[The following subheading is inserted above paragraph .20.]

### ***Modifications to the Opinion in the Independent Auditor's Report***

[No amendment to paragraph .20.]

### ***Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements***

**.21** 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

- a. that opinion is expressed in an auditor's report that is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion and
- b. the ~~specific~~ element does not constitute a major portion of the entity's complete set of financial statements or the specific element is not, or is not based upon, the entity's stockholders' equity or net income or the equivalent.

[No amendment to paragraphs .22–.24.]

[Former paragraph .A1 has been divided into two paragraphs as follows.]

### **Scope of This Section (Ref: par. 01 and .06b)**

**.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.<sup>6</sup>

<sup>6</sup> Paragraph 14 of section 200.

~~.A2~~ ~~.A1~~ ~~It~~ **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.

~~.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*,<sup>†</sup> applies 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 .A8 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.**

[Former paragraphs .A4–.A6 are renumbered as paragraphs .A5–.A7. The content is unchanged.]

~~.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, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, ~~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

---

<sup>†</sup> All AT-C sections can be found in AICPA *Professional Standards*.

management whether another type of engagement might be more practicable, *such as an engagement performed in accordance with the Statements on Standards for Attestation Engagements* as described in *paragraph .A4.A3*.

[Former paragraph .A8 is renumbered as paragraph .A9.]

[The first part of former paragraph .A9 is renumbered as paragraph .A10. The content is unchanged.]

[The second part of former paragraph .A9 is renumbered as paragraph .A11, with the following amendments.]

~~.A11.A9~~ The determination of the acceptability of the applicable framework may also include consideration of the following:

- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
- Whether the single financial statement or the specific element of a financial statement will
  - 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.
  - 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.<sup>78</sup> 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.

<sup>78</sup> [Footnote omitted for purposes of this proposed SAS.]

[Former paragraph .A10 is renumbered as paragraph .A12. The content is unchanged.]

~~.A13.A11~~ As indicated in paragraph *Error! Reference source not found.A12.A10*, incomplete presentations may be required by a regulatory agency or a contract or an agreement. Paragraphs ~~.A2.A3.A3-.A4~~ of section 800 provide guidance on the acceptability of the financial reporting framework when the regulatory or contractual basis of accounting is based on a general purpose framework, such as GAAP. The auditor may determine that it is more appropriate for the description of the applicable financial reporting framework to refer 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.

[Former paragraph .A12 is renumbered as paragraph .A14. The content is unchanged.]

***.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 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.***

[Former paragraph .A13 is renumbered as paragraph .A16. The content is unchanged.]

***.A17A14 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 appropriate audit evidence on which to base the opinion on the single financial statement or the specific element.***

***.A18A15 The individual financial statements that **make up** comprise 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.***

[Former paragraph .A16 is renumbered as paragraph .A19. The content is unchanged.]

***.A20A17 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.<sup>1011</sup> In the case of an audit of a single financial statement or a specific element of a financial 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.

<sup>1044</sup> Paragraph ~~.15-46e~~ of section 700, *Forming an Opinion and Reporting on Financial Statements*, and paragraph ~~.37~~ of section 703.

### **Going Concern**

***.A21 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<sup>11</sup> 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<sup>12</sup> 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.***

<sup>11</sup> Paragraph .32b of section 700.

<sup>12</sup> Paragraph .36e of section 700.

[Former paragraph .A18 is renumbered as paragraph .A22. The content is unchanged.]

~~*Modified Opinion, Emphasis-of-Matter Paragraph, or Other Matter Paragraph in the Auditor’s Report on the Entity’s Considering the Implications of Certain Matters Included in the Auditor’s Report on the Entity’s Complete Set of Financial Statements (Ref: par. .19–.23)*~~

***.A23 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.***

***.A24 Factors that may be relevant in considering those implications include the following:***

- ***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.***
- ***The pervasiveness of the matters described in the auditor’s report on the complete set of financial statements***
- ***The nature and extent of the differences between the applicable financial reporting frameworks***
- ***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.*

- *The time elapsed since the date of the auditor’s report on the complete set of the financial statements*

*.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 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.*

*.A26 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, Communicating Key Audit Matters in the Independent Auditor’s Report, applies in its entirety.*

[Former paragraph .A19 is renumbered as paragraph .A27. The content is unchanged.]

[The following heading is added above paragraph .A27.]

*Modifications to the Opinion in the Independent Auditor’s Report (Ref: par. .20)*

*.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 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.*

*.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).~~*

[Former paragraphs .A21–.A22 are renumbered as paragraphs .A30–.A31. The content is unchanged.]

*.A32–~~A23~~ If the presentation is prepared in accordance with a regulatory or contractual basis of accounting, the requirement in paragraph .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~~~~A14~~ of this section.*

[Paragraph .A24 is renumbered as paragraph .A33. The content is unchanged.]

**Note: The following illustrative reports have been revised to conform with the proposed amendments to AU-C section 805. They are not marked from the extant reports because the extent of the changes to conform with SAS No. 134 would make the revised reports difficult to read.**

~~A25~~ **A34** Exhibit — Illustrations of Auditor’s Reports on a Single Financial Statement and a Specific Element of a Financial Statement (Ref: ~~A22A18~~ and ~~A31.A22~~)

### **Illustration 1 — An Auditor’s Report on a Single Financial Statement Prepared in Accordance With a General Purpose Framework**

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<sup>1</sup>**

##### ***Opinion***

We have audited the balance sheet of ABC Company as of December 31, 20X1, and the related notes (the financial statement).<sup>2</sup>

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

---

<sup>1</sup> 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.

<sup>2</sup> The auditor may refer to the financial statement as the *balance sheet*.

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***<sup>3</sup>

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.

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.

---

<sup>3</sup> 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.



- 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.<sup>4</sup>

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 Single Financial Statement Prepared in Accordance With a Special Purpose Framework**

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.<sup>1</sup>
- Management has a choice of financial reporting frameworks.<sup>2</sup>

### **Independent Auditor’s Report**

*[Appropriate Addressee]*

---

<sup>4</sup> 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.

<sup>1</sup> 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.

<sup>2</sup> Paragraph .18*b* of section 800.

## **Report on the Audit of the Financial Statement<sup>3</sup>**

### ***Opinion***

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).<sup>4</sup>

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<sup>5</sup>***

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***

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

---

<sup>3</sup> 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.

<sup>4</sup> The auditor may refer to the financial statement as the *statement of cash receipts and disbursements*.

<sup>5</sup> Another appropriate heading may be used.

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.<sup>6</sup>

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]*

---

<sup>6</sup> 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.

### **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.<sup>1</sup>

#### **Independent Auditor’s Report**

[*Appropriate Addressee*]

#### **Report on the Audit of the Schedule<sup>2</sup>**

##### ***Opinion***

We have audited the schedule of accounts receivable of ABC Company as of December 31, 20X1, and the related notes (the schedule).<sup>3</sup>

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

---

<sup>1</sup> *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.*

<sup>2</sup> 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

<sup>3</sup> The auditor may refer to the schedule as the *schedule of accounts receivable*.

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<sup>4</sup>***

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***

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.<sup>5</sup>

---

<sup>4</sup> 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.

<sup>5</sup> 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.

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, 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 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.<sup>1</sup>
- Based on the provisions of the contract, management does not have a choice of financial reporting frameworks.<sup>2</sup>
- The audit of the schedule was not performed in conjunction with an engagement to audit the entity’s complete set of financial statements.<sup>3</sup>

---

<sup>1</sup> 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.

<sup>2</sup> Paragraph .18**ab** of section 800.

<sup>3</sup> 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

## Independent Auditor's Report

[Appropriate Addressee]

### **Report on the Audit of the Schedule<sup>4</sup>**

#### ***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).<sup>5</sup>

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 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<sup>6</sup>***

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<sup>7</sup>***

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

---

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.

<sup>4</sup> 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.

<sup>5</sup> The auditor may refer to the schedule as the *schedule of royalties*.

<sup>6</sup> Another appropriate heading may be used

<sup>7</sup> 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.

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 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.<sup>8</sup>

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<sup>9</sup>***

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.

---

<sup>8</sup> 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.

<sup>9</sup> Another appropriate heading may be used.



## **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]*

#### **Report on the Historical Summaries<sup>1</sup>**

##### ***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).<sup>2</sup>

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***

---

<sup>1</sup> 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.

<sup>2</sup> The auditor may refer to the historical summaries as the *financial statement*.

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***

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***<sup>3</sup>

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.

---

<sup>3</sup> 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.

- 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 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.<sup>4</sup>

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]*

This amendment is effective for audits of single financial statements 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.

## **Amendment to SAS No. 122, AU-C section 810, *Engagements to Report on Summary Financial Statements***

AU-C section 810, *Engagements to Report on Summary Financial Statements*,\* 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 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. In May 2019, the Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, which updates the form and content of auditors’ reports on

---

<sup>4</sup> 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.

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

the financial statements of nonissuers to be more consistent with the standards of the International Auditing and Assurance Standards Board and recent updates to PCAOB standards. If issued as final, the proposed amendments in this exposure draft will amend AU-C section 810 to align with the relevant auditor reporting standards in SAS No. 134. It also will align AU-C section 810 by incorporating changes introduced by SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*.

[No amendment to paragraphs .01–.09.]

**.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.

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

- a. Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements. (Ref: par. .A9)
- b. When the summary financial statements are not accompanied by the audited financial statements, evaluate
  - i. whether the summary financial statements clearly describe *from whom or* where the audited financial statements are available and
  - ii. whether the audited financial statements are readily available to the intended users of the summary financial statements. (Ref: par. .A7)
- c. Evaluate whether the summary financial statements adequately disclose the applied criteria.
- d. Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.
- e. Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.
- f. Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so that they are not misleading in the circumstances.

[No amendment to paragraphs .12–.14.]

[The following heading is removed above former paragraph .14.]

**Form of Opinion (Ref: par. .A10 and .A11)**

*Elements of the Auditor's Report (Ref: par. ~~A12~~.A10)*

**.15~~17~~** The auditor's report on summary financial statements should include the following elements:

- a. ~~A Title that includes the word independent to~~ clearly indicates that it is the report of an independent auditor (Ref: par. ~~A11~~.A13)
- b. ~~An a~~ Addressee

- c. ~~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~~)
- d. ~~ii~~ **Identifies** *the audited financial statements from which the summary financial statements have been derived*
- e. ~~f. A paragraph that clearly expresses an opinion,~~ **Subject to paragraphs .19–.20, a clear expression of an opinion**, as described in paragraph ~~.14–15~~
- f. ~~e. A statement indicating~~ **A statement** *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*
- g. ~~iv~~ **If the date of the auditor’s report on the summary financial statements is later than the date of the auditor’s report on the audited financial statements, 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 ~~.17–19~~) (Ref: par. ~~.A13-A15~~)
- h. ~~iii~~ **Reference** *to the auditor’s report on the audited financial statements, the date of that report, and, subject to paragraphs ~~.15–.16.19–.20~~, the fact that an unmodified opinion is expressed on the audited financial statements*
- i. ~~d~~ **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*
- j. ~~e~~ **A Statement** *that the auditor is responsible for expressing an opinion based on the auditor’s procedures conducted in accordance with GAAS about on whether the summary financial statements are consistent, in all material respects, with the audited financial statements based on the procedures required by GAAS and an identification of the United States of America as the country of origin of those standards, including the following:*
- i. ~~The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived and evaluating whether the summary financial statements are prepared in accordance with the applied criteria~~
  - ii. ~~If the date of the auditor’s report on the summary financial statements is later than the date of the auditor’s report on the audited financial statements, the auditor did not perform any audit procedures regarding the audited financial statements after the date of the report on those financial statements.~~
- k. ~~g. The Auditor’s signature of the auditor’s firm~~

~~l.h~~ ~~The Auditor's~~ city and state **where the auditor's report is issued**

~~m.i~~ ~~The D~~date of the auditor's report

[Former paragraphs .18–.19 are renumbered as paragraphs .16–.17. The content is unchanged.]

~~Modification to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements~~ **Reference to the Auditor's Report on the Audited Financial Statements (Ref: par. .A14A16)**

~~.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 addition to the elements in paragraph ~~.15~~ ~~17~~, the auditor's report on the summary financial statements should

- a. state that the auditor's report on the audited financial statements contains a qualified opinion, an emphasis-of-matter paragraph, ~~or~~ an other-matter paragraph, **a going concern section, or communication of key audit matters** and
- b. describe
  - i. the basis for the qualified opinion on the audited financial statements ~~and that qualified opinion or the emphasis-of-matter paragraph 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; ~~if any.~~ **or**
  - 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 effects thereof, if any, on the summary financial statements.**

~~.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 should, **in addition to the elements in paragraph .15**,

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

**Modified Opinion on the Summary Financial Statements**

~~.20~~ ~~.15~~ If the summary financial statements are not consistent, in all material respects, with the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor should express an adverse opinion on the summary financial statements. The auditor should state in the opinion paragraph that, in the auditor's opinion, because of the significance of the matter(s) described in the basis for adverse opinion ~~paragraph~~ **section**, the summary financial statements are not consistent, in all material respects, with the audited financial statements from which they have been derived, in accordance with the applied criteria. (**Ref: par. .A18**)

[No amendment to paragraphs .21–.25.]

#### **Other Information in Documents Containing Summary Financial Statements (Ref: par. .A22 ~~.A20~~)**

~~.26~~ The auditor should read ~~either~~ **the** 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.~~

[No amendment to paragraphs .27–.29.]

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

<sup>5</sup> ~~Paragraphs .46–.55 of section 700.~~

[No amendment to paragraphs .A2–.A9. Former paragraphs .A12–.A13 are renumbered as paragraphs .A10–.A11. The content is unchanged.]

[Former paragraphs .A14–.A15 are renumbered as paragraphs .A12–.A13. The content is unchanged.]

[The following revision is made to the heading above paragraph .A12.]

***Introductory Paragraph Identification of the Summary Financial Statements (Ref: par. .17e(i).15c)***

[Former paragraph .A16 is renumbered as paragraph .A14. The content is unchanged.]

[The following revision is made to the heading above paragraph .A14.]

*Modification to the Opinion, Emphasis of Matter Paragraph or Other Matter Paragraph in the Auditor's Report on the Audited Financial Statements Reference to the Auditor's Report on the Audited Financial Statements (Ref: par. .18 20)*

*.A15 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.*

*.A16 The statements and descriptions required by paragraph .18 are intended to draw attention to those matters; they 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 matters and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.*

[Former paragraph .A11 is renumbered as paragraph .A17. Former paragraph .A10 is renumbered as paragraph .A18. Former paragraphs .A17–.A19 are renumbered as paragraphs .A19–.A21. The content is unchanged.]

[The following heading is deleted above former paragraph .A10.]

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

[The following subheading is added above paragraph .A18.]

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

*.A20 .A22 Section 720, **The Auditor's Responsibilities Relating to Other Information Included in Annual Reports** ~~Other Information in Documents Containing Audited Financial Statements~~, contains requirements and guidance relating to reading other information included in a document containing the audited financial statements and related auditor's report and responding to material inconsistencies and material misstatements of fact. Adapted as necessary in the circumstances, these requirements and related guidance may be helpful in applying the requirements in paragraphs .26–.27.*

[Former paragraph .A21 is renumbered as paragraph .A23. The content is unchanged.]

[Former paragraph .A22 is renumbered as paragraph .A24.]

**Note: The following illustrative reports have been revised to conform with the proposed amendments to AU-C section 810. They are not marked from the extant reports because the extent of the changes to conform with SAS No. 134 would make the revised reports difficult to read.**



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

Circumstances include all of the following:

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

**Independent Auditor’s Report on Summary Financial 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***

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]*

### **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.<sup>1</sup>*

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

*[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

---

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

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 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 ~~16.19~~.
- 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, are derived 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 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 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.*<sup>1</sup>

#### **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

---

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

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]*

This amendment is effective for engagements to report on summary financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.