



Agenda Item 6A

Proposed AU-C Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* (Marked from Extant)

Introduction, Objectives, Definitions and Requirements	Application and Other Explanatory Material
Introduction	<u>Introduction</u>
Scope of this Section <p>.01 AU-C sections 200—700 apply to an audit of financial statements. This section addresses special considerations in the application of those AU-C sections to an audit of financial statements prepared in accordance with a special purpose framework, <u>which is a cash, a tax, a regulatory, a contractual, or an other basis of accounting</u>. This section does not purport to address all special considerations that may be relevant in the circumstances. <u>(Ref: par. .A1-.A4)</u></p>	<u>Scope of this Section (Ref: par. .01)</u> <p>.A1 <u>The following are examples of special purpose frameworks (Ref: par. .01)</u></p> <ul style="list-style-type: none">a. Cash basis. A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).b. Tax basis. A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements.c. Regulatory basis. A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).d. Contractual basis. A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor.

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	<p>e. Other basis. A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.</p> <p>The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as <i>other comprehensive bases of accounting</i>.</p>
	<p>.A2 <u>Many entities use the cash or tax basis of accounting in preparing their financial statements. Such financial statements are widely recognized and accepted by banks and other stakeholders. In addition, guidance on the preparation of such financial statements has been available and prevalent for many years. For these reasons, the cash and tax bases of accounting are considered fair presentation frameworks.</u></p>
	<p>.A3 <u>.A2 A3</u> There may be circumstances where a <u>special purpose framework</u> regulatory or contractual basis of accounting is based on a <u>general purpose framework</u> financial reporting framework established by an authorized or recognized standards setting organization such as U.S. GAAP, <u>or by law or regulation</u>, but does not comply with all the requirements of that framework.⁴⁴ An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of U.S. GAAP. <u>If the financial statements purport to be prepared in accordance with a general purpose framework and such financial statements are materially misstated due to a departure from that framework, section 705 applies.</u> A3 When this is acceptable in the circumstances of the engagement <u>to report, in accordance with this section on special purpose financial statements that purport to be prepared in accordance with a regulatory or contractual basis of accounting that is based on a general purpose framework</u> it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the <u>general purpose financial reporting framework established by the authorized or recognized standards setting</u></p>

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	<p><u>organization or by law or regulation.</u> In the <u>above</u> example of the contract <u>in paragraph A2</u>, the description of the applicable financial reporting framework <u>would may</u> refer to the financial reporting provisions of the contract, rather than make any reference to U.S. GAAP. <u>The requirements in paragraphs .19-.21 are designed to avoid misunderstandings about compliance with the general purpose framework.</u></p> <p><u>.11 The term general purpose framework is defined in paragraph .11 of section 700.</u></p>
	<p>.A4 Financial statements prepared in accordance with a <u>special purpose framework</u> <u>cash basis, tax basis, or an other basis of accounting</u> may be the only financial statements an entity prepares. Such special purpose financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements, the financial statements are still considered to be special purpose financial statements for purposes of GAAS. The requirement in <u>paragraph 49.22</u> is designed to avoid misunderstandings about the framework used to prepare the financial statements.</p>
<p>.02 This section is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. 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.</p>	
<p>.03 <u>Section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>, applies to audits of special purpose financial statements. Such financial statements may or may not be prepared in accordance with a financial reporting framework for which</u></p>	

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<p>the going concern basis of accounting is relevant. Paragraphs .18-.19 of this section address the auditor's responsibility regarding an entity's ability to continue as a going concern, and paragraph .21 addresses the effect on the auditor's report when the going concern basis of accounting is not relevant.</p>	
<p>.04 .03 Section 910, <i>Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i>, addresses circumstances in which an auditor practicing in the United States is engaged to report on financial statements that have been prepared in accordance with a financial reporting framework generally accepted in another country not adopted by a body designated by the Council of the AICPA (Council) to promulgate generally accepted accounting principles (GAAP) when such audited financial statements are intended for use outside the United States.</p>	
<p>.05 .04 Section 806, <i>Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements</i>, addresses the auditor's responsibility and the form and content of the report when the auditor is requested to report on the entity's compliance with aspects of contractual agreements or regulatory requirements in connection with the audit of financial statements.</p>	
<p>Effective Date</p>	
<p>.06 .05 This section is effective for audits of financial statements for periods ending on or after December 15, 2012<u>XX</u>.</p>	
<p>Objective</p> <p>.07 .06The objective of the auditor, when applying generally accepted auditing standards (GAAS) in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to</p>	

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<ul style="list-style-type: none"> a. the acceptance of the engagement, b. the planning and performance of that engagement, and c. forming an opinion and reporting on the financial statements. 	
Definitions	Definitions
<p>.08 .07 For purposes of GAAS, the following terms have the meanings attributed as follows:</p> <p>Special purpose financial statements. Financial statements prepared in accordance with a special purpose framework. (Ref: par .A1)</p> <p>Special purpose framework. A financial reporting framework other than GAAP <u>designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.¹ that is one of the following bases of accounting:</u> (Ref: par. A2-A5A1-.A5)</p> <ul style="list-style-type: none"> a. Cash basis. A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets). b. Tax basis. A basis of accounting that the entity uses to file its tax return for the period covered by the financial statements. c. Regulatory basis. A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject 	<p>Special Purpose Financial Statements and Special Purpose Frameworks (Ref: par. .0708)</p> <p><u>.A1 Special purpose financial statements may be prepared for use by regulatory bodies, the parties to a contract or agreement, or other specified parties. For example, a loan agreement may require the borrower to prepare consolidated financial statements for the lender presented on a contractual basis of accounting, which is not in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards promulgated by the International Accounting Standards Board.</u></p> <p>.A5 .A5 Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on U.S. GAAP but does not comply with all of the requirements of U.S. GAAP. Such frameworks are regulatory bases of accounting, as <u>defined described</u> in paragraph .07.A1. In some circumstances, however, the cash or tax basis of accounting may be permitted by a regulator. For purposes of this section, the cash and tax bases of accounting are not regulatory bases of accounting.</p>

¹ Definition of *financial reporting framework* in paragraph 14 of AU-C 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards*.

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<p>(for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).</p> <p>d. Contractual basis. A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor.</p> <p>e. Other basis. A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.</p> <p>The cash basis, tax basis, regulatory basis, and other basis of accounting are commonly referred to as <i>other comprehensive bases of accounting</i>.</p>	
<p>.08 Reference to <i>financial statements</i> in this section means “a complete set of special purpose financial statements, <u>including the related notes.</u>²⁴ The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the <u>presentation, structure, form</u> and content of the financial statements and what constitutes a complete set of financial statements. Reference to “special purpose financial statements” includes the related disclosures.</p>	
<p>.10 .09 Reference to GAAP in GAAS means generally accepted accounting principles promulgated by bodies designated by Council pursuant to the "Compliance With Standards Rule" (ET sec. 1.310.001) and the "Accounting Principles Rule" (ET sec. 1.320.001) of the</p>	

²⁴ Paragraphs .14 and .A9 of 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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AICPA Code of Professional Conduct.	
Requirements	
Considerations When Accepting the Engagement	Considerations When Accepting the Engagement
Acceptability of the Financial Reporting Framework (Ref: .A6-.A9)	Acceptability of the Financial Reporting Framework (Ref: par. .11-.10)
<p>.11 .10 Section 210, <i>Terms of Engagement</i>, requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.³² In an audit of special purpose financial statements, the auditor should obtain an understanding of</p> <ul style="list-style-type: none"> a. the purpose for which the financial statements are prepared, b. the intended users, and c. the steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances. 	<p>.A6 .A6 In the case of special purpose financial statements, the financial information needs of the intended users are a factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.</p> <p>.A7 .A7 The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some circumstances, law or regulation may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such an entity.</p>
	<p>.A8 .A8 The acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks. Section 210 discusses the attributes of</p>

³². Paragraph .06a of section 210, *Terms of Engagement*.

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	acceptable financial reporting frameworks, which provide management with an appropriate basis for preparing the financial statements and the auditor with suitable criteria for auditing the financial statements. ^{4 12} In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the seller and purchaser may have agreed that conservative estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information may be biased when compared with financial information prepared in accordance with a general purpose framework.
	.A9 A9 In the case of financial statements prepared in accordance with a contractual basis of accounting, the parties to the contract or agreement may need to agree on the significant interpretations of the contract on which the special purpose financial statements are based. If agreement cannot be reached, the auditor may determine that the framework is not acceptable.
Preconditions for an Audit (Ref: par. .A10)	Preconditions for an Audit (Ref: par. .12.11)
<p>.12.11 Section 210 requires the auditor to establish whether the preconditions for an audit are present, including determining whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.⁵³ In an audit of special purpose financial statements, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility to</p>	<p>.A10 .A10 Section 210 also requires the agreed-upon terms of the audit engagement to include references to the expected form and content of any reports to be issued by the auditor and a statement that there may be circumstances in which a report may differ from its expected form and content.¹³⁶ The auditor may discuss with management and, when appropriate, those charged with governance how an audit report on</p>

⁴¹² Paragraphs .A2-.A3 of section 210, *Terms of Engagement*.

⁵³ Paragraph .06a of section 210.

^{6 13} Paragraph .10f of section 210.

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<p><u>include all informative disclosures that are appropriate for the special purpose framework used to prepare the entity's for the preparation (and, in the case of a fair presentation framework, the fair presentation) of the special purpose financial statements, including</u></p> <ul style="list-style-type: none"> a. a description of the special purpose framework, including a summary of significant accounting policies, and how the framework differs from GAAP, the effects of which need not be quantified. b. informative disclosures similar to those required by GAAP, in the case of special purpose financial statements <u>prepared in accordance with a fair presentation special purpose framework</u> that contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP. c. a description of any significant interpretations of the contract on which the special purpose financial statements are based, in the case of special purpose financial statements prepared in accordance with a contractual basis of accounting. d. <u>for a fair presentation special purpose framework</u>, additional disclosures beyond those specifically required by the framework that may be necessary for the special purpose financial statements to achieve fair presentation. (Ref: par. .A11) 	<p>financial statements prepared in accordance with a special purpose framework differs from an audit report on financial statements prepared in accordance with a general purpose framework. Discussing the expected form and content of the auditor's report may assist management in understanding its responsibilities related to the audit engagement.</p>
	<p><i>Achieving Fair Presentation (Ref: par. .12<u>.12-.14d</u>)</i></p> <p>.A11 .A11 In accordance with section 700, the auditor's evaluation of whether the financial statements achieve fair presentation in accordance with the applicable financial reporting framework requires consideration of¹⁴⁷</p>

^{7 14} Paragraph .17 of section 700.

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	<ul style="list-style-type: none"> 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. <p>Also see paragraphs .A20-.A24 of this section.</p>
Considerations When Planning and Performing the Audit (Ref: par..A12-.A15)	Considerations When Planning and Performing the Audit (Ref: par..A12-.A15)
<p>.A12 Section 200, <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards</i>, requires the auditor to comply with all AU-C sections relevant to the audit.⁸⁴ In planning and performing an audit of special purpose financial statements, the auditor should adapt and apply all AU-C sections relevant to the audit as necessary in the circumstances of the engagement.</p>	<p>.A12 Section 200 requires the auditor to comply with (a) relevant ethical requirements relating to financial statement audit engagements and (b) all AU-C sections relevant to the audit. It also requires the auditor to comply with each requirement of an AU-C section unless, in the circumstances of the audit, the entire AU-C section is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In rare circumstances, the auditor may judge it necessary to depart from a relevant presumptively mandatory requirement in an AU-C section by performing alternative audit procedures to achieve the intent of that requirement.⁹⁴⁵</p>
<p>.A13 Section 315, <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, requires the auditor to obtain an understanding of the entity's selection and application of accounting policies.¹⁰⁵ In the case of special purpose financial statements prepared in accordance with a contractual basis of</p>	<p>.A13 An AU-C section is relevant to the audit when the AU-C section is in effect and the circumstances addressed by the AU-C section exist.¹¹⁴⁶ In an audit of special purpose financial statements, some of the requirements within the relevant AU-C sections may need to be adapted by the auditor. For example, in section 320, <i>Materiality in Planning and</i></p>

⁸⁴ Paragraph .20 of section 200.

⁹⁴⁵ Paragraphs .16, .20, and .24—.26 of section 200.

¹⁰⁵ Paragraph .12c of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

¹¹⁴⁶ Paragraph .20 of section 200

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<p>accounting, the auditor should obtain an understanding of any significant interpretations of the contract that management made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.</p>	<p><i>Performing an Audit</i>, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.¹²⁴⁷ In an audit of special purpose financial statements, those judgments may be based on a consideration of the financial information needs of the intended users.</p>
	<p>.A14 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.</p> <p>This paragraph was added to extant AU-C 800 through a conforming amendment when SAS 132 was issued. The shaded words were moved to paragraph .03. The remaining words are included in paragraph .18.</p>
	<p>.A14 A15 In the case of special purpose financial statements, such as those prepared in accordance with a contractual basis of accounting, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with section 320 for purposes of planning and performing the audit of the</p>

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Paragraph .02 of section 320, *Materiality in Planning and Performing an Audit*

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	special purpose financial statements. With respect to interpretations of the contract on which the special purpose financial statements are based, the auditor may determine that an interpretation is significant based on qualitative considerations.
	<p>.A15 .A16 Communication with those charged with governance in accordance with GAAS is based on the relationship between those charged with governance and the financial statements subject to audit, in particular, whether those charged with governance are responsible for overseeing the preparation of those financial statements. In the case of special purpose financial statements, those charged with governance may not have such a responsibility; for example, when the financial information is prepared solely for management's use. In such cases, the requirements of section 260, <i>The Auditor's Communication With Those Charged With Governance</i>, may not be relevant to the audit of the special purpose financial statements, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed to communicate with those charged with governance of the entity relevant matters identified during the audit of the special purpose financial statements.</p>
<p>Forming an Opinion and Reporting Considerations</p> <p>.A14 .A15 .A14 When forming an opinion and reporting on special purpose financial statements, the auditor should apply the requirements in section 700, <i>Forming an Opinion and Reporting on Financial Statements</i>. When, in forming an opinion, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary, the auditor should apply the requirements in section 705, <i>Modifications to the Opinion in the Independent Auditor's Report</i>. (Ref: par. .A16-.A17)</p>	<p>Forming an Opinion and Reporting Considerations (Ref: par. .A15-.A14)</p> <p>.A16 .A17 Appendix A, "Overview of Reporting Requirements," provides an overview of the reporting requirements depending on the special purpose framework. The exhibit, "Illustrations of Auditor's Reports on Special Purpose Financial Statements," contains illustrations of auditor's reports on special purpose financial statements.</p> <p>The Task Force has not yet considered revisions to Appendix A in extant AU-C 800. Also, illustrative reports are not being presented at this time, pending finalization of the report format for AU-C 700.</p>

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	<p><i>Application of ISA 700 (Revised) When Reporting on Special Purpose Financial Statements</i></p>
	<p>.A17 Paragraph .15 of this section requires the auditor to apply the requirements in section 700 when forming an opinion and reporting on special purpose financial statements. In doing so, the auditor is also required to apply the reporting requirements in other AU-C sections and may find the special considerations addressed in paragraphs AXX–AXX of this section helpful.</p> <p>This paragraph has been added as a placeholder, pending further discussion by the Task Force. This wording comes from new paragraph A14 in ISA 800 (Revised). The special considerations refer to new application paragraphs (A15–A19) in ISA 800 that address various matters relating to the new form of report, including going concern, key audit matters, other information, and reference to the auditor's report on a complete set of general purpose FS. The Task Force will determine whether these additional application material paragraphs will be added to AU-C 800 Revised after the report format for AU-C 700 is finalized.</p>
<p>Description of the Applicable Financial Reporting Framework (Ref: par. Error! Reference source not found. .A18-.A19)</p> <p>.15.16.15 Section 700 requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.¹³⁶ In an audit of special purpose financial statements, the auditor should evaluate whether the financial statements are suitably titled, include a summary of significant accounting policies, and adequately describe how the special purpose framework differs from GAAP. The effects of these differences need not be quantified. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor should evaluate whether the financial statements adequately describe any</p>	<p>Description of the Applicable Financial Reporting Framework (Ref: par. .16.15.16)</p> <p>.A18 A18. Terms such as balance sheet, statement of financial position, statement of income, statement of operations, and statement of cash flows, or similar unmodified titles, are generally understood to be applicable only to financial statements that are intended to present financial position, results of operations, or cash flows in accordance with GAAP. Accordingly, the auditor is required by paragraph .16 to evaluate whether the financial statements are suitably titled. For example, cash basis financial statements might be titled as a statement of assets and liabilities arising from cash transactions or as a statement of revenue collected and expenses paid; a financial statement prepared on a</p>

¹³⁶ Paragraph .18 of section 700, *Forming an Opinion and Reporting on Financial Statements*.

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<p>significant interpretations of the contract on which the financial statements are based.</p>	<p>regulatory basis of accounting might be titled as a statement of income—regulatory basis.</p>
<p>16. In the case of financial statements prepared in accordance with the provisions of a contract, the auditor should evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.</p> <p>Moved to the end of paragraph .16</p>	<p>.A19 .A19 The description of how the special purpose framework differs from GAAP ordinarily only includes the material differences between GAAP and the special purpose framework. For example, if several items are accounted for differently under the special purpose framework than they would be under U.S. GAAP, but only the differences in how depreciation is calculated are material, a brief description of the depreciation differences is all that would be necessary, and the remaining differences need not be described. The differences need not be quantified.</p>
<p>Special Purpose Financial Statements Prepared in Accordance With a Fair Presentation Framework (Ref: par. .A20-.A24)</p>	<p>Special Purpose Financial Statements Prepared in Accordance With a Fair Presentation Framework (Ref: par. .17 .17</p>
<p>.16.17 Section 700 requires the auditor to evaluate whether the financial statements achieve fair presentation.¹⁴⁷ In an audit of special purpose financial statements prepared in accordance with a fair presentation framework, when the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, the auditor should evaluate whether the financial statements include informative disclosures similar to those required by GAAP. The auditor should also evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures are necessary for the financial statements to achieve fair presentation.</p>	<p>.A19 .A20 .A20 Financial statements, including the related notes, that achieve a fair presentation include all informative disclosures that are appropriate for the applicable financial reporting framework, including matters that affect their use, understanding, and interpretation. Also refer to paragraph .A14 Error! Reference source not found..</p>
	<p>.A20 .A21 .A21 When the special purpose financial statements contain items that are the same as, or similar to, those in financial statements prepared in accordance with GAAP, informative disclosures similar to</p>

¹⁴⁷ Paragraph .17 of section 700.

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	those required by GAAP are necessary to achieve fair presentation. For example, financial statements prepared on a tax basis or on a modified cash basis of accounting usually reflect depreciation, long-term debt, and owners' equity. Thus, the informative disclosures for depreciation, long-term debt, and owners' equity in such financial statements would be comparable to those in financial statements prepared in accordance with GAAP.
	A21 A22 A22 Disclosures in special purpose financial statements may substitute qualitative information for some of the quantitative information required by GAAP or may provide information that communicates the substance of those requirements. For example, disclosing estimated percentages of revenues, rather than amounts that GAAP presentations would require, may sufficiently convey the significance of sales or leasing to related parties or major customers.
	A22 A23 A23 The auditor is required by paragraph .17 to evaluate whether additional disclosures, beyond those specifically required by the framework, related to matters that are not specifically identified on the face of the financial statements or other disclosures may be necessary for the special purpose financial statements to achieve fair presentation. For example, these disclosures may include matters about related party transactions, restrictions on assets and owners' equity, subsequent events, and significant uncertainties. In such circumstances, the special purpose financial statements would include the same disclosure required by GAAP or disclosure that communicates the substance of those requirements.
	A23 A24 A24 Appendix B, "Fair Presentation and Adequate Disclosures," provides additional guidance on evaluating the adequacy of disclosures in financial statements prepared in accordance with a special purpose framework, including matters related to the presentation of financial statements.

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	Appendix B of extant AU-C 800 has not yet been discussed by the Task Force.
Auditor's Responsibilities Regarding the Entity's Ability to Continue as a Going Concern	
<p><u>.18</u> 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.</p>	
<p><u>.17,19</u> When the going concern basis of accounting is not relevant to the preparation of the special purpose financial statements, the requirement in paragraph .18 applies, but 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.</p>	
<i>Auditor's Report</i>	<i>Auditor's Report (Ref: par. .18b)</i>
<p><u>.18,20</u> .18. Section 700 addresses the form and content of the auditor's report, <u>including the specific ordering for certain elements</u>. In the case of an auditor's report on special purpose financial statements, <u>the</u></p> <p><u>a.</u> <u>with respect to the auditor's opinion:</u></p> <p><u>i.</u> <u>when expressing an unmodified opinion on special purpose financial statements prepared in accordance with a fair presentation framework, the auditor's opinion should state that,</u></p>	

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<p><u>in the auditor's opinion, the accompanying special purpose financial statements present fairly, in all material respects, [...] in accordance with [the special purpose framework]; or</u></p> <p><u>ii. when expressing an unmodified opinion on special purpose financial statements prepared in accordance with a compliance framework, the auditor's opinion should state that, in the auditor's opinion, the accompanying special purpose financial statements are prepared, in all material respects, in accordance with [the special purpose framework];</u></p> <p>b. <u>The auditor's report should also describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information, and when the financial statements are prepared in accordance with</u></p> <ul style="list-style-type: none"> <u>i. a regulatory or contractual basis of accounting or</u> <u>ii. an other basis of accounting, and the auditor is required to restrict use of the auditor's report pursuant to paragraph .06a-b of section 905, Alert That Restricts the Use of the Auditor's Written Communication. (Ref:par..A25)</u> <p><u>c& If management has a choice of financial reporting frameworks in the preparation of the special purpose financial statements, the explanation of management's responsibility for the financial statements should also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances., when management has a choice of financial reporting frameworks in the preparation of such financial statements.</u></p>	<p><u>.A25 When the special purpose financial statements are prepared in accordance with a regulatory or contractual basis of accounting or an other basis of accounting that requires an alert that restricts the use of the auditor's report pursuant to paragraph .06a-b of section 905, the auditor is required by paragraph .18b to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the special purpose financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.</u></p>
<p><u>Going Concern Basis of Accounting</u></p>	

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<p><u>.21</u> If the financial statements are prepared in accordance with a special purpose framework for which the going concern basis of accounting is not relevant, the description of the auditor's responsibilities in the auditor's report relating to going concern should be revised to state that the auditor has not evaluated or concluded on whether management's use of the going concern basis of accounting is appropriate.</p> <p>This requirement was discussed by the task force to provide transparency when the going concern basis of accounting is not relevant in the circumstances of the engagement. It is subject to further discussion by the Task Force in view of the comments received on the Auditor Reporting ED.</p>	
<p><i>Alerting Readers in an Emphasis-of-Matter Paragraph That the Financial Statements Are Prepared in Accordance With a Special Purpose Framework (Ref: par. .A25.A26)</i></p>	<p><i>Alerting Readers in an Emphasis-of-Matter Paragraph That the Financial Statements Are Prepared in Accordance With a Special Purpose Framework (Ref: par. .22.19)</i></p>
<p><u>.19.22.19</u> Except for the circumstances described in paragraph .21, the auditor's report on special purpose financial statements should include an <i>emphasis-of-matter</i> paragraph,¹⁵⁸ under an appropriate heading, that <u>a.</u> indicates that the financial statements are prepared in accordance with <u>the applicable</u> a special purpose framework, <u>b.</u> refers to the note to the financial statements that describes that framework, and <u>c.</u> states that the special purpose framework is a basis of accounting other than GAAP. For special purpose financial statements prepared in accordance with a contractual basis of accounting, the emphasis-of-matter paragraph also should state that, as a result, the financial statements may not be suitable for another purpose.</p>	<p><u>.A24.A25. A26.</u> Special purpose financial statements may be used for purposes other than those for which they were intended. To avoid misunderstandings, paragraph .19.22 requires the auditor to include an <i>emphasis-of-matter</i> paragraph in the auditor's report that alerts users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that the basis of accounting is a basis of accounting other than GAAP.</p>
<p><i>Restricting the Use of the Auditor's Report in an Other-Matter Paragraph (Ref: par. .A27. A28.A26.A26)</i></p>	<p><i>Restricting the Use of the Auditor's Report in an Other-Matter Paragraph (Ref: par. .23)</i></p>

^{158.} Paragraphs .06—.07 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*.

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<p><u>.20.23</u> If the special purpose financial statements are prepared in accordance with the contractual basis of accounting, the auditor's report should include an <i>other-matter</i> paragraph under an appropriate heading, that restricts¹⁶ the use of the auditor's report pursuant to paragraph .06a–b of section 905, <i>Alert That Restricts the Use of the Auditor's Written Communication</i>.¹⁷</p>	<p><u>A25.A26</u> Paragraph .23 requires the auditor to include an <i>other-matter</i> paragraph in the auditor's report, under an appropriate heading, that restricts the use of the auditor's report to specified parties pursuant to AU-C section 905 (see illustration in the Appendix to this ISA). In the case of special purpose financial statements prepared in accordance with a basis of accounting other than a contractual basis, the auditor may consider it necessary in the circumstances of the engagement to include an alert that restricts the use of the auditor's report, but is not required to do so.</p>
<p><u>.20</u> Except for the circumstances described in paragraph .21, the auditor's report on special purpose financial statements should include an <i>other-matter</i> paragraph,⁹ under an appropriate heading, that restricts¹⁰ the use of the auditor's report when the special purpose financial statements are prepared in accordance with</p> <ul style="list-style-type: none"> a. a contractual basis of accounting, b. a regulatory basis of accounting, or c. an other basis of accounting when required pursuant to paragraph .06a–b of section 905. <p>⁹ Paragraph .08 of section 706. ¹⁰See paragraphs .06a–b and .07 of section 905, <i>Alert That Restricts the Use of the Auditor's Written Communication</i></p>	<p><u>A27</u> Special purpose financial statements prepared in accordance with a contractual or regulatory basis of accounting are suitable only for a limited number of users who can be presumed to have an adequate understanding of such bases of accounting. For example, special purpose financial statements prepared in accordance with a contractual basis of accounting are developed for and directed only to the parties to the contract or agreement. Accordingly, the alert that restricts the use of the auditor's report is required due to the nature of the report and the potential for the report to be taken out of the context in which the auditor's report was intended to be used. Section 905, <i>Alert That Restricts the Use of the Auditor's Written Communication</i>, addresses adding other parties as specified parties.</p>
	<p><u>A28</u> In the case of special purpose financial statements prepared in accordance with a cash or tax basis of accounting, the auditor may consider it necessary in the circumstances of the engagement to include</p>

^{16¹⁰}. See paragraphs .06a–b and .07 of section 905, *Alert That Restricts the Use of the Auditor's Written Communication*

^{17⁹} Paragraph .08 of section 706.

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	<p>an alert that restricts the use of the auditor's report.</p> <p>Similar wording has been added at the end of paragraph A26 above.</p>
<p><i>Regulatory Basis Financial Statements Intended for General Use</i> (Ref: par. .A29)</p>	<p><i>Regulatory Basis Financial Statements Intended for General Use</i> (Ref: par. .A21)</p>
<p>.21 If the special purpose financial statements are prepared in accordance with a regulatory basis of accounting, and the special purpose financial statements together with the auditor's report are intended for general use, the auditor should not include the emphasis-of-matter or other-matter paragraphs required by paragraphs .19—.20. Instead, the auditor should express an opinion about whether the special purpose financial statements are presented fairly, in all material respects, in accordance with GAAP. The auditor should also, in a separate paragraph, express an opinion about whether the financial statements are prepared in accordance with the special purpose framework.</p>	<p>A27 Special purpose financial statements prepared in accordance with a regulatory basis of accounting may be intended for general use. Such special purpose financial statements are intended for general use when the financial statements together with the auditor's report are intended for use by parties other than those within the entity and the regulatory agencies to whose jurisdiction the entity is subject or when the financial statements together with the auditor's report are distributed by the entity to parties other than the regulatory agencies to whose jurisdiction the entity is subject, either voluntarily or upon specific request. In such circumstances, the emphasis-of-matter and other-matter paragraphs described in paragraphs .19—.20 are not required because the auditor is required, in accordance with paragraph .A21, to express an opinion about whether the special purpose financial statements are prepared in accordance with GAAP and an opinion about whether the financial statements are prepared in accordance with the special purpose framework.</p>
<p>Auditor's Report Prescribed by Law or Regulation (Ref: par. .A27—.A30—.A30—.A33)</p>	<p>Auditor's Report Prescribed by Law or Regulation (Ref: par. .A24—.A25—.A22—.A23)</p>
<p>.21.24 22 If the auditor is required by law or regulation to use a specific layout, form, or wording of the auditor's report, the auditor's report should refer to GAAS only if the auditor's report includes, at a minimum, each of the following elements:</p>	<p>A26.A27—.A30 The auditor may be required to comply with legal or regulatory requirements in addition to GAAS. When this is the case, the auditor may be required to use a layout, form, or wording in the auditor's report that differs from that described in this section, such as when printed forms or schedules designed or adopted by the bodies with which</p>

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<ul style="list-style-type: none">a. A titleb. An addresseec. <u>An introductory paragraph that identifies the special purpose financial statements audited</u>c. <u>An opinion section that</u><ul style="list-style-type: none">i. <u>identifies the special purpose financial statements that have been audited, and</u>ii. <u>contains an expression of opinion on the special purpose financial statements and a reference to the special purpose framework used to prepare the financial statements</u>d. <u>A description of the responsibility of management for the preparation and fair presentation of the special purpose financial statements</u>f. <u>A description of the purpose for which the financial statements are prepared when required by paragraph .18b</u>d. <u>A statement that the auditor is independent of the entity, and has fulfilled the auditor's other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit</u>e. <u>When applicable, a section that addresses the reporting requirements in paragraph XX of proposed SAS, <i>The Auditor's Responsibilities Relating to Other Information Included in Annual Reports</i></u>f. <u>A description of management's responsibilities for the preparation of the special purpose financial statements [and an</u>	they are to be filed prescribe the wording of the auditor's report.

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<p><u>identification of those responsible for the oversight of the financial reporting process</u> that addresses, and is not inconsistent with, the requirements in paragraphs 31-33 of proposed SAS, <i>Forming an Opinion and Reporting on Financial Statements</i></p> <p><u>ge.</u> A reference to management's responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances <u>when required by paragraph .18a</u></p> <p><u>g.</u> <u>A description of the auditor's responsibility to express an opinion on the special purpose financial statements and the scope of the audit, that includes</u></p> <ul style="list-style-type: none"><u>i.</u> <u>A reference to GAAS and, if applicable, the law or regulation</u><u>ii.</u> <u>A description of an audit in accordance with those standards</u> <p><u>h.</u> <u>A reference to GAAS and, if applicable, 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 .35-.37 of proposed SAS, <i>Forming an Opinion and Reporting on Financial Statements</i></u></p> <p><u>i.</u> An <i>emphasis-of-matter</i> paragraph that indicates that the financial statements are prepared in accordance with a special purpose framework <u>when required by paragraph .19</u> and states that the <u>special purpose framework is a basis of accounting other than GAAP</u></p> <p><u>j.</u> <u>An other matter paragraph that restricts the use of the auditor's report when required by paragraph .20</u></p> <p><u>jk.</u> <u>The auditor's signature</u></p> <p><u>kl.</u> <u>The auditor's city and state</u></p>	

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m. The date of the auditor's report	
<p><u>.22,.25,.23</u> If the prescribed specific layout, form, or wording of the auditor's report is not acceptable or would cause an auditor to make a statement that the auditor has no basis to make, the auditor should reword the prescribed form of report or attach an appropriately worded separate report.</p>	<p><u>.A27,.A28,.A31</u> When the differences between the legal or regulatory requirements and GAAS relate only to the layout, form, and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph <u>.22</u> <u>.24</u> are included in the auditor's report, the auditor's report may refer to GAAS. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of GAAS, even when the layout, form, and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Section 210 addresses circumstances in which law or regulation prescribes the layout, form, or wording of the auditor's report in terms that are significantly different from the requirements of GAAS.¹⁸ ⁴⁸</p> <p>.</p>
	<p><u>.A28,.A29,.A32</u> Some report forms can be made acceptable by inserting additional wording to include the elements identified in paragraph <u>.22</u>. Other report forms can be made acceptable only by complete revision because the prescribed language of the report calls for statements by the auditor that are not consistent with the auditor's function or responsibility; for example, a report form that requests the auditor to certify the financial statements.</p>
	<p><u>.A29,.A30,.A33</u> This guidance can be applied to other circumstances, for example, reports on financial statements prepared in accordance with a general purpose framework for which a specific layout, form, or wording of the auditor's report is required.</p>

¹⁸⁴⁸ Paragraph .18 of section 210.