



Agenda Item 6B

**Proposed AU-C 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement* (Marked From Extant AU-C 805)**

Introduction, Objective, Definitions, and Requirements	Application and Other Explanatory Material
<p><b>Introduction</b></p>	
<p><b>Scope of This Section</b></p> <p><del>.1</del> <del>.01</del> AU-C sections 200—700 apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This <u>proposed SAS</u> addresses special considerations in the application of those AU-C sections to an audit of a single financial statement or of a specific element, account, or item of a financial statement. The single financial statement or the specific element, account, or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, <u>proposed SAS section 800, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i></u>, also applies to the audit. (Ref: par. .A1–.A4.<del>A1</del>—<del>A3</del>)</p>	<p><b>Scope of This Section (Ref: par. <del>.1.01</del>)</b></p> <p><del>.A1</del> <del>A1</del> <u>AU-C S</u>section 200 defines the term <i>historical financial information</i> as information expressed in financial terms regarding a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past. <del>It also defines the term <i>financial statements</i> as a structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term <i>financial statements</i> ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.</del><sup>6</sup></p> <p><b>The deleted portion of par. .A1 has been moved to new par. A2.</b></p> <p><del>6.Paragraph 14 of section 200.</del></p>

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	<p><del>.A2</del> <del>A1</del> <del>to</del> <del>the</del> <del>AU-C</del> <del>section</del> <del>200</del> <del>also</del> defines the term <i>financial statements</i> as a structured representation of historical financial information, including <del>related notes disclosures</del>, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term <i>financial statements</i> ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement.<sup>1</sup> <u>Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement or in the notes, or incorporated therein by reference.</u></p>
	<p><del>.A3</del> <del>A2</del> Paragraph .A9 of <del>AU-C</del> section 200 provides guidance on what constitutes a complete set of financial statements and also provides the following examples of single financial statements, each of which would include related <del>notes disclosures</del>:</p> <ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of income or statement of operations</li> <li>• Statement of retained earnings</li> <li>• Statement of cash flows</li> <li>• Statement of assets and liabilities</li> <li>• Statement of changes in owner's equity</li> <li>• Statement of revenue and expenses</li> <li>• Statement of operations by product lines</li> </ul>
	<p><del>.A4</del> <del>A3</del> An attest engagement other than an audit of historical</p>

<sup>1</sup> Paragraph 14 of AU-C section 200.

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	<p>financial information is performed in accordance with Statements on Standards for Attestation Engagements. For example, AT-C section 215, <i>Agreed-Upon Procedures Engagements</i>, applies when reporting on the results of applying agreed-upon procedures to one or more specific elements of a financial statement, and AT-C section 210, <i>Review Engagements</i>, provides guidance when reporting on a review of one or more specific elements of a financial statement. <u>Paragraph .A8 describes circumstances in which an engagement performed in accordance with the attestation standards may be more practicable than an audit performed in accordance with this proposed SAS.</u></p>
<p><b>.2</b> <del>.02</del> This <u>proposed SAS section</u> does not apply to the report of a component auditor issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see <u>AU-C</u> section 600, <i>Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors]</i>)</p>	
<p><b>.3</b> <del>.03</del> This <u>proposed SAS section</u> does not override the requirements of the other AU-C sections nor does it purport to address all special considerations that may be relevant in the circumstances of the engagement.</p>	
<p><b>Effective Date</b>  <b>.4</b> <del>.04</del> <u>The proposed SAS will be section is</u> effective for audits of single financial statements or specific elements, accounts, or items of a financial statement as of or for periods ending on or after December 15, <del>2020</del><u>2012</u>. <u>Early implementation is not permitted.</u></p>	

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<p><b>Objective</b></p> <p><del>4.5</del> <del>.05</del> The objective of the auditor, when applying generally accepted auditing standards (GAAS) in an audit of a single financial statement or of a specific element, account, or item of a financial statement, is to address appropriately the special considerations that are relevant to</p> <ul style="list-style-type: none"> <li>a. the acceptance of the engagement;</li> <li>b. the planning and performance of that engagement; and</li> <li>c. forming an opinion and reporting on the single financial statement or the specific element, account, or item of a financial statement.</li> </ul>	
<p><b>Definitions</b></p> <p><del>5.6</del> <del>.06</del> For purposes of this section, reference to</p> <ul style="list-style-type: none"> <li>a. an <i>element of a financial statement</i> or an <i>element</i> means an <i>element, account, or item of a financial statement</i>. (Ref: par..A5<del>.A4</del>)</li> <li>b. a <i>single financial statement</i> or a <i>specific element of a financial statement</i> includes the related <u>disclosures</u><del>notes</del>. The related <u>disclosures</u><del>notes</del> ordinarily comprise <del>a summary of significant accounting policies and other</del> explanatory <del>or other descriptive</del> information relevant to the financial statement or the specific element.</li> </ul>	<p><b>Definitions</b></p> <p><i>Element of a Financial Statement (Ref: par. .6.06)</i></p> <p>.A5 <del>.A4</del> The appendix, “ Examples of Specific Elements, Accounts, or Items of a Financial Statement,” lists examples of an element of a financial statement. <b>[Not included for discussion at this time.]</b></p>
<p><del>6.7</del> <del>07</del> Reference to <i>generally accepted accounting principles</i> (GAAP) in GAAS means GAAP promulgated by bodies designated by the Council of the AICPA pursuant to the “Compliance With Standards Rule” (ET sec. 1.310.001) and the “ Accounting Principles</p>	

**Commented [DM1]:** Note to ASB – consider whether this part of the definition is necessary given the wording in paragraph A2.

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Rule ” (ET sec. 203 1.320.001) of the AICPA Code of Professional Conduct.	
<b>Requirements</b>	
<b>Considerations When Accepting the Engagement</b>	<b>Considerations When Accepting the Engagement</b>
<i>Application of GAAS (Ref: par. .A6.A8 .A5—A7)</i>	<i>Application of GAAS (Ref: par. .8–9.08—09)</i>
<p><del>7.8 .08</del> <u>AU-C</u> §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.<sup>24</sup> In the case of an audit of a single financial statement or a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements.</p>	<p><del>A6 .A5</del> <u>AU-C</u> §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.<sup>37</sup></p>
<p><del>8.9 .09</del> If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor should determine whether the audit of a single financial statement or a specific element of those financial statements in accordance with GAAS is practicable. The auditor should also determine whether the auditor will be able to perform procedures on interrelated items, as required by</p>	<p><i>Complying With Relevant Requirements</i>  <del>A7 .A6</del> Compliance with the requirements of AU-C sections relevant to the audit of a single financial statement or a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have</p>

<sup>24</sup> Paragraph .20 of AU-C section-200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

<sup>37</sup> Paragraphs .16, .20, and .24—.26 of AU-C section 200

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paragraph <del>14-13</del>	the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. Also see paragraph <del>.A19-A15</del> .
	<del>.A8</del> <del>.A7</del> In the case of an audit of a specific element of a financial statement, certain AU-C sections require audit work that may be disproportionate to the specific element being audited. For example, although the requirements of <a href="#">AU-C</a> section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i> , are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable (see paragraph <del>.A15-A12</del> ), complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or a specific element of a financial statement in accordance with GAAS may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable, <a href="#">such as an engagement performed in accordance with the Statements on Standards for Attestation Engagements</a> as described in paragraph <del>.A4-A3</del> .
<i>Acceptability of the Financial Reporting Framework (Ref: par. <del>.A9-.A13</del> <del>.A8</del> <del>-.A11</del>)</i>	<i>Acceptability of the Financial Reporting Framework (Ref: par. <del>.10-.11</del>)</i>
<del>.9,10,10</del> <a href="#">AU-C</a> <del>S</del> section 210, <i>Terms of Engagement</i> , requires the	<del>.A9</del> <del>A8</del> In the case of an audit of a single financial statement or a

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<p>auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.<sup>42</sup> In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should obtain an understanding of</p> <ul style="list-style-type: none"> <li>a. the purpose for which the single financial statement or specific element of a financial statement is prepared,</li> <li>b. the intended users, and</li> <li>c. the steps taken by management to determine that the application of the financial reporting framework is acceptable in the circumstance</li> </ul>	<p>specific element of a financial statement, the financial information needs of the intended users are relevant in determining the acceptability of the financial reporting framework applied in the preparation of the single financial statement or the specific element.</p>
<p><del>.10, .11, .14</del> The auditor's determination required by paragraph .10 should include consideration of whether the application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the specific element and the effect of material transactions and events on the information conveyed in the financial statement or the specific element.</p>	<p><del>.A10</del> <del>A9</del> A single financial statement or a specific element of a financial statement may be prepared in accordance with relevant requirements of a financial reporting framework established by an authorized or recognized standards-setting organization for the preparation of a complete set of financial statements (for example, 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). If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework that are relevant to the presentation of a single financial statement or a specific element of a financial statement that provides adequate disclosures.</p> <p><b>The remainder of extant par. A9 is in paragraph .A11.</b></p>
	<p><del>.A11</del> <del>A9</del> The determination of the acceptability of the applicable</p>

<sup>42</sup>. Paragraph .06a of [AU-C](#) section 210, *Terms of Engagement*.

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	<p>framework may also include consideration of the following:</p> <ul style="list-style-type: none"><li>• Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.</li><li>• Whether the single financial statement or the specific element of a financial statement will<ul style="list-style-type: none"><li>— comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element and the presentation of the financial statement or the specific element <a href="#">of a financial statement</a>, including the related <a href="#">disclosures</a><del>notes</del>. For example, when reporting on a schedule of long-term debt prepared in accordance with U.S. GAAP relevant to that schedule, the schedule of long-term debt, including the related notes, would be comparable to such information in financial statements prepared in accordance with U.S. GAAP.</li><li>— provide, if necessary to achieve fair presentation, disclosures beyond those specifically required by the framework or, in extremely rare circumstances, depart from a requirement of the framework.<sup>58</sup> A single financial statement or a specific element of a financial statement, including the related notes, that achieves a fair presentation includes all informative disclosures that are appropriate for the applicable financial reporting framework, including matters that affect their use, understanding, and interpretation.</li></ul></li></ul>

<sup>58</sup> See paragraph .14 of [AU-C](#) section 200 for a definition of financial reporting framework.

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	<p><b>.A12</b> <del>A10</del>—The auditor may be requested to audit an incomplete presentation but one that is otherwise in accordance with GAAP. For example, an entity wishing to sell a division or product line may present certain assets and liabilities, revenues, and expenses relating to the division or product line being sold. Incomplete presentations may also be required by a regulatory agency or a contract or an agreement. For example, a regulatory agency may require a schedule of gross income and certain expenses of an entity's real estate operation in which income and expenses are measured in accordance with GAAP, but <i>expenses</i> are defined to exclude certain items, such as interest, depreciation, and income taxes. Also, an acquisition agreement may specify a schedule of gross assets and liabilities of the entity measured in accordance with GAAP but limited to the assets to be sold and liabilities to be transferred pursuant to the agreement. These types of presentations are generally regarded as single financial statements, even though certain items may be excluded only to the extent necessary to meet the purpose for which they were prepared. The requirement in paragraph <del>.25-.24</del> is designed to avoid misunderstandings about the purpose for which the presentation is prepared.</p>
	<p><b>.A13</b> <del>A11</del> As indicated in paragraph <del>.A12.A10</del>, incomplete presentations may be required by a regulatory agency or a contract or an agreement. Paragraphs <del>.A3-.A4.A2-.A3</del> of <del>section 800</del> <u>proposed SAS <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i></u> provide guidance on the acceptability of the financial reporting framework when the regulatory or contractual basis of accounting is based on a general purpose framework, such as</p>

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	GAAP. The auditor may determine that it is more appropriate for the description of the applicable financial reporting framework to refer to the regulatory or contractual basis of accounting, rather than make reference to GAAP. As indicated in paragraph .10 <del>1</del> , if the presentation is prepared in accordance with a special purpose framework, <del>which includes the regulatory and contractual bases of accounting,</del> <u>proposed SAS <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> section 800</u> also applies to the audit.
<p><b>Form of Opinion</b></p> <p><del>.12</del> <u>AU-C section 210</u> requires that the agreed-upon terms of the audit engagement include reference to the expected form and content of any reports to be issued by the auditor.<sup>6</sup> In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor should consider whether the expected form of opinion is appropriate in the circumstances. (Ref: par. .A14)</p>	<p><b>Form of Opinion (Ref: par. .12)</b></p> <p><del>.A14</del> <u>The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations. Paragraph 20 of proposed SAS <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> sets out the requirements for the wording of the auditor’s opinion on special purpose financial statements, including the appropriate wording for special purpose financial statements prepared in accordance with a fair presentation or compliance framework, respectively.</u></p>
<p><b>Considerations When Planning and Performing the Audit</b></p>	<p><b>Considerations When Planning and Performing the Audit (Ref: par. .13-.14 <del>.12—13</del>)</b></p>
<p><del>.11, .13, .12</del> <u>AU-C S</u> section 200 states that GAAS is written in the context of an audit of financial statements; it is to be adapted as necessary in the circumstances when applied to audits of other</p>	<p><del>.A15</del> <del>.A12</del> 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.<sup>98</sup> Even when only a specific element of a financial statement is the subject of the audit, AU-C sections such as <u>AU-C</u></p>

<sup>6</sup> Paragraph .10 of AU-C section 210.

<sup>98</sup> Paragraph .20 of AU-C section 200.

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<p>historical financial information.<sup>37</sup> In planning and performing the audit of a single financial statement or a specific element of a financial statement, the auditor should adapt all AU-C sections relevant to the audit as necessary in the circumstances of the engagement. (Ref: par. <del>A12—A14</del> .A15-.A18</p>	<p>section 240, <i>Consideration of Fraud in a Financial Statement Audit</i>, <a href="#">AU-C</a> section 550, <i>Related Parties</i>, and <a href="#">AU-C</a> section 570 are, in principle, relevant. This is because the specific element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern assumption under the applicable financial reporting framework.</p>
	<p><del>A16</del> <a href="#">AU-C</a> section 260 requires the auditor to determine the appropriate person(s) within the entity’s governance structure with whom to communicate. Section 260 notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position. When a complete set of financial statements is also prepared by the entity, the person(s) responsible for the oversight of the preparation of the single financial statements or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.</p>
	<p><del>A16, A17, A13</del> Furthermore, GAAS is written in the context of an audit of financial statements; it is to be adapted as necessary in the circumstances when applied to the audit of a single financial statement or a specific element of a financial statement.<sup>9,40</sup> For example, written representations from management about the complete set of financial statements would be replaced by written representations about the presentation of the single financial statement or the specific element, in accordance with the applicable</p>

**Commented [DM2]:** Note to ASB – this paragraph was added in ISA 805 (Revised) (paragraph A11). ASB to consider whether to include it, and the appropriate placement of the paragraph.

<sup>37</sup> Paragraph .02 of [AU-C](#) section 200.

<sup>40</sup> Paragraph .02 of [AU-C](#) section 200

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	financial reporting framework.
	<p><del>.A17.A18</del> <del>A14</del> <del>When auditing</del> <u>Matters included in the auditor's report on the complete set of financial statements may have implications for the audit of a single financial statement or of an element of a financial statement (see paragraph .20). When planning and performing an audit of</u> a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the single financial statement or the specific element. GAAS, however, requires the auditor to plan and perform the audit of the single financial statement or specific element to obtain sufficient appropriate audit evidence on which to base the opinion on the single financial statement or the specific element</p>
<p><del>.12.14</del> <del>13</del> [13 in extant] In the case of an audit of a single financial statement or a specific element of a financial statement, the auditor should perform procedures on interrelated items as necessary to meet the objective of the audit. In the case of an audit of a specific element of a financial statement (Ref: par. <del>.A15</del>.A19)</p> <p>a. the auditor should, if the specific element is, or is based upon, the entity's stockholders' equity or the equivalent, perform procedures necessary to obtain sufficient appropriate audit evidence to enable the auditor to express an opinion about financial position, excluding matters related to classification or disclosure that are not relevant to the audit of the specific element.</p> <p>b. the auditor should, if the specific element is, or is based upon,</p>	<p><del>.A18.A19</del> <del>.A15</del> The individual financial statements that comprise a complete set of financial statements, and many of the <u>specific elements</u> of those financial statements, including their related <u>disclosures</u><del>notes</del>, are interrelated. For example, sales and receivables, inventory and payables, and buildings and equipment and depreciation each are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the single financial statement or the specific element in isolation. Consequently, paragraph .14-<del>13</del> requires the auditor to perform procedures on interrelated items as necessary to meet the objective of the audit. In the case of an audit of a specific element that is, or is based upon, the entity's stockholders' equity or net income (or the equivalent thereto), paragraph .14-<del>13</del> requires the auditor to</p>

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<p>the entity's net income or the equivalent, perform procedures necessary to obtain sufficient appropriate audit evidence to enable the auditor to express an opinion about financial position and results of operations, excluding matters related to classification or disclosure that are not relevant to the audit of the specific element.</p>	<p>perform procedures necessary to obtain sufficient appropriate audit evidence about financial position, or financial position and results of operations, respectively, because of the interrelationship between the specific element and the balance sheet accounts and the income statement accounts. However, matters related to classification or disclosure may not be relevant to the audit of the specific element; therefore, audit procedures on such matters may not be necessary in an audit of a specific element.</p>
<p><b>Materiality (Ref: par. .A20-A16)</b>  <del>.13.15.14</del> [14 in extant] <a href="#">AU-C</a> section 320, <i>Materiality in Planning and Performing an Audit</i>, requires the auditor to determine, when establishing the overall audit strategy, materiality for the financial statements as a whole.<sup>40</sup> In the case of an audit of a single financial statement, the auditor should determine materiality for the single financial statement being reported on rather than for the complete set of financial statements. In the case of an audit of one or more specific elements of a financial statement, the auditor should determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statement.</p>	<p><b>Materiality (Ref: par. .15.14)</b>  <del>.A19.A20.A16</del> The materiality determined for a single financial statement or a specific element of a financial statement differs from the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing, and extent of the audit procedures and the evaluation of uncorrected misstatements. In the case of an audit of a single financial statement, paragraph <del>.15.14</del> requires the auditor to determine materiality for the single financial statement being reported on rather than for the complete set of financial statements. In the case of an audit of one or more specific elements of a financial statement, the auditor's opinion is on each of the specific elements; therefore, paragraph <del>.15.14</del> requires the auditor to determine materiality for each individual element reported on rather than the aggregate of all elements or the complete set of financial statements. Consequently, an audit of one or more specific elements of a financial statement is usually more extensive than if the same information was being considered in conjunction with an audit of the complete set of financial statements.</p>

<sup>40</sup> Paragraph .10 of [AU-C](#) section 320, *Materiality in Planning and Performing an Audit*.

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<p><b>Forming an Opinion and Reporting Considerations</b></p>	<p><b>Forming an Opinion and Reporting Considerations (Ref: par. <del>.16-15</del>)</b></p>
<p><del>.14.16 .15</del> [15 in extant] When forming an opinion and reporting on a single financial statement or a specific element of a financial statement, the auditor should apply the requirements in <del>SAS section 700, Forming an Opinion and Reporting on Financial Statements or SAS Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA, and, when applicable, proposed SAS Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</del>, adapted as necessary in the circumstances of the engagement. (Ref: par. <del>A21-A22 .A17—A18</del>)</p>	<p><del>.A20.A21 .A17</del> Proposed SAS <i>Forming an Opinion and Reporting on Financial Statements and SAS Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA Section 700</i> requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.<sup>11++</sup> In the case of an audit of a single financial statement or a specific element of a financial statement, it is important, in view of the requirements of the applicable financial reporting framework, that the disclosures enable the intended users to understand</p> <ul style="list-style-type: none"> <li>• the information conveyed in the financial statement or the specific element and</li> <li>• the effect of material transactions and events on the information conveyed in the financial statement or the specific element.</li> </ul>
	<p><del>.A21.A22 .A18</del> The exhibit, “Illustrations of Auditor's Reports on a Single Financial Statement and a Specific Element of a Financial Statements,” contains illustrations of auditor's reports.</p>

**Commented [DM3]:** Note to ASB – ISA 805 (Revised) has an additional sentence as follows:

*Other illustrations of auditor's reports may be relevant to reporting on a single financial statement or on a specific element of a financial statement (see, for example, the Appendices to ISA 700 (Revised), ISA 705 (Revised), ISA 570 (Revised), ISA 720 (Revised), and ISA 706 (Revised)).*

ASB to consider whether this would be helpful in the proposed SAS, or might be confusing to auditors.

<sup>11++</sup> Paragraph ~~1346e~~ of ~~proposed SAS section 700, Forming an Opinion and Reporting on Financial Statements and paragraph 37 of SAS Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA~~.

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<p><b><i>Reporting on the Entity's Complete Set of Financial Statements and a Single Financial Statement or a Specific Element of Those Financial Statements</i></b></p>	
<p><del>15.17</del> <del>16</del> [16 in extant] If, in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor undertakes an engagement to audit a single financial statement or a specific element of a financial statement, the auditor should</p> <ul style="list-style-type: none"> <li>a. issue a separate auditor's report and express a separate opinion for each engagement.</li> <li>b. indicate in the report on a specific element of a financial statement the date of the auditor's report on the complete set of financial statements and the nature of opinion expressed on those financial statements under an appropriate heading.</li> </ul>	
<p><del>16.18</del> <del>17</del> [17 in extant] Except as required by paragraph <del>22.21</del>, an audited single financial statement or an audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements, provided that the presentation of the single financial statement or the specific element is sufficiently differentiated from the complete set of financial statements. The auditor should also differentiate the report on the single financial statement or the specific element of a financial statement from the report on the complete set of financial statements.</p>	
<p><del>17.19</del> <del>18</del> [18 in extant] If the auditor concludes that the presentation of the audited single financial statement or the audited specific element does not differentiate it sufficiently from the complete set of financial</p>	

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<p>statements, as described in paragraph .18-<del>17</del>, the auditor should ask management to remedy the situation. The auditor should not release the auditor's report containing the opinion on the single financial statement or the specific element of a financial statement until satisfied with the differentiation.</p>	
<p><del><i>Modified Opinion, Emphasis of Matter Paragraph, or Other Matter Paragraph in the Auditor's Report on the Entity's</i></del> <u><i>Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements</i></u></p>	<p><del><i>Modified Opinion, Emphasis of Matter Paragraph, or Other Matter Paragraph in the Auditor's Report on the Entity's</i></del> <u><i>Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: par. .20-.24-<del>19</del>-.23)</i></u></p>
<p><del>.18.20 .19</del> If <del>the opinion in</del> the auditor's report on an entity's complete set of financial statements <u>includes a modified opinion, an emphasis of- matter or other-matter paragraph, a going concern section, a communication of key audit matters, or a statement describing an uncorrected material misstatement of other information, is modified,</u> the auditor should <u>consider the implications, if any, determine the effect that these matters this may have on-for the audit auditor's opinion on-of thea</u> single financial statement or <u>of the a</u> specific element of <u>at these</u> financial statements and for the auditor's report thereon, <del>in</del> accordance with section 705, <i>Modifications to the Opinion in the Independent Auditor's Report.</i> (Ref: par..A23-.A26)</p> <p>This paragraph was added to ISA 805 (Revised) and addresses various circumstances related to the auditor's report on the complete set of financial statements that would need to be considered when also reporting on a single financial statement or element.</p>	<p><del>.A23 .</del> <b>ISA 805.A23</b> Paragraph .20 <u>requires the auditor to consider the implications, if any, of certain matters included in the auditor's report on the complete set of financial statements for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon. Considering whether a matter included in the auditor's report on the complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgment.</u></p>
	<p><del>.A22.A24</del> <b>ISA 805.A24</b> <u>Factors that may be relevant in considering</u></p>

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	<p><u>those implications include:</u></p> <ul style="list-style-type: none"> <li>• <u>The nature of the matter(s) being described in the auditor’s report on the complete set of financial statements and the extent to which it relates to what is included in the single financial statement or a specific element of a financial statement.</u></li> <li>• <u>The pervasiveness of the matter(s) described in the auditor’s report on the complete set of financial statements.</u></li> <li>• <u>The nature and extent of the differences between the applicable financial reporting frameworks.</u></li> <li>• <u>The extent of the difference between the period(s) covered by the complete set of the financial statements compared to the period(s) or dates of the single financial statement or the element of a financial statement.</u></li> <li>• <u>The time elapsed since the date of the auditor’s report on the complete set of the financial statements.</u></li> </ul>
	<p><u>.A25 ISA 805.A26. Key audit matters that are communicated in the auditor’s report on the complete set of financial statements may have implications for an audit of a single financial statement or the specific element of the financial statement. The information included in the Key Audit Matters section about how the matter was addressed in the audit of the complete set of financial statements may be useful to the auditor’s determination of how to address the matter when it is relevant to the audit of the single financial statement or the specific element of the financial statement.</u></p>
	<p><u>.A26 From ISA 805.A20 WhenIf the auditor is engaged to</u></p>

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	<p><u>communicate key audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, proposed SAS Communicating Key Audit Matters in the Independent Auditor's Report applies in its entirety.</u></p>
<p><i>Modifications to the Opinion in the Independent Auditor's Report.</i></p> <p><del>19.21</del> <del>20</del> In the case of an audit of a specific element of a financial statement, if the auditor's modified opinion on the entity's complete set of financial statements as a whole is relevant to the audit of the specific element, the auditor should (Ref: <u>par. A27-A29</u> <del>A19-A20</del>)</p> <ol style="list-style-type: none"> <li>a. express an adverse opinion on the specific element when the modification of the auditor's opinion on the complete set of financial statements as a whole arises from a material misstatement in such financial statements.</li> <li>b. disclaim an opinion on the specific element when the modification of the auditor's opinion on the complete set of financial statements as a whole arises from an inability to obtain sufficient appropriate audit evidence.</li> </ol>	<p><del>A23, A27, A19</del> In the case of an audit of a specific element of a financial statement, if the opinion in the auditor's report on an entity's complete set of financial statements is modified and the modification is relevant to the audit of the specific element, the modification is material and pervasive with respect to the specific element. Modifications related to an interrelated item of the specific element may also be relevant to the audit of the specific element. Conversely, modifications related solely to classification or disclosure may not be relevant to the audit of the specific element.</p>
	<p><del>A28</del> <u>ISA 805.A25</u> For example, when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the income statement, or if the specific element of the</p>

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	<p><u>financial statement relates to accounts receivable.</u></p>
	<p><del>A24.A29</del> <del>A20</del> Even when <u>certain matters included the modified opinion, emphasis of matter paragraph, or other matter paragraph</u> in the auditor's report on the entity's complete set of financial statements does not <u>have implications for the audit of, or for the auditor's report on relate to the audited single financial statement or the specific audited element of a financial statement</u>, the auditor may <del>nevertheless</del> deem it appropriate to refer to the <u>matter modification</u> in an other-matter paragraph in an auditor's report on the single financial statement or <u>on the specific element of a financial statement (see proposed SAS Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report)</u>. <u>For example, the auditor may consider it appropriate to refer in the auditor's report on because the auditor judges it to be relevant to the users' understanding of the audited single financial statement or the audited a specific element of the financial statement to a going concern section included in or the related auditor's report on the complete set of financial statements. (see section 706).</u></p>
<p><b><u>Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements</u></b></p>	
<p><del>20.22</del> <del>21</del> If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, an unmodified opinion on a specific element in the same auditor's report would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of</p>	

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<p>financial statements as a whole and would be tantamount to expressing a piecemeal opinion. In the context of a separate audit of a specific element <del>of that is included in</del> those financial statements, when the auditor nevertheless considers it appropriate to express an unmodified opinion on that specific element, the auditor should only do so if</p> <ul style="list-style-type: none"> <li>a. that opinion is expressed in an auditor's report that is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion and</li> <li>b. the <del>specific</del> element does not constitute a major portion of the entity's complete set of financial statements or the specific element is not, or is not based upon, the entity's stockholders' equity or net income or the equivalent.</li> </ul>	
<p><del>.21.23</del> <del>.22</del> A single financial statement is deemed to constitute a major portion of a complete set of financial statements. Therefore, the auditor should not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole, even if the auditor's report on the single financial statement is neither published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion. (Ref: par. .A30-<del>A24</del>)</p> <p><b>If the auditor expresses an adverse or disclaimer of opinion on a complete set of f/s, both ISA 805 and AU-C 805 do not permit the</b></p>	<p><del>.A25.A30</del> In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, when relevant, and an unmodified opinion regarding the financial position are permitted because the disclaimer of opinion is being issued on the results of operations and cash flows only and not on the financial statements as a whole. <sup>1212</sup></p>

<sup>12</sup> ~~42~~ Paragraph .A17 of [AU-C](#) section 510, *Opening Balances—Initial Audit Engagements, Including Reaudit Engagements*, and paragraph .A17 of section 706, *Modifications to the Opinion in the Independent Auditor's Report*.

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<p><b>auditor to express an unmodified opinion on a <u>single f/s</u>.</b></p>	
<p><del>.22.24</del> <del>.23</del> If the auditor's report on an entity's complete set of financial statements includes an emphasis-of-matter paragraph or an other-matter paragraph that is relevant to the audit of the single financial statement or the specific element, the auditor should include a similar emphasis-of-matter paragraph or an other-matter paragraph in the auditor's report on the single financial statement or the specific element, in accordance with <u>proposed SAS section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report</u>. (Ref: par. <del>.A27</del><del>.A29</del>)</p>	
<p><b><i>Reporting on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles (Ref: par. <del>.A31</del>–<del>.A32</del>.<del>A22</del>—<del>A23</del>)</i></b></p>	<p><b><i>Reporting on an Incomplete Presentation but One That Is Otherwise in Accordance With GAAP (Ref: par. <del>.25</del>–<del>24</del>)</i></b></p>
<p><del>.23.25</del> <del>.24</del> When the auditor reports on an incomplete presentation but one that is otherwise in accordance with GAAP, the auditor should include an emphasis-of-matter paragraph<sup>13 5</sup> in the auditor's report that</p> <ul style="list-style-type: none"> <li>a. states the purpose for which the presentation is prepared and refers to a note in the financial statements that describes the basis of presentation and</li> <li>b. indicates that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, or expenses</li> </ul>	<p><del>.A26</del>.<del>A31</del> <del>.A22</del> As described in paragraph <del>.A12</del>–<del>A10</del>, the auditor may be requested to audit an incomplete presentation but one that is otherwise in accordance with GAAP. When the auditor reports on an incomplete presentation but one that is otherwise in accordance with GAAP, paragraph <del>.25</del>–<del>24</del> requires the auditor to include an emphasis-of-matter paragraph in the auditor's report, which alerts users as to the purpose of the presentation and that the presentation is incomplete. The <b>exhibit</b> illustrates such a paragraph.</p>
	<p><del>.A27</del>.<del>A32</del> <del>.A23</del> If the presentation is prepared in accordance with a regulatory or contractual basis of accounting, the requirement in paragraph <del>.25</del>–<del>24</del> does not apply. In such circumstances, refer to</p>

<sup>13 5</sup>.Paragraphs .06-.07 of proposed SAS section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report.

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	<p><a href="#">proposed SAS, <i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> section 800</a>. See also paragraph .A13A++ of this <a href="#">proposed SAS section</a>.</p>

~~.A33~~ ~~A25~~

**Exhibit — Illustrations of Auditor's Reports on a Single Financial Statement and a Specific Element of a Financial Statement (Ref: par. ~~.A22~~~~A18~~ and ~~.A31~~~~A22~~)**

For the January 2019 ASB meeting, only Illustration 1 has been revised to reflect proposed changes to AU-C 800 and AU-C 700.

**Illustration 1** — An Auditor's Report on a Single Financial Statement Prepared in Accordance With a General-Purpose Framework

**Illustration 2** — An Auditor's Report on a Single Financial Statement Prepared in Accordance With a Special Purpose Framework

**Illustration 3** — An Auditor's Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a General-Purpose Framework

**Illustration 4** — An Auditor's Report on a Specific Element, Account, or Item of a Financial Statement Prepared in Accordance With a Special Purpose Framework

**Illustration 5** — An Auditor's Report on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles

**Illustration 1— An Auditor's Report on a Single Financial Statement Prepared in Accordance With a General-Purpose Framework**

Circumstances include the following:

- Audit of a balance sheet (that is, a single financial statement).
- The balance sheet has been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report

[Appropriate Addressee]

### Report on the Audit of the Financial Statement<sup>1</sup>

#### Opinion

We have audited the ~~accompanying~~ balance sheet of ABC Company as of December 31, 20X1, and the related notes (the financial statement).<sup>2</sup>

In our opinion, the accompanying financial statement referred to above 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 Opinion

We conducted our audit 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 required to be independent of ABC Company and to meet 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.

#### ~~Management's Responsibility~~ Responsibilities of Management for the Financial Statement

<sup>1</sup> The subtitle "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

<sup>2</sup> The auditor may refer to the financial statement as the *balance sheet*.

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

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 ABC Company's ability to continue as a going concern.

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

~~Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.~~

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is 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 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 the financial statement.

In performing an audit in accordance with GAAS, we:

- Use professional judgment and exercise professional skepticism throughout the audit.

**Commented [DM4]:** Note to ASB – this illustrative report includes going concern wording in both management's and the auditor's responsibilities sections. The Task Force discussed the alternative of being silent on going concern in 805 reports. This alternative would not affect auditor performance obligations under AU-C 570 (i.e., the auditor would still need to determine whether AU-C 570 applies in the circumstances), and would be a better approach for government entities.

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- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- 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.
- Evaluate the An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 evaluateing the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and internal control related matters identified during our audit.

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

~~Opinion~~

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~~In our opinion, the financial statement referred to above 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.~~

**Report on Other Legal and Regulatory Requirements**

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

[~~Auditor's signature~~ Signature of the auditor's firm]

[~~Auditor's city~~ City and state where the auditor's report is issued]

[~~Date of the auditor's report~~]