



Agenda Item 4B

Auditor Reporting — Illustrative Report

(Marked to reflect changes from the Exposure Draft)

Illustration 1: An Auditor's Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570. The period of time considered was one year after the date that the financial statements are issued which is consistent with management's going concern assessment required in accordance with GAAP.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information included in the annual report.
Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has not been engaged to communicate key audit matters ~~in the auditor's report.~~

Independent Auditor’s Report

Include city and state of addressee

[Appropriate Addressee]
[City and State]

Report on the Audit of the Financial Statements¹

Opinion

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 ABC Company, and have fulfilled our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Moved OI to follow Auditor Responsibilities

~~*Other Information [or another title if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]*~~

~~*[Reporting in accordance with the reporting requirements in proposed SAS The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports – see illustration 1 in the appendix of that proposed SAS.]*~~

~~*Responsibilities of Management and Those Charged With Governance for the Financial Statements*~~

¹ The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances in which the second subtitle, “Report on Other Legal and Regulatory Requirements,” is not applicable.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the ; 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.

Included conditional wording when framework requires a going concern assessment by management (see Issue 3 in Agenda Item 4)

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about is responsible for assessing ABC Company's ability to continue as a going concern within one year after the date that the financial statements are issued.in accordance with accounting principles generally accepted in the United States of America , and using the going concern basis of accounting unless management either intends to liquidate ABC Company or to cease operations, or has no realistic alternative but to do so.

Removed requirement in paragraph 32 re: oversight by TCWG

~~Those charged with governance are responsible for overseeing ABC Company's financial reporting process.~~

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. 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. 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 made on the basis of these financial statements.

Moved up from below

In performing ~~As part of~~ an audit in accordance with GAAS, we:

- ~~Use~~ exercise professional judgment and exercise ~~maintain~~ professional skepticism throughout the audit. ~~We also:~~
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, ~~and obtain audit~~

Include "examining, on a test basis" because of importance to an audit and for consistency with PCAOB form of report

evidence regarding the amounts and disclosures in the financial statements, 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed.²
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate~~evaluating~~ the overall presentation of the consolidated financial statements.

Aligned wording with AU-C 570 (see issue 3 in agenda item 4)

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ~~on~~ ABC Company’s ability to continue as a going concern within one year after the date that the financial statements are issued~~and conclude on the appropriateness of management’s use of the going concern basis of accounting.~~

See issue 5 in agenda item 4

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, ~~and~~ significant audit findings, and internal control related matters including any significant deficiencies and material weaknesses in internal control that we identified during our audit.

Other Information [or another title if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]

[Reporting in accordance with the reporting requirements in proposed SAS The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports—see illustration 1 in the appendix of that proposed SAS.]

² In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: “but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed.”

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.]

[Signature of the auditor's firm]

[Auditor's city and state]

[Date of the auditor's report]