



## Agenda Item 2B (3)

### Comparison of AU-C 700 Report Requirements to AU-C 935

Relevant Requirements from AU-C section 700	Proposed Revisions to AU-C section 935	Comments
<p>.21 The auditor's report should be in writing. (Ref: par. .A23-.A24)</p>	<p>.30 The auditor's report on compliance should be in writing and include the following <u>elements:</u></p>	
<p><i>Auditor's Report for Audits Conducted in Accordance With GAAS</i></p> <p><i>Title</i></p> <p>.22 The auditor's report should have a title that clearly indicates that it is the report of</p>	<p>a. <u>Title. The auditor's report should have a A title that clearly indicates that it is the report of an independent auditor</u><del>includes the word independent.</del></p>	

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an independent auditor. (Ref. par. <b>Error! eference source not found.</b> )		
<p><i>Addressee</i></p> <p><b>.23</b> The auditor’s report should be addressed, as appropriate, based on the circumstances of the engagement. (Ref: par. .A26)</p>	<p><i>b. Addressee.</i> <u>The auditor’s report should be addressed, as <del>An addressee</del> appropriate, for based on</u> the circumstances of the engagement.</p>	
	<p><i>c. Heading.</i> <u>The combined auditor’s report should have the</u> heading “Report on Compliance”</p>	
<p><i>Auditor’s Opinion</i></p> <p><b>.24</b> The first section of the auditor’s report should include the auditor’s opinion and should have the heading “Opinion.”</p> <p><b>.25</b> The “Opinion” section of the auditor’s report should also do the following: (Ref: par. .A27–.A29)</p>	<p><i>de. Opinion.</i> <u>An introductory paragraph that includes The first section of the auditor’s report should include the auditor’s opinion and should have a heading that includes the word “Opinion” and indicates the level specified by the governmental audit requirement. The “Opinion” section of the auditor’s report should also do the following (Ref: par A33A):</u></p>	<p>Revised to address governmental requirement to express the opinion at the level specified by the governmental audit requirement.</p> <p>Added the following application material to address the wording of the heading.</p> <p><b>.A33A</b> An appropriate heading for the “Opinion” section indicates the level specified by the governmental</p>

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		audit requirement. For example, an appropriate heading for reports on compliance audits under the Uniform Guidance would be “Opinion on Each Major Federal Program.” The “Opinion” heading would be “Opinions” when there are multiple programs are being opined on.
<p><i>a.</i> Identify the entity whose financial statements have been audited.</p>	<p><i>i.</i> <del>Identification of</del>Identify the one or more government programs covered by the compliance audit or reference to a separate schedule containing that information</p>	

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b. State that the financial statements have been audited.	<u>ii. State the entity's compliance with the applicable compliance requirements has been audited</u>	
c. Identify the title of each statement that the financial statements comprise.	<u>iii. <del>Identification of</del> Identify the applicable compliance requirements or include a reference to where they can be found</u>	
d. Refer to the notes.		Not applicable
e. Specify the dates of or periods covered by each financial statement that the financial statements comprise.	<u>iv. <del>Specify Identification of</del> the period covered by the report</u>	
<b>.26</b> When expressing an unmodified opinion on financial statements, the auditor's opinion should state that, in the auditor's opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [ <i>the applicable financial reporting framework</i> ]. (Ref: par. .A17 and .A30–.A33)	<u>vg. A section with the heading "Opinion" When expressing an unmodified opinion, state that, in <del>cludes</del> the auditor's opinion, at the level specified by the governmental audit requirement, <del>on whether</del> the entity</u>	

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	complied, in all material respects, with the applicable compliance requirements.	
.27 The auditor’s opinion should identify the applicable financial reporting framework and its origin. (Ref: par. .A34)		
<p><i>Basis for Opinion</i></p> <p>.28 The auditor’s report should include a section, directly following the “Opinion” section, with the heading “Basis for Opinion,” that does the following: (Ref. par. .A35)</p>	<p><u><i>e. Basis for Opinion. The auditor’s report should include a A-section, directly following the “Opinion” section, with the heading “Basis for Opinion,” that does the following:</i></u></p>	
<p>a. States that the audit was conducted in accordance with generally accepted auditing standards and identifies the United States of America as the country of origin of those standards (Ref. par. <b>Error! Reference source not found.</b>–<b>Error! Reference source not found.</b>)</p>	<p><u>i. States that the compliance audit was conducted in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in <i>Government Auditing Standards</i> issued by the Comptroller General of the United States, and the governmental audit requirement</u></p>	

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<p><i>b.</i> Refers to the section of the auditor’s report that describes the auditor’s responsibilities under GAAS</p>	<p><u><a href="#">ii. Refers to the section of the auditor’s report that describes the auditor’s responsibilities under GAAS, Government Auditing Standards, and the governmental audit requirement</a></u></p>	
<p><i>c.</i> Includes a statement that the auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities, in accordance with the relevant ethical requirements relating to the audit (Ref. par. <b>Error! eference source not found.–Error! Reference source not found.</b>)</p>	<p><u><a href="#">iii. Includes a statement that the auditor is required to be independent of the entity and to meet the auditor’s other ethical responsibilities in accordance with the relevant ethical requirements relating to the audit</a></u></p>	
<p><i>d.</i> States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion</p>	<p>iv. <del>A statement that</del><u>States whether</u> the auditor believes <u>the audit evidence the auditor has obtained is sufficient and appropriate to provide a</u> basis for the auditor’s opinion</p>	Moved from 30eiv

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	v. <del>A statement</del> States that the compliance audit does not provide a legal determination of the entity's compliance	Moved from 30ev
<p><i>Going Concern</i></p> <p><b>.29</b> When applicable, the auditor should report in accordance with AU-C section 570, <i>The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern</i>.</p> <p><i>Key Audit Matters</i></p> <p><b>.30</b> When the auditor is engaged to communicate key audit matters, the auditor should do so in accordance with section 701 of this SAS. (Ref. par. .A40)</p>		Neither going concern nor key audit matters are applicable to compliance audit

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<p><i>Responsibilities of Management for the Financial Statements</i></p> <p>.31 The auditor’s report should include a section with the heading “Responsibilities of Management for the Financial Statements.”</p> <p>.32 This section of the auditor’s report should describe management’s responsibility for the following:</p> <p>a. The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error (Ref: par. <b>Error! Reference source not found.</b>)</p> <p>b. When required by the applicable financial reporting framework, the evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern <i>[for</i></p>	<p><del>¶</del>. <u>Management’s Responsibilities. The auditor’s report should include a A-section with the heading “Responsibilities of Management for Compliance Management’s Responsibility.” This section of the auditor’s report should describe management’s responsibility that includes a statement that for compliance with the applicable compliance requirements is the responsibility of the entity’s management and for the design, implement, and maintain effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to government programs.</u></p> <p>If the document containing the auditor’s report contains a separate statement by management about its responsibility for the applicable compliance requirements, the auditor’s report should not include a reference to such statement by management.</p>	



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<p><i>the time period set by the applicable financial reporting framework, as applicable].</i></p> <p><b>.33</b> The description about management’s responsibility for the financial statements in the auditor’s report should not reference a separate statement by management about such responsibilities, even if such a statement is included in a document containing the auditor’s report. (Ref: par. <b>Error! Reference source not found.</b>)</p>		
<p><i>Auditor’s Responsibilities for the Audit of the Financial Statements</i></p> <p><b>.34</b> The auditor’s report should include a section with the heading “Auditor’s Responsibilities for the Audit of the Financial Statements.”</p> <p><b>.35</b> This section of the auditor’s report should do the following: (Ref. par. .A43)</p>	<p><i>eg. <u>Auditor Responsibilities</u>. The auditor’s report should include <del>A</del> section with the heading “Auditor’s <u>Responsibilities for the Audit of ComplianceResponsibility</u>” that includes the following statements:</i></p>	
<p><i>a.#.</i> State that the objectives of the auditor are to</p>	<p><i>i. <u>State that the objectives of the auditor are to</u></i></p>	

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	<p><del>ii. A statement that the compliance audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <i>Government Auditing Standards</i>, and the governmental audit requirement</del></p>	Moved to “Basis for Opinion” section
<p>i. obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (Ref: par. <b>Error! eference source not found.</b>)</p>	<p>1. <a href="#">obtain reasonable assurance about whether material noncompliance with applicable compliance requirements occurred, and</a></p>	
<p>ii. issue an auditor’s report that includes the auditor’s opinion.</p>	<p>2. <a href="#">A statement that the auditor’s responsibility is to</a> express an opinion on the entity's compliance with the applicable compliance requirements based on the compliance audit</p>	
<p>b. State that reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in</p>	<p><a href="#">iii. State that 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</a></p>	

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accordance with GAAS will always detect a material misstatement when it exists. (Ref. par. <b>Error! Reference source not found.</b> )	<u>with GAAS, Government Auditing Standards, and [the governmental audit requirement] will always detect material noncompliance when it exists.</u>	
c. State that 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.	<u>iv. State that the risk of not detecting material noncompliance 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</u>	
d. State that 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 these financial statements. <sup>1</sup> (Ref. par. <b>Error! Reference source not found.</b> )	<u>v. State that noncompliance is considered material to the entity’s compliance with the applicable compliance requirements if, individually or in the aggregate, it could reasonably be expected to influence the decisions of users made on the basis of the compliance report</u>	Note: is this appropriate? Material noncompliance is defined as “a failure to follow compliance requirements ... that is quantitatively or qualitatively material, either individually or when aggregated with other noncompliance, to the affected government program.”  However, this definition addresses that materiality

<sup>1</sup> Paragraph .02 of AU-C section 320, *Materiality in Planning and Performing an Audit*.

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		includes qualitative and quantitative factors and noncompliance is considered individually and in the aggregate, but not what the consideration about whether noncompliance is material entails..
<b>.36</b> The “Auditor’s Responsibilities for the Audit of the Financial Statements” section of the auditor’s report should further describe an audit by stating that, in performing an audit in accordance with GAAS, the auditor’s responsibilities are to:	<u>vi. Describe an audit by stating that, in performing an audit in accordance with GAAS, Government Auditing Standards, and the [governmental audit requirement], the auditor’s responsibilities are to:</u>	
<i>a.</i> Exercise professional judgment and maintain professional skepticism throughout the audit.	<u>1. Exercise professional judgment and maintain professional skepticism throughout the audit.</u>	
<i>b.</i> Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error,	<u>iii-2. Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and</u>	

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<p>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 statements.</p>	<p><u>perform audit procedures responsive to those risks. Such procedures include <del>A statement that the compliance audit included</del> examining, on a test basis, evidence <del>about</del> regarding the entity's compliance with the <del>those applicable compliance</del> requirements and performing such other procedures as the auditor considered necessary in the circumstances</u></p>	
<p>c. 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 the entity's internal control. Accordingly, no such opinion is expressed.</p> <p>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, the auditor should omit the following: "but not for</p>	<p><u>3. Obtain an understanding of the applicable compliance requirements and the entity's internal control over compliance with the applicable compliance requirements in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with <i>[the governmental audit requirement]</i>, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over</u></p>	<p>Includes phrase "and to test and report on internal control over compliance in accordance with <i>[the governmental audit requirement]</i>" for combined report purposes</p>

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<p>the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, no such opinion is expressed.”</p>	<p><u><a href="#">compliance. Accordingly, no such opinion is expressed.</a></u></p>	
<p><i>d.</i> Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.</p> <p><i>e.</i> Conclude whether, in the auditor’s judgment, there are 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.</p>		<p>Not applicable</p> <p>Not applicable</p>
<p><b>.37</b> The “Auditor’s Responsibilities for the Audit of the Financial Statements” section of the auditor’s report should also state that the auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain</p>	<p><u><a href="#">v. State that the auditor is required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and certain internal control–</a></u></p>	<p>Note: the term “significant audit findings” is not included in the compliance report because of concerns about confusion with the term “audit findings” as defined in</p>

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internal control–related matters that the auditor identified during the audit.	<a href="#">related matters that the auditor identified during the audit.</a>	AU-C section 935. See Issues Paper.
	<del>iv. A statement that the auditor believes the compliance audit provides a reasonable basis for the auditor’s opinion</del>	Moved to “Basis for Opinion” section
	<del>v. A statement that the compliance audit does not provide a legal determination of the entity’s compliance</del>	Moved to “Basis for Opinion” section
	<del>f. If noncompliance results in a modified opinion, a section with an appropriate heading, indicating the basis for the modified opinion that includes a description of such noncompliance, or a reference to a description of such noncompliance in an accompanying schedule.<sup>fn 5</sup> (Ref: <a href="#">par. .A34</a>)</del>	Moved to new paragraph 34A.

<sup>fn 5</sup> Paragraph .17 of section 705, *Modifications to the Opinion in the Independent Auditor’s Report*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]

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	<p><del>g. A section with the heading “Opinion” that includes the auditor’s opinion, at the level specified by the governmental audit requirement, on whether the entity complied, in all material respects, with the applicable compliance requirements.</del></p>	Moved to “Opinion” section
	<p><i>h.</i> If <del>other</del> noncompliance that <u>does not result in a modified opinion but</u> is required to be reported by the governmental audit requirement is identified <del>(that is, noncompliance that does not result in a modified opinion)</del>, an other-matter paragraph<sup>fn 6</sup> that includes a description of such noncompliance or a reference to a description of such noncompliance in an accompanying schedule. (Ref: <a href="#">par. .A34</a>)</p>	
<p><i>Other Reporting Responsibilities</i></p> <p><b>.38</b> If the auditor addresses other reporting responsibilities in the auditor’s report on the</p>	<p><i>i. Other Reporting Responsibilities.</i> The auditor’s report on internal control over compliance should include a section with the</p>	

<sup>fn 6</sup> Paragraph .08 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*. [Footnote added, October 2011, to reflect conforming changes necessary due to the issuance of SAS No. 123.]



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<p>financial statements that are in addition to the auditor’s responsibility under GAAS, these other reporting responsibilities should be addressed in a separate section in the auditor’s report with the heading “Report on Other Legal and Regulatory Requirements” or another heading that is appropriate to the content of the section. (Ref: par. .A47–.A48)</p> <p><b>.39</b> If the auditor’s report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs .22–.37 of this section should be included under a section with the heading “Report on the Audit of the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” should follow the “Report on the Audit of the Financial Statements.” (Ref: par. .A49)</p>	<p>heading “Report on Internal Control Over Compliance” that does the following:</p> <ul style="list-style-type: none"> <li>i. States that the auditor’s consideration of the entity’s internal control over compliance was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses in internal control over compliance.</li> <li>ii. Includes the definition of <i>deficiency in internal control over compliance</i> and <i>material weakness in internal control over compliance</i>.</li> <li>iii. Describes any identified material weaknesses in internal control over compliance or a reference to an accompanying schedule containing such a description.</li> <li>iv. If significant deficiencies in internal control over compliance were identified, includes the definition of <i>significant deficiency in internal control over compliance</i> and a description of the deficiencies or a reference</li> </ul>	

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	<p>to an accompanying schedule containing such a description.</p> <p>v. If no material weaknesses in internal control over compliance were identified, includes a statement to that effect.</p>	
	<p><del>h</del><sup>j</sup> If the criteria used to evaluate compliance are</p> <p>i. established or determined by contractual agreement or regulatory provisions that are developed solely for the parties to the agreement or regulatory agency responsible for the provisions or</p> <p>ii. available only to the specified parties,</p> <p>an alert describing the purpose of the auditor's report and that the report is not suitable for any other purpose, as required</p>	

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	by <a href="#">section 905</a> , <i>Alert That Restricts the Use of the Auditor's Written Communication</i> . <sup>fn 7</sup>	
<p><i>Signature of the Auditor</i></p> <p><b>.40</b> The auditor's report should include the manual or printed signature of the auditor's firm. (Ref: par. .A50-.A52)</p>	<p><i>k.</i> The manual or printed signature of the auditor's firm.</p>	
<p><i>Auditor's Address</i></p> <p><b>.41</b> The auditor's report should name the city and state where the auditor's report is issued. (Ref: par. .A53)</p>	<p><i>l.</i> The city and state where the auditor practices.</p>	

<sup>fn 7</sup> See [paragraphs .06a-b](#), [.11](#), and [.A11](#) of section 905, *Alert That Restricts the Use of the Auditor's Written Communication*. [Footnote added, effective for the auditor's written communications issued on or after December 15, 2012, by SAS No. 125.]

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<p><b>.42</b> The auditor’s report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements, including evidence of the following: (Ref. par. .A54)</p> <p><i>a.</i> All the statements and disclosures that the financial statements comprise have been prepared.</p> <p><i>b.</i> Management has asserted that it has taken responsibility for those financial statements.</p>	<p><i>m.</i> The date of the auditor’s report. <u>The auditor’s report should be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on compliance, including evidence that management has asserted that it has identified the entity’s government programs and has taken responsibility for understanding and complying with the applicable compliance requirements.</u></p>	<p>Note: there is no equivalent in a compliance audit to “all the statements and disclosures have been prepared”.</p>