



## Agenda Item ~~3D~~1F

(marked)

### **Appendix—Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification,* as Amended**

(*Boldface italics* denotes new language. ~~(***Boldface red underlined italics*** denote changes to ISA wording (to aid in ASB review)).~~

Deleted text is in ~~strikethrough~~; ~~(***Red strikethrough underlined*** denotes ISA content not included in proposed changes (to aid in ASB review)).~~

Grey shading = Changes due to the disclosures project that will be discussed as part of a separate project (relates to paragraphs AU-C 210.A9; and 210.A24 (6<sup>th</sup> & 7<sup>th</sup> bullets and fn 12)

Orange shading = Changes due to convergence with ISA 720 (revised) that will be discussed as part of a separate project (Relates to AU-C 210.A17)

Yellow shading = changes proposed as part of the EBP Reporting Exposure Draft (Relates to AU-C 540.A33)

#### **AU-C Section 210, *Terms of Engagement***

[No proposed amendment to paragraphs .01–.09.]

##### **Agreement on Audit Engagement Terms**

.10 The agreed-upon terms of the audit engagement should be documented in an audit engagement letter or other suitable form of written agreement and should include the following: (Ref: par. .A22–.A26)

- a. The objective and scope of the audit of the financial statements
- b. The responsibilities of the auditor
- c. The responsibilities of management

d. A statement that because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk exists that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with GAAS

e. Identification of the applicable financial reporting framework for the preparation of the financial statements

f. Reference to the expected form and content of any reports to be issued by the auditor and a statement that circumstances may arise in which a report may differ from its expected form and content. (*Ref. par. .A24*)

[No proposed amendment to paragraphs .11–.A1.]

### **Preconditions for an Audit**

[No proposed amendment to paragraphs .A2–.A8.]

### **Agreement of the Responsibilities of Management** (Ref: par. .06b)

.A9 An audit in accordance with GAAS is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph .06b.<sup>5</sup> The auditor may assist in preparing the financial statements, in whole or in part, based on information provided to the auditor by management during the performance of the audit.\* However, the concept of an independent audit requires that the auditor's role does not involve assuming management's responsibility for the preparation and fair presentation of the financial statements or assuming responsibility for the entity's related internal control and that the auditor has a reasonable expectation of obtaining the information necessary for the audit (*including information obtained from outside of the general and subsidiary ledgers*) insofar as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and documenting the terms of the audit engagement as required by paragraphs .09–.10.

<sup>5</sup>[Footnote omitted for purposes of this SAS.]

\*[Footnote omitted for purposes of this SAS.]

[No proposed amendment to paragraphs .A10–.A16.]

### ***Additional Information (Ref. par. .06(b)(iii)(2)***

***.A17 Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information***

*in accordance with proposed AU-C section 720. When the auditor expects to obtain other information after the date of the auditor's report, the terms of the audit engagement may also acknowledge the auditor's responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.*

[No changes to paragraphs .A17–.A22 renumbered as paragraphs .A18-A23.]

## **Audit Engagement Letter or Other Form of Written Agreement<sup>10</sup> (Ref. par. .10)**

### *Form and Content of the Audit Engagement Letter*

~~.A23~~ **.A24** The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.<sup>11</sup> [https://publication.cpa2biz.com/content/link/ps/ad\\_210.a18\\_-\\_fn.ad\\_210\\_fn12](https://publication.cpa2biz.com/content/link/ps/ad_210.a18_-_fn.ad_210_fn12) Paragraph .06b of this section addresses the description of the responsibilities of management. In addition to including the matters required by paragraph .10, an audit engagement letter may make reference to, for example, the following:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, GAAS, and ethical and other pronouncements of professional bodies to which the auditor adheres
- [Arrangements regarding the planning and performance of the audit, including the composition of the audit team](#)
- [The communication of key audit matters](#)
- The form of any other communication [about the](#) ~~of~~ results of the audit engagement
- ~~The possibility of communicating requirement for the auditor to communicate key audit matters in the auditor's report in accordance with AU-C section 701, Communicating Key Audit Matters in the Independent Auditor's Report~~
- ~~Arrangements regarding the planning and performance of the audit, including the composition of the audit team~~
- The expectation that management will provide written representations (see also paragraph .A11)

- *The expectation that management will provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, including an expectation that management will provide access to information relevant to disclosures.*
- The agreement of management to make available to the auditor draft financial statements ~~and any accompanying other information~~, *including all information relevant to their preparation and fair presentation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation and fair presentation of disclosures), and accompanying the other information,<sup>12</sup> if any*, in time to allow the auditor to complete the audit in accordance with the proposed timetable
- The agreement of management to inform the auditor of events occurring or facts discovered subsequent to the date of the financial statements, of which management may become aware, that may affect the financial statements
- The basis on which fees are computed and any billing arrangements
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein, as may be evidenced by their signature on the engagement letter

<sup>11</sup>[Footnote omitted for purposes of this SAS.]

<sup>12</sup> ***As defined in section 720, Other Information in Documents Containing Audited Financial Statements***

[All subsequent footnotes renumbered]

~~.A25 When the auditor *is not required to* and management have agreed that the auditor *will* communicate key audit matters, *it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.* the engagement letter may acknowledge this. If the communication of key audit matters is agreed to after the engagement letter is signed, the auditor may acknowledge this agreement in a new engagement letter or as an addendum to the originally signed letter.~~

[All subsequent paragraphs renumbered. No changes to paragraphs .A24–.A41 renumbered as paragraphs .A2526–A42.43.]

**Exhibit–Example of an Audit Engagement Letter (Ref. par. .A25A27)**

~~A42-A44~~ The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this Statement on Auditing Standards. The letter will vary according to individual requirements and circumstances and is drafted to refer to the audit of financial statements for a single reporting period. The auditor may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of those charged with governance of ABC Company:<sup>1</sup>

*[The objective and scope of the audit]*

You<sup>2</sup> have requested that we audit the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, 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. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

~~Our audit will be conducted~~ ***The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our*** ~~with the objective of our expressing an opinion. on the financial statements.~~ ***Reasonable assurance is a high level of assurance, but is not absolute assurance and therefore ~~but~~ is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users ~~madetakenmade~~ on the basis of these financial statements.***

*[The responsibilities of the auditor]*

We will conduct our audit in accordance with ~~auditing standards generally accepted in the United States of America (GAAS).~~ ***As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit.*** ~~Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves~~ ***We also:***

- ~~performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of~~ ***Identify and assess*** the risks of material

misstatement of the financial statements, whether due to fraud or error, *design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.*

- ~~In making our risk assessments, we consider~~ *Obtain an understanding of* internal control relevant to the ~~auditee's preparation and fair presentation of the financial statements~~ 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.\* However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

*\*fn - This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.*

- ~~An audit also includes e~~ *Evaluating* the appropriateness of accounting policies used and the reasonableness of significant accounting estimates ~~and related disclosures~~ made by management, *as well as the overall presentation of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.*
- *Conclude on the Company's ability to continue as a going concern and conclude on the appropriateness of management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.*
- , as well as ~~e~~ *Evaluating* ~~evaluating~~ the overall presentation, ~~structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.~~

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

*[The responsibilities of management and identification of the applicable financial reporting framework]*

Our audit will be conducted on the basis that *[management and, when appropriate, those charged with governance]*<sup>3</sup> acknowledge and understand that they have responsibility

- a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. 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; and
- c. to provide us with
  - i. access to all information of which *[management]* is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - ii. additional information that we may request from *[management]* for the purpose of the audit; and
  - iii. unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from *[management and, when appropriate, those charged with governance]*, written confirmation concerning representations made to us in connection with the audit.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings, and other specific terms, as appropriate.]*

**[Reporting]**

*[Insert appropriate reference to the expected form and content of the auditor's report, including, when applicable, the reporting on other information in accordance with section 720. Example follows:]*

We will issue a written report upon completion of our audit of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. ~~We cannot provide assurance that an unmodified opinion will be expressed.~~ Circumstances

may arise *in which our report may differ from its expected form and content based on the results of our audit* ~~for which~~. Depending on the nature of these circumstances, in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s), or it may be necessary for us to *modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary,* withdraw from the engagement.

We also will issue a written report on [*Insert appropriate reference to other auditor's reports expected to be issued.*] upon completion of our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

\_\_\_\_\_

[*Signed*]

[*Name and Title*]

[*Date*]

<sup>1</sup>[Footnote omitted for purposes of this SAS.]

<sup>2</sup>[Footnote omitted for purposes of this SAS.]

<sup>3</sup>[Footnote omitted for purposes of this SAS.]

[No further amendment to section AU-C section 200.]

1. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2018.

**AU-C Section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards***

[No amendment to paragraphs .01–.21.]

**Engagement Quality Control Review**



**.22** The engagement quality control reviewer should perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached in formulating the auditor's report. This evaluation should involve

- a. discussion of significant findings or issues with the engagement partner;
- b. reading the financial statements and the proposed auditor's report;
- c. review of selected audit documentation relating to the significant judgments the engagement team made and the related conclusions it reached; and
- d. evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: par. .A26-.A31)

[No amendment to paragraphs. 23-.A27.]

***A28. When section 701, Communicating Key Audit Matters in the Auditor's Report, applies, the conclusions reached by the engagement team in formulating the auditor's report include determining:***

- *The key audit matters to be included in the auditor's report*
- *The key audit matters that will not be communicated in the auditor's report in accordance with paragraph xx of section 701, if any; and*
- *If applicable, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate in the auditor's report.*

***In addition, the reading ~~review~~ of the proposed auditor's report in accordance with paragraph .22(b) includes consideration of the proposed wording to be included in the Key Audit Matters section.***

*Completion of the Engagement Quality Control Review Before Releasing the Auditor's Report (Ref: par. .21c)*

**.A23** Conducting the engagement quality control review in a timely manner at appropriate stages during the engagement allows significant findings or issues to be promptly resolved to the engagement quality control reviewer's satisfaction.

**.A24** *Completion of the engagement quality control review* means the completion by the engagement quality control reviewer of the requirements in paragraph .22 and, when applicable, compliance with paragraph .23. Documentation of the engagement quality control review may be completed after the report release date as part of the assembly of the final audit file. Section 230 establishes requirements and provides guidance in this regard.<sup>11</sup>

<sup>11</sup> [Footnote omitted for purposes of this proposed SAS.]

**.A25** When the engagement quality control review is completed after the auditor's report is dated and identifies instances where additional procedures or additional evidence is necessary, the date of the report is changed to the date when the additional procedures have been satisfactorily completed or the additional evidence has been obtained, in accordance with section 700, *Forming an Opinion and Reporting on Financial Statements*, or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.

[No further amendments to AU-C section 220.]

2. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2018.

### **AU-C Section 230, Audit Documentation**

[No amendment to paragraphs .01–.A09.]

*Documentation of Significant Findings or Issues and Related Significant Professional Judgments (Ref: par. .08c)*

[No amendment to paragraphs .A10–.A11]

.A12 Some examples of circumstances in which, in accordance with paragraph .08, it is appropriate to prepare audit documentation relating to the exercise of professional judgment include, when the findings, issues, and judgments are significant,

- the rationale for the auditor's conclusion when a requirement provides that the auditor *should consider* certain information or factors, and that consideration is significant in the context of the particular engagement.
- the basis for the auditor's conclusion on the reasonableness of areas of subjective judgments (for example, the reasonableness of significant accounting estimates).
- the basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of a specialist or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- ***When AU-C section 701, Communicating Key Audit Matters in the Independent Auditor's Report, applies, the auditor's determination of the key audit matters or the determination that there are no key audit matters to be***

*communicated, including in the extremely rare circumstances when the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.*

[No amendment to paragraphs .A13–.A29.]

**.A30 Exhibit–Audit Documentation Requirements in Other AU-C sections**

The following lists the main paragraphs in other AU-C sections that contain specific documentation requirements. This list is not a substitute for knowledge of the AU-C sections:

- a. Paragraphs .10, .13, and .16 of section 210, *Terms of Engagement*
- b. Paragraphs .25–.26 of section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- c. Paragraphs .43–.46 of section 240, *Consideration of Fraud in a Financial Statement Audit*
- d. Paragraph .28 of section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
- e. Paragraph .20 of section 260, *The Auditor's Communication With Those Charged With Governance*
- f. Paragraph .12 of section 265, *Communicating Internal Control Related Matters Identified in an Audit*
- g. Paragraph .14 of section 300, *Planning an Audit*
- h. Paragraph .33 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- i. Paragraph .14 of section 320, *Materiality in Planning and Performing an Audit*
- j. Paragraphs .30–.33 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- k. Paragraph .12 of section 450, *Evaluation of Misstatements Identified During the Audit*

- l.* Paragraph .20 of section 501, *Audit Evidence—Specific Considerations for Selected Items*
- m.* Paragraph .08 of section 520, *Analytical Procedures*
- n.* Paragraph .22 of section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*
- o.* Paragraph .28 of section 550, *Related Parties*
- p.* Paragraph .22 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*
- q.* Paragraphs .49 and .64 of section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*
- r.* **Paragraphs .33–.35 of section 610, *Using the Work of Internal Auditors***
- r.* **Paragraph .XX of section 720, *The Auditor’s Responsibilities Relating to other Information***
- s.* **Paragraph .18 of section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report***
- t*¶. Paragraph .13 of section 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*
- us.* Paragraphs .42–.43 of section 930, *Interim Financial Information*
- v*¶. Paragraphs .39–.42 of section 935, *Compliance Audits*

[No further amendments to AU-C section 230.]

3. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2018.

**AU-C Section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements***

[No amendment to paragraphs .01–.A~~18~~.[17](#).]

## Audit Conclusions and Reporting

### Opening Balances (Ref: par. .15)

*.A18 If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with proposed SAS, **Communicating Key Audit Matters in the Independent Auditor's Report**.*

[Subsequent paragraphs renumbered. No amendments to renumbered paragraph A19.]

### **.A19 .A20 Exhibit A – Illustration of Report with Disclaimer of Opinion on Results of Operations and Cash Flows and Unmodified Opinion on Financial Statements**

Note: The opinion section has been positioned first in accordance with section 700, and the basis for opinion section is positioned immediately after the opinion section. Also, the first sentence of the second paragraph and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new basis for opinion section.

Circumstances include the following:

- *Audit of a complete set of general purpose financial statements. The audit is not a group audit.*
- *The financial statements are prepared by management of the Company in accordance with accounting principles generally accepted in the United States of America.*
- *The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, Terms of Engagement.*
- The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.
- The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material and pervasive to the entity's results of operations and cash flows. [fn 1](#)
- The financial position at year-end is fairly presented.

- A disclaimer of opinion regarding the results of operations and cash flows and an unmodified opinion regarding financial position is considered appropriate in the circumstances.
- *The relevant ethical requirements that apply to the audit are those of the jurisdiction.*
- *Based on the audit evidence obtained, the auditor has concluded that conditions or events considered in the aggregate, do not raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time.*
- *The auditor has decided not to communicate key audit matters in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report.*
- *Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.*

### Independent Auditor's Report

[Appropriate Addressee]

Report on the *Audit of the* Financial Statements [fn 2](#)

#### *Opinions*

We have audited the ~~accompanying~~ balance sheet of ABC Company as of December 31, 20X1, and were engaged to audit 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.

#### *Disclaimer of Opinion on the Results of Operations and Cash Flows*

*We do not express an opinion on the results of operations and cash flows of ABC Company for the year ended December 31, 20X1.* Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows ~~section of our report~~ paragraph, however, we *have not been* ~~were not~~ able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the year ended December 31, 20X1. ~~Accordingly, we do not express an opinion on the results of operations and cash flows for the year ended December 31, 20X1.~~

#### *Opinion on the Financial Position*

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, in accordance with accounting principles generally accepted in the United States of America.

*Basis for Opinions, Including Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows*

We were not engaged as auditors of the Company until after December 31, 20X0, and, therefore, did not observe the counting of physical inventories at the beginning of the year. We were unable to satisfy ourselves by performing other auditing procedures concerning the inventory held at December 31, 20X0. Since opening inventories enter into the determination of net income and cash flows, we were unable to determine whether any adjustments might have been necessary in respect of the profit for the year reported in the income statement and the net cash flows from operating activities reported in the cash flow statement.

We conducted our audit of the balance sheet in accordance with auditing standards generally accepted in the United States of America. *Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements.* ~~Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free from material misstatement.~~

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position.

*Responsibilities of Management and Those Charged with Governance's Responsibility* for the Financial Statements

*[Reporting in accordance with section 700 – see illustration XX in section 700]*

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.~~

Auditor's ~~Responsibility~~ *Responsibilities for the Audit of the Financial Statements*

Our responsibility is to **conduct an audit of the Company's** ~~express an opinion on these~~ financial statements ~~based on conducting the audit~~ in accordance with auditing standards generally accepted in the United States of America. **However, b**Because of the matters described in the Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows **section of our report**, ~~paragraph, however,~~ we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows.

*[Reporting in accordance with section 700 as it relates to the balance sheet– see illustration x in section 700]*

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. <sup>fn-3</sup> Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~

~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position.~~

### **Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with section 700 – see illustration x in section 700]*

~~{Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.}~~

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

[No further amendment to AU-C section 510.]

4. This amendment is effective for audits of financial statements for periods ending on or after December 15, 2018.



**AU-C Section 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**

[No amendment to paragraphs .01–.A119. .A119 included for context only.]

**Recognition and Measurement Criteria**

*Recognition of the Accounting Estimates in the Financial Statements (Ref. par. 17a)*

.A119 When management has recognized an accounting estimate in the financial statements, the focus of the auditor’s evaluation is on whether the measurement of the accounting estimate is sufficiently reliable to meet the recognition criteria of the applicable financial reporting framework.

.A120 With respect to accounting estimates that have not been recognized, the focus of the auditor’s evaluation is on whether the recognition criteria of the applicable financial reporting framework have, in fact, been met. Even when an accounting estimate has not been recognized and the auditor concludes that this treatment is appropriate, there may be a need for disclosure of the circumstances in the notes to the financial statements. **When applicable, the auditor may also determine that *an accounting estimate that has been identified as having a high estimation uncertainty* there is a need to draw the reader’s attention to a significant uncertainty is a key audit matter to be communicated in the auditor’s report in accordance with section 701, Communicating Key Audit Matters, or may consider it necessary to include** by adding an emphasis-of-matter paragraph to the auditor’s report (see section ~~Section~~ 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*), ~~addresses the use of such paragraphs.~~ **If the matter is determined to be a key audit matter, section 706 prohibits the auditor from including an emphasis-of-matter paragraph in the auditor’s report.**

[No amendment to paragraphs .A120–.A132]

Indicators of Possible Management Bias (Ref: par. .21)

**.A133** During the audit, the auditor may become aware of judgments and decisions made by management that give rise to indicators of possible management bias (see paragraph .A9). Such indicators may affect the auditor’s conclusion about whether the auditor’s risk assessment and related responses remain appropriate, and the auditor may need to consider the implications for the rest of the audit. Further, they may affect the auditor’s evaluation of whether the financial statements as a whole are free from material misstatement, as discussed in section 700, *Forming an Opinion and Reporting on Financial Statements*, **and section 703, Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, as applicable.**

[No further amendment to AU-C section 540.]

5. This amendment is effective for audits of ERISA plan financial statements for periods ending on or after December 15, 2018.

**AU-C Section 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)***

[No amendment to paragraphs .01–.A96]

**.A97 Exhibit A — Illustrations of Auditor’s Reports on Group Financial Statements**

**[PLACEHOLDER – ILLUSTRATIVE REPORTS TO BE UPDATED ~~AT A~~  
~~FUTURE TIME~~ AS PART OF SEPARATE REPORT PACKAGE]**

Illustration 1 — A Report With a Qualified Opinion When the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion (Ref: par. .A27)

Illustration 2 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Generally Accepted Auditing Standards (Ref: par. .A60)

Illustration 3 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using a Different Financial Reporting Framework Than That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With GAAS (Ref: par. .A60)

Illustration 4 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Auditing Standards Other Than GAAS (Ref: par. .A60)

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