



**Agenda Item 1A**

**PROPOSED SAS, FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS**

Requirements	Application Material
<b>Introduction</b>	
<b>Scope of this Proposed SAS</b>	<b>Scope of This Proposed SAS (Ref par. 4)</b>
<p>1. This proposed statement on auditing standards (SAS) addresses the auditor’s responsibility to form an opinion on the financial statements. It also addresses the form and content of the auditor’s report issued as a result of an audit of financial statements.</p>	
<p>2. <u>Proposed SAS, AU-C section 701<sup>+</sup><i>Communicating Key Audit Matters in the Independent Auditor’s Report</i></u> addresses the auditor’s responsibility to communicate key audit matters in the auditor’s report. <u>Proposed SAS, AU-C sections 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i></u>, and <u>proposed SAS, section 706, <i>Emphasis-of-Matter Paragraphs and Other-</i></u></p>	

<sup>+</sup> ~~Proposed AU-C section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*~~

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<p><i>Matter Paragraphs in the Independent Auditor's Report</i>, 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 paragraph or other-matter paragraph in the auditor's report.</p>	
<p>3. This proposed SAS applies to an audit of a complete set of general purpose financial statements and is written in that context.</p>	
<p>4. AU-C section 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i>, addresses special considerations when financial statements are prepared in accordance with a special purpose framework.<sup>2</sup> AU-C section 805, <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i>, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement. (Ref: par. A1–A2)</p>	<p>A1. <u>AU-C section 800 also addresses the auditor's responsibilities when the auditor is reporting on financial statements prepared in accordance with a special purpose framework and is required by law or regulation to use a specific layout, form, or wording of the auditor's report. When reporting on financial statements prepared in accordance with a general purpose framework, and law or regulation requires a specific layout, form, or wording of the auditor's report, the auditor may adapt and apply the requirements in section 800.</u></p>
	<p>A2. The following AU-C sections also contain reporting requirements:</p> <ul style="list-style-type: none"> <li>• AU-C section 510, <i>Opening Balances—Initial Audit Engagements, Including Reaudit Engagements</i></li> </ul>

<sup>2</sup> 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*.

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	<ul style="list-style-type: none"> <li>• AU-C section 730, <i>Required Supplementary Information</i></li> <li>• AU-C section 810, <i>Engagements to Report on Summary Financial Statements</i></li> </ul> <p>AU-C section 910, <i>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i></p>
<p>5. The requirements of this proposed SAS <del>are aimed at addressing an appropriate balance between</del> the need for consistency and comparability in auditor reporting and the need to <del>increase the value of auditor reporting by making</del> the information provided in the auditor's report more relevant to users. This proposed SAS promotes consistency in the auditor's report which, when the audit has been conducted in accordance with GAAS, promotes credibility in the marketplace by making more readily identifiable those audits that have been conducted in accordance with recognized standards. Consistency also helps promote users' understanding and identification of unusual circumstances when they occur.</p>	
<b>Effective Date</b>	<b>Effective Date</b>
<p>6. This proposed SAS is effective for audits of financial statements for periods ending on or after December 15, 20XX.</p>	
<b>Objectives</b>	<b>Objectives</b>
<p>7. The objectives of the auditor are to</p>	

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(a) form an opinion on the financial statements based on an evaluation of the audit evidence obtained, including evidence obtained about comparative financial statements or comparative financial information; and	
(b) express clearly the opinion on the financial statements through a written report. (Ref. par. A3)	<p><b>Considerations Specific to Governmental Entities (Ref: par. 7)</b></p> <p>A3. <del>A2-</del>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 <i>Government Auditing Standards</i> 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 <i>Government Auditing Standards</i> audit.</p>
<b>Definitions</b>	
8. For purposes of GAAS, the following terms have the meanings attributed as follows:	

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<p><b>Comparative financial statements.</b> A complete set of financial statements<sup>3</sup> for one or more prior periods included for comparison with the financial statements of the current period.</p>	
<p><b>Comparative information.</b> 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.</p>	
<p><b>Condensed financial statements.</b> Historical financial information<sup>4</sup> 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.</p>	
<p><b>General purpose financial statements.</b> Financial statements prepared in accordance with a general purpose framework. (Ref. par. A4)</p>	<p><b>General Purpose Financial Statements</b> <i>Considerations Specific to Governmental Entities (Ref: par. 8)</i> A4. <del>A3.</del> For audits of governmental entities, the term <i>general purpose financial statements</i>, in the context of this <u>proposed SAS</u> section, would be considered or referred to as basic financial</p>

<sup>3</sup> 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*.

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

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	statements using the terms in the governmental entity's applicable financial reporting framework.
<b>General purpose framework.</b> A financial reporting framework designed to meet the common financial information needs of a wide range of users.	
<b>Unmodified opinion.</b> The opinion expressed by the auditor when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. <sup>5</sup>	
9. Reference to <i>financial statements</i> in this proposed SAS means a complete set of general purpose financial statements <sup>6</sup> including the related notes. <del>The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.</del> The requirements of the applicable financial reporting framework determine the <del>form presentation,</del> <u>structure</u> and content of the financial statements and what constitutes a complete set of financial statements.	

<sup>5</sup> Paragraph .14 of AU-C section 200 defines the term *applicable financial reporting framework*.

<sup>6</sup> AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, paragraph 14 sets out the content of financial statements.

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<b>Requirements</b>	<b>Requirements</b>
<b>Forming an Opinion on the Financial Statements</b>	<u><b>Forming an Opinion on the Financial Statements (Ref. par. 11)</b></u>
10. The auditor should form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.	
11. In order to form that opinion, the auditor should conclude as to whether the auditor has obtained reasonable assurance <sup>7</sup> about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion should take into account the following: (Ref. par. A5)	<p style="text-align: center;"><b>Considerations Specific to Governmental Entities</b></p> <p>A5. <del>A4.</del> 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.</p>
(a) The auditor's conclusion, in accordance with AU-C section 330, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> , about whether sufficient appropriate audit evidence has been obtained; <sup>8</sup>	

<sup>7</sup> Paragraph .14 of AU-C section 200 defines the term *reasonable assurance*.

<sup>8</sup> Paragraph .28 of AU-C section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*.

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(b) The auditor’s conclusion, in accordance with AU-C section 450, <i>Evaluation of Misstatements Identified During the Audit</i> , about whether uncorrected misstatements are material, individually or in aggregate; <sup>9</sup> and	
(c) The evaluations required by paragraphs 12–15.	
12. The auditor 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 should include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments. (Ref: Par. A6–A8)	<p><b>Qualitative Aspects of the Entity’s Accounting Practices (Ref: par. 12)</b></p> <p>A6. <del>A5.</del> Management makes a number of judgments about the amounts and disclosures in the financial statements.</p>
	<p>A7. <del>A6.</del> <u>Proposed SAS, AU-C section 260, <i>The Auditor’s Communication With Those Charged With Governance</i></u>, contains a discussion of the qualitative aspects of accounting practices.<sup>10</sup> 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</p>

<sup>9</sup> Paragraph .11 of AU-C section 450, *Evaluation of Misstatements Identified during the Audit*.

<sup>10</sup> The appendix “Qualitative Aspects of Accounting Practices,” of proposed SAS, AU-C section 260, *The Auditor’s Communication With Those Charged With Governance*.



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	statements as a whole are materially misstated include the following:
	<ul style="list-style-type: none"> <li>• The selective correction of misstatements brought to management’s attention during the audit (for example, correcting misstatements with the effect of increasing reported earnings but not correcting misstatements that have the effect of decreasing reported earnings)</li> </ul>
	<ul style="list-style-type: none"> <li>• Possible management bias in the making of accounting estimates</li> </ul>
	A8. <del>A7.</del> AU-C section 540, <i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i> , addresses possible management bias in making accounting estimates. <sup>††</sup> 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.
13. In particular, the auditor should evaluate whether, in view of the requirements of the applicable financial reporting framework:	
	<b><u>Accounting Policies Appropriately Disclosed in the Financial Statements</u></b> (Ref: par. 13(a))

<sup>††</sup> Paragraph .21 of AU-C section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

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<p>(a) the financial statements <del>appropriately</del> <u>adequately</u> disclose the significant accounting policies selected and applied. <u>In making this evaluation, the auditor should consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref. par. A9)</u></p>	<p>A9. <u>In evaluating whether the financial statements appropriately disclose the significant accounting policies selected and applied, the auditor’s consideration may include matters such as:</u></p> <ul style="list-style-type: none"> <li>• <u>Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;</u></li> <li>• <u>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</u></li> <li>• <u>The clarity with which the significant accounting policies have been presented.</u></li> </ul>
<p>(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;</p>	

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(c) The accounting estimates made by management are reasonable;	
(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. <u>In making this evaluation the auditor should consider whether:</u>	<del>A8. FASB Concept Statement 6 <i>Elements of Financial Statements</i> 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.<sup>12</sup></del>
<ul style="list-style-type: none"> <li><u>The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.</u></li> </ul>	
	<u>Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable (Ref: par. 13(d))</u>
<ul style="list-style-type: none"> <li><u>The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures</u></li> </ul>	A10. <u>Evaluating the understandability of the financial statements includes consideration of such matters whether:</u>

<sup>12</sup>—FASB Concept Statement 6, *Elements of Financial Statements*, paragraph 23 and footnote 16.

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<p>a proper understanding of the matters disclosed. (Ref. par. A10)</p>	
	<ul style="list-style-type: none"> <li>The information in the financial statements is presented in a clear and concise manner.</li> </ul>
	<ul style="list-style-type: none"> <li>The placement of significant disclosures gives appropriate prominence to them (for example, 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.</li> </ul>
<p>(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: par. A11)</p>	<p><b>Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: par. 13e)</b></p> <p>A11. A9.—It is common for financial statements prepared in accordance with a general purpose framework to present an entity’s financial position, results of operations, and cash flows. In such circumstances, paragraph 1313e requires the auditor to evaluate whether the financial statements <u>Evaluating whether, in view of the applicable financial reporting framework, 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, results of operations, and cash flows may include consideration of such matters as:-</u></p>

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	<ul style="list-style-type: none"> <li>• <u>The extent to which the information in the financial statements is relevant and specific to the circumstances of the entity; and</u></li> </ul>
	<ul style="list-style-type: none"> <li>• <u>Whether the disclosures are adequate to assist the intended users to understand:</u></li> </ul>
	<ul style="list-style-type: none"> <li>○ <u>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.</u></li> </ul>
	<ul style="list-style-type: none"> <li>○ <u>The nature and extent of risks of material misstatement arising from transactions and events.</u></li> </ul>
	<ul style="list-style-type: none"> <li>○ <u>The methods used and the assumptions and judgments made, and changes to them, that affect amount presented or otherwise disclosed, including relevant sensitivity analyses.</u></li> </ul>
(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.	
	<b><u>Evaluating Whether the Financial Statements Achieve Fair Presentation (Ref: par. 14)</u></b>

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<p>14. The auditor's evaluation about whether the financial statements achieve fair presentation should also include consideration of the following: <u>(Ref. par. A12-A14)</u></p>	<p><u>A12. As noted in paragraph AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards</i>, a fair presentation<sup>13</sup> 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.</u></p>
	<p><u>A12-A13. 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 may include consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material, that is, 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</u></p>

<sup>13</sup> Paragraph 14 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*.

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	whole), such as the effect of evolving financial reporting requirements or the changing economic environment.
	<p>A14. 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,</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>
	<ul style="list-style-type: none"> <li>• Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.</li> </ul>
(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. A15)	<p><b>Evaluation of Whether the Financial Statements Achieve Fair Presentation (Ref: par. 14b)</b></p> <p><del>A13-A15.</del> A10. As described in AU-C section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>, 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</p>

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	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.
15. The auditor should evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: par. A16–A19)	<p><b>Description of the Applicable Financial Reporting Framework (Ref: par. 15)</b></p> <p><del>A14-A16.</del> <del>A11.</del>—As explained in AU-C section 200, the preparation and fair presentation of the financial statements by management and, when appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.<sup>14</sup> That description is important because it advises users of the financial statements of the framework on which the financial statements are based.</p>
	<del>A15-A17.</del> <del>A12.</del> —The description may indicate that the financial statements have been prepared in accordance with that framework. Such a statement is appropriate only when the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
	<del>A16-A18.</del> <del>A13.</del> —Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results

<sup>14</sup> Paragraphs A2–A3 of AU-C section 200.



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	to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.
	<del>A17-A19.</del> <del>A14.</del> —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. 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 60, 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.
<b>Form of Opinion</b>	<b>Form of Opinion (Ref. par. 18)</b>
16. The auditor should express an unmodified opinion when the auditor concludes that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.	
17. The auditor should modify the opinion in the auditor’s report, in accordance with <u>proposed SAS, AU-C section 705, <i>Modifications to the Opinion in the Independent Auditor’s Report</i></u> , if the auditor	

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(a) concludes that, based on the audit evidence obtained, the financial statements as a whole are 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.	
18. If the auditor concludes that the financial statements do not achieve fair presentation, the auditor should discuss the matter with management and, depending on how the matter is resolved, should determine whether it is necessary to modify the opinion in the auditor's report in accordance with <u>proposed SAS, Modifications to the Opinion in the Independent Auditor's Report</u> <del>AU-C section 705</del> . (Ref: par. A20–A21)	<del>A18:A20.</del> <u>A15.</u> —There may be cases when the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. 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 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.
	<del>A19:A21.</del> <u>A16.</u> —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

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	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.

Auditor's Report	Auditor's Report (Ref. par. 19)
19. The auditor's report should be in writing, <del>and should contain the elements in paragraphs 20-42, as applicable.</del> (Ref: par. A22-A23A17)	<del>A20-A22.</del> A17- A written report encompasses reports issued in hard copy format and those using an electronic medium.
	<del>A21-A23.</del> A18- The exhibit "Illustrations of Auditor's Reports on Financial Statements" contains illustrations of auditor's reports on financial statements incorporating the elements required by paragraphs 20-42. With the exception of the Opinion and Basis for Opinion sections, this proposed SAS does not establish requirements for ordering the elements of the auditor's report. However, this 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 GAAS more recognizable, particularly, in situations when the elements of the

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	auditor's report are presented in an order that differs from the illustrative auditor's reports in the exhibit to this proposed SAS.
<b>Auditor's Report for Audits Conducted in Accordance With GAAS</b>	<b>Auditor's Report for Audits Conducted in Accordance With GAAS</b>
<i>Title</i>	<i>Title (Ref: par. 20)</i>
20. The auditor's report should have a title that clearly indicates that it is the report of an independent auditor. (Ref. par. A24)	<u>A22-A24.</u> AU-C section -200 provides guidance on reporting when the auditor is not independent.
<i>Addressee</i>	<i>Addressee (Ref: par. 21)</i>
21. The auditor's report should be addressed, as appropriate, based on the circumstances of the engagement. (Ref: par. A25)	<u>A23-A25.</u> <del>A19-</del> The auditor's report is normally addressed to those for whom the report is prepared. 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.
<i>Auditor's Opinion</i>	<i>Auditor's Opinion</i>
22. The first section of the auditor's report should include the auditor's opinion and should have the heading "Opinion."	

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23. The opinion section of the auditor's report should also: (Ref: par.A26–A28)	
a. identify the entity whose financial statements have been audited;	
b. state that the financial statements have been audited;	<p><del>A24-A26.</del> <del>A20.</del>—The auditor's report states, for example, that the auditor has "audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements." 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.</p>
c. identify the title of each statement comprising the financial statements;	<p><del>A25-A27.</del> <del>A21.</del>—The identification of the title for each statement that the financial statements comprise may be achieved by referencing the table of contents.</p>
	<p><del>A26-A28.</del> <del>A22.</del>—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.</p>

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	This helps users identify the financial statements to which the auditor's report relates.
<i>d. Refer to the notes; and</i>	
<i>e. specify the date of or period covered by, each financial statement comprising the financial statements.</i>	
24. When expressing an unmodified opinion on financial statements, the auditor's opinion should state that in <u>the auditor's</u> <del>opinion</del> , the accompanying financial statements present fairly, in all material respects, [...] <del>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,</del> in accordance with the applicable financial reporting framework. (Ref: par. A16 and A29–A32)	<del>A27–A29.</del> <u>A23.</u> 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.
	<del>A28–A30.</del> <u>A24.</u> 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 include a balance sheet; an income statement; a statement of changes in equity; and a cash flow statement, including related notes. In some circumstances, additional or different statements, schedules, or information also might be considered to be an integral part of the financial statements.
	<del>A29–A31.</del> <u>A25.</u> <i>Description of information that the financial statements present.</i> The auditor's opinion states that the financial statements present fairly, in all material respects, the <u>information</u> <del>matters</del> that the financial statements are designed to present. <u>The reports</u> in the Exhibit, <i>Illustrations of Auditor's Reports on</i>

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	<u>Financial Statements</u> , include example wording that may be used to replace the [...] based <b>on</b> the applicable financial reporting framework.
	<del>A30-A32.</del> A26. The title of the financial statements identified in the <u>Opinion</u> section (see paragraph 23c) describes the information that is the subject of the auditor’s opinion.
25. The auditor’s opinion should identify the applicable financial reporting framework and its origin. (Ref: par. A33)	<del>A31-A33.</del> A27.— <i>Description of the applicable financial reporting framework and how it may affect the auditor’s opinion</i> (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 14. For example, the applicable financial reporting framework 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 <i>International Financial Reporting Standard for Small and Medium-Sized Entities</i> promulgated by the IASB.
Basis for Opinion	Basis for Opinion (Ref: par. 26)
26. The auditor’s report should include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref. par. A34)	<del>A32-A34.</del> A28.—The Basis for Opinion section provides important context about the auditor’s opinion. Accordingly, this proposed SAS requires the Basis for Opinion section to directly follow the Opinion section in the auditor’s report.

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<p>(a) states that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards.</p>	<p><del>A33-A35.</del> <del>A29.</del>—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.</p>
	<p><del>A34-A36.</del> <del>A30.</del>—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.<sup>15</sup></p>
<p>(b) Refers to the section of the auditor’s report that describes the auditor’s responsibilities under GAAS;</p>	
<p>(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.—<del>The statement should refer to relevant ethical requirements;</del> and (Ref. par. A37–A38)</p>	<p>Relevant ethical requirements (Ref: par. 26(c)) <del>A35-A37.</del> <del>A31.</del>—AU-C section 200 explains that relevant ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.<sup>16</sup> <u>When the AICPA Code of Professional Conduct applies, the auditor’s other ethical responsibilities relate to the principles of professional conduct (AICPA, <i>Professional Standards</i>, ET sec. 0.300 <i>Principles of Professional Conduct</i>).</u></p>
	<p><del>A36-A38.</del> <del>A32.</del>—<u>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</u></p>

<sup>15</sup> Paragraph .22 of AU-C section 200.

<sup>16</sup> Paragraph .A15 of AU-C section 200.



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	<p><u>independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (for example, the name of the code, rule or applicable regulation), or may refer to a term that appropriately describes those sources. Relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. AU-C section 600<sup>17</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations when the component auditor does not meet the independence requirements that are relevant to the group audit.</u></p>
(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. When applicable, the auditor should report in accordance with <u>proposed SAS, <i>The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern</i></u> <del>AU-C section 570</del> .	
Key Audit Matters	Key Audit Matters (Ref. par. 28)
28. <del>When the auditor is required or decides to communicate key audit matters are communicated in the auditor’s report, the auditor should do so in accordance with proposed SAS, <i>Communicating Key Audit Matters in the Independent Auditor’s Report</i></del> <del>AU-C section 701</del> . (Ref. par. <del>A39–A40</del> <del>A36</del> )	<del>A37-A39. A33-</del> <u>The auditor may be required to communicate key audit matters by law, or regulation, or contractual agreement.</u> <del>may require communication of key audit matters.</del>

<sup>17</sup> Paragraph .22-.23 of AU-C section 600.

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	<del>A34. The auditor may decide to communicate key audit matters for 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.</del>
	<del>A38:A40.</del> A35.—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. <sup>18</sup>
	<del>A36. 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.</del>
Other Information	
29. When applicable, the auditor should report in accordance with proposed SAS, <del>AU-C 720 (Revised)</del> <i>The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.</i>	
<i>Responsibilities for the Financial Statements</i>	<i>Responsibilities for the Financial Statements (Ref: par. 30–33)</i>
30. The auditor's report should include a section with the heading "Responsibilities of Management for the Financial Statements."	

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<p>31. This section of the auditor’s report should describe management’s responsibility for</p>	
<p>(a) the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: par. A41)</p>	<p><del>A39-A41.</del> <del>A37.</del>—AU-C section 200 explains the premise relating to the responsibilities of management and, when appropriate, those charged with governance on which an audit in accordance with GAAS is conducted.<sup>19</sup> Management and, when appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including their fair presentation. Management also accepts responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management’s responsibilities in the auditor’s report includes reference to both responsibilities because it helps explain to users the premise on which an audit is conducted. <u>Proposed SAS, <i>The Auditor’s Communication With Those Charged With Governance</i></u>, <del>AU-C section 260</del> 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 by entity.</p>
<p>(b) Assessing the entity’s ability to continue as a going concern in accordance with the applicable financial reporting framework and</p>	<p><del>A38. [Placeholder for application material to be included pending GC task force discussion and development of reporting</del></p>

<sup>19</sup> Paragraphs .05 and .A2 of AU-C section 200.

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<p>whether the use of the going concern basis of accounting is appropriate. (Ref. par. A38)</p>	<p><del>requirements and illustrations. Add application material relevant to FASB, GASB, and IFRS.]</del></p>
<p>32. This section of the auditor’s report 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 31. In this case, the heading of this section should also refer to “Those Charged with Governance” or other appropriate term. (Ref. par. A42–A43)</p>	<p>Oversight of the financial reporting process (Ref: par. <del>35</del>32) <del>A40:A42.</del> A39. <i>Proposed SAS, The Auditor’s Communication With Those Charged With Governance, AU-C section 260</i> requires the auditor to determine the appropriate person(s) within the governance structure with whom to communicate.<sup>20</sup> 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.</p>
	<p><del>A41:A43.</del> A40.—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.</p>
<p>33. The description about management’s responsibility for the financial statements in the auditor’s report 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. A44)</p>	<p><del>A42:A44.</del> A41.—In some instances, a document containing the auditor’s report may include a separate statement by management <u>or those charged with governance</u> regarding its responsibility for the preparation of the financial statements. Any elaboration in the auditor’s report about <u>the management’s responsibilities of management or those charged with governance</u> regarding the preparation of the financial statements, or reference to a separate statement by management <u>or those charged with governance</u> 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 <u>or those charged with governance</u> about their</p>

<sup>20</sup> Paragraph .07 of proposed SAS, *The Auditor’s Communication With Those Charged With Governance* ~~AU-C section 260~~.

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	responsibility for financial reporting, internal control, and other matters that might be discussed in the management report.
<i>Auditor's Responsibilities for the Audit of the Financial Statements</i>	Auditor's Responsibilities for the Audit of the Financial Statements (Ref. par. 34–37)
34. The auditor's report should include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."	
35. This section of the auditor's report should: (Ref. par. A45)	<del>A43-A45.</del> <del>A42.</del> —The description of the auditor's responsibilities as required by paragraphs 34–37 of this 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 <del>X2</del> in the <del>exhibit Appendix</del> to this proposed SAS includes an example of how this may be done.
(a) State that the objectives of the auditor are to:	
(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. A46)	Objectives of the Auditor (Ref. par. 35(a)-(c)) <del>A44-A46.</del> <del>A43.</del> —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 <u>and fair presentation</u> of the financial statements.

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<p>(ii) Issue an auditor's report that includes the auditor's opinion.</p>	
<p>(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 GAAS will always detect a material misstatement when it exists; and (Ref. par. A47)</p>	<p><del>A45-A47.</del> <del>A44.</del> <u>Because the auditor's opinion is based on obtaining reasonable assurance, the auditor's report does not constitute a guarantee. Because of the inherent limitation 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. Accordingly, the subsequent discovery of a material misstatement of the financial statements resulting from fraud or error does not by itself indicate a failure to conduct an audit in accordance with GAAS.</u><sup>21</sup></p>
	<p><del>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.<sup>22</sup> 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.<sup>23</sup></del></p>

<sup>21</sup> AU-C section 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards, paragraph A56 and AU-C section 210, Terms of Engagement, paragraph 10(d).

<sup>22</sup> ~~AU C section 200, Overall Objectives of the Independent Auditor, paragraph A49~~

<sup>23</sup> ~~AU C section 200, Overall Objectives of the Independent Auditor, paragraph A56~~

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<p>(c) State 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 made on the basis of these financial statements.<sup>24</sup> (Ref. par. A48)</p>	<p><del>A46-A48.</del> 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.</p>
<p>36. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report should further:</p>	
<p>(a) State that, as part of an audit in accordance with GAAS, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and</p>	
<p>(b) Describe an audit by stating that the auditor’s responsibilities are:</p>	
<p>(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.</p>	<p><del>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.<sup>25</sup></del></p>

<sup>24</sup> AU-C section 320, *Materiality in Planning and Performing an Audit*, paragraph 2

<sup>25</sup> Paragraph .06 of AU-C section 240.

<p>(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.</p> <p>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 should omit the 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.</p>	
<p>(iii) To evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial statements.</p>	
<p>(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. (Ref. par. A47)</p>	<p>A47. <del>[Add application material relevant to FASB, GASB, and IFRS]</del></p>
<p><del>(e) When AU-C 600 applies, further describe the auditor's responsibilities in a group audit engagement by stating that:</del></p>	
<p><del>(i) The auditor is responsible for the direction, supervision and performance of the group audit;</del></p>	
<p><del>(ii) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial</del></p>	



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<p><del>information of the components and the consolidation process to express an opinion on the group financial statements; and</del></p>	
<p><del>(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)</del></p>	<p><del>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.</del></p>
<p>37. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also should:</p>	
<p>a. <del>S</del>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.;</p>	
<p>b. For audits of financial statements for which key audit matters are communicated in accordance with proposed AU-C section 701, state that, ...:</p>	<p>Auditor's responsibilities relating to proposed AU-C 701 (Ref: Para. 37(b)) A49. [placeholder for KAM application material]</p>

<i>Other Reporting Responsibilities</i>	<i>Other Reporting Responsibilities</i> (Ref. par. -38--39)
<p>38. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under GAAS, these other reporting responsibilities 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. (Ref: par. A49–A50)</p>	<p><del>A47-A49.</del> <del>A50.</del>—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 <i>Government Auditing Standards</i>, 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.<sup>26</sup> However, when the auditor is engaged or required by law or regulation to perform a compliance audit in accordance with GAAS, <i>Government Auditing Standards</i>, and a governmental audit requirement, reporting requirements in section 935, <i>Compliance Audits</i>, apply.</p>
	<p><del>A48-A50.</del> <del>A51.</del>—In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities 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.</p>
<p>39. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs <del>20.24–37.42</del> of the proposed SAS should be included</p>	<p><del>A49-A51.</del> <del>A52.</del>—These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibility under</p>

<sup>26</sup> See AICPA Audit and Accounting Guide *State and Local Governments* for illustrative auditor reports.

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under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" should follow the "Report on the Audit of the Financial Statements." (Ref: par. A51- <del>A56</del> )	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).
<i>Signature of the Auditor</i>	<i>Signature of the Auditor (Ref. par. 40)</i>
40. The auditor's report should include the manual or printed signature of the auditor's firm. (Ref: par. A52-A54)	<del>A50-A52.</del> <del>A53.</del> In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.
	<del>A51-A53.</del> <del>A54.</del> 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.
	<del>A52-A54.</del> <del>A55.</del> <i>Considerations specific to governmental entities.</i> 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.
<i>Auditor's Address</i>	<i>Auditor's Address (Ref. par. -41)</i>
41. The auditor's report should name the city and state where the auditor's report is issued. (Ref: par. A55- <del>A37</del> )	<del>A53-A55.</del> <del>A56.</del> 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.
<i>Date of the Auditor's Report</i>	<i>Date of the Auditor's Report (Ref. par. -42)</i>
42. The auditor's report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit	<del>A54-A56.</del> <del>A57.</del> AU-C section 220, <i>Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards</i> , requires that on or before the date of the

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<p>evidence on which to base the auditor’s opinion on the financial statements, including evidence that (Ref. par. A56)</p>	<p>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.<sup>27</sup> <u>When an engagement quality control review is performed, AU-C section 220 also requires that the auditor’s report not be released prior to the completion of the engagement quality control review.</u><sup>28</sup></p>
<p>a. all the statements <u>and disclosures</u> that comprise the financial statements, <u>including the related notes</u>, have been prepared; and</p>	
<p>b. management has asserted that they have taken responsibility for those financial statements. (Ref: par. A57–A60A59)</p>	<p><del>A55-A57.</del> <u>A58.</u>—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 AU-C section 560.</p>
	<p><del>A56-A58.</del> <u>A59.</u>—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 <u>and disclosures</u> that comprise the financial statements, <u>including the</u></p>

<sup>27</sup> See paragraphs .19 of AU-C section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, for further discussion.

<sup>28</sup> Paragraph .21 of AU-C section 220.

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	<p><del>related notes</del>, have been prepared, and management has accepted responsibility for them.</p>
	<p><i>Considerations specific to governmental entities.</i></p> <p><del>A57-A59. A60.</del> In some circumstances, final approval of the financial statements by governmental legislative bodies (or subsets of such legislative bodies) is required before the financial statements are issued. In these circumstances, final approval by 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 GAAS, is the earlier date on which those with the recognized authority determine that all the statements <del>and disclosures</del> that comprise the financial statements, <del>including the related notes</del>, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.</p>
<p><i>Auditor's Report Prescribed by Law or Regulation</i></p>	<p><i>Auditor's Report Prescribed by Law or Regulation (Ref: Par.43)</i></p>
<p><del>43. 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 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. par. A61-x.xx)</del></p>	<p><del>A61. AU-C section 200 explains that the auditor may be required to comply with other auditing requirements in addition to GAAS. GAAS do not override law or regulation that governs an audit of financial statements.<sup>29</sup> When the differences between the legal or regulatory requirements and GAAS relate only to the layout and wording of the auditor's report, the requirements in paragraph 43(a) (n) set out the minimum elements to be included in the auditor's report to enable a reference to the Auditing Standards Generally Accepted in the United States of America. In those</del></p>

<sup>29</sup> Paragraph A60 of AU-C 200.

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	circumstances, the requirements in paragraphs 20–42 that are not included in paragraph 43(a)–(n) do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.
<del>(a) A title.</del>	
<del>(b) An addressee, as required by the circumstances of the engagement.</del>	
<del>(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 its origin, see paragraph 25).</del>	
<del>(d) An identification of the entity’s financial statements that have been audited.</del>	
<del>(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.</del>	
<del>(f) When applicable, a section that addresses, and is not inconsistent with, the reporting requirements in AU-C section 570.</del>	
<del>(g) When applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in AU-C section 570.</del>	

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<p><del>(h) When applicable, a section that includes the information required by 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 AU-C section.</del></p>	<p><del>Information Required by AU-C section 701 (Ref: par. 43(j))</del></p> <p><del>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 proposed AU-C section 701, or may prescribe the nature and extent of communication about such matters.</del></p>
	<p><del>X.XX GAAS do not override law or regulation that governs an audit of financial statements. When proposed AU-C 701 is applicable, reference can only be made to GAAS in the auditor's report if, in applying the law or regulation, the section required by paragraph 43(h) of this proposed SAS is not inconsistent with the reporting requirements in 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 proposed AU-C section 701, for example by:</del></p> <ul style="list-style-type: none"> <li><del>• Modifying the heading "Key Audit Matters", if law or regulation prescribes a specific heading;</del></li> <li><del>• 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;</del></li> </ul> <p><del>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 xx of proposed AU-C section 701.</del></p>

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<del>(i) When applicable, a section that addresses the reporting requirements in proposed AU-C section 720.</del>	
<del>(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 30-33.</del>	
<del>(k) A reference to 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 34-37.)</del>	
<del>(l) The auditor's signature.</del>	
<del>(m) The auditor's address.</del>	
<del>(n) The date of the auditor's report.</del>	
<b>Auditor's Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards</b>	<b>Auditor's Report for Audits Conducted in Accordance With Both GAAS and Another Set of Auditing Standards (Ref. par. 43)</b>
43. <del>44.</del> Paragraph 2634 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 <i>Government Auditing Standards</i> ). The auditor should	<del>A58-A60.</del> <u>A60.</u> <del>A62.</del> 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 substantive differences between the ISAs and GAAS to assist the auditor in planning and performing an engagement in accordance with ISAs.



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<p>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. -A60A67)</p>	
<p><del>.XX</del> 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 GAAS in the conduct of the audit. If this is the case, the auditor’s report may refer to GAAS in addition to the national auditing standards, but the auditor shall do so only if: (Ref: par. X.XX X.XX)</p>	<p>X.XX(A76). The auditor may refer in the auditor’s report to the audit having been conducted in accordance with both 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 AU-C sections relevant to the audit.</p>
	<p>X.XX(A77). A reference to both GAAS and the national auditing standards is not appropriate if there is a conflict between the requirements in 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 GAAS. In such a case, the auditor’s report refers only to the auditing standards (either GAAS or the national auditing standards) in accordance with which the auditor’s report has been prepared.</p>
<p>(a) There is no conflict between the requirements in the national auditing standards and those in GAAS 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; and</p>	
<p>(b) The auditor’s report includes, at a minimum, each of the elements set out in paragraphs 43(a) (n) when the auditor uses</p>	

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<p><del>the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph 43(k) should be read as reference to the national auditing standards. The auditor’s report should thereby identify such national auditing standards.</del></p>	
<p>44. <del>45.</del>—When the auditor’s report refers to both GAAS and another set of auditing standards, the auditor’s report should identify the other set of auditing standards as well as their origin.</p>	
<p><b>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</b></p>	<p><b>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. .45)</b></p>
<p>45. <del>46.</del>—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–A66)</p>	<p><del>A59-A61.</del> <u>A63.</u>—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.<sup>30</sup></p>
	<p><del>A60-A62.</del> <u>A62.</u> As discussed in paragraph 45, because the auditor is required to also conduct the audit in accordance with GAAS, it <b>would be</b> inappropriate for the auditor to issue a report that only</p>

<sup>30</sup> 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).

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	<p><u>refers</u> to the standards of the PCAOB without also <u>referring</u> to <u>GAAS</u>.</p>
	<p><del>A61-A63.</del> <del>A64.</del>—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.</p>
	<p><del>A62-A64.</del> <del>A65.</del>—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 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.<sup>31</sup></p>

<sup>31</sup> 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.

	<p><del>A63-A65.</del> <del>A66.</del>—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.</p>
	<p><del>A64-A66.</del> <del>A67.</del>—The exhibit, “Illustrations of Auditor’s Reports on Financial Statements,” contains an example of an auditor’s report for the situation described in paragraph .4445.</p>
<b>Comparative Financial Statements and Comparative Information</b>	<b>Comparative Financial Statements and Comparative Information (Par. Ref. 46-47)</b>
<p>46. <del>47.</del>—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. A67–A68)</p>	<p><del>A65-A67.</del> <del>A68.</del>—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.</p>
	<p><del>A66-A68.</del> <del>A69.</del>—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</p>

	<p>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</p>
<p>47. <del>48.</del> 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. A69–A70)</p>	<p><b>Updating the Report</b> <del>A67-A69.</del> <del>A70.</del> An updated report on prior period financial statements is distinguished from a reissuance of a previous report.<sup>32</sup> 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.</p>
	<p><b>Other Considerations Relating to Comparative Financial Statements</b> <del>A68-A70.</del> <del>A71.</del> 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 46–59 apply. The new firm 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.</p>

<sup>32</sup> See AU-C section 560.

48. ~~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. A71–A72)

**Comparative Information (Ref: par. ~~48–49~~)**

~~A69–A71.~~ 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.

~~A70–A72.~~ A73. Paragraph 48 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 AU-C 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.<sup>33 34</sup> The exhibit provides

<sup>33</sup> Paragraph .33 of AU-C section 930, *Interim Financial Information*.

<sup>34</sup> 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.

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	examples of auditor's reports when comparative summarized financial information for the prior period is presented. <sup>35</sup>
49. <del>50-</del> 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. A73)	<del>A71-A73.</del> <u>A73.</u> <del>A74-</del> 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 <u>proposed SAS, Modifications to the Opinion in the Independent Auditor's Report</u> <del>AU-C section 705.</del>
<b>Audit Procedures</b>	<b>Audit Procedures</b>
50. <del>51-</del> The auditor should perform the procedures required by paragraphs <del>51-53</del> <u> 51-53</u> if comparative financial statements or comparative information is presented for the prior period(s).	
51. <del>52-</del> 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.	
52. <del>53-</del> The auditor should evaluate whether <ul style="list-style-type: none"> <li>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</li> </ul>	

<sup>35</sup> 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."

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<p>retrospective application of an accounting principle, and</p>	
<p><i>b.</i> 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.<sup>36</sup></p>	
<p>53. <del>54.</del>—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, <i>Subsequent Events and Subsequently Discovered Facts</i>. 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.</p>	
<p>54. <del>55.</del>—As required by section 580, <i>Written Representations</i>, 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</p>	<p><b>Written Representations (Ref: par. 54)</b> <del>A72-A74.</del> <u>A75.</u>—In the case of comparative financial statements, the written representations are requested for all periods</p>

<sup>36</sup> See AU-C section 708, *Consistency of Financial Statements*.



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<p>to correct a material misstatement in a prior period that affects the comparative financial statements. (Ref: par. A74)</p>	<p>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.</p>
<p>55. <del>56.</del>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 <u>proposed SAS, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report</u><del>section 706</del>:</p>	<p><b>Opinion on Prior Period Financial Statements Different From Previous Opinion (Ref: par. 55)</b> <del>A73-A75.</del> <u>A76.</u>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.<sup>37</sup></p>
<p>a. The date of the auditor’s previous report</p>	
<p>b. The type of opinion previously expressed</p>	
<p>c. The substantive reasons for the different opinion</p>	
<p>d. That the auditor’s opinion on the amended financial statements is different from the auditor’s previous opinion (Ref: par. <del>A75</del>)</p>	
<p><b>Prior Period Financial Statements Audited by a Predecessor Auditor</b></p>	

<sup>37</sup> See AU-C section 560.

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<p>56. 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 reissued<sup>38</sup>, in addition to expressing an opinion on the current period’s financial statements, the auditor should state the following in an other-matter paragraph:<sup>39</sup></p>	
<p>a. That the financial statements of the prior period were audited by a predecessor auditor</p>	
<p>b. The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore</p>	
<p>c. The nature of an emphasis-of-matter paragraph or other-matter paragraph included in the predecessor auditor’s report, if any</p>	
<p>d. The date of that report</p>	
<p>57. 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 <u>AU-C</u> section 510.<sup>40</sup> 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</p>	<p><b>Prior Period Financial Statements Audited by a Predecessor Auditor (Ref: par. 57)</b> <del>A74.A76.</del> <u>A76.</u> <del>A77.</del> 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-</p>

<sup>38</sup> Paragraphs .19-.20 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.

<sup>39</sup> See proposed SAS, AU-C section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report.

<sup>40</sup> Paragraphs .12-.13 of AU-C section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*.

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<p>period, the auditor should express an opinion only on the current period. (Ref: par. A76)</p>	<p>matter paragraph<sup>41</sup> 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:</p> <p style="padding-left: 40px;">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.</p>
<p><b>Prior Period Financial Statements Not Audited</b></p>	
<p>58. <del>59.</del>—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 paragraph<sup>42</sup> in the current period auditor’s report that includes the following:</p>	<p><b>Prior Period Financial Statements Not Audited (Ref: par. .58–.59)</b></p> <p><del>A75-A77.</del> <u>A75-A77.</u> <del>A78.</del>—If the prior period financial statements were reviewed, the following is an example of an other-matter paragraph:</p> <p style="padding-left: 40px;"><i>Other Matter</i></p>

<sup>41</sup> See proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report.* ~~AU-C section 706.~~

<sup>42</sup> See proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report.* ~~AU-C section 706.~~

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	<p>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.</p>
<p><i>a.</i> The service performed in the prior period</p>	
<p><i>b.</i> The date of the report on that service</p>	
<p><i>c.</i> A description of any material modifications noted in that report</p>	
<p><i>d.</i> 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. A77–A78)</p>	
	<p><del>A76.A78.</del> <del>A79.</del> If the prior period financial statements were compiled, the following is an example of an other-matter paragraph:</p> <p style="text-align: center;"><i>Other Matter</i></p> <p>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</p>

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	financial statements and, accordingly, express no opinion or other form of assurance on them.
59. <del>60.</del> —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. A79)	<del>A77:A79.</del> <u>A79.</u> <del>A80.</del> —If the prior period financial statements were not audited, reviewed, or compiled, the following is an example of an other-matter paragraph:  <i>Other Matter</i>  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.
<b>Information Presented in the Financial Statements (Ref. Par. A80–A81)</b>	<b>Information Presented in the Financial Statements (Ref. Par. <del>60</del>)</b>
60. <del>61.</del> —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.	<del>A78:A80.</del> <u>A79.</u> <del>A81.</del> —In some circumstances, the entity may be required by law, regulation, or standards, or may voluntarily choose, to include in the basic financial statements information that is not required by the applicable financial reporting framework. The auditor’s opinion covers information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented.
	<del>A79:A81.</del> <u>A80.</u> <del>A82.</del> —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 <i>unaudited</i> or as <i>not covered by the auditor’s report</i> .