



Agenda Item 1

Auditor Reporting — Cover Letter and Issues Paper

Objective

To approve as final standards the following Statements on Auditing Standards relating to Auditor Reporting

- *Forming an Opinion and Reporting on Financial Statements*
- *Communicating Key Audit Matters in the Independent Auditor's Report*
- *Modifications to the Opinion in the Independent Auditor's Report*
- *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- *Proposed amendments to various AU-C sections (to be included as part of SAS Forming an Opinion and Reporting on Financial Statements)*

Task Force

The Auditor Reporting Task Force (task force) members are:

- Dan Montgomery (Chair)
- Audra Harrington
- Jan Herringer
- Susan Jones
- Richard Miller
- Jeffrey Rapaglia
- Rick Reisig
- Mike Westervelt (TIC)

Background

In November 2017 the ASB issued the following exposure drafts, with comments due by May 15, 2018.

1. *Proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements.*
 - *Forming an Opinion and Reporting on Financial Statements*
 - *Communicating Key Audit Matters in the Independent Auditor's Report*

- *Modifications to the Opinion in the Independent Auditor’s Report*
 - *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*
 - *Proposed amendments to various AU-C sections*
2. Proposed SAS, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports* [To be discussed as part of Agenda Item 5]
 3. Proposed SAS, *Omnibus Statement on Auditing Standards—2018* [Voted final at the October 2018 ASB meeting]

This agenda item relates to *proposed Statements on Auditing Standards—Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*.

The ASB discussed the comment letter responses at the July and October 2018 ASB meetings. At the October 2018 ASB meeting the ASB also discussed a revised draft of the proposed SASs and provided the task force with feedback on certain issues.

Feedback from October 2018 ASB Meeting

The highlights from the October 2018 ASB meeting provide a detailed summary of the ASB’s discussions. The following is a list of the key topics discussed at the October 2018 ASB meeting:

Forming an Opinion and Reporting on Financial Statements

- The ASB agreed the proposed SAS should include a description of management’s responsibilities for assessing the entity’s ability to continue as a going concern in the auditor’s report only when the applicable financial reporting framework contains such a requirement. The proposed SAS should also include a description of the auditor’s responsibilities to conclude on the entity’s ability to continue as a going concern in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.

The ASB supported removing the requirement to describe, in the auditor’s report, management’s responsibility for determining whether the use of the going concern basis of accounting is appropriate and the auditor’s responsibility to conclude on the appropriateness of management’s use of the going concern basis of accounting.

- The ASB directed the task force to revise the statement in the “Basis for Opinion” section of the auditor’s report to state that the auditor is required to be independent and to meet relevant ethical requirements, rather than to include an affirmative statement about independence. The ASB asked the task force to consider whether reference to the AICPA *Code of Professional Conduct* should be included in the reference to relevant ethical requirements in the auditor’s report, taking into account paragraph A15 from AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

- The task force agreed, in principle, that the effective date be no earlier than for audits of financial statements for periods ending or after December 15, 2020, with early implementation not permitted. The ASB will continue to discuss the effective date at the January 2019 ASB meeting and align the effective date with other ASB projects currently being deliberated and finalized.
- The ASB supported retaining flexibility in the timing of communications with those charged with governance as set forth in AU-C section 260, *The Auditor's Communication With Those Charged With Governance*. The ASB recommended the task force include “the importance of the matter to those charged with governance” as a consideration in paragraph A50 of AU-C section 260. The ASB also asked the task force to consider whether additional examples should be included in paragraph A50 to illustrate items that the auditor may want to communicate with those charged with governance prior to the issuance of the auditor's report.
- The ASB asked the task force to continue to explore the inclusion of the city and state of the addressee in the auditor's report and to perform additional outreach to interested parties.

Communicating Key Audit Matters in the Independent Auditor's Report

- The ASB supported including a reference in the scope section of the proposed SAS to paragraphs 45 and A66 in proposed SAS *Forming an Opinion and Reporting on Financial Statements* to remind auditors that when the audit is conducted in accordance with PCAOB standards and GAAS, the auditor would follow the relevant requirements in the PCAOB standards regarding the determination and reporting of critical audit matters, rather than the requirements relating to key audit matters.

Modifications to the Opinion in the Independent Auditor's Report

- The ASB agreed that the proposed SAS should not require the auditor to include a statement in the auditor's report when the auditor is engaged to communicate KAM but, due to matters identified during the audit, concludes that a disclaimer of opinion is appropriate in the circumstances and therefore is precluded from communicating KAM.

Effect on Extant AU-C Sections 800, 805, and 810

As noted in the exposure draft, the ASB concluded that changes to the 800 series (AU-C section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, and AU-C section 810, *Engagements to Report on Summary Financial Statement*) should be addressed after feedback is received on the proposed SASs in the auditor reporting exposure draft. The auditor reporting task force intends to propose any necessary changes to the 800 series through a

separate exposure draft, with the intent of aligning the effective dates of all the reporting standards to the extent practicable. A draft of the 800 series changes will be discussed at the January 2019 ASB meeting.

Employee Benefit Plans

In July 2018 the ASB voted, as a final standard, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA* (EBP reporting standard), that addresses the auditor's responsibilities to form an opinion and report on ERISA plan financial statements. The EBP reporting standard was voted final pending conforming amendments to be considered to align with the auditor reporting standards once they are finalized. The discussion regarding the proposed conforming amendments will be led by Darrel Schubert at the January 2019 ASB meeting as part of Agenda Item 1G.

Agenda Items Presented

Item 1 — Cover Letter

Item 1A (marked) — SAS, *Forming an Opinion and Reporting on Financial Statements* (marked to reflect changes from the October 2018 ASB Meeting)

Item 1B (marked) — SAS, *Communicating Key Audit Matters in the Independent Auditor's Report* (marked to reflect changes from the October 2018 ASB Meeting)

Item 1C (marked) — SAS, *Modifications to the Opinion in the Independent Auditor's Report* (marked to reflect changes from the October 2018 ASB Meeting)

Item 1D (marked) — SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (marked to reflect changes from the October 2018 ASB Meeting)

Item 1E (zip file) — Clean versions of agenda items 1A-1D (zip file for informational purposes for those who wish to see a clean document)

Item 1F (marked) — *Amendments to various AU-C sections* (marked to reflect changes from the October 2018 ASB Meeting)

Item 1G (ERISA) — Issue paper relating to proposed conforming amendments to SAS *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Item 1H (ERISA) — Proposed conforming amendments to SAS *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*

Mr. Montgomery will refer to the Agenda Items 1, 1A (marked)-1D (marked) and 1F (marked) in leading the discussion. Mr. Schubert will refer to agenda item 1G (ERISA). Agenda item 1H (ERISA) will not be discussed in detail at the meeting.