



## Agenda Item 3D

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# EXPOSURE DRAFT

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## PROPOSED STATEMENT ON AUDITING STANDARDS

### *Amendments to AU-C sections 725, 730, 930, 935, and 940 to Incorporate Changes From SAS Nos. 134 and 137*

- *Amends SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended*
  - *Section 725, Supplementary Information in Relation to the Financial Statements as a Whole (AICPA, Professional Standards, AU-C sec. 725)*
  - *Section 730, Required Supplementary Information (AICPA, Professional Standards, AU-C sec. 730)*
  - *Section 930, Interim Financial Information (AICPA, Professional Standards, AU-C sec. 930)*
  - *Section 935, Compliance Audits (AICPA, Professional Standards, AU-C sec. 935)*
- *Amends SAS No. 130, An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements, (AICPA, Professional Standards, AU-C sec. 940)*

**November XX, 2019**

**Comments are requested by January 17, 2019**

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

Comments should be addressed to Sherry Hazel at [sherry.hazel@aicpa-cima.com](mailto:sherry.hazel@aicpa-cima.com).



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**CONTENTS**

	<b>Page</b>
<b>Explanatory Memorandum</b>	
Introduction.....	X
Background.....	X
Effective Date .....	X
Explanation of Proposed Changes .....	X
Guide for Respondents.....	X
Comment Period .....	X
Auditing Standards Board Members.....	X
<b>Exposure Draft</b>	
Proposed Statement on Auditing Standards <i>Amendments to AU-C sections 725, 730, 930, 935 and 940 to Incorporate Changes From SAS Nos. 134 and 137</i> .....	X
Exhibit, <i>Illustrations of Auditor’s Reports on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country</i> .....	X

## Explanatory Memorandum

### Introduction

This memorandum provides background to the proposed Statement on Auditing Standards (SAS) *Amendments to AU-C sections 725, 730, 930, 935 and 940 to Incorporate Changes From SAS Nos. 134 and 137*. The proposed SAS would amend the following SASs:

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended
  - Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, as amended (AICPA, *Professional Standards*, AU-C sec. 725)
  - Section 730, *Required Supplementary Information* (AICPA, *Professional Standards*, AU-C sec. 730)
  - Section 930, *Interim Financial Information*, as amended (AICPA, *Professional Standards*, AU-C sec. 930)
  - Section 935, *Compliance Audits*, as amended (AICPA, *Professional Standards*, AU-C sec. 935)
- SAS No. 130, *An Audit of Internal Control Over Financial Reporting That Is Integrated With an Audit of Financial Statements* (AICPA, *Professional Standards*, AU-C sec. 940)

### Background

SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements*, was issued in May 2019 and changed the form and content of the auditor's report issued as a result of the audit of financial statements. AU-C sections 930, 935, and 940 contain requirements for auditor's reports in the circumstances addressed by the specific AU-C section and, accordingly, amendments are proposed to conform those requirements to the requirements of SAS No. 134.

In July 2019, the ASB issued SAS No. 137, *The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*. AU-C sections 725 and 730 include requirements for the auditor to report on the supplementary information or required supplementary information, as applicable. As supplementary information and required supplementary information are comparable to other information, amendments are proposed to AU-C sections 725 and 730 to change the references to an other-matter paragraph to refer instead to a separate section in the auditor's report, consistent with SAS No. 137.

## Effective Date

The proposed revisions to AU-C sections 725 and 730 would be effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation would not be permitted.

The proposed revisions to AU-C section 930 would be effective for reviews of interim financial information for interim periods of fiscal years beginning on or after December 15, 2021. Early implementation would not be permitted.

The proposed revisions to AU-C section 935 would be effective for compliance audits for fiscal periods ending on or after December 15, 2020. Early implementation would not be permitted.

The proposed revisions to AU-C section 940 would be effective for integrated audits for periods ending on or after December 15, 2020. Early implementation would not be permitted.

## Explanation of Proposed Changes

The following is a summary of the proposed changes to extant AU-C sections 725, 730, 930, 935, and 940 that ASB believes would be the most significant.

### *Proposed Revisions to AU-C section 930*

The proposed changes to the reporting requirements in paragraph .21 of AU-C section 930 include revisions for conformity with SAS No. 134 and also harmonize with the requirements in the Public Company Oversight Board's AS 4105, *Reviews of Interim Financial Information*. The proposed changes include the placement of the auditor's review conclusion at the beginning of the review report on interim financial information.

### **Request for Comment specific to AU-C section 930**

1. Should the reporting requirements in paragraph .21 include revisions for harmonization with the requirements in the Public Company Oversight Board's AS 4105, *Reviews of Interim Financial Information*?
2. Should similar revisions such as the placement of the auditor's review conclusion at the beginning of the review report be considered by the Accounting and Review Services Committee with respect to AR-C section 90, *Review of Financial Statements* and the ASB with respect to AT-C section 210, *Review Engagements*?

### *Proposed Revisions to AU-C section 935*

The proposed changes to AU-C section 935 include revisions for conformity with SAS No. 134 and to be consistent with current governmental requirements. In addition to the proposed changes to the reporting requirements in paragraph .30 of AU-C section 935 to conform with SAS No. 134, significant changes include

- Updating the Appendix, *AU-C Sections That Are Not Applicable to Compliance Audits*, for

the issuance of SAS Nos. 131-137 as applicable

- Presenting requirements for a combined report on compliance and internal control as the default, followed by requirements addressing when the auditor chooses to issue separate reports on compliance and on internal control over compliance. This reverses how the requirements are presented in extant AU-C section 935 because combined reports are more common in practice.
- Updating references to *OMB Circular A-133* to refer instead to *the Uniform Guidance*.

**Request for Comments specific to AU-C section 935**

3. Are the proposed amendments to the Appendix appropriate and complete?
4. Do you agree with how the combined report and the separate reports are addressed in the standard? If not, please suggest specific revisions.
5. Are the proposed amendments to address changes in the governmental environment appropriate and complete?

***Proposed Revisions to AU-C section 940***

The proposed amendments to AU-C section 940 include revisions to the form and content of the auditor’s report on ICFR for conformity with SAS No. 134. In addition to the proposed changes to the reporting requirements in paragraph .64 of AU-C section 940 to conform with SAS No. 134, significant changes include:

- Requiring the “Auditor’s Responsibilities for the Audit of ICFR” section to include a statement that internal control over financial reporting is not effective if a material weakness exists. (Paragraph .64) :
- When issuing a separate report on ICFR, requiring a paragraph
  - to be placed within the “Opinion” section following the opinion paragraph in the auditor’s report on the financial statements that references to the report on ICFR, (paragraph .65)
  - to be placed within the “Opinion on Internal Control Over Financial Reporting” section following the opinion paragraph in the report on ICFR that references to the report on the financial statements (paragraph .65)
- Revising the report date to align with the requirements in SAS No. 134 so that the report on ICFR is dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion. (paragraph .66)
- Relating to adverse opinions:
  - When ICFR is not effective because one or more material weaknesses exist, requiring the auditor’s report to include certain information included in the “Basis for Adverse Opinion on Internal Control Over Financial Reporting” section (paragraph .69)

- Requiring disclosure about whether the auditor’s opinion on the financial statements was affected by the material weakness to be placed as a separate paragraph within the “Opinion” section to the report on ICFR (paragraph .71)
- Revising requirements on how to report when disclaiming an opinion because of scope limitation (paragraphs .75–.76)
- Addressing situations when management includes additional information in management’s report or includes additional information in a document containing management’s report and the related auditor’s report (paragraph .80)
- Updating the illustrative reports in Exhibit A — *Illustrative Reports* to reflect the changes to conform with SAS No. 134

#### **Request for Comments specific to AU-C section 940**

6. Are the proposed amendments to AU-C section 940 consistent with SAS No. 134?
7. Do you agree with the proposed amendment to require a statement in the “Auditor’s Responsibilities for the Audit of ICFR” section that states internal control over financial reporting is not effective if a material weakness exists?
8. Do you agree with the placement of the paragraphs when issuing a separate report on ICFR as required by the proposed amendments to paragraph .65?
9. Do you agree with the placement of the paragraphs when issuing an adverse opinion on ICFR due to a material weakness as required by the proposed amendments to paragraph .71?
10. Do you agree with the amendments to paragraph .80 for reporting when additional information is included in management’s report or in a report that includes management’s report and the auditor’s report?

#### ***AU-C section 910***

The exhibit to AU-C section 910, *Illustrations of Auditor’s Reports on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*, will be revised to be consistent with SAS No. 134. There are no proposed amendments to the requirements or application material of AU-C section 910. The revised illustrative auditor reports have been included as an exhibit in this exposure draft for transparency.

#### **Guide for Respondents**

Respondents are asked to comment on the proposed changes to existing standards, including the illustrative reports, and whether they are consistent with SAS Nos. 134 and 137.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, when appropriate, make specific suggestions for any proposed changes to

wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for 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 for public inspection at the offices of the AICPA for one year, beginning January 17, 2020. Responses should be sent to Sherry Hazel at [sherry.hazel@aicpa-cima.com](mailto:sherry.hazel@aicpa-cima.com) and received by January 17, 2020.

### **Comment Period**

The comment period for this exposure draft ends January 17, 2020.

**Auditing Standards Board  
(2019–2020)**

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*Audit and Attest Standards —*  
*Public Accounting*

Ahava Goldman  
*Associate Director*  
*Audit and Attest Standards — Public*  
*Accounting*

**AU-C Section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country***

**Exhibit — Illustrations of Auditor’s Reports on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country**

.A11

**Illustration 1** — U.S. Form of Independent Auditor’s Report to Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Are Intended for Use Only Outside the United States

**Illustration 2** — U.S. Form of Independent Auditor’s Report To Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Also Are Intended for Use in the United States

**Illustration 1 — U.S. Form of Independent Auditor’s Report to Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Are Intended for Use Only Outside the United States**

**Independent Auditor’s Report**

[*Appropriate Addressee*]

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders’ equity, and cash flows for the year then ended, and the related notes to the financial statements, which, as described in note X to the financial statements, have been prepared on the basis of [*specify the financial reporting framework generally accepted*] in [*name of country*].

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*].

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) (and [*in name of country*]). 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.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*], 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.

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 for [*insert the time period set by the applicable financial reporting framework*].

***Auditor’s Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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.<sup>fn 6</sup>

- 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.
- 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 certain internal control-related matters that we identified during the audit.

*[Signature of the auditor's firm]*

*[City and state where the auditor's report is issued]*

*[Date of the auditor's report]*

**Illustration 2 — U.S. Form of Independent Auditor's Report To Report on Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country That Also Are Intended for Use in the United States**

*[Appropriate Addressee]*

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements, which, as described in note X to the financial statements, have been prepared on the basis of [*specify the financial reporting framework generally accepted*] in [*name of country*].

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<sup>fn 6</sup> In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed."

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*].

***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) (and [*in name of country*]). 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.

***Emphasis of Matter***

As discussed in Note X to the financial statements, the Company prepares its financial statements in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*], which differ(s) from accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with [*specify the financial reporting framework generally accepted*] in [*name of country*], 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.

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 for [*insert the time period set by the applicable financial reporting framework*].

***Auditor’s Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 these financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- 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.<sup>fn 6</sup>
- 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.
- 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 certain internal control–related matters that we identified during the audit.

*[Signature of the auditor’s firm]*

*[City and state where the auditor’s report is issued]*

*[Date of the auditor’s report]*

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<sup>fn 6</sup> In circumstances in which the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, omit the following: "but not for the purpose of expressing an opinion on the effectiveness of ABC Company’s internal control. Accordingly, no such opinion is expressed."