



## Agenda Item 6C

### Illustrative Auditor's Report — Proposed Wording for AU-C 700

(Paragraph references are to the 3<sup>rd</sup> column in Agenda Item 6A)

**Independent Auditor's Report (or Report of Independent Auditor)** (paragraph 24)

**Report on the Audit of the Financial Statements** (paragraph 44)

*Appropriate Addressee* (paragraph 25)

**Opinion** (paragraph 26)

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. (paragraph 27) (Note 1)

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. (paragraphs 28-29)

**Basis for Opinion** (paragraph 30 a-d)

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 independent of ABC Company in accordance with the AICPA Code of Professional Conduct together with the ethical requirements that are relevant to our audit of the financial statements in the United States of America, and we have fulfilled our other ethical responsibilities in accordance with these requirements. (Note 2) We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters [if applicable]** (paragraph 32)

[Included only when KAM are communicated, whether voluntarily or required to do so.]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements** (paragraphs 34 and 36)

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the

preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. (paragraph 35a) (Note 3)

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern in accordance with accounting principles generally accepted in the United States of America. (paragraph 35b)

Those charged with governance are responsible for overseeing the Company's financial reporting process. (paragraph 36) (Note 4)

### **Auditor's Responsibilities for the Audit of the Financial Statements** (paragraph 38)

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. (paragraph 39 a) (Note 5) 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. (paragraph 39 b) (Notes 4 and 6) Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements. (paragraph 39c) (Note 4)

As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. (paragraph 40 a) (Note 4) We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. (paragraph 40 b i) 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. (paragraph 40 b i) (Note 4)
- 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 the Company's internal control. Accordingly, we express no such opinion. (paragraph 40 b ii)
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements. (paragraph 40 b iii) (Note 7)
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time. If we conclude that substantial doubt about the Company's ability to continue as a going concern exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern. (paragraph 40 b iv) (Note 4)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies and material weaknesses in internal control that we identify during our audit. (paragraph 41 a) (Note 4)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. [Included only when KAM are communicated, whether voluntarily or required to do so.] (paragraph 41 b) (Note 4)

#### **Report on Other Legal and Regulatory Requirements** (paragraphs 42-43)

*Auditor's Signature* (paragraph 45)

*Auditor Address* (paragraph 46)

*Date of the Auditor's Report* (paragraph 47)

#### **Notes 1-7 (notes 8-18 are in the illustrative PCAOB report)**

- (1) Same as ISA 700 report but omits reference to summary of significant accounting policies.
- (2) Same as ISA 700 report but with reference to AICPA Code of Professional Conduct.
- (3) Same as ISA 700 report but uses extant AU-C 700 wording re: management's responsibility for internal control.
- (4) No corresponding reference or wording in the PCAOB illustrative report.
- (5) Comparable to wording in the Basis for Opinion section in the PCAOB illustrative report (see the second sentence of the first paragraph and second sentence of the second paragraph).
- (6) Same as ISA 700 report but indicates that reasonable assurance is not absolute assurance.
- (7) ISA 700 report has a separate bullet in auditor responsibilities section relating to evaluating the overall presentation of the financial statements (the "stand back").