



Agenda Item 3G (Revised)

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# EXPOSURE DRAFT

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## PROPOSED STATEMENT ON AUDITING STANDARDS

### AMENDMENTS TO AU-C SECTIONS 800, 805, AND 810 TO INCORPORATE AUDITOR REPORTING CHANGES FROM SAS NO. 134

*Amends the following sections of Statement on Auditing Standards (SAS) No. 122, Statements on Auditing Standards: Clarification and Recodification:*

- *Section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, as amended (AICPA, Professional Standards, AU-C sec. 800)*
- *Section 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement, as amended (AICPA, Professional Standards, AU-C sec. 805)*
- *Section 810, Engagements to Report on Summary Financial Statements (AICPA, Professional Standards, AU-C sec. 810)*

**Month XX, 2019**

**Comments are requested by Month XX, 2019**

**Prepared by the AICPA Auditing Standards Board for comment from persons interested in auditing and reporting issues.**

**Comments should be addressed to Sharon Macey at [Sharon.Macey@aicpa-cima.com](mailto:Sharon.Macey@aicpa-cima.com).**



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## CONTENTS

	Page
<b>Explanatory Memorandum</b>	
Introduction .....	5
Background.....	5
Effective Date .....	8
Significant Changes From Existing Standards .....	8
Guide for Respondents.....	9
Supplements to the Exposure Draft .....	10
Comment Period .....	10
Auditing Standards Board Members.....	11
<b>Exposure Draft</b>	
Proposed Statement on Auditing Standards (SAS) <i>Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134</i> .....	
<i>Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks</i> .....	
<i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement</i> .....	
<i>Engagements to Report on Summary Financial Statements</i> .....	



## Explanatory Memorandum

### Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Amendments to AU-C Sections 800, 805, and 810 to Incorporate Auditor Reporting Changes from SAS No. 134*.

If issued as final, the proposed SAS will amend the following sections of SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended:

- Section 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*<sup>1</sup>
- Section 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*
- Section 810, *Engagements to Report on Summary Financial Statements*

In this explanatory memorandum, these sections of the auditing standards are sometimes referred to as “the AU-C 800 series.”

### Background

#### Auditor Reporting

In May 2019 the ASB issued SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*. The overall objective of SAS No. 134 was to update the form and content of auditors’ reports on the financial statements of non-issuers to be more consistent with the standards of the International Auditing and Assurance Standards Board and recent updates to the Public Company Accounting Oversight Board auditing standards. This proposed SAS aligns the AU-C 800 series with the relevant auditor reporting standards -in SAS No. 134, ~~including aligning the effective dates.~~

The following are some of the more significant changes introduced -by SAS No. 134, categorized by the AU-C section in which the change occurs:

AU-C Section 700, *Forming an Opinion and Reporting on Financial Statements*

<sup>1</sup> All AU-C sections can be found in AICPA *Professional Standards*.

- ~~Moves~~ Requires the “Auditor’s Opinion” section of the report to be the first section~~the beginning~~ of the report for enhanced visibility, and; introduces~~requires~~ the “Basis for Opinion” section of the report ~~that~~ to immediately follows the ~~paragraph containing the a~~Auditor’s ~~opinion~~Opinion section
- Requires the auditor’s report to include 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.
- Enhances auditor reporting related to going concern, by requiring a description of the respective responsibilities of management, when required by the applicable financial reporting framework, and of the auditor ~~for relating to~~ going concern.
- Expands the description of the auditor’s responsibilities, including the auditor’s responsibilities relating to professional judgment and professional skepticism, and the auditor’s communications with those charged with governance

~~New~~ AU-C Section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

- This new AU-C section addresses the auditor’s responsibility to communicate key audit matters (KAMs) in the auditor’s report when the auditor is engaged to do so. (It does not require the communication of KAMs.)

AU-C Section 705, *Modifications to the Opinion in the Independent Auditor’s Report*

- ~~Revises section 705 to align~~Aligns the form and content of the auditor’s report with the changes in Au-C section 700 when the auditor concludes that an unmodified ~~clean~~ auditor’s opinion in accordance with AU-C section 700 is not appropriate (qualified, adverse, or disclaimer of opinion). (The revisions to Au-C section 705 do not change the existing requirements regarding circumstances in which a modification to the auditor’s opinion is required, ~~and or~~ for determining the type of modification to the auditor’s opinion.)

AU-C Section 706, *Emphasis-of-Matter and Other-Matter Paragraphs*

- Clarifies the relationship between emphasis-of-matter (EOM) paragraphs and the communication of KAMs:
- ~~Indicates that w~~When engaged to communicate KAMs, the use of the EOM paragraph is not a substitute for including the matter in the KAM section if the matter meets the definition of a KAM.
- Requires that an appropriate heading be used. ~~W~~When KAMs are communicated, ~~that is,~~ the heading is required to use include the term “Emphasis of Matter”

AU-C Section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*

- Amends AU-C section 570 to require the inclusion of a separate section in the auditor’s report when substantial doubt exists, and that the heading of that section be titled “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern.”

The amendments to the AU-C 800 sections also reflect the issuance of the following SASs:

- SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*. SAS No. 136 addresses the auditor’s responsibility to form an opinion on the financial statements of employee benefit plans (EBPs) subject to the Employee Retirement Income Security Act of 1974 (ERISA). It also addresses the form and content of the auditor’s report issued as a result of an audit of ERISA plan financial statements and prescribes certain new performance requirements for such audits. This SAS applies to audits of single employer, multiple employer, and multiemployer plans subject to ERISA.
- SAS No. 137, *The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports*, which supersedes SAS No. 118, *Other Information In Documents Containing Audited Financial Statements*, as amended and codified in AU-C Section 720. SAS No. 137 provides transparency related to the auditor’s responsibility for other information included in an entity’s annual report when the auditor has obtained all the other information at the date of the auditor’s report on the financial statements. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide more detail about amounts or other items in the financial statements, and other amounts or items about which the auditor has obtained knowledge in the audit. Other information also may include nonfinancial information.

The amendments to the AU-C 800 sections do not reflect the amendments proposed by the Exposure Draft Proposed SAS Amendments to the Description of the Concept of Materiality. If that proposed SAS is issued as final, conforming amendments will be made to the AU-C 800 series.

## Convergence

In 2015, the IAASB issued new and revised ISAs related to reporting on audited financial statements. In 2016, the IAASB made limited amendments to the ISA 800 series, which includes ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; ISA 805, (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*.

Rather than converging with the IAASB’s changes to the ISA 800 series at that time, the ASB decided that it would reconsider revisions to the AU-C 800 series after the ASB had made further progress on its auditor



reporting standards. Now that SAS No. 134 has been issued, the ASB is amending the AU-C 800 series to align with the relevant provisions in SAS No. 134.

### *Compliance Frameworks and Elimination of the Dual Opinion*

In generally accepted auditing standards, all special purpose frameworks are considered fair presentation frameworks, which means that the framework requires compliance with the requirements of the framework and

1. acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
2. acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

In addition to fair presentation frameworks, the ISAs contain the concept of a *compliance framework*, which is a financial reporting framework that requires compliance with the requirements of the framework but does not contain the acknowledgements in items 1 and 2 above. When the ASB first converged with ISA 800 with the issuance of SAS No. 122 in 2011, the ASB did not include the concept of a compliance framework, believing that all financial reporting frameworks in the United States are fair presentation frameworks. The ASB considered incorporation of the concept of a compliance framework for certain types of special purpose frameworks, but after discussion reaffirmed its 2011 position with respect to this matter and acknowledged that the topic of compliance frameworks may be revisited in a future ASB project.

Accordingly, the ASB identified the auditor reporting changes that would be needed to conform with the revisions to the AU-C 700 series in SAS No. 134. In doing so, a limited number of revisions to converge with ISA 800 (Revised) were also identified, for example, identifying the various types of special purpose frameworks in the application material rather than including them as part of the definition of the term *special purpose frameworks*.

### **Effective Date**

If issued as final, the proposed SAS would be effective for audits of financial statements for periods ending on or after December 15, 2020. ~~This date is provisional but will not be earlier than December 15, 2020.~~ Early implementation is not permitted.

### **Significant Changes From Existing Standards**

The following summarizes what the ASB believes would be the most significant changes, in addition to the changes to the format and contents of the auditor's report consistent with SAS 134, to existing standards if the proposed SAS were issued as final. Unless otherwise indicated, paragraph references are to the relevant requirements in the respective proposed SAS, which should be read together with the related application material.

### Changes to AU-C Section 800

- ~~Designates~~ The designation of the cash, tax, regulatory, contractual and other bases of accounting as examples of special purpose frameworks rather than as part of the definition of special purpose framework in AU-C 800
- ~~Reminds practitioners~~ The addition of an introductory paragraph stating that section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, applies to audits of special purpose financial statements
- ~~Clarifications~~ that, in all audits of special purpose financial statements (irrespective of whether the going concern basis of accounting is relevant to the preparation of the special purpose financial statements), the auditor is required to
  - conclude whether substantial doubt exists about the entity's ability to continue as a going concern for a reasonable period of time, and
  - when substantial doubt exists, ~~to~~ evaluate the adequacy of the financial statement disclosures as required by the applicable financial reporting framework.
- For special purpose financial statements prepared in accordance with a contractual basis or other basis of accounting, ~~requires a new requirement~~ that the emphasis-of-matter paragraph in the auditor's report state that the financial statements may not be suitable for another purpose.

### Changes to AU-C Section 805

- Addition of pParagraph A21, which indicates that ~~although AU-C 700 requires the auditor's report to include statements about management's and the auditor's responsibilities for going concern,~~ the applicable financial reporting framework may not have a requirement for management to assess going concern for a single financial statement or element (or going concern may not be relevant at all to the framework). In those circumstances, the required statements in the auditor's report regarding management's and the auditor's responsibility for going concern would need to be adapted as necessary (or omitted if not relevant).
- Provides examples of factors that may be relevant in considering whether a matter included in the auditor's report on a complete set of financial statements is relevant in the context of an engagement to report on a single financial statement or a specific element, account or item of a financial statement

## Changes to AU-C Section 810

- Amendment ~~to~~s paragraph 15e, which addresses the paragraph in the auditor's report describing the auditor's responsibilities, ~~by deleting that deletes~~ the description of the procedures performed by the auditor as follows

~~A S~~statement that the auditor is responsible for expressing an opinion ~~based on the auditor's procedures conducted in accordance with GAAS about on~~ whether the summary financial statements are consistent, in all material respects, with the audited financial statements ~~based on the procedures required by GAAS and an identification of the United States of America as the country of origin of those standards, including the following:~~

- ~~i. The procedures consisted principally of comparing the summary financial statements with the related information in the audited financial statements from which the summary financial statements have been derived and evaluating whether the summary financial statements are prepared in accordance with the applied criteria~~

## Guide for Respondents

Respondents are asked to comment on the ~~following:~~

~~The proposed changes to existing standards, including the illustrative reports, and whether they are consistent with SAS No. 134.~~

- ~~1. The requests for comment in the section "Significant Changes From Existing Standards"~~
- ~~2. Issues for consideration~~

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes. When a respondent agrees with proposals in the exposure draft, it will be helpful for the ASB to be made aware of this view, as well.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available on the AICPA's website after Month XX, 2019, until a final standard is issued. Responses should be sent to Sharon Macey at Sharon.Macey@aicpa-cima.com and received by Month XX, 2019.

## Supplements to the Exposure Draft

To assist respondents in identifying changes and in responding to this request to comment on the proposed SASs, the Audit and Attest Standards staff has prepared a series of documents that show the proposed amendments in the context of the entire extant AU-C section.

This staff-prepared supplementary material is available on the AICPA website. It is for informational purposes only and does not form part of the exposure draft; however, it may be useful for respondents in formulating comments.

### **Comment Period**

The comment period for this exposure draft ends on Month XX, 2019.

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(2018–2019)**

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