



## Agenda Item 6

### Auditor Reporting—AU-C 800 Series Discussion Memo and Issues

#### Objectives for the July 2018 ASB Meeting

- To discuss a draft of proposed AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.
- To discuss a preliminary draft of proposed AU-C 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*.
- To discuss issues related to the applicability of the going concern basis of accounting to audits of financial statements prepared in accordance with a special purpose framework, and audits of single financial statements, specific elements, accounts, or items of a financial statement.

#### Task Force

The Auditor Reporting Task Force members are:

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

#### Background

As a result of the 2015 issuance by the International Auditing and Assurance Standards Board (IAASB) of new and revised international standards on auditing (ISAs) related to reporting on audited financial statements, the IAASB made limited amendments to the ISA 800 series of auditing standards, which includes ISA 800 (Revised), ISA 805 (Revised), *Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, and ISA 810 (Revised), *Engagements to Report on Summary Financial Statements* (ISA 800 series).

Rather than converging with the changes the IAASB made to the ISA 800 series at that time, the ASB concluded that it would reconsider the necessary revisions to the AU-C 800 series after the issuance of its exposure draft on auditor reporting (Auditor Reporting ED), which occurred in November 2017.<sup>2</sup>

The ASB's intention is to issue a separate ED for the revised AU-C 800 series and align the effective dates of the 800 series standards with the effective date of the final auditor reporting (AU-C 700) sections. It is anticipated that the separate 800 series ED will be issued in January or May 2019, depending on the timing of the approval of the final auditor reporting standards.

### **Agenda Items Presented**

- Agenda Item 6: Discussion Memo and Issues, Auditor Reporting: AU-C 800 Series including highlights of the ASB's May 2018 discussion
- Agenda Item 6A: Proposed AU-C Section 800 (Marked from Extant)
- Agenda Item 6B: Mapping of Paragraphs in ISA 800 (Revised) to Related Paragraphs in AU-C 800
- Agenda Item 6C: Proposed AU-C 805 (Marked from Extant AU-C 805)
- Agenda Item 6D: Mapping of Paragraphs in ISA 805 (Revised) to Related Paragraphs in AU-C 805

### **Proposed Revisions to AU-C 800**

Agenda Item 6A will be used for the discussion of the proposed changes to AU-C 800. The Task Force is seeking input from the ASB about whether the wording (or paragraphs) in gray shading should be retained in proposed AU-C 800, clarified, or supplemented with application material. In some cases, the shaded wording relates to a potential source of confusion given the introduction of the concept of *compliance frameworks*.

Agenda Item 6B is a mapping document that includes

- ISA 800 (Revised) in column 1,
- extant AU-C 800 in column 3, and
- the Task Force's proposed revisions to AU-C 800 in column 2

Color coding has been used to indicate text included in extant AU-C 800 that is not included in ISA 800 (Revised), and vice versa, as well as a few areas in which the language used is somewhat different. The mapping document is being presented for reference purposes, and will not be discussed during the meeting. However, column 4 includes several comments and questions for the ASB's consideration regarding the proposed revisions to AU-C 800.

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<sup>2</sup> The exposure draft was issued on November 28, 2017 and can be accessed at <https://www.aicpa.org/content/dam/aicpa/research/exposuredrafts/accountingandauditing/downloadabledocuments/20171128c-ed-auditor-reporting.pdf>

***Matters for the ASB:***

The ASB is asked to consider the comments and questions in red text in column 4 of Agenda Item 6B and to provide its views, if any, in connection with the discussion of proposed AU-C 800. Comments in black text represent additional information and prior decisions of the Task Force and ASB in previous meetings.

**Issue 1: Applicability of the Going Concern Basis of Accounting to Audits of Special Purpose Financial Statements**

Paragraph 1 of AU-C 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, (SAS 132) states that it applies to all audits of a complete set of financial statements, regardless of whether the financial statements are prepared in accordance with a general purpose or a special purpose framework. Paragraph .03 of AU-C 570 states that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant. However, irrespective of whether the going concern basis is relevant, the auditor is required to conclude on whether substantial doubt about the entity's ability to continue as a going concern exists and to evaluate the possible financial statement effects, including the adequacy of disclosure about the entity's ability to continue as a going concern for a reasonable period of time. In addition, if the going concern basis of accounting is relevant to the preparation of the special purpose financial statements, the auditor is also required to obtain evidence about and conclude on whether management's use of the going concern basis of accounting is appropriate.

At its May 2018 meeting, the ASB discussed the following application material paragraph in AU-C 570, which is a conforming amendment to AU-C 800 resulting from the issuance of SAS 132:

***.A14 Section 570, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern, applies to audits of special purpose financial statements. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant. Irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements, the requirements in section 570 relating to the auditor's responsibilities to conclude, based on the audit evidence obtained, whether substantial doubt exists about an entity's ability to continue as a going concern for a reasonable period of time and to evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity's ability to continue as a going concern for a reasonable period of time apply to audits of special purpose financial statements.***

This conforming amendment essentially "closes the loop" in AU-C 800 by mirroring the language in paragraph .03 of AU-C 570.

The ASB directed the Task Force to further consider whether this paragraph should remain as application material in AU-C 800, or whether it should be made more prominent by adding it either to the scope section of AU-C 800 or as a separate requirement.

The Task Force determined that it would be appropriate to give more prominence to the auditor's responsibilities regarding going concern in the audit of special purpose financial statements. Accordingly, the Task Force has proposed a new paragraph in the scope section (paragraph .03) as well as new requirements in paragraphs .18 and .19. Paragraph .18 essentially elevates to a requirement the application material in extant paragraph .A14. Paragraph .19 is intended to make clear that the auditor is not required to obtain evidence about, and conclude on, whether management's use of the going concern basis is appropriate when such basis is not relevant to the preparation of the special purpose financial statements.

The Task Force also has proposed new paragraph .21, which requires the auditor to revise the description of the auditor's responsibilities regarding going concern in the auditor's report when the going concern basis of accounting is not relevant in the circumstances.

The Task Force is aware of the comments received on the Auditor Reporting ED that expressed concerns about requiring a statement in all auditors' reports that the auditor has concluded on the appropriateness of the going concern basis of accounting. This is because the going concern basis of accounting may not be relevant for all financial reporting frameworks, including the insurance statutory basis of accounting. The Task Force will further consider these comments in connection with revisions to the auditor reporting requirements in proposed AU-C 800 regarding management and auditor responsibilities with respect to going concern.

***Question for the ASB:***

What are the ASB's views on proposed paragraphs .03, .18, .19, and .21 with respect to the auditor's responsibilities regarding the entity's ability to continue as a going concern?

**Proposed Revisions to AU-C 805**

Agenda Item 6C will be used for the discussion of the proposed changes to AU-C 805. Color coding has been used to highlight material included in extant AU-C 805 but not included in ISA 805 (Revised), as well as certain proposed changes to AU-C 805 to conform with ISA 805 (Revised). The ASB is asked to note that certain paragraphs are subject to further Task Force discussion, subject to the finalization of the form and content of the auditor's report in AU-C 700, based on comments received on the Auditor Reporting ED.

Agenda Item 6D is a mapping document that includes

- ISA 805 (Revised) in column 1,
- extant AU-C 805 in column 3, and
- the Task Force's proposed revisions to extant AU-C 805 in column 2.

Color coding also has been used similar to the coding used in Agenda Item 6B. The mapping document is being presented for reference purposes, and will not be discussed during the meeting. However, column 4 includes a few comments and questions for the ASB's consideration regarding the proposed revisions to AU-C 805.

***Matters for the ASB:***

The ASB is asked to consider the comments and questions in column 4 of Agenda Item 6D and to provide its views, if any, in connection with the discussion of proposed AU-C 805.

**Issue 2: Applicability of Going Concern Basis to Single Financial Statements and Elements**

At its May 2018 meeting, the ASB discussed the applicability of the going concern basis of accounting to single financial statements and specific elements, accounts, and items of a financial statement. Various points of view were expressed, similar to previous discussions on the topic, and no conclusions were reached about the most appropriate way to address this issue in proposed AU-C 805.

The preliminary draft of AU-C 805 in Agenda Item 6C includes several paragraphs from extant AU-805 that are not included in ISA 805 (Revised). These paragraphs address, among other matters,

- the need for the auditor to perform procedures on interrelated items (see paragraphs .09, .14, .A16, and .A17 of Agenda Item 6C)
- the applicability of AU-C section 570 to planning and performing the audit of a single financial statement or a specific element, account, or item of a financial statement (see paragraphs .13, .A14, and .A15 of Agenda Item 6C).

The Task Force believes that this draft of the standard, with a focus on the paragraphs noted above, may be helpful to the ASB in considering whether to retain the implicit requirement in extant AU-C 805 for the auditor to determine whether the going concern basis of accounting is relevant in the circumstances, and if relevant, to apply AU-C 570.

***Questions for the ASB:***

What are the ASB's further views on the applicability of AU-C 570 to audits of single financial statements and specific elements, accounts, or items of a financial statement?

What additional requirements or guidance should be considered to further clarify the auditor's responsibilities regarding going concern when performing an audit of a single financial statement or element, account, or item of a financial statement? Should the requirements and guidance that address these responsibilities be different for an audit of a single financial statement (for

example, a balance sheet) than they are for an audit of an element, account, or item of a financial statement?

If the auditor determines that the going concern basis of accounting is not relevant in the circumstances of the engagement, and does not apply AU-C section 570, should the auditor's report be transparent in that regard, for example, by including an other-matter paragraph?

## Appendix

**Highlights**  
**Auditor Reporting—AU-C 800 Series**  
**ASB Meeting, May 13-17, 2018**

The Auditor Reporting Task Force (task force) is revising AU-C 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, to (1) reflect changes to the auditor’s report included in the November 2017 ASB exposure draft (ED) *Auditor Reporting*, and (2) introduce the concept of a compliance framework, which is included in ISA 800 (Revised) *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*.

At the May 2018 ASB meeting, Dan Montgomery presented issues related to the applicability of AU-C 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*, to audits of financial statements prepared in accordance with a special purpose framework: and audits of single financial statements, specific elements, accounts, or items of a financial statement. AU-C 570 (SAS 132) states that special purpose financial statements may or may not be prepared in accordance with an applicable financial reporting framework for which the going concern basis of accounting is relevant.

With regard to the applicability of AU-C 570 to special purpose financial statements, the ASB directed the task force to

- increase the prominence of the information in AU-C 800 about the applicability of AU-C 570 to audits of special purpose financial statements. That information is currently in paragraph A14<sup>3</sup> of AU-C 800, which states that, irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements, the requirements in AU-C 570 for the auditor to (1) conclude on whether substantial doubt exists about the entity’s ability to continue as a going concern and (2) evaluate the possible financial statement effects, including the adequacy of disclosure regarding the entity’s ability to continue as a going concern for a reasonable period of time, apply.
- determine the best placement for this information within AU-C 800, for example, in the introduction
- more explicitly state that when the going concern basis of accounting is not relevant, the auditor is not required to obtain evidence about and conclude on whether management’s use of the going concern basis of accounting is appropriate

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<sup>3</sup> Paragraph A14 was added to AU-C 800 as a conforming amendment resulting from the issuance of SAS No. 132

- consider clarifying the meaning of the word “relevant” in the phrase “whether the going concern basis of accounting is relevant.”
- consider whether information about substantial doubt is meaningful in audits of all special financial statements, for example, in audits of financial statements prepared in accordance with a contractual basis of accounting where all of the parties to the contract are very focused on compliance with provisions of the contract and may not be concerned with going concern or other financial reporting matters.

Under the revised requirements of AU-C 700 (Revised) in the ED *Auditor Reporting*, the auditor would be required to include a statement in the auditor’s report describing the auditor’s responsibility 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. With regard to the applicability of that proposed requirement to audits of special purpose financial statements, the ASB suggested that the task force

- consider requiring the auditor to include in the auditor’s report a statement about the auditor’s responsibility to conclude on the appropriateness of management’s use of the going concern basis of accounting only if the going concern basis of accounting is relevant to the special purpose framework, and if it is not relevant, requiring the auditor to include an additional statement in the report indicating that the auditor has not evaluated or concluded on whether management’s use of the going concern basis of accounting is appropriate.
- obtain input from insurance and government regulators regarding the importance of information in the auditor’s report about substantial doubt to their use of the auditor’s report

With regard to the applicability of AU-C 570 to audits of single financial statements, specific elements, accounts, or items of a financial statement, ASB members commented that

- AU-C 570 generally should be applicable to single financial statements
- the auditor should be allowed to use judgment in determining the applicability of AU-C 570 to audits of elements, accounts, or items of a financial statement. For example, it may be very difficult for the auditor to conclude on whether substantial doubt exists based on information gleaned from such audits; however, if the auditor has previously audited a complete set of the entity’s financial statements, the auditor would have knowledge about matters that gave rise to substantial doubt if such matters had been identified in that audit.
- an important consideration in making a determination about the applicability of AU-C 570 to audits of elements, accounts, or items of a financial statement, is the expectations of users of the auditor’s report.

The ASB discussed portions of a draft of proposed AU-C 800 that had been revised to introduce the concept of a compliance framework. ASB members commented that

- although the draft proposes to delete the extant requirement for the auditor to restrict the use of the auditor's report on special purpose financial statements prepared in accordance with the contractual or regulatory basis of accounting, the restriction on use of the auditor's report on financial statements prepared in accordance with a contractual basis of accounting may need to be retained because such a report is intended for a small number of users who are a party to the contract.
- Consider whether the statement "the financial statements may not be suitable for another purpose" in the emphasis of matter paragraph of the report should be required only in reports on financial statements prepared in accordance with a compliance framework.