



Agenda Item 4B

ISA 700 (REVISED) FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS MARKED TO PROPOSED AU-C 700, FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS (in Agenda Item 4A)

(Note: This comparison document is for informational purposes and uses the content of ISA 700 (Revised) from the 2015 IAASB Handbook which includes amendments for the IAASB disclosures project and ISA 720 (Revised))

Introduction

Scope of this ~~ISA~~ Proposed SAS

01. ~~4.~~ This ~~International Standard on Auditing (ISA) deals with~~ proposed statement on auditing standards (SAS) addresses the auditor's responsibility to form an opinion on the financial statements. It also ~~deals with~~ addresses the form and content of the auditor's report issued as a result of an audit of financial statements.

02. ~~2-ISA AU-C section 701¹ deals with~~ addresses the auditor's responsibility to communicate key audit matters in the auditor's report. ~~ISA 705² (Revised) and ISA 706³ (Revised) deal with~~ AU-C sections 705, Modifications to the Opinion in the Independent Auditor's Report, and section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report, address how the form and content of the auditor's report are affected when the auditor expresses a modified opinion (a qualified opinion, an adverse opinion, or a disclaimer of opinion) or includes an ~~Emphasis-of-Matter~~ emphasis-of-matter paragraph or an ~~Other Matter~~ other-matter paragraph in the auditor's report. ~~Other ISAs also contain reporting requirements that are applicable when issuing an auditor's report.~~

03. This proposed SAS applies to an audit of a complete set of general purpose financial statements and is written in that context.

04. ~~3. This ISA applies to an audit of a complete set of general purpose financial statements and is written in that context. ISA 800⁴ deals with~~ AU-C 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, addresses special considerations when financial statements are prepared in accordance with a special

¹ ISA Proposed AU-C section 701, Communicating Key Audit Matters in the Independent Auditor's Report

² ~~ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report~~

³ ~~ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report~~

⁴ ~~ISA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks~~

purpose framework. ~~ISA 805⁵ deals with~~² AU-C section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement. ~~This ISA also applies to audits for which ISA 800 or ISA 805 apply~~(Ref: par. .A1)

05. ~~4.~~ The requirements of this ISA proposed SAS are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting ~~globally~~ and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This ISA proposed SAS promotes consistency in the auditor's report, ~~but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report~~ which, when the audit has been conducted in accordance with ISAs GAAS, promotes credibility in the ~~global~~ marketplace by making more readily identifiable those audits that have been conducted in accordance with ~~globally~~ recognized standards. ~~It~~ Consistency also helps ~~to~~ promote ~~the user's~~ users' understanding and ~~to identify~~ identification of unusual circumstances when they occur.

Effective Date

06. ~~5.~~ This ISA proposed SAS is effective for audits of financial statements for periods ending on or after December 15, ~~2016.~~ 20XX.

Objectives

07. ~~6.~~ The objectives of the auditor are ~~to~~ to

- (a) ~~To~~ form an opinion on the financial statements based on an evaluation of the ~~conclusions drawn from the~~ audit evidence obtained, including evidence obtained about comparative financial statements or comparative financial information; and
- (b) ~~To~~ express clearly ~~that~~ the opinion on the financial statements through a written report. (Ref. par. .A2)

Definitions

08. ~~7.~~ For purposes of ~~the ISAs~~ GAAS, the following terms have the meanings attributed ~~below~~ as follows:

⁵ ~~ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement~~

² See AU-C section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, for a definition of special purpose framework.

Comparative financial statements. A complete set of financial statements³ for one or more prior periods included for comparison with the financial statements of the current period.

Comparative information. Prior period information presented for purposes of comparison with current period amounts or disclosures that is not in the form of a complete set of financial statements. Comparative information includes prior period information presented as condensed financial statements or summarized financial information.

Condensed financial statements. Historical financial information⁴ that is presented in less detail than a complete set of financial statements, in accordance with an appropriate financial reporting framework. Condensed financial statements may be separately presented as unaudited financial information or may be presented as comparative information.

~~(a) **General purpose financial statements**—~~ Financial statements prepared in accordance with a general purpose framework. (Ref. par. .A3)

~~(b) **General purpose framework**—~~ A financial reporting framework designed to meet the common financial information needs of a wide range of users. ~~The financial reporting framework may be a fair presentation framework or a compliance framework.~~

~~The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:~~

~~(i) 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~~

~~(ii) 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.~~

~~The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.⁶~~

~~(c) **Unmodified opinion**—~~ The opinion expressed by the auditor when the auditor concludes that the financial statements are ~~prepared~~presented fairly, in all material respects, in accordance with the applicable financial reporting framework.⁷⁵

³ See AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, for a definition of financial statements.

⁴ Paragraph .14 of AU-C section 200 defines the term *historical financial information*.

⁶ ~~ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(a)~~

~~09.~~ ~~8.~~ Reference to “*financial statements*” in this ~~ISA~~ proposed SAS means “a complete set of general purpose financial statements;⁸ including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the ~~presentation, structure~~ form and content of the financial statements; and what constitutes a complete set of financial statements.

~~9.~~ Reference to “*International Financial Reporting Standards*” in this ~~ISA~~ means the *International Financial Reporting Standards (IFRSs)* issued by the International Accounting Standards Board, and reference to “*International Public Sector Accounting Standards*” means the *International Public Sector Accounting Standards (IPSASs)* issued by the International Public Sector Accounting Standards Board.

Requirements

Forming an Opinion on the Financial Statements

10. The auditor ~~shall~~ should form an opinion on whether the financial statements are ~~prepared~~ presented fairly, in all material respects, in accordance with the applicable financial reporting framework.^{9,10}

11. In order to form that opinion, the auditor ~~shall~~ should conclude as to whether the auditor has obtained reasonable assurance⁶ about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion ~~shall~~ should take into account: the following: (Ref. par. .A4)

- (a) The auditor’s conclusion, in accordance with ~~ISA 330~~, AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained, about* whether sufficient appropriate audit evidence has been obtained;¹¹⁷
- (b) The auditor’s conclusion, in accordance with ~~ISA 450~~, AU-C section 450, *Evaluation of Misstatements Identified During the Audit, about* whether uncorrected misstatements are material, individually or in aggregate;¹²⁸ and

⁷ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.⁵ Paragraph .14 of AU-C section 200 defines the term *applicable financial reporting framework*.

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(f) sets out the content of financial statements.

⁹ ISA 200, paragraph 14

¹⁰ Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

⁶ Paragraph .14 of AU-C section 200 defines the term *reasonable assurance*.

¹¹ ISA 330, *The Auditor’s Responses*⁷ Paragraph .28 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks*, paragraph 26 and Evaluating the Audit Evidence Obtained.

¹² ISA⁸ Paragraph .11 of AU-C section 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 14.

(c) The evaluations required by paragraphs 12–15.

12. The auditor ~~shall~~should evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation ~~shall~~should include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: ~~Para~~Par. ~~A4~~5–~~A3~~7)

13. In particular, the auditor ~~shall~~should evaluate whether, in view of the requirements of the applicable financial reporting framework:

(a) ~~The~~the financial statements ~~appropriately~~adequately disclose the significant accounting policies selected and applied. ~~In making this evaluation the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been prepared in an understandable manner; (Ref: Para. A4) :~~

(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates made by management are reasonable;

(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. ~~In making this evaluation, the auditor shall consider whether :~~

~~—The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.~~

~~—The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)~~

(e) 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; and (Ref: ~~Para~~par. ~~A6~~9)

(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

14. ~~When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation.~~ The auditor's evaluation ~~as to~~about whether the financial statements achieve fair presentation ~~shall~~should also include consideration of the following: ~~(Ref: Para A7–A9)~~

(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. (Ref. par. A10)

15. The auditor ~~shall~~should evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: ~~Parapar. A10~~11–~~A15~~14)

Form of Opinion

16. The auditor ~~shall~~should express an unmodified opinion when the auditor concludes that the financial statements are ~~prepared~~presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

17. ~~If the auditor:~~The auditor should modify the opinion in the auditor’s report, in accordance with AU-C section 705, if the auditor

(a) concludes that, based on the audit evidence obtained, the financial statements as a whole are ~~not free from material misstatement;~~materially misstated or

(b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement;

~~the auditor shall modify the opinion in the auditor’s report in accordance with ISA 705 (Revised).~~

18. If the auditor concludes that the financial statements ~~prepared in accordance with the requirements of a fair presentation framework~~ do not achieve fair presentation, the auditor ~~shall~~should discuss the matter with management and, depending on ~~the requirements of the applicable financial reporting framework and~~ how the matter is resolved, ~~shall~~should determine whether it is necessary to modify the opinion in the auditor’s report in accordance with ~~ISA 705 (Revised).~~AU-C section 705. (Ref: ~~Parapar. A15~~–A16)

~~19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor’s report. (Ref: Para. A17)~~

Auditor’s Report

~~19.~~ ~~20.~~ The auditor’s report ~~shall~~should be in writing and should contain the elements in paragraphs .20–.42, as applicable. (Ref: ~~Parapar. A17~~–A18–~~A19~~)

Auditor's Report for Audits Conducted in Accordance *with International Standards on Auditing* With GAAS

Title

20. ~~21.~~ The auditor's report ~~shall~~should have a title that clearly indicates that it is the report of an independent auditor. (Ref: ~~Para. A20~~) par. .A238)

Addressee

21. ~~22.~~ The auditor's report ~~shall~~should be addressed, as appropriate, based on the circumstances of the engagement. (Ref: ~~Parapar. .A2119~~)

Auditor's Opinion

22. ~~23.~~ The first section of the auditor's report ~~shall~~should include the auditor's opinion; and ~~shall~~should have the heading "Opinion."

23. ~~24.~~ The ~~Opinion~~opinion section of the auditor's report ~~shall~~should also: (Ref: par..A20-.A22)

(a) ~~Identify~~a. identify the entity whose financial statements have been audited;

(b) ~~State~~b. state that the financial statements have been audited;

(c) ~~Identify~~c. identify the title of each statement comprising the financial statements;

(d) ~~Refer~~d. refer to the notes, ~~including the summary of significant accounting policies~~; and

(e) ~~Specify~~e. specify the date of, or period covered by, each financial statement comprising the financial statements. (~~Ref: Para. A22-A23~~)

~~25. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:~~

24. (a) ~~In~~When expressing an unmodified opinion on financial statements, the auditor's opinion should state that in our opinion, the accompanying financial statements present fairly, in all material respects, ~~[...] in accordance with [the applicable financial reporting framework]; or the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework.~~ (Ref: par. .A11 and .A23-.A26)

~~(b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A24–A31)~~

~~26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor’s opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26–A31)~~

~~27. If the reference to the applicable financial reporting framework in the auditor’s opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework.~~

25. The auditor’s opinion should identify the applicable financial reporting framework and its origin. (Ref: par. .A27)

Basis for Opinion

26. 28.—The auditor’s report ~~shall~~should include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: ~~Para. A32~~par. .A28)

~~(a) States~~(a) states that the audit was conducted in accordance with ~~International Standards on Auditing; (Ref: Para. A33)~~generally accepted auditing standards and should identify the United States of America as the country of origin of those standards.

~~(b)~~(b) Refers to the section of the auditor’s report that describes the auditor’s responsibilities under ~~the ISAs~~GAAS;

~~(c)~~(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement ~~shall identify the jurisdiction of origin of the~~should refer to relevant ethical requirements ~~or refer to the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code); and (Ref: Para. and (Ref. A34~~par. .A31–A39)

~~(d)~~(d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.

Going Concern

27. 29.—~~Where~~When applicable, the auditor ~~shall~~should report in accordance with ~~ISA 570 (Revised).~~¹³AU-C section 570.

¹³—ISA 570 (Revised), *Going Concern*, paragraphs 21–23

Key Audit Matters

~~30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.~~

28. ~~31.~~ When the auditor is ~~otherwise~~ required ~~by law or regulation~~ or decides to communicate key audit matters in the auditor's report, the auditor ~~shall~~should do so in accordance with ~~ISA~~IAU-C section 701. (Ref: ~~Para. A40~~par. .A33–.A42~~36~~)

Other Information

29. ~~32.~~ ~~Where~~When applicable, the auditor ~~shall~~should report in accordance with ~~ISA~~IAU-C 720 (Revised)

Responsibilities for the Financial Statements

30. ~~33.~~ The auditor's report ~~shall~~should include a section with ~~a~~the heading ~~“~~“Responsibilities of Management for the Financial Statements.~~” The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to “management”. In some jurisdictions, the appropriate reference may be to those charged with governance. (Ref: Para. A44) ”~~

31. ~~34.~~ This section of the auditor's report ~~shall~~should describe management's responsibility for: (Ref: ~~Para. A45–A48~~)

(a) ~~Preparing~~(a) the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework,~~and for such; this responsibility includes the design, implementation, and maintenance of~~ internal control ~~as management determines is necessary to enable~~relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: par. .A37)

(b) ~~(b)~~ Assessing the entity's ability to continue as a going concern¹⁴ in accordance with the applicable financial reporting framework and whether the use of the going concern basis of accounting is appropriate ~~as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. (Ref. A48) par. .A38)~~

32. ~~35.~~ This section of the auditor's report ~~shall~~should also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph ~~34 above.~~31. In this case, the heading of this section ~~shall~~should also refer to “Those Charged with Governance” or ~~such term that is~~other appropriate ~~in the context of the legal framework in the particular jurisdiction~~term. (Ref: ~~Para. A49, par. .A39–A40~~)

¹⁴—ISA 570 (Revised), paragraph 2

~~36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities~~

33. The description about management’s responsibility for the financial statements in the auditor’s report ~~shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances.~~ should not be referenced to a separate statement by management about such responsibilities even if such a statement is included in a document containing the auditor’s report. (Ref. par. .A41)

Auditor’s Responsibilities for the Audit of the Financial Statements

34. ~~37.~~ The auditor’s report ~~shall~~should include a section with the heading ~~“Auditor’s Responsibilities for the Audit of the Financial Statements.”~~ ”

35. ~~38.~~ This section of the auditor’s report ~~shall~~should: (Ref: ~~Para. A50~~par. .A42)

(a) State that the objectives of the auditor are to:

~~(i) Obtain~~(i) obtain reasonable assurance about whether the financial statements ~~as a whole~~ are free from material misstatement, whether due to fraud or error; and (Ref. par. .A43)

~~(ii)~~(ii) Issue an auditor’s report that includes the auditor’s opinion. ~~(Ref: Para. A50)~~

(b) State that 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 ISAsGAAS will always detect a material misstatement when it exists; and (Ref. par. .A44)

~~(c) State that misstatements can arise from fraud or error, and either:~~

(c) (i) DescribeState that misstatements can arise from fraud or error, and describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users ~~taken~~made on the basis of these financial statements; ~~or~~¹⁵⁹ ”

~~(ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A52)~~

36. ~~39.~~ The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report ~~shall~~should further: ~~(Ref: Para. A50)~~

~~(a)~~(a) State that, as part of an audit in accordance with ISAsGAAS, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and

¹⁵⁹ ISA AU-C 320, *Materiality in Planning and Performing an Audit*, paragraph 2

~~(b)~~ (b) Describe an audit by stating that the auditor’s responsibilities are:

~~(i)~~ (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. 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.

~~(ii)~~ (ii) To 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 entity’s internal control. Accordingly, no such opinion is expressed.

In circumstances when 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, the auditor ~~shall~~should omit the ~~phrase that following:~~ “the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, no such opinion is expressed.

~~(iii)~~ (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates ~~and related disclosures~~ made by management, as well as the overall presentation of the financial statements.

~~(iv)~~ (iv) To conclude on the entity’s ability to continue as a going concern and 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 that may cast significant doubt on the entity’s ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor’s conclusions are based on the audit evidence obtained up to the date of the auditor’s report. However, future events or conditions may cause an entity to cease to continue as a going concern. (Ref. par. A47)~~

~~(v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.~~

~~(e)~~ (c) When ~~ISA 600~~¹⁶ AU-C 600 applies, further describe the auditor’s responsibilities in a group audit engagement by stating that:

¹⁶ ~~ISA 600, Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)~~

(i) The auditor is responsible for the direction, supervision and performance of the group audit;

~~(i)-(ii)~~ (ii) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the ~~entities or business activities within the group~~ components and the consolidation process to express an opinion on the group financial statements; and

~~(ii) The auditor is responsible for the direction, supervision and performance of the group audit; and~~

~~(iii)-(iii)~~ (iii) The auditor remains solely responsible for the auditor's opinion, ~~but when making reference in the auditor's report to a component auditor, the auditor's opinion is based on the audit and the report of the other auditor.~~ (Ref. par. .A48)

37. ~~40.~~ The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also ~~shall: (Ref: Para. A50)~~ should:

(a) State that the auditor communicates 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 the auditor identifies during the audit;

~~(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and~~

~~(b) (c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines 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. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53) For audits of financial statements for which key audit matters are communicated in accordance with proposed AU-C section 701, state that,~~

~~Location of the description of the auditor's responsibilities for the audit of the financial statements~~

~~41. The description of the auditor's responsibilities for the audit of the financial statements required by paragraphs 39-40 shall be included: (Ref: Para. A54)~~

~~(a) Within the body of the auditor's report;~~

~~(b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or (Ref: Para. A54-A55)~~

~~(c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so. (Ref: Para. A54, A56-A57)~~

~~42. When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements in paragraphs 39-40 of this ISA. (Ref: Para. A56)~~

Other Reporting Responsibilities

~~38. 43. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's ~~responsibilities~~responsibility under ~~the ISAs~~GAAS, these other reporting responsibilities ~~shall~~should be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise, as appropriate to the content of the section, ~~unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISAs.~~ (Ref: Parapar. A58-A60)~~

~~44. If other reporting responsibilities are presented in the same section as the related report elements required by the ISAs, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs. (Ref: Para. A60) 50-.A51~~

39. ~~45.~~ If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs ~~21-40 of this ISA shall.~~ 24-.42 should be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" ~~shall~~ should follow the "Report on the Audit of the Financial Statements." (Ref: ~~Parapar.~~ A60)

~~Name of the Engagement Partner~~

~~46. The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61-A63) A56~~

Signature of the Auditor

40. ~~47.~~ The auditor's report ~~shall be signed. (Ref: Para~~ should include the manual or printed signature of the auditor's firm. (Ref: par. A6453-A6555)

Auditor's Address

~~48.-~~

41. The auditor's report ~~shall name the location in the jurisdiction where the auditor practices.~~ should name the city and state where the auditor's report is issued. (Ref: par. A37)

Date of the Auditor's Report

42. ~~49.~~ The auditor's report ~~shall~~ should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: ~~Para. A66-A69).~~ par. A57)

(a) ~~All~~ a. all the statements that comprise the financial statements, including the related notes, have been prepared; and

(b) ~~Those with the recognized authority have~~ b. management has asserted that they have taken responsibility for those financial statements. (Ref: par. A58-A60)

Auditor's Report Prescribed by Law or Regulation

43. ~~50.~~ If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report ~~shall refer to International Standards on Auditing~~ should refer to auditing standards generally accepted in the United States of America only if the auditor's report includes, at a minimum, each of the following elements: (Ref: ~~Para. A70-A71~~) . par. .A61-x.xx
- (a) A title.
 - (b) An addressee, as required by the circumstances of the engagement.
 - (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying ~~the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards~~ its origin, see paragraph ~~2725~~).
 - (d) An identification of the entity's financial statements that have been audited.
 - (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. ~~The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.~~
 - (f) ~~Where~~When applicable, a section that addresses, and is not inconsistent with, the reporting requirements in ~~paragraph 22 of ISA 570 (Revised)~~ AU-C section 570.
 - (g) ~~Where~~When applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in ~~paragraph 23 of ISA 570 (Revised)~~ AU-C section 570.
 - (h) ~~Where~~When applicable, a section that includes the information required by ~~ISA~~ proposed AU-C section 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ~~ISA~~¹⁷ ~~(Ref: Para. A72-A75)~~ AU-C section.
 - (i) ~~Where~~When applicable, a section that addresses the reporting requirements in ~~paragraph 24 of ISA 720 (Revised)~~ proposed AU-C section 720.
 - (j) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs ~~3330-36.33~~ 3330-36.33.

¹⁷—ISA 701, paragraphs 11–16

(k) A reference to ~~International Standards on Auditing~~GAAS and the law or regulation, and a description of the auditor’s responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs ~~37–40.~~ (Ref: ~~Para. A50–A53~~)

~~(l) For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.~~34–37.)

~~(l)~~ ~~(m)~~ The auditor’s signature.

~~(m)~~ ~~(n)~~ The auditor’s address.

~~(n)~~ ~~(o)~~ The date of the auditor’s report.

Auditor’s Report for Audits Conducted in Accordance ~~with~~ With Both GAAS and Another Set of Auditing Standards ~~of a Specific Jurisdiction and~~

44. Paragraph .31 requires that the auditor’s report state that the audit was conducted in accordance with GAAS and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing [ISAs], or Government Auditing Standards). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS unless the audit was conducted in accordance with both sets of standards in their entirety. (Ref: par. .A67)

~~51.~~XX An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the “national auditing standards”), and has additionally complied with ~~the ISAs~~GAAS in the conduct of the audit. If this is the case, the auditor’s report may refer to ~~International Standards on Auditing~~GAAS in addition to the national auditing standards, but the auditor shall do so only if: (Ref: ~~Para. A76–A77~~) par. X.XX–X.XX)

(a) There is no conflict between the requirements in the national auditing standards and those in ~~ISAs~~GAAS that would lead the auditor (i) to form a different opinion, or (ii) not to include an ~~Emphasis of Matter~~emphasis-of-matter paragraph or ~~Other Matter~~other-matter paragraph that, in the particular circumstances, is required by ~~ISAs~~GAAS; and

(b) The auditor’s report includes, at a minimum, each of the elements set out in paragraphs ~~50~~43(a)–~~(en)~~above when the auditor uses the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph ~~50~~43(k) ~~shall~~should be read as reference to the national auditing standards. The auditor’s report ~~shall~~should thereby identify such national auditing standards.

45. 52. When the auditor’s report refers to both ~~the national auditing standards and International Standards on Auditing~~GAAS and another set of auditing standards, the auditor’s report

~~shall~~should identify the ~~jurisdiction of origin of the national auditing standards~~other set of auditing standards as well as their origin.

Auditor's Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB

46. When conducting an audit of financial statements in accordance with the standards of the PCAOB and the audit is not within the jurisdiction of the PCAOB, the auditor is required to also conduct the audit in accordance with GAAS. In such circumstances, when the auditor refers to the standards of the PCAOB in addition to GAAS in the auditor's report, the auditor should use the form of report required by the standards of the PCAOB, amended to state that the audit was also conducted in accordance with GAAS. (Ref: par. .A63–.A67)

Comparative Financial Statements and Comparative Information

47. Comparative financial statements may be required by the applicable financial reporting framework, or management may elect to provide such information. When comparative financial statements are presented, the auditor's report should refer to each period for which financial statements are presented and on which an audit opinion is expressed. (Ref: par. .A68–.A69)

48. When expressing an opinion on all periods presented, a continuing auditor should update the report on the financial statements of one or more prior periods presented on a comparative basis with those of the current period. The auditor's report on comparative financial statements should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to support the opinion for the most recent audit. (Ref: par. .A70–.A71)

49. If comparative information is presented but not covered by the auditor's opinion, the auditor should clearly indicate in the auditor's report the character of the auditor's work, if any, and the degree of responsibility the auditor is taking. (Ref: par. .A72–.A73)

50. If comparative information is presented and the entity requests the auditor to express an opinion on all periods presented, the auditor should consider whether the information included for the prior period(s) contains sufficient detail to constitute a fair presentation in accordance with the applicable financial reporting framework. (Ref: par. .A74)

Audit Procedures

51. The auditor should perform the procedures required by paragraphs .52–54 if comparative financial statements or comparative information is presented for the prior period(s).

52. The auditor should determine whether the comparative financial statements or comparative information has been presented in accordance with the relevant requirements, if any, of the applicable financial reporting framework.

53. The auditor should evaluate whether

- a. the comparative financial statements or comparative information agree with the amounts and other disclosures presented in the prior period or, when appropriate, has been restated for the correction of a material misstatement or adjusted for the retrospective application of an accounting principle, and
- b. the accounting policies reflected in the comparative financial statements or comparative information are consistent with those applied in the current period or if there have been changes in accounting policies, whether those changes have been properly accounted for and adequately presented and disclosed.¹⁰

54. If the auditor becomes aware of a possible material misstatement in the comparative financial statements or comparative information while performing the current period audit, the auditor should perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the auditor audited the prior period's financial statements and becomes aware of a material misstatement in those financial statements, the auditor should also follow the relevant requirements of section 560, *Subsequent Events and Subsequently Discovered Facts*. If the prior period financial statements are restated, the auditor should determine that the comparative financial statements or comparative information agree with the restated financial statements.

55. As required by section 580, *Written Representations*, the auditor should request written representations for all periods referred to in the auditor's opinion. The auditor also should obtain a specific written representation regarding any restatement made to correct a material misstatement in a prior period that affects the comparative financial statements. (Ref: par. .A75)

56. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor should disclose the following matters in an emphasis-of-matter or other-matter paragraph, in accordance with section 706:

- a. The date of the auditor's previous report
- b. The type of opinion previously expressed
- c. The substantive reasons for the different opinion
- d. That the auditor's opinion on the amended financial statements is different from the auditor's previous opinion (Ref: par. .A76)

Prior Period Financial Statements Audited by a Predecessor Auditor

¹⁰ See AU-C section 708, *Consistency of Financial Statements*.

57. If the financial statements of the prior period were audited by a predecessor auditor, and the predecessor auditor's report on the prior period's financial statements is not reissued¹¹, in addition to expressing an opinion on the current period's financial statements, the auditor should state the following in an other-matter paragraph:¹²

- a. That the financial statements of the prior period were audited by a predecessor auditor
- b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore
- c. The nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor's report, if any
- d. The date of that report

58. If the auditor concludes that a material misstatement exists that affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor should follow the communication requirements in section 510.¹³ If the prior period financial statements are restated, and the predecessor auditor agrees to issue a new auditor's report on the restated financial statements of the prior period, the auditor should express an opinion only on the current period. (Ref: par. .A77)

Prior Period Financial Statements Not Audited

59. When current period financial statements are audited and presented in comparative form with compiled or reviewed financial statements for the prior period, and the report on the prior period is not reissued, the auditor should include an other-matter paragraph¹⁴ in the current period auditor's report that includes the following:

- a. The service performed in the prior period
- b. The date of the report on that service
- c. A description of any material modifications noted in that report
- d. A statement that the service was less in scope than an audit and does not provide the basis for the expression of an opinion on the financial statements (Ref: par. .A78–.A79)

¹¹ Paragraphs .19-.20 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.

¹² See AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

¹³ Paragraphs .12-.13 of AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*.

¹⁴ See AU-C section 706.

60. If the prior period financial statements were not audited, reviewed, or compiled, the financial statements should be clearly marked to indicate their status, and the auditor’s report should include an other-matter paragraph to indicate that the auditor has not audited, reviewed, or compiled the prior period financial statements and that the auditor assumes no responsibility for them. (Ref: par. .A80)

Information Presented in the Financial Statements (Ref. Par. .A81–.A82)

61. Information that is not required by the applicable financial reporting framework but is nevertheless presented as part of the basic financial statements should be covered by the auditor’s opinion if it cannot be clearly differentiated.

Application Material

Scope of This Proposed SAS (Ref par. 04)

.A1 The following AU-C Sections also contain reporting requirements:

- AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*
- ~~Supplementary Information Presented with the Financial Statements (Ref: Para. A78–A84)~~ AU-C section 730, *Required Supplementary Information*

~~53. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor’s professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor’s opinion.~~

~~54. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor’s report that such supplementary information has not been audited.~~

~~Application and Other Explanatory Material~~

- [AU-C section 810, Engagements to Report on Summary Financial Statements](#)
- [AU-C section 910, Financial Statements Prepared in Accordance With a *Financial Reporting Framework* Generally Accepted in Another Country](#)

Effective Date

Objectives

Considerations Specific to Governmental Entities (Ref: par. 07)

[.A2](#) For audits of governmental entities, the objectives of a financial statement audit are often broader than forming and expressing an opinion on the financial statements. Law, regulation, and *Government Auditing Standards* require that the auditor satisfy additional objectives. These additional objectives include audit and reporting responsibilities, for example, relating to reporting instances of noncompliance with applicable laws and regulations or reporting material weaknesses and significant deficiencies in internal control over financial reporting noted during the audit. Such reporting on compliance with laws, regulations, and provisions of contracts or grant agreements and internal control over financial reporting is an integral part of a *Government Auditing Standards* audit.

General Purpose Financial Statements

[Considerations Specific to Governmental Entities \(Ref: par. 08\)](#)

[.A3](#) For audits of governmental entities, the term *general purpose financial statements*, in the context of this section, would be considered or referred to as basic financial statements using the terms in the governmental entity's applicable financial reporting framework.

Requirements

Considerations Specific to Governmental Entities

[.A4](#) For most state or local governmental entities, the applicable financial reporting framework is based on multiple reporting units and, therefore, requires the presentation of financial statements for its activities in various reporting units. Consequently, a reporting unit, or aggregation of reporting units, of the governmental entity represents an opinion unit to the auditor. In the context of this section, the auditor is responsible for forming an opinion on the financial statements for each opinion unit within a governmental entity.

Qualitative Aspects of the Entity's Accounting Practices (Ref: ~~Para~~par. 12)

[.A5](#) ~~A4.~~ Management makes a number of judgments about the amounts and disclosures in the financial statements.

~~A6~~ ~~A2-ISA-260 (Revised)~~ AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, contains a discussion of the qualitative aspects of accounting practices.¹⁸¹⁵ In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

- The selective correction of misstatements brought to management's attention during the audit (~~e.g. for example~~, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings);
- Possible management bias in the making of accounting estimates;
-

~~A7~~ ~~A3-ISA-540~~ AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, addresses possible management bias in making accounting estimates.¹⁹¹⁶ Indicators of possible management bias, themselves, do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

~~Accounting Policies Appropriately Disclosed in the Financial Statements (Ref: Para. 13(a))~~

~~A4. In evaluating whether the financial statements appropriately disclose the significant accounting policies selected and applied, the auditor's consideration includes matters such as:~~

- ~~— Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;~~
- ~~— Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances, and disclosures in the financial statements in the particular circumstances of the entity's operations and its environment; and~~
- ~~— The clarity with which the significant accounting policies have been presented.~~

¹⁸ ~~ISA 260 (Revised)~~,¹⁵ The appendix "Qualitative Aspects of Accounting Practices," of AU-C section 260, *The Auditor's Communication with Those Charged with Governance*, Appendix 2.

¹⁹ ~~ISA~~¹⁶ Paragraph .21 of AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 24.

~~Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable~~ (Ref: Para. 13(d))

~~A5. Evaluating the understandability of the financial statements includes consideration of such matters whether:~~

- ~~— The information in the financial statements is presented in a clear and concise manner.~~
- ~~— The placement of significant disclosures gives appropriate prominence to them (e.g., when there is perceived value of entity specific information to users), and whether the disclosures are appropriately cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information.~~

A8 FASB Concept Statement 6 *Elements of Financial Statements* discusses qualitative characteristics of accounting information. To be included in a particular set of financial statements, an item must not only qualify under the definition of an element but also must meet criteria for recognition and have a relevant attribute (or surrogate for it) that is capable of reasonably reliable measurement or estimate. Decisions about recognizing, measuring, and displaying elements of financial statements depend significantly on evaluations such as what information is most relevant for investment, credit, and other resource-allocation decisions and whether the information is reliable enough to be trusted.¹⁷

~~Disclosures~~Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: ~~Parapar.~~ 13(e))

A9 ~~A6.~~ It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, ~~financial performance~~results of operations, and cash flows. ~~Evaluating whether, in view of the applicable financial reporting framework, in such circumstances, paragraph 13e requires the auditor 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 entity's financial position, ~~financial performance~~results of operations, and cash flows ~~includes consideration of such matters as:~~

- ~~— The extent to which the information in the financial statements is relevant and specific to the circumstances of the entity; and~~
- ~~— Whether the disclosures are adequate to assist the intended users to understand:~~
 - ~~o The nature and extent of the entity's potential assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework.~~
 - ~~o The nature and extent of risks of material misstatement arising from transactions and events.~~

¹⁷ FASB Concept Statement 6, *Elements of Financial Statements*, paragraph 23 and footnote 16.

- ~~o The methods used and the assumptions and judgments made, and changes to them, that affect amount presented or otherwise disclosed, including relevant sensitivity analysis.~~

~~Evaluating Whether the Financial Statements Achieve Fair Presentation (Ref: Para. 14)~~
Evaluation of Whether the Financial Statements Achieve Fair Presentation (Ref: par. 14b)

~~A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.²⁰ As noted in paragraph 7(b) of this ISA, a fair presentation²¹ financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.²²~~

~~A8. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.~~

~~A9. Evaluating whether the financial statements achieve fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen as well as alternatives that may have been considered. The discussions may include, for example,~~

- ~~— The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.~~
- ~~— Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.~~

²⁰ ~~For example, International Financial Reporting Standards (IFRSs) note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.~~

²¹ ~~See ISA 200, paragraph 13(a)~~

²² ~~For example, IFRSs require an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (International Accounting Standard 1, *Presentation of Financial Statements*, paragraph 17(c)).~~

A10 As described in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, a financial reporting framework is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements. The auditor's professional judgment concerning the fairness of the presentation of the financial statements is applied within the context of the financial reporting framework. Without that framework, the auditor would have no consistent standard for evaluating the presentation of financial position, results of operations, and cash flows in financial statements.

Description of the Applicable Financial Reporting Framework (Ref: ~~Parapar~~. 15)

A11 ~~A10~~ As explained in ~~ISA~~ AU-C section 200, the preparation and fair presentation of the financial statements by management and, ~~where~~ when appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.²³¹⁸ That description is important because it advises users of the financial statements of the framework on which the financial statements are based.

A12 ~~A11~~ ~~A~~ The description may indicate that the financial statements ~~are~~ have been prepared in accordance with ~~a particular applicable financial reporting~~ that framework. Such a statement is appropriate only ~~if~~ when the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

~~A12. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., “the financial statements are in substantial compliance with International Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.~~

Reference to More than One Financial Reporting Framework

~~A13. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., the national framework and IFRSs). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (e.g., IFRSs) as its own national framework, or has eliminated all barriers to compliance with it.~~

A13 ~~A14~~ Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other

²³ ~~ISA 200, paragraphs~~ ¹⁸ Paragraphs ~~A2–A3~~ of section 200.

framework. This is because the financial statements do not include all the information in the manner required by that other framework.

A14 ~~A15.~~—The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework ~~(e.g., financial statements prepared in accordance with the national framework that also describe the extent to which they comply with IFRSs).~~ ~~Such description may constitute supplementary financial information as discussed in paragraph 6754 and.~~ Such information may not be required by the applicable financial reporting framework but may be presented as part of the basic financial statements. As discussed in paragraph .61, such information is considered an integral part of the financial statements if it cannot be clearly differentiated and, accordingly, is covered by the auditor’s opinion ~~if it cannot be clearly differentiated from the financial statements.~~

Form of Opinion (Ref. par. 18)

A15 ~~A16.~~— There may be cases ~~where~~when the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. ~~Where~~When this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in ~~extremely rare~~unusual circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements, which would be extremely rare. ~~(Ref: Para. 18)~~

~~A17.~~ ~~It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA 210, the auditor determined that the framework is acceptable.~~²⁴ ~~(Ref: Para. 19)~~

A16 The “Accounting Principles Rule” (ET sec. 1.320.001) of the AICPA Code of Professional Conduct states the following:

A member shall not (1) express an opinion or state affirmatively that the financial statements or other financial data of any entity are presented in conformity with generally accepted accounting principles or (2) state that he or she is not aware of any material modifications that should be made to such statements or data in order for them to be in conformity with generally accepted accounting principles, if such statements or data contain any departure from an accounting principle promulgated by bodies designated by Council to establish such principles that has a material effect on the statements or data taken as a whole. If, however, the statements or data contain such a departure and the member can demonstrate that due to unusual circumstances the financial statements or data would otherwise have been misleading, the member can comply with the rule by describing the departure, its approximate effects, if practicable, and the reasons why compliance with the principle would result in a misleading statement.

²⁴—ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

Auditor's Report (Ref: ~~Para. 20~~, par. 19)

A17 ~~A18~~. A written report encompasses reports issued in hard copy format and those using an electronic medium.

A18 ~~A19~~. ~~The Appendix to this ISA~~ The exhibit "Illustrations of Auditor's Reports on Financial Statements" contains illustrations of auditor's reports on financial statements, incorporating the elements ~~set out in~~ required by paragraphs ~~21-49, 20-42~~. With the exception of the Opinion and Basis for Opinion sections, this ~~ISA~~ proposed SAS does not establish requirements for ordering the elements of the auditor's report. However, this ~~ISA~~ proposed SAS requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ~~ISAs~~ GAAS more recognizable, particularly, in situations ~~where~~ when the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the ~~Appendix~~ exhibit to this ~~ISA~~ proposed SAS.

Auditor's Report for Audits Conducted in Accordance ~~with International Standards on Auditing~~ With GAAS

Title (Ref: ~~Parapar. 21~~) 20)

~~A20~~. ~~A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.~~

Addressee (Ref: ~~Parapar. 22~~) 21)

A19 ~~A21~~. ~~Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed in that particular jurisdiction.~~ The auditor's report is normally addressed to those for whom the report is prepared, ~~often either to the shareholders or to those charged with governance of.~~ The report may be addressed to the entity whose financial statements are being audited: or to those charged with governance. A report on the financial statements of an unincorporated entity may be addressed as circumstances dictate (for example, to the partners, general partner, or proprietor). Occasionally, an auditor may be retained to audit the financial statements of an entity that is not a client; in such a case, the report may be addressed to the client and not to those charged with governance of the entity whose financial statements are being audited.

~~Auditor's Opinion (Ref. Para. 24-26)~~

~~Reference to the financial statements that have been audited~~

A20 ~~A22~~. The auditor's report states, for example, that the auditor has "audited the accompanying financial statements of ~~the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement]~~ and 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, including a summary of significant accounting policies. " If the financial statements include a separate statement of changes in stockholders' equity accounts or a separate statement of comprehensive income, paragraph 23c requires such statements to be identified in the opinion section, but they need not be referred to separately in the opinion paragraph because changes in stockholders' equity accounts and comprehensive income are considered part of the presentation of financial position, results of operations, and cash flows.

.A21 The identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.

.A22 ~~A23~~–When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

~~“Present fairly, in all material respects” or “give a true and fair view”~~

~~A24. The phrases “present fairly, in all material respects,” and “give a true and fair view” are regarded as being equivalent. Whether the phrase “present fairly, in all material respects,” or the phrase “give a true and fair view” is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this ISA for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.~~

.A23 ~~A25~~–When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as “with the foregoing explanation” or “subject to” in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of the opinion.

~~Description of the financial statements and the matters they present~~

.A24 ~~A26~~–The auditor's opinion covers the complete set of financial statements, as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements ~~may~~ include: a balance sheet; an income statement of financial position, a statement of comprehensive income; a statement of changes in equity; and a statement of cash flows, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. ~~In some jurisdictions~~ flow statement, including related notes. In some circumstances, additional or different statements, schedules, or information may also might be considered to be an integral part of the financial statements.

.A25 ~~A27. In~~ Description of information that the ~~case of~~ financial statements prepared in accordance with a fair presentation framework, the present. The auditor's opinion states that the

financial statements present fairly, in all material respects, ~~or give a true and fair view of,~~ the matters that the financial statements are designed to present. ~~For example, in the case of financial statements prepared in accordance with IFRSs, these matters are the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended. Consequently, the [...] in paragraph 25 and elsewhere in this ISA is intended to be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is IFRSs or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial statements are designed to present.~~

~~Description of the applicable financial reporting framework and how it may affect the auditor's opinion~~

A26 The title of the financial statements identified in the opinion section (see paragraph 23c) describes the information that is the subject of the auditor's opinion.

A27 ~~A28-~~ Description of the applicable financial reporting framework and how it may affect the auditor's opinion (Ref: par. 25). The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph ~~18. The~~14. For example, the applicable financial reporting framework is identified in such terms as: may be identified as accounting principles generally accepted in the United States of America or U.S. generally accepted accounting principles or International Financial Reporting Standards promulgated by the International Accounting Standards Board (IASB) or International Financial Reporting Standard for Small and Medium-Sized Entities promulgated by the IASB.

~~"... in accordance with International Financial Reporting Standards" or~~

~~"... in accordance with accounting principles generally accepted in Jurisdiction X ..."~~

~~A29. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act." ISA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.²⁵~~

~~A30. As indicated in paragraph A8, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 25–27 refers to both frameworks as follows:~~

²⁵—ISA 210, paragraph 18

- ~~(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., IFRSs). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects [...]), in accordance with accounting principles generally accepted in Jurisdiction X and with IFRSs).~~
- ~~(b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., the national framework) but a modified opinion given with regard to the other framework (e.g., IFRSs) in accordance with ISA 705 (Revised).~~

~~A31. As indicated in paragraph A13, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 53–54 and related application material in paragraphs A78–A86). Accordingly,~~

- ~~(a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ISA 705 (Revised).~~
- ~~(b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with ISA 706 (Revised), drawing attention to the disclosure.~~

Basis for Opinion (Ref: [Parapar. 2826](#))

[A28](#) ~~A32.~~ The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this [ISA proposed SAS](#) requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.

[A29](#) ~~A33.~~ The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards. For example, the auditor's report may refer to auditing standards generally accepted in the United States of America or U.S. generally accepted auditing standards.

[A30](#) In accordance with AU-C section 200, the auditor does not represent compliance with GAAS in the auditor's report, unless the auditor has complied with the requirements of section 200 and all other AU-C sections relevant to the audit.¹⁹

¹⁹ [Paragraph .22 of AU-C section 200.](#)

Relevant ethical requirements (Ref: ~~Parapar. 2826~~(c))

~~A31 A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISAAU-C section 200 explains that relevant ethical requirements ordinarily comprise Parts A and B consist of the IESBA AICPA Code related to an audit of financial statements of Professional Conduct together with national requirements rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.²⁶ When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.²⁰~~

~~A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).~~

~~A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence that applied to the audit of the financial statements.~~

~~A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.~~

Considerations specific to group audits

~~A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.²⁷~~

~~A32 A39. The ISAs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group engagement team is subject, nor do the ISAs require that the component auditor in all cases to be subject to~~

²⁶—ISA 200, paragraph A14

²⁰ [Paragraph .A15 of AU-C section 200.](#)

²⁷—ISA 600, paragraph A37

~~the same specific independence requirements that are applicable to the group engagement team. As a result, relevant~~ Relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ~~ISA 600²⁸ AU-C section 600²¹~~ provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations ~~where~~ when the component auditor does not meet the independence requirements that are relevant to the group audit.

Key Audit Matters (Ref: ~~Para. 31~~ par. 28)

A33 ~~A40.~~ Law or regulation may require communication of key audit matters ~~for audits of entities other than listed entities, for example, entities characterized in such law or regulation as public interest entities.~~

A34 ~~A41.~~ The auditor may ~~also~~ decide to communicate key audit matters for ~~other~~ certain entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

A35 ~~A42.~~ ~~ISA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.²⁹ ISA 210 also~~ AU-C section 210 requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.³⁰ ~~When the auditor is not otherwise required to communicate key audit matters, ISA 210³¹ explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.²²~~

~~Considerations specific to public sector entities~~

A36 ~~A43.~~ ~~Listed entities are not common in the public sector. However, public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an~~ Considerations Specific to Public Sector Entities. An auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

Responsibilities for the Financial Statements (Ref: ~~Para~~ par. 30, ~~33-35~~)

²⁸—ISA 600, paragraphs 19–20²¹ Paragraph .22-.23, AU-C section 600.

²⁹—ISA 210, paragraphs 9 and A24

³⁰—ISA 210, paragraph 10

³¹—ISA 210, paragraph A23a

~~A37~~ ~~A44-ISA~~ AU-C section 200 explains the premise, relating to the responsibilities of management and, ~~where~~when appropriate, those charged with governance, on which an audit in accordance with ~~ISAs~~GAAS is conducted.³²²³ Management and, ~~where~~when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, ~~where relevant~~, their fair presentation. Management also accepts responsibility for ~~such~~the design, implementation, and maintenance of internal control ~~as it determines is necessary to enable~~relevant to the preparation ~~and fair presentation~~ of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities ~~as~~because it helps ~~to~~ explain to users the premise on which an audit is conducted. ~~ISA~~AU-C section 260 (Revised) uses the term those charged with governance to describe the person(s) or organization(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures ~~across jurisdictions and~~ by entity.

~~A45. There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraphs 34-35 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.~~

~~A46. ISA 210 requires the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.³³ ISA 210 provides some flexibility in doing so, by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in ISA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 34(a) of this ISA. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording in paragraph 34(a) of this ISA is used. In addition to including the description of management's responsibilities in the auditor's report as required by paragraph 34, the auditor may refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (e.g., in the annual report of the entity or a website of an appropriate authority).~~

~~A47. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as~~

³²—ISA 200, paragraph 13(i)²³ Paragraphs .05 and .A2 of AU-C section 200.

³³—ISA 210, paragraph 6(b)(i)–(ii)

~~defined in ISA 315 (Revised)³⁴), the descriptions in ISA 210 and in paragraph 34 do not make specific reference to them.~~

~~A48. The Appendix to this ISA provides illustrations of how the requirement in paragraph 34(b) would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements featured in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.~~

.A38 [Placeholder for application material to be included pending GC task force discussion and development of reporting requirements and illustrations. Add application material relevant to FASB, GASB, and IFRS.]

Oversight of the financial reporting process (Ref: ~~Parapar.~~ 35)

.A39 AU-C section 260 requires the auditor to determine the appropriate person(s) within the governance structure with whom to communicate.²⁴ This includes those responsible for overseeing the financial reporting process. Examples of other appropriate terms for “those charged with governance” include the audit committee or the board of directors.

~~.A40 A49. When some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial statements, the description as required by paragraph 34 of this ISA may need to be modified to appropriately reflect the particular circumstances of the entity.~~ When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

.A41 In some instances, a document containing the auditor’s report may include a separate statement by management regarding its responsibility for the preparation of the financial statements. Any elaboration in the auditor’s report about management’s responsibilities regarding the preparation of the financial statements, or reference to a separate statement by management about such responsibilities if one is included in a document containing the auditor’s report, may lead users to erroneously believe that the auditor is providing assurances about representations made by management about their responsibility for financial reporting, internal control, and other matters that might be discussed in the management report.

Auditor’s Responsibilities for the Audit of the Financial Statements (Ref: ~~Para. par. 34–37–40~~)

.A42 A50. The description of the auditor’s responsibilities as required by paragraphs 34–37–40 of this ISA proposed SAS may be tailored to reflect the specific nature of the entity, for example, when the auditor’s report addresses consolidated financial statements. Illustration 2 in the Appendix to this ISA proposed SAS includes an example of how this may be done.

³⁴ ~~ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, paragraph 4(c)~~

²⁴ Paragraph .07 of AU-C section 260.

Objectives of the ~~auditor~~Auditor (Ref: ~~Para. 38~~par. 35(a))

A43 ~~A51.~~The auditor's report explains that the objectives of the auditor 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 the auditor's opinion. These are in contrast to management's responsibilities for the preparation ~~for~~of the financial statements.

~~Description of materiality (Ref: Para. 38(e))~~

~~A52.~~The Appendix to this ISA provides illustrations of how the requirement in paragraph 38(e), to provide a description of materiality, would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A44 The auditor is not expected to, and cannot, reduce audit risk to zero and cannot, therefore, obtain absolute assurance that the financial statements are free from material misstatement due to fraud or error. This is because inherent limitations of an audit exist, which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive.²⁵ Because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS.²⁶

A45 When the applicable financial reporting framework defines materiality differently from that in AU-C 320, the auditor's report may need to reflect the definition or description of materiality from the applicable financial reporting framework.

A46 The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor. Such attempts at concealment may be even more difficult to detect when accompanied by collusion.²⁷

A47 [Add application material relevant to FASB, GASB, and IFRS]

A48 AU-C section 600 provides requirements and guidance for the auditor's determination of whether to make reference to a component auditor in the auditor's report on the group financial statements, including how such reference is to be made in the auditor's report.

²⁵ AU-C 200, *Overall Objectives of the Independent Auditor*, paragraph A49

²⁶ AU-C 200, *Overall Objectives of the Independent Auditor*, paragraph A56

²⁷ Paragraph .06 of AU-C 240.

~~Auditor's responsibilities relating to ISA 701 (Ref: Para. 40(c))~~ [Auditor's responsibilities relating to proposed AU-C 701 \(Ref: Para. 37\(b\)\)](#)

~~A53. The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph 40(c). For example, the auditor may make reference to the requirement in paragraph 9 of ISA 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risk of material misstatement or significant risks identified in accordance with ISA 315 (Revised); significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and the effects on the audit of significant events or transactions that occurred during the period.~~

~~Location of the description of the auditor's responsibilities for the audit of the financial statements (Ref: Para. 40, 50(k))~~

~~A54. Including the information required by paragraphs 39–40 of this ISA in an appendix to the auditor's report or, when law, regulation or national auditing standards expressly permit, referring to a website of an appropriate authority containing such information may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with ISAs, a reference is required to be included in the auditor's report indicating where such information can be accessed.~~

~~Location in an appendix (Ref: Para. 41(b), 50(k))~~

~~A55. Paragraph 41 permits the auditor to include the statements required by paragraphs 39–40 describing the auditor's responsibilities for the audit of the financial statements in an appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the appendix. The following is an illustration of how such a reference to an appendix could be made in the auditor's report:~~

~~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 a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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 taken on the basis of these financial statements.~~

~~A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at~~

~~[indicate page number or other specific reference to the location of the description],
forms part of our auditor's report.~~

~~Reference to a website of an appropriate authority (Ref: Para. 41(c), 41)~~

~~A56. Paragraph 41 explains that the auditor may refer to a description of the auditor's responsibilities located on a website of an appropriate authority, only if expressly permitted by law, regulation or national auditing standards. The information on the website that is incorporated in the auditor's report by way of a specific reference to the website location where such information can be found may describe the auditor's work, or the audit in accordance with ISAs more broadly, but it cannot be inconsistent with the description required in paragraphs 39–40 of this ISA. This means that the wording of the description of the auditor's responsibilities on the website may be more detailed, or may address other matters relating to an audit of financial statements, provided that such wording reflects and does not contradict the matters addressed in paragraphs 39–40.~~

~~A57. An appropriate authority could be a national auditing standard setter, regulator, or an audit oversight body. Such organizations are well placed to ensure the accuracy, completeness and continued availability of the standardized information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor's report:~~

~~**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 a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. 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 taken on the basis of these financial statements.~~

~~A further description of our responsibilities for the audit of the financial statements is located at [Organization's] website at: [website address]. This description forms part of our auditor's report.~~

~~[.A49 \[placeholder for KAM application material\]](#)~~

~~*Other Reporting Responsibilities* (Ref: Para. 43–45)~~

~~A58. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities under the ISAs. For example, the auditor may be asked to report certain matters if they come to the auditor's attention **during the course of the audit of** the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, **internal control over financial reporting** or other~~

~~information. Auditing standards in the specific jurisdiction often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction. . par. .38-.39)~~

A50 In some circumstances, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's *responsibility* under GAAS to report on the financial statements. The form and content of the "Other Reporting Responsibilities" section of the auditor's report described in paragraph 38 will vary depending on the nature of the auditor's other *reporting responsibilities*. For example, for audits conducted under *Government Auditing Standards*, the auditor may be required to report on *internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements, which may be included in the "Other Reporting Responsibilities" section of the auditor's report.*²⁸ However, when the auditor is engaged or required by law or regulation to perform a compliance audit in accordance with GAAS, *Government Auditing Standards*, and a governmental audit requirement, reporting requirements in section 935, *Compliance Audits*, apply.

A51 ~~A59.~~ A54 In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities ~~as part of their~~ within the auditor's *report* on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

A52 ~~A60. Paragraphs 43-45 of this ISA permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the ISAs only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the ISAs. Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under the ISAs. Otherwise, other reporting responsibilities are required to be.~~ A56 These other reporting responsibilities are addressed in a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, paragraph 44 requires the auditor to include reporting responsibilities under the ISAs under a heading titled "Report on the Audit of the Financial Statements." of the auditor's report in order to clearly distinguish them from the auditor's responsibility under GAAS to report on the financial statements. When relevant, this section may contain subheading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

~~Name of the Engagement Partner (Ref: Para. 46)~~

~~A61. ISQC 1³⁵ requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these ISQC 1 requirements, naming the~~

²⁸ See AICPA Audit and Accounting Guide *State and Local Governments* for illustrative auditor reports.

³⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 32

~~engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report of a complete set of general purpose financial statements of a listed entity.~~

~~A62. Law, regulation or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits other than those of complete sets of general purpose financial statements of listed entities. The auditor may also be required by law, regulation or national auditing standards, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.~~

~~A63. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national auditing standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.~~

Signature of the Auditor (Ref: ~~Para. 47~~[par. 40](#))

~~A64. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.~~

~~[A53](#) [A65](#). In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.~~

~~[A54](#) In certain situations, the auditor's report may be required by law or regulation to include the personal name and signature of the auditor, in addition to the auditor's firm.~~

~~[A55](#) Considerations *specific to governmental entities*. This section would not preclude a governmental auditor from including the personal name and signature of the auditor in the auditor's report when, in certain situations, the governmental auditor is required by law or regulation or chooses to do so.~~

Auditor's Address (Ref. [par. 41](#))

~~[A56](#) In the United States, the location of the issuing office is the city and state. In another country, it may be the city and country.~~

Date of the Auditor's Report (Ref: ~~Para. 49~~ par. 42)

A57 AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, requires that on or before the date of the auditor's report, the engagement partner, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor's report to be issued.²⁹ AU-C section 220 also requires that the auditor's report not be released prior to the completion of the engagement quality control review.³⁰

A58 ~~A66~~—The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ~~ISA 560~~.³⁶ AU-C section 560.

A59 ~~A67~~. ~~Since~~Because the auditor's opinion is provided on the financial statements, and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that comprise the financial statements, including the related notes, have been prepared, and management has accepted responsibility for them.

~~A68~~. ~~In some jurisdictions, law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.~~

A60 ~~A69~~.—Considerations specific to governmental entities. In some ~~jurisdictions~~circumstances, final approval of the financial statements by ~~shareholders~~governmental legislative bodies (or subsets of such legislative bodies) is required before the financial statements are issued ~~publicly~~. In these ~~jurisdictions~~circumstances, final approval by ~~shareholders~~such legislative bodies (or subsets of such legislative bodies) is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements, for purposes of ~~ISAs~~GAAS, is the earlier date on which those with the recognized authority determine that all the statements that

²⁹ See paragraphs .19 of AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, for further discussion.

³⁰ Paragraph .21 of AU-C section 220.

³⁶—ISA 560, *Subsequent Events*, paragraphs 10–17

comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

Auditor's Report Prescribed by Law or Regulation (Ref: ~~Para~~Par.43 50)

A61 ~~A70-ISA~~AU-C section 200 explains that the auditor may be required to comply with ~~legal or regulatory~~other auditing requirements in addition to ~~ISAs~~³⁷GAAS. GAAS do not override law or regulation that governs an audit of financial statements.³¹ When the differences between the legal or regulatory requirements and ~~ISAs~~GAAS relate only to the layout and wording of the auditor's report, the requirements in paragraph ~~5043(a)-(en)~~ set out the minimum elements to be included in the auditor's report to enable a reference to the ~~International Auditing Standards on Auditing~~Generally Accepted in the United States of America. In those circumstances, the requirements in paragraphs ~~2120-4942~~ that are not included in paragraph ~~5043(a)-(en)~~ do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.

~~A71. Where specific requirements in a particular jurisdiction do not conflict with ISAs, the layout and wording required by paragraphs 21-49 of this ISA assist users of the auditor's report in more readily recognizing the auditor's report as a report of an audit conducted in accordance with ISAs.~~

Information Required by ~~ISA~~AU-C section 701 (Ref: ~~Parapar.~~ 5043(h))

~~A72. X.XX~~ Law or regulation may require the auditor to provide additional information about the audit that was performed, which may include information that is consistent with the objectives of ~~ISA~~proposed AU-C section 701, or may prescribe the nature and extent of communication about such matters.

~~A73. The ISAs~~X.XX GAAS do not override law or regulation that governs an audit of financial statements. When ~~ISA~~proposed AU-C 701 is applicable, reference can only be made to ~~ISAs~~GAAS in the auditor's report if, in applying the law or regulation, the section required by paragraph ~~5043(h)~~ of this ~~ISA~~proposed SAS is not inconsistent with the reporting requirements in ~~ISA~~proposed AU-C section 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ~~ISA~~proposed AU-C section 701, for example by:

- Modifying the heading "Key Audit Matters", if law or regulation prescribes a specific heading;
- Explaining why the information required by law or regulation is being provided in the auditor's report, for example by making a reference to the relevant law or regulation and describing how that information relates to the key audit matters;

³⁷ ~~ISA 200, paragraph~~³¹ Paragraph A5560 of AU-C 200.

- ~~Where~~When law or regulation prescribes the nature and extent of the description, supplementing the prescribed information to achieve an overall description of each key audit matter that is consistent with the requirement in paragraph ~~13~~xx of ~~ISA~~proposed AU-C section 701.

~~A74.—ISA~~X.XX AU-C section 210 deals with circumstances ~~where~~when law or regulation ~~of the relevant jurisdiction~~ prescribes ~~the~~a specific layout, form or wording of the auditor's report ~~in terms~~ that ~~are~~ significantly ~~different~~differs from the requirements of ~~ISAs~~GAAS, which in particular includes the auditor's opinion. In these circumstances, ~~ISA~~AU-C 210 requires the auditor to evaluate:

- (a) Whether users might misunderstand the ~~assurance obtained from the audit of the financial statements~~auditor's report and, if so,
- (b) Whether ~~additional explanation in the auditor's report can mitigate possible misunderstanding~~the auditor would be permitted to reword the prescribed form to be in accordance with the requirements of GAAS or attach a separate report.

If the auditor ~~concludes that additional explanation in the auditor's report cannot mitigate possible~~determines that rewording the prescribed form or attaching a separate report would not be permitted or would not mitigate the risk of users misunderstanding, ~~ISA~~the auditor's report, AU-C section 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ~~ISA~~AU-C section 210, an audit ~~conducted~~performed in accordance with such law or regulation does not comply with ~~ISAs~~GAAS. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been ~~conducted~~performed in accordance with ~~International Standards on Auditing~~.³⁸GAAS.³²

Considerations specific to public sector entities

~~A75.—X.XX~~ Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of ~~ISA~~proposed AU-C section 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ~~ISA~~proposed AU-C section 701 or include a reference in the auditor's report to a description of the matter in the supplementary report.

**Auditor's Report for Audits Conducted in Accordance ~~with~~With Both GAAS and Another Set of Auditing Standards ~~of a Specific Jurisdiction and International Standards on Auditing~~
(Ref: Para (~~Ref. 51~~)par. 44)**

A62 If the audit is performed in accordance with both GAAS and ISAs, the auditor may find it helpful to refer to AU-C appendix B, "Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards." This appendix summarizes

³⁸³² ISAAU-C section 210, paragraph 2418

substantive differences between the ISAs and GAAS to assist the auditor in planning and performing an engagement in accordance with ISAs.

~~A76. X.XX(A76).~~ The auditor may refer in the auditor’s report to the audit having been conducted in accordance with both ~~International Standards on Auditing~~GAAS as well as the national auditing standards when, in addition to complying with the relevant national auditing standards, the auditor complies with each of the ~~ISAs~~AU-C sections relevant to the audit.³⁹

~~A77.~~

~~X.XX(A77).~~ A reference to both ~~International Standards on Auditing~~GAAS and the national auditing standards is not appropriate if there is a conflict between the requirements in ~~ISAs~~GAAS and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter or Other Matter paragraph that, in the particular circumstances, is required by ~~ISAs~~GAAS. In such a case, the auditor’s report refers only to the auditing standards (either ~~International Standards on Auditing~~GAAS or the national auditing standards) in accordance with which the auditor’s report has been prepared.

Auditor’s Report for Audits Conducted in Accordance With the Standards of the PCAOB and GAAS When the Audit Is Not Within the Jurisdiction of the PCAOB (Ref. par. .46)

.A63 Auditors of financial statements of entities whose audits are within the jurisdiction of the PCAOB, which include issuers (as defined by the SEC) and nonissuer brokers and dealers registered with the SEC, are required to be registered with, and subject to inspection by, the PCAOB. In such circumstances, the AICPA Code of Professional Conduct requires AICPA members to conduct the audit in accordance with the standards of the PCAOB, and the audit is not required to also be conducted in accordance with GAAS.³³

.A64 When the auditor follows the standards of the PCAOB regarding the form of the auditor’s report, PCAOB reporting requirements for specific *circumstances*, such as reporting on an integrated audit or supplementary information, may also be applicable.

.A65 The form of the auditor’s report required by the standards of the PCAOB states that the audit was conducted in accordance with "the standards of the Public Company Accounting Oversight Board (United States)." A reference to “the standards” of the PCAOB indicates that the auditor has complied not only with the PCAOB’s auditing standards, but also with the related professional practice standards of the PCAOB, including its independence rules; whereas a reference to “the auditing standards of the Public Company Accounting Oversight Board (United States)” is limited to compliance with the auditing standards of the PCAOB. The auditor of financial statements of an entity whose audits are not within the jurisdiction of the PCAOB may, nevertheless, be responsible for complying with the independence and other related professional practice standards of the PCAOB if, for example, the engagement is subject to regulatory

³⁹—ISA 200, paragraph A56

³³ See the “Compliance With Standards Rule” (ET sec. 1.310.001), and appendix A, “Council Resolution Designating Bodies to Promulgate Technical Standards” (ET app. A).

oversight that requires compliance with those rules. Whether the auditor conducts an audit of financial statements in accordance with the standards of the PCAOB or the auditing standards of the PCAOB depends on the circumstances of the engagement.³⁴

.A66 Examples of situations in which an auditor may be engaged to conduct an audit in accordance with the standards (or auditing standards) of the PCAOB for an entity whose audit is not within the jurisdiction of the PCAOB include audits for clearing agencies and futures commission merchants registered with the U.S. Commodities Futures Trading Commission (CFTC), as well as other entities registered with the CFTC; audits of financial statements included in certain securities offering documents pursuant to Regulation A of the Securities Act of 1933; and circumstances in which a nonissuer company desires, or is required by contractual agreement, to obtain an audit of its financial statements in accordance with the standards of the PCAOB.

.A67 The exhibit, “Illustrations of Auditor’s Reports on Financial Statements,” contains an example of an auditor’s report for the situation described in paragraph .44.

Comparative Financial Statements and Comparative Information (Par. Ref. 47-48)

.A68 The level of information included for the prior periods in comparative financial statements is comparable with that of the financial statements of the current period.

.A69 .A74 Because the auditor’s report on comparative financial statements applies to the financial statements for each of the periods presented, the auditor may express a qualified opinion or an adverse opinion, disclaim an opinion, or include an emphasis-of-matter paragraph with respect to one or more financial statements for one or more periods while expressing a different auditor’s opinion on one or more financial statements of another period presented

Updating the Report

.A70 An updated report on prior period financial statements is distinguished from a reissuance of a previous report.³⁵ When issuing an updated report, *the* information considered by the continuing auditor is that which the auditor has become aware of during the audit of the current period financial statements. In addition, an updated report is issued in conjunction with the auditor’s report on the current period financial statements.

Other Considerations Relating to Comparative Financial Statements

.A71 If one firm of independent auditors merges with another firm, and the new firm becomes the auditor of a former client of one of the two former firms, the new firm may accept responsibility and express an opinion on the financial statements for the prior period(s), as well as for those of the current period. In such circumstances, paragraphs 47–60 apply. The new firm

³⁴ See Staff Question and Answer, *Audits of Financial Statements of Non-Issuers Performed Pursuant to the Standards of the Public Company Accounting Oversight Board (AICPA, PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 100.01), dated June 30, 2004.

³⁵ See AU-C section 560.

may indicate in the auditor's report or as part of the signature that a merger took place and may name the firm of independent auditors that was merged with it. If the new firm decides not to express an opinion on the prior period financial statements, the guidance for the reissuance of reports in section 560 would apply.

Comparative Information (Ref: par. .49–.50)

.A72 Comparative information, which may be condensed financial statements or prior period summarized financial information, is not considered comparative financial statements because it is not a complete set of financial statements. For example, entities such as state and local governmental units frequently present total-all-funds information for the prior periods rather than information by individual funds because of space limitations or to avoid cumbersome or confusing formats. Also, not-for-profit organizations frequently present certain summarized financial information for the prior period(s) in total rather than by net asset class. Accordingly, the auditor need not opine on comparative information in accordance with this section.

.A73 Paragraph 49 requires the auditor to clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking in the auditor's report when comparative information is presented but not covered by the auditor's opinion on the financial statements of the current period. The requirements and guidance in section 930, *Interim Financial Information*, may be adapted to report on condensed financial statements or prior period summarized financial information that is derived from audited financial statements and is presented comparatively with the complete set of financial statements of the current period.³⁶
³⁷The exhibit provides examples of auditor's reports when comparative summarized financial information for the prior period is presented.³⁸ †

.A74 If an entity requests the auditor to express an opinion on all periods presented, and comparative information is presented for one or more prior periods, in most cases, this will necessitate including additional columns or separate detail by fund or net asset class, or the auditor may need to modify the auditor's opinion, as required by AU-C section 705.

Audit Procedures

Written Representations (Ref: par. 55)

.A75 In the case of comparative financial statements, the written representations are requested for all periods referred to in the auditor's opinion because management needs to reaffirm that the written representations it previously made with respect to the prior period remain appropriate.

³⁶ Paragraph .33 of AU-C section 930, *Interim Financial Information*.

³⁷ See the AICPA Audit and Accounting Guides *State and Local Governments and Not-for-Profit Entities* for further guidance on reporting on summarized comparative financial information.

³⁸ Illustration 4, "An Auditor's Report on a Single Year Prepared in Accordance with Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information for the Prior Year is Presented," of the exhibit, "Illustrations of Auditor's Reports on Financial Statements."

Opinion on Prior Period Financial Statements Different From Previous Opinion (Ref: par. 56)

.A76 When reporting on the prior period financial statements in connection with the current period's audit, the opinion expressed on the prior period financial statements may be different from the opinion previously expressed if the auditor becomes aware of circumstances or events that materially affect the financial statements of a prior period during the course of the audit of the current period. In some circumstances, the auditor may have additional reporting responsibilities designed to prevent future reliance on the auditor's previously issued report on the prior period financial statements.³⁹

Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: par. .58)

.A77 The predecessor auditor may be unable or unwilling to reissue the auditor's report on the prior period financial statements that have been restated. In this situation, provided that the auditor has audited the adjustments to the prior period financial statements, the auditor may include an other-matter paragraph⁴⁰ in the auditor's report indicating that the predecessor auditor reported on the financial statements of the prior period before restatement. In addition, if the auditor is engaged to audit and obtains sufficient appropriate audit evidence to be satisfied about the appropriateness of the restatement, the auditor's report may also include the following paragraph within the other-matter paragraph section:

As part of our audit of the 20X2 financial statements, we also audited the adjustments described in Note X that were applied to restate the 20X1 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 20X1 financial statements of the Company other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 20X1 financial statements as a whole.

Prior Period Financial Statements Not Audited (Ref: par. .59-.60)

.A78 If the prior period financial statements were reviewed, the following is an example of an other-matter paragraph:

Other Matter

The 20X1 financial statements were reviewed by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

³⁹ See AU-C section 560.

⁴⁰ See AU-C section 706.

A79 If the prior period financial statements were compiled, the following is an example of an other-matter paragraph:

Other Matter

The 20X1 financial statements were compiled by us (other accountants) and our (their) report thereon, dated March 1, 20X2, stated we (they) did not audit or review those financial statements and, accordingly, express no opinion or other form of assurance on them.

A80 If the prior period financial statements were not audited, reviewed, or compiled, the following is an example of an other-matter paragraph:

Other Matter

The accompanying balance sheet of X Company as of December 31, 20X1, and the related statements of income and cash flows for the year then ended were not audited, reviewed, or compiled by us and, accordingly, we do not express an opinion or any other form of assurance on them.

Supplementary Information Presented within the Financial Statements (Ref: ~~Para. 53-54~~ Par. .61)

A81 ~~A78-~~ In some circumstances, the entity may be required by law, regulation, or standards, or may voluntarily choose, to ~~present together with the~~ include in the basic financial statements ~~supplementary~~ information that is not required by the applicable financial reporting framework. ~~For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.~~ The auditor's opinion covers information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented.

~~A79-~~ Paragraph 4553 of this ISA explains that ~~the auditor's opinion covers supplementary information that is an integral part of the financial statements because of its nature or how it is presented.~~ This evaluation is a matter of professional judgment. To illustrate:

- ~~—Ωθεν της νοτες το της φινανχιαλ στατεμεντο ινχλυδε αν εξπλανατιον ορ της ρεχ ονχιλιατιον οφ της εξτεντ το ωηιχη της φινανχιαλ στατεμεντο χομπλψ ωιτη ανοτη ερ φινανχιαλ ρεπορτινγ φραμεωορκ, της αυδιτορ μαγ χονσιδερ τησ το βε συμπλεμ ενταρψ ινφορματιον τηατ χαννοτ βε χλεαρλψ διφφερεντιατεδ φρομ της φινανχιαλ στατεμεντο. Της αυδιτορ σ οπινιον ωουλδ αλσο χοπερ νοτες ορ συμπλεμ ενταρψ σχηδυλεσ τηατ αρε χροσσ ρεφερενχεδ φρομ της φινανχιαλ στατεμεντο.~~
- ~~—Ωθεν αν αδδιτιοναλ προφιτ ανδ λοσσ αχχουντ τηατ δισχλοσσεσ σπεχιφιχ ιτεμσ ο~~

~~φ εξπενδιτουμε ισ δισχλοσεδ ασ α σεπαρατε σχηεδυλε ινχλυδεδ ασ αν Αππενδιξ το
της φινανχιαλ στατεμεντσ, της αυδιτορ μαυ χονσιδερ τη ισ το βε συππλεμενταρψ ι
νφορματιον τη ατ χαν βε χλεαρλψ διφφερεντιατεδ φρομ της φινανχιαλ στατεμεντσ.~~

~~A80. Supplementary information that is covered by the auditor’s opinion does not need to be specifically referred to in the auditor’s report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor’s report is sufficient.~~

~~A81. Law or regulation may not require that the supplementary information be audited, and management may decide to ask the auditor not to include the supplementary information within the scope of the audit of the financial statements.~~

~~A82. The auditor’s evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor’s opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as “unaudited.”~~

~~A83. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor’s opinion, for example, by:~~

- ~~• Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.~~
- ~~• Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labeling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.~~

~~A84. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in [proposed] ISA 720 (Revised).~~

~~.A82 If the information included in the basic financial statements is not required by the applicable financial reporting framework and is not necessary for fair presentation but is clearly differentiated, then such information may be identified as *unaudited* or as *not covered by the auditor’s report*.~~

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Statistics:	
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Insertions	757
Deletions	769
Moved from	25
Moved to	25
Style change	0
Format changed	0
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