



Agenda Item 3

Auditor Reporting — Cover Letter and Issues Paper

Objective

To consider discussion drafts of proposed revisions to AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, AU-C section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, AU-C section 260, *The Auditor's Communication With Those Charged With Governance*, and proposed amendments to various AU-C sections, including SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. In addition, certain issues relating to proposed AU-C 700, *Forming an Opinion and Reporting on Financial Statements* will be discussed.

Task Force

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

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

Background

In 2015 the IAASB issued new and revised ISAs relating to reporting on audited financial statements. The following is a list of the new and revised ISAs, which are effective for audits of financial statements for periods ending on or after December 15, 2016.

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*
- ISA 570 (Revised), *Going Concern*
- ISA 800 (Revised), *Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
- ISA 805 (Revised), *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*
- ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

Previous ASB Discussions

The following is a summary of previous ASB discussions on auditor reporting.

Key Audit Matters

At the August 2016 ASB meeting, the ASB was given an education session about the IAASB's key audit matters as compared to the PCAOB's reproposal on critical audit matters. At the January 2017 ASB meeting, the ASB discussed a first draft of proposed AU-C 701, *Communicating Key Audit Matters in the Independent Auditor's Report* and supported developing a new AU-C section 701 to address communicating KAM. In addition, the ASB continued to support convergence with ISA 701 and directed the task force to eliminate differences between the proposed standard and ISA 701, unless those differences are necessary for application in the United States. Proposed AU-C section 701 will be brought back to the July 2017 ASB meeting.

Proposed AU-C 700 (May 2016, August 2016 and October 2016 ASB Meetings)

At the May 2016 ASB meeting the ASB discussed certain elements of the auditor's report relating to the ASB's convergence with ISA 700 (Revised). At the August 2016 ASB meeting the ASB discussed certain threshold issues relating to the ASB's stated goal of convergence with the new and revised ISAs while also considering the standards of the Public Company Accounting Oversight Board (PCAOB). The ASB provided the task force with direction on moving forward with convergence with ISA 700 (Revised). In addition, the ASB discussed the requirements in the proposed SAS. See the *Appendix* to this issue paper for an excerpt of the highlights from the August 2016 ASB meeting.

At the October 2016 ASB meeting the ASB discussed a full draft of proposed AU-C section 700 and provided the task force with further guidance, including supporting a requirement for the opinion section to be placed first in the auditor's report, followed by the basis for opinion section. In addition, the ASB discussed and provided feedback to the task force on other proposed changes, such as an affirmative statement about the auditor's independence and other ethical responsibilities in accordance with relevant ethical requirements, and expanded sections relating to management and auditor responsibilities. The ASB also had a preliminary discussion about

reporting when the audit is conducted in accordance with GAAS and another set of auditing standards. See the *Appendix* to this issue paper for an excerpt of the highlights from the October 2016 ASB meeting.

Subsequent Task Force Discussion

Subsequent to the January 2017 ASB meeting, the task force held numerous meetings by conference call to consider the ASB's feedback from the October 2016 ASB meeting and to revise proposed AU-C section 700. In addition, the task force discussed proposed changes to AU-C section 705, AU-C section 706, AU-C section 260, and amendments to various other AU-C sections, to converge with the new and revised auditor reporting ISAs.

Disclosures Project and Other Proposed Changes

In July 2015, the IAASB's *Disclosures Project (Addressing Disclosures in the Audit of Financial Statements)* resulted in changes to various ISAs, including ISA 260 (Revised), ISA 700 (Revised), and ISA 705 (Revised). The changes arising from the *Disclosures Project* in the proposed SASs have been shaded in grey to highlight them to the ASB, recognizing that the ASB will consider these changes as part of a separate project (see Agenda Item 2).

In addition, other current ASB projects will result in proposed changes to various AU-C sections. For example, the exposure draft, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, proposes amendments to numerous AU-C sections. It is also anticipated that proposed AU-C section 720, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports* will propose amendments to other AU-C sections. The attached materials have either highlighted or listed the sections affected by these other projects to help the ASB gain a complete picture of the changes to the auditor reporting standards.

Agenda Items Presented

- Item 3 – Cover Letter and Issues Paper
- Item 3A – Matrix of proposed SAS, *Modifications to the Opinion in the Independent Auditor's Report* compared with ISA 705 (Revised) and Extant AU-C 705
- Item 3B – Matrix of proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* compared with ISA 706 (Revised) and extant AU-C 706.
- Item 3C – Matrix of proposed SAS, *The Auditor's Communication With Those Charged With Governance*, compared with ISA 260 (Revised) and extant AU-C 260.
- Item 3D – Proposed Amendments to various AU-C sections
- Item 3E – Proposed amendments to SAS 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

Item 3F – Illustrative Auditor’s Report (for informational purposes)

Mr. Montgomery will lead the discussion of the issues (Agenda Item 3) relating to proposed AU-C section 700 and proposed AU-C section 705 and AU-C section 706. Mr. Montgomery will then walk through Agenda items 3A–3D. Mr. Morrison will lead the discussion of Agenda item 3E. The ASB will do a complete walk through of proposed AU-C section 700 in July, with the intent to vote to ballot for exposure the suite of auditor reporting standards and related amendments at the July ASB meeting.

Issues for ASB discussion

Proposed AU-C section 700, *Forming an Opinion and Reporting on Financial Statements*

Issue 1 — Addressee

The task force was asked to consider whether the proposed SAS should require the city and state of the addressee to be included in the auditor’s report, or to include application material that would discuss including such information. Certain members of the ASB believe that providing information about where the client is located would provide information about where the firm performing the audit work should be licensed. Paragraph 21 of proposed AU-C 700 requires the auditor’s report to be addressed, as appropriate, based on the circumstances of the engagement.

ISA 700 (Revised) marked to reflect proposed SAS	Extant AU-C 700
<i>Addressee</i>	<i>Addressee</i>
22. 21. The auditor’s report should shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: p Para. A1924)	.24 The auditor’s report should be addressed as required by the circumstances of the engagement. (Ref: par. .A19)

Task Force Discussions

The task force discussed this issue and concluded the proposed SAS should not require information about the city and state of the addressee. One member of the task force believes it would be in the public interest to include such information and that it could help regulators. Other members of the task force questioned the difficulty in obtaining this information and raised a concern that in order for this information to be helpful, the regulator would need to have access to the auditor’s report. In many cases, a regulator may not have access to a private company auditor’s report unless there is an issue that the regulator is investigating, and in those cases, the regulator would have access to information about the location of the client. In addition, requiring

inclusion of the addressee’s city and state in the auditor’s report places the auditor in the position of having to determine the appropriate location to include (for example, the principal office or where the company is incorporated).

Action Requested of the ASB

1. Does the ASB agree with the task force recommendation to converge with ISA 700 (Revised) and not require the city and state of the addressee to be included in the auditor’s report?

Issue 2 — Relevant Ethical Requirements

The ASB discussed the reference to relevant ethical requirements in the auditor’s report and questioned whether the proposed SAS should require a specific reference to the AICPA Code of Professional Conduct. Our understanding is that many states have adopted the AICPA Code of Professional Conduct and certain members of the ASB supported including such a requirement.

ISA 700 (Revised) marked to reflect proposed SAS

Basis for Opinion

26. ~~28.~~ The auditor’s report ~~should~~~~shall~~ include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: ~~p~~Para. A28**Error! Reference source not found.**~~32~~)

(a) (content not included here)

(b) (content not included here)

(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 relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code);~~ and (Ref: ~~p~~Para. A31-A32 ~~A34–A39~~)

(d) (content not included here)

At the October ASB meeting, the task force was asked to consider three options:

- a. Revise the requirement in paragraph .26(c) to require the words “...in accordance with the relevant ethical requirements” in the auditor’s report without having to identify those ethical requirements
- b. Revise the requirement in paragraph .26(c) to say that when the AICPA Code of Professional Conduct applies it should be referenced in the auditor’s report along with the words “other relevant ethical requirements.” For example, the requirement could read as follows:

“(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 should refer to the AICPA Code of Professional Conduct, when applicable, and other relevant ethical requirements”

- c. Add application material to state that nothing precludes the auditor from adding a reference to the applicable requirements like the AICPA Code of Professional Conduct.

Task Force Discussions

The task force discussed the practical considerations for requiring the auditor’s report to include a reference to the AICPA Code of Professional Conduct and expressed the following concerns:

- Auditors are required to follow the state requirements. Even when the state has adopted the AICPA Code of Professional Conduct, the task force believes it would not be appropriate to refer to the AICPA Code without also referencing other applicable ethical requirements (for example, state requirements).
- Including such a reference may create a perceived difference in the audit between AICPA members and non-members
- It could appear to be self-serving
- This would result in a wider difference with the PCAOB form of report.

Task Force Recommendations

Task force concluded that the reference to independence and other ethical requirements should be worded as shown in paragraph 26 above.

Action Requested of the ASB

2. Does the ASB agree with the task force’s recommendation?

Issue 3 — Auditor’s Reports Prescribed by Law or Regulation

Paragraph 50 of ISA 700 (Revised) includes minimum elements to be included in the auditor’s report when the auditor is required by law or regulation to use a specific layout or wording of the auditor’s report. This content was not included in extant AU-C section 700 because it was concluded that this situation would be more likely to arise in connection with audits of special purpose financial statements. Accordingly, paragraphs .22–.23 of AU-C section 800, *Special*

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Considerations–Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks contain the applicable requirements when the auditor’s report is prescribed by law or regulation.

ISA 700 (Revised)	Extant AU-C 800
(Not included in proposed SAS)	(note: updates to AU-C 800 to converge with new and revised auditor reporting ISAs to be completed as part of second phase and are not reflected here)
<i>Auditor’s Report Prescribed by Law or Regulation</i>	<i>Auditor’s Report Prescribed by Law or Regulation</i> (Ref: par. .A29–.A32)
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 only if the auditor’s report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)	.22 If the auditor is required by law or regulation to use a specific layout, form, or wording of the auditor’s report, the auditor’s report should refer to GAAS only if the auditor’s report includes, at a minimum, each of the following elements:
(a) A title.	a. A title
(b) An addressee, as required by the circumstances of the engagement.	b. An addressee
(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, see paragraph 27).	h. An opinion paragraph containing an expression of opinion on the special purpose financial statements and a reference to the special purpose framework used to prepare the financial statements (including identifying the origin of the framework) and, if applicable, an opinion on whether the special purpose financial statements are presented fairly, in all material respects, in accordance with GAAP when required by paragraph .21
	f. A description of the purpose for which the financial statements are prepared when required by paragraph .18b
(d) An identification of the entity’s financial statements that have been audited.	c. An introductory paragraph that identifies the special purpose financial statements 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	

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ISA 700 (Revised)	Extant AU-C 800
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 applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of ISA 570 (Revised).	
(g) Where 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).	
(h) Where applicable, a section that includes the information required by ISA 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. ¹ (Ref: Para. A72–A75)	
(i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ISA 720 (Revised). ²	
(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 33–36.	<p>d. A description of the responsibility of management for the preparation and fair presentation of the special purpose financial statements</p> <p>e. A reference to management’s responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances when required by paragraph .18a</p>
(k) A reference to International Standards on Auditing 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:	<p>g. A description of the auditor’s responsibility to express an opinion on the special purpose financial statements and the scope of the audit, that includes</p> <p style="padding-left: 40px;">i. A reference to GAAS and, if</p>

¹ ISA 701, paragraphs 11–16

² ISA 720 (Revised), paragraph 24.

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ISA 700 (Revised)	Extant AU-C 800
Para. A50–A53)	applicable, the law or regulation ii. A description of an audit in accordance with those standards
(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.	
	i. An emphasis-of-matter paragraph that indicates that the financial statements are prepared in accordance with a special purpose framework when required by paragraph .19 j. An other-matter paragraph that restricts the use of the auditor’s report when required by paragraph .20
(m) The auditor’s signature.	k. The auditor’s signature
(n) The auditor’s address.	l. The auditor’s city and state
(o) The date of the auditor’s report.	m. The date of the auditor’s report
	23 If the prescribed specific layout, form, or wording of the auditor’s report is not acceptable or would cause an auditor to make a statement that the auditor has no basis to make, the auditor should reword the prescribed form of report or attach an appropriately worded separate report.

Task Force Recommendations

The task force concluded that reports prescribed by law or regulation would most likely be based on special purpose frameworks and therefore the placement of this content in AU-C 800 is appropriate. Accordingly, the proposed SAS does not reflect the content of paragraph 50 of ISA 700 (Revised).

Action Requested of the ASB

3. Does the ASB agree with the task force’s recommendation that reports prescribed by law or regulation would most likely be based on special purpose frameworks and therefore the requirements are appropriately included in AU-C 800?

4. Does the ASB have examples of situations in which the form of report may be prescribed by law or regulation (e.g., state regulator requirements) for general purpose financial statements?

Issue 4– Dual Reporting

The task force was asked to consider possible dual reporting scenarios in the U.S. and determine what to include in the proposed SAS. The following is a list of the dual reporting guidance currently included in extant AU-C 700:

- Auditor’s report for audits conducted in accordance with both GAAS and another set of auditing standards (ISAs, PCAOB, government auditing standards) [extant AU-C 700.42]
- 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 [extant AU-C 700.46 (SAS 131)]
- Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing [Interpretation 3 of AU-C section 700 (AU-C 9700.08–.13). Note: the guidance is the interpretation may no longer be needed when the ASB converges with ISA 700 (Revised).

Task Force Discussions and Recommendations

The task force concluded that with the ASB’s commitment to convergence with the ISAs there should be minimal differences when dual reporting with the ISAs. In addition, SAS 131 covers situations for dual reporting with the PCAOB when the entity is not within the jurisdiction of the PCAOB. The task force believes that the guidance contained in extant is sufficient to address other dual reporting situations that may arise.

ISA 700 (Revised)	Proposed SAS (ISA 700 marked to proposed SAS)
<i>Auditor’s Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing</i>	<i>Auditor’s Report for Audits Conducted in Accordance with Both <u>GAAS and Another Set of Auditing Standards</u> of a Specific Jurisdiction and International Standards on Auditing</i>

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<p>51. 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 in the conduct of the audit. If this is the case, the auditor’s report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A76–A77)</p>	<p>43. 51. 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 in the conduct of the audit. If this is the case, the auditor’s report may refer to International Standards on Auditing Paragraph 26 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 the national auditing standards unless the audit was conducted in accordance with both sets of standards in their entirety, but the auditor shall do so only if: (Ref: Para. A76–A77) (Ref. par. A59-A60)</p>
<p>(a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by ISAs; and</p>	<p>(a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by GAAS ISAs; and</p>
<p>(b) The auditor’s report includes, at a minimum, each of the elements set out in paragraphs 50(a)–(o) above when the auditor uses the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph 50(k) shall be read as reference to the national auditing standards. The auditor’s report shall thereby identify such national auditing standards.</p>	<p>(b) The auditor’s report includes, at a minimum, each of the elements set out in paragraphs 50(a)–(o) above when the auditor uses the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph 50(k) should shall be read as reference to the national auditing standards. The auditor’s report should shall thereby identify such national auditing standards.</p>
<p>52. When the auditor’s report refers to both the national auditing standards and International Standards on Auditing, the auditor’s report shall</p>	<p>44. 52. When the auditor’s report refers to both GAAS and another set of auditing standards, the national auditing standards and International</p>

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<p>identify the jurisdiction of origin of the national auditing standards.</p>	<p>Standards on Auditing, the auditor's report shallshould identify the other set of auditing standards as well as their jurisdiction of origin of the national auditing standards.</p>
	<p><u>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</u></p>
	<p>45. <u>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.A61-A65)</u></p>

Action Requested of the ASB

5. Does the ASB agree with the task force's conclusion that extant guidance for dual reporting is sufficient?
6. If not, what scenarios does the ASB think may arise in which the guidance would not be sufficient?
7. Does the ASB believe SAS 131 should be reconsidered, particularly if the differences in the elements and wording of the auditor's report between GAAS and PCAOB standards widen? In other words, would this lead the ASB to consider a requirement similar to paragraph 51(b) in ISA 700 (Revised) above to specify the minimum elements to be included when the auditor's report refers to GAAS?

Proposed AU-C section 705, Modifications to the Opinion in the Independent Auditor's Report (Agenda Item 3A)

Issue 5 — Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation After the Auditor Has Accepted the Engagement

The task force discussed whether paragraph 13(a) of ISA 705 (Revised) should be included in the proposed SAS. It was not included in extant as part of the clarity changes because, at that time, the ASB believed the situation was covered under paragraph 8(b) of AU-C 705 and therefore did not need to be repeated (i.e., the auditor has the ability to issue a qualified opinion if the misstatements, individually or in the aggregate, are material but not pervasive to the financial statements).

Task Force Discussion

The task force reconsidered including ISA 705.13(a) in the proposed SAS to align with ISA 705 (Revised) and to more clearly indicate the thought process when management imposes a limitation on scope after accepting the engagement. Other members of the task force indicated that they do not believe there is confusion in practice today and by including such content may lead an auditor to issue a qualified opinion when a disclaimer of opinion would be appropriate in the circumstances.

Task force Recommendations

The task force proposes retaining the wording of the requirements in extant AU-C 705, pending feedback from the ASB. The following is a side-by-side comparison of the requirements in ISA 705 (Revised) versus extant AU-C 705 relating to modification of the auditor’s opinion when there is a management imposed scope limitation:

ISA 705 (Revised)	Extant AU-C 705
Determining the Type of Modification to the Auditor’s Opinion	Determining the Type of Modification to the Auditor’s Opinion
<i>Qualified Opinion</i>	<i>Qualified Opinion</i>
7. The auditor shall express a qualified opinion when:	.08 The auditor should express a qualified opinion when
(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or	a. the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material but not pervasive to the financial statements or
(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.	b. the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

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<i>Paragraphs 8-12 omitted for purposes of this table</i>	<i>Paragraphs 8-12 omitted for purposes of this table</i>
<i>Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement</i>	<i>Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation After the Auditor Has Accepted the Engagement</i>
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:	.13 If the auditor is unable to obtain sufficient appropriate audit evidence due to a management-imposed limitation, and [continued below]
(a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or	
(b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall: <ul style="list-style-type: none"> (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13) (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14) 	[continued from above] the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive, the auditor should either disclaim an opinion on the financial statements or, when practicable, withdraw from the audit.
14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)	.14 If the auditor withdraws, as contemplated by paragraph .13, before withdrawing, the auditor should communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: par. .A15–.A16)

Action Requested of the ASB

8. The ASB is asked for their views on whether they believe the proposed SAS should include paragraph 13(a) of ISA 705 (Revised) or whether the requirements in extant AU-C 705 are sufficient.

Appendix — Excerpts of Prior ASB Highlights

At the August 2016 ASB meeting the ASB discussed certain threshold issues relating to the ASB's stated goal of convergence with the new and revised ISAs while also considering the standards of the Public Company Accounting Oversight Board (PCAOB).

Excerpt from August 2016 ASB meeting:

The ASB provided the task force with direction on moving forward with convergence with ISA 700 (Revised), as follows:

- The ASB supported the proposed AU-C 700 wording for many of the elements. The ASB also —
 - Asked the task force to consider identifying possible “other ethical responsibilities” as part of the application material and/or requiring the applicable ethical responsibilities to be identified in the auditor’s report.
 - Asked the task force to consider the guidance relating to going concern and to
 - consider revising the wording in the proposed SAS relating to describing management’s responsibilities to not only assess the entity’s ability to continue as a going concern but also whether the use of the going concern basis of accounting is appropriate (consistent with ISA 700 (revised))
 - consider ways to make the proposed standard framework neutral as it relates to going concern
 - consider ways to better balance the auditor’s report content such that the discussion about management’s responsibilities for going concern is on par with that of the auditor’s responsibilities
 - Questioned the use of the word “guarantee” within the context of defining reasonable assurance. The task force was asked to research the use of “guarantee” in the professional standards.
 - Asked the task force to reconsider the ISA 700 wording that says the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error...” because certain members of the ASB believe the words imply a level of audit work related to fraud beyond that required by the auditing standards.
 - Asked the task force to reconsider the wording in the requirements relating to divided responsibility in a group audit situation.
 - Asked the task force to provide application material to better explain Other Reporting Responsibilities in the United States.

- Directed the task force to change the auditor’s address requirement to include the city and state where the auditor’s report is issued rather than where the auditor practices.

At the October 2016 ASB meeting the ASB discussed a full draft of proposed revisions to AU-C section 700.

Excerpt from the October 2016 ASB Meeting

The following is a summary of the outcome from the October 2016 ASB meeting:

- The ASB supported a requirement for the opinion section to be placed first in the auditor’s report, followed by the basis for opinion section.
- The ASB discussed other proposed changes, such as an affirmative statement about the auditor’s independence and other ethical responsibilities in accordance with relevant ethical requirements, expanded sections relating to management and auditor responsibilities, and reporting when the audit is conducted in accordance with GAAS and another set of auditing standards. The ASB provided the task force with suggested wording changes.
- The ASB asked the task force to—
 - Consider whether the proposed SAS should require the city and state of the addressee to be included in the auditor’s report because this would provide information about where the auditor is permitted to practice
 - Consider whether the proposed SAS should require reference to the AICPA Code of Professional Conduct as it relates to the auditor’s statement about independence and other ethical responsibilities, when applicable
 - Consider including application material about needing to be independent for the period under audit
 - Clarify the effect on the engagement letter when the auditor decides to include key audit matters in the auditor’s report
 - Add new application material (paragraph .A44) that states “Because the auditor’s opinion is based on obtaining reasonable assurance the auditor’s report does not constitute a guarantee,” to support the use of “guarantee” in the requirements.
 - Revise the application material to better explain why the risk of fraud is higher than for an error.
 - Consider the effect of SAS 130, *An Audit of Internal Control Over Financial Reporting That is Integrated With an Audit of Financial Statements*, on the proposed SAS as it relates to the auditor’s responsibilities to obtain an understanding of internal control
 - Remove requirements that describe the auditor’s responsibilities in a group audit engagement because GAAS allows the auditor to make reference in the

auditor's report to the audit of a component auditor. Such reference provides transparency around the auditor's responsibilities

- Add application material relating to the signature and the use of digital and facsimile electronic signatures
- Clarify that the engagement quality control review (EQCR) is not required and therefore the auditor's report cannot be released prior to the completion of the EQCR only when an EQCR is being performed
- Consider dual reporting with other auditing standards, including PCAOB, ISAs, and government auditing standards and how best for the proposed SAS to cover these, keeping in mind SAS 131, *Amendment to Statement on Auditing Standards No. 122 Section 700, Forming an Opinion and Reporting on Financial Statements* and Auditing Interpretation No. 3, *Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing*.
- The ASB asked the Disclosures Task Force to consider the changes for the auditor's report.
- The ASB supported including a section in the proposed SAS to address auditor's reports prescribed by law or regulation because they believe there could be situations in which this section could apply. The ASB asked the task force to consider whether a restriction on the use of such reporting would be needed.