AICPA

Agenda Item 1D

AU-C Section 805 *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*

(Marked from the Draft of AU-C 805 Presented at the January 13, 2020 ASB Meeting)

AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*	
Introduction, Objective, Definitions, and Requirements	**Application and Other Explanatory Material**
Introduction	
Scope of This Section **.01** 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 section 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, section 800, *Special Considerations — Audits of Financial Statements Prepared in*	**Scope of This Section (Ref: par. .01)** **.A1** Section 200 defines the term *historical financial information* 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.[6]

* All AU-C sections can be found in AICPA *Professional Standards*

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Accordance With Special Purpose Frameworks, also applies to the audit. (Ref: par. .A1–.A4)	
	.A2 Section 200 defines the term *financial statements* as a structured representation of historical financial information, including disclosures, 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 *financial statements* 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.
	.A3 Paragraph .A9 of 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 disclosures: • Balance sheet • Statement of income or statement of operations • Statement of retained earnings • Statement of cash flows • Statement of assets and liabilities • Statement of changes in owner's equity • Statement of revenue and expenses • Statement of operations by product lines
	.A4 An attest engagement other than an audit of historical financial information is performed in accordance with Statements on Standards for Attestation Engagements. For example, AT-C section 215, *Agreed-Upon Procedures Engagements*,* applies when reporting on the results of applying agreed-upon procedures to one or more specific elements of a financial statement, and AT-

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	C section 210, *Review Engagements*, provides guidance when reporting on a review of one or more specific elements of a financial statement. 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 section.
.02 This section 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 section 600, *Special Considerations — Audits of Group Financial Statements [Including the Work of Component Auditors]*).	
.03 This section 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.	
Effective Date **.04** .This amendment is effective for audits of single financial statements and specific elements, accounts, or items of a financial statement as of or for periods ending on or after Month XX, 2020. Early implementation is not permitted.	
Objective **.05** 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 *a.* the acceptance of the engagement; *b.* the planning and performance of that engagement; and *c.* forming an opinion and reporting on the single financial statement or the specific element, account, or item of a financial statement.	

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Definitions **.06** For purposes of this section, reference to *a.* an *element of a financial statement* or an *element* means an *element, account, or item of a financial statement.* (Ref: par. .A5) *b.* a *single financial statement* or a *specific element of a financial statement* includes the related disclosures (Ref: par. .A2)	**Definitions** ***Element of a Financial Statement (Ref: par. .06)*** **.A5** The appendix, "Examples of Specific Elements, Accounts, or Items of a Financial Statement," lists examples of an element of a financial statement.
.07 Reference to *generally accepted accounting principles* (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 Rule" (ET sec. 203 1.320.001) of the AICPA Code of Professional Conduct.	
Requirements	
Considerations When Accepting the Engagement	**Considerations When Accepting the Engagement**
Application of GAAS (Ref: par. .A6–.A8)	***Application of GAAS (Ref: par. .08–.09)***
.08 Section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, requires the auditor to comply with all AU-C sections relevant to the audit[1] 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.	**.A6** 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

* All ET sections can be found in AICPA *Professional Standards*.

[1] Paragraph .20 of section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*

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	that requirement.[6] ~~7~~
.09 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 paragraph .13 -	*Complying With Relevant Requirements* **.A7** 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 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 .A19.
	.A8 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 section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, may be relevant in the circumstances of an audit of a schedule of accounts receivable (see paragraph .A14), 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, such as an engagement performed in accordance with the Statements on Standards for

[6] Paragraphs .16, .20, and .24–.26 of section 200.

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	Attestation Engagements as described in paragraph.A4.
Acceptability of the Financial Reporting Framework (Ref: par. .A9–.A13)	***Acceptability of the Financial Reporting Framework (Ref: par. .10–.11)***
.10 Section 210, *Terms of Engagement*, requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements[2] 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 *a.* the purpose for which the single financial statement or specific element of a financial statement is prepared, *b.* the intended users, and *c.* the steps taken by management to determine that the application of the financial reporting framework is acceptable in the circumstances.	**.A9** In the case of an audit of a single financial statement or a 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.
.11 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.	**.A10** 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.

[2] Paragraph .06*a* of section 210, *Terms of Engagement*.

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	.A11 The determination of the acceptability of the applicable framework may also include consideration of the following: • Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements. • Whether the single financial statement or the specific element of a financial statement will — 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 of a financial statement, including the related disclosures 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 disclosures, would be comparable to such information in financial statements prepared in accordance with U.S. GAAP. — 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.[7] A single financial statement or a specific element of a financial statement, including the related disclosures, 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.
	.A12 The auditor may be requested to audit an incomplete

[7 8] See paragraph .14 of section 200 for a definition of *financial reporting framework*.

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	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 *expenses* 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 .24 is designed to avoid misunderstandings about the purpose for which the presentation is prepared.
	.A13 As indicated in paragraph.A12 incomplete presentations may be required by a regulatory agency or a contract or an agreement. Paragraphs .A3–.A4.A4. of section 800 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 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 .01, if the presentation is prepared in accordance with a special purpose framework, section 800 also applies to the audit.
Considerations When Planning and Performing the Audit	**Considerations When Planning and Performing the Audit (Ref:**

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	par. .12–.13)
.12 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 historical financial information.[3] 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..A14–.A18)	**.A14** 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.[8] Even when only a specific element of a financial statement is the subject of the audit, AU-C sections such as AU-C section 240, *Consideration of Fraud in a Financial Statement Audit*, section 550, *Related Parties*, and 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. **.A15** Section 260, *The Auditor's Communication With Those Charged With Governance*, 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 circumstance. When a complete set of financial statements is also prepared by the entity, the person(s) responsible for oversight of the preparation of the single financial statement or the element may not be the same as those responsible for the oversight of the preparation of the complete set of financial statements. **.A16** 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.[9] For example, written representations from management about the

[3] Paragraph .02 of section 200
[8] Paragraph .20 of section 200
[9] Paragraph .02 of AU-C 200

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	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 financial reporting framework.
	.A17 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 .19). When planning and performing an audit of 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
.13 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. .A18) *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	**.A18** The individual financial statements that make up a complete set of financial statements, and many of the specific elements of those financial statements, including their related disclosures, 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 .13 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

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element. *b.* the auditor should, if the specific element is, or is based upon, 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.	stockholders' equity or net income (or the equivalents thereto), paragraph .13 requires the auditor to 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.
Materiality (Ref: par. .A19) **.14** Section 320, *Materiality in Planning and Performing an Audit*, requires the auditor to determine, when establishing the overall audit strategy, materiality for the financial statements as a whole [1] 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.	***Materiality (Ref: par.*** .14***)*** **.A19** 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 .14 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 .14 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.
Forming an Opinion and Reporting Considerations	**Forming an Opinion and Reporting Considerations (Ref: par.**

[1] Paragraph .10 of section 320, *Materiality in Planning and Performing an Audit*

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	.15)
.15 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 section 700, *Forming an Opinion and Reporting on Financial Statements,* or section 703, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, and when applicable, section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, adapted as necessary in the circumstances of the engagement. (Ref: par..A20–.A22)	**.A20** Sections 700 and 703 require 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.[10]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 • 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.
	Going Concern
	.A21 The applicable financial reporting framework may not specifically address whether management is required to make a going concern assessment for a single financial statement or a specific element, account, or item of a financial statement. Therefore, the description in the auditor's report of management's responsibilities relating to going concern[11] may not be relevant or may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities[12] relating to going concern may also need to be adapted as necessary depending on whether section 570 is determined to be relevant to the audit in

[10] Paragraph .15 of section 700, *Forming an Opinion and Reporting on Financial Statements,* and paragraph .37 of section703.
[11] Paragraphs .32*b* of section 700
[12] Paragraphs .36*e* of section 700.

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	accordance with paragraph .12 In making that determination, the auditor may consider whether the auditor's responsibilities relating to going concern are likely to be relevant to users for the intended purpose of the single financial statement or specific element, account, or item of a financial statement presented.
	.A22 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.
Reporting on the Entity's Complete Set of Financial Statements and a Single Financial Statement or a Specific Element of Those Financial Statements	
.16 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 *a.* issue a separate auditor's report and express a separate opinion for each engagement. *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. **.17** Except as required by paragraph .21 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	

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statement or the specific element of a financial statement from the report on the complete set of financial statements. **.18** 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 statements, as described in paragraph .17, 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.	
Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements	***Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: par. .19–.23)***
.19 If the auditor's report on an entity's complete set of financial statements 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, the auditor should consider the implications, if any, that these matters have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon . (Ref: par. .A23–.A26)	**.A23** 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.
	.A24 Factors that may be relevant in considering those implications include the following: • The nature of the matters described in the auditor's report on the complete set of financial statements and the extent to which they relate to what is included in the single financial statement or a specific element of a financial statement • The pervasiveness of the matters described in the auditor's report on the complete set of financial statements

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	• The nature and extent of the differences between the applicable financial reporting frameworks • The extent of the difference between the periods covered by the complete set of the financial statements compared with the periods or dates of the single financial statement or element of a financial statement • The time elapsed since the date of the auditor's report on the complete set of the financial statements
	.A25 When applicable, key audit matters communicated in the auditor's report on a complete set of financial statements may have implications for an audit of a single financial statement or specific element of a financial statement. The information included in the "Key Audit Matters" section about how the matter was addressed in the audit of a complete set of financial statements may be useful to the auditor's determination of how to address the matter when it is relevant to an audit of a single financial statement or specific element of a financial statement.
	.A26 If the auditor is engaged to communicate key audit matters in the auditor's report on a single financial statement or a specific element of a financial statement, section 701, *Communicating Key Audit Matters in the Independent Auditor's Report,* applies in its entirety.
Modifications to the Opinion in the Independent Auditor's Report **.20** 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: par .A27–.A29) *a.* express an adverse opinion on the specific element when the modification of the auditor's opinion on the complete set of	*Modifications to the Opinion in the Independent Auditor's Report (Ref: par. .20)* **.A27** 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

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financial statements as a whole arises from a material misstatement in such financial statements. *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.	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.
	.A28 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, there likely 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 financial statement relates to accounts receivable.
	Modifications to the Opinion in the Independent Auditor's Report (Ref: par..20) **.A29** Even when certain matters included in the auditor's report on the entity's complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter in an other-matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement (see section 706). For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement a specific element of the financial statement to a going concern section included in the auditor's report on the

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	complete set of financial statements .
Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements	
.21 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 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 of 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 *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 *b.* the 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.	
.22 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	**.A30** 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.[13]

[13] Paragraph .A17 of 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*.

AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*	
Introduction, Objective, Definitions, and Requirements	**Application and Other Explanatory Material**
published together with nor otherwise accompanies the auditor's report containing the adverse opinion or disclaimer of opinion. (Ref: par. .A30)	
.23 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 section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report.* (Ref: par..A27)	
Reporting on an Incomplete Presentation but One That Is Otherwise in Accordance With Generally Accepted Accounting Principles (Ref: par. .A30–.A31)	***Reporting on an Incomplete Presentation but One That Is Otherwise in Accordance With GAAP (Ref: par. .24)***
.24 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[5] in the auditor's report that *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 *b.* indicates that the presentation is not intended to be a complete presentation of the entity's assets, liabilities, revenues, or expenses.	**.A31** As described in paragraph.A12. 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 .24 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 exhibit illustrates such a paragraph.
	.A32 If the presentation is prepared in accordance with a regulatory or contractual basis of accounting, the requirement in paragraph .24 does not apply. In such circumstances, refer to section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose*

[5] Paragraphs .06–.07 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

AU-C Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*	
Introduction, Objective, Definitions, and Requirements	**Application and Other Explanatory Material**
	Frameworks See also paragraph.A13 of this section.

.A33

Appendix

Examples of Specific Elements, Accounts, or Items of a Financial Statement (Ref: par. .A5)

The following are examples of specific elements, accounts, or items of a financial statement:

- Accounts receivable; allowance for doubtful accounts receivable; inventory; the liability for accrued benefits of a private benefit plan; the recorded value of identified intangible assets; or the liability for incurred but not reported claims in an insurance portfolio, including related notes
- A schedule of externally managed assets and income of a private benefit plan, including related notes
- A schedule of disbursements regarding a lease property, including related notes
- A schedule of profit participation or employee bonuses, including related notes

.A34

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

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[1]

Opinion

We have audited the balance sheet of ABC Company as of December 31, 20X1, and the related notes (the financial statement).[2]

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

[2] The auditor may refer to the financial statement as the *balance sheet*.

In our opinion, the accompanying financial statement 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 Statement 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 Statement[3]

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

Auditor's Responsibilities for the Audit of the Financial Statement

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 GAAS~~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 there is a substantial likelihood that, individually or in the aggregate, they would~~could reasonably be expected to~~ influence the judgment made by a reasonable user based on ~~the economic decisions of users made on the basis of~~ the financial statement.

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 statement, whether

[3] The description of management's responsibilities relating to going concern required by paragraph .32*b* of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.

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 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 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.[4]

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.

Report on Other Legal and Regulatory Requirements

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

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

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

Circumstances include the following:

- Audit of a statement of cash receipts and disbursements (that is, a single financial statement).

- The financial statement has been prepared by management of the entity in accordance with the cash basis of accounting (a special purpose framework) to

[4] This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.

respond to a request for cash flow information received from a creditor. [2]

- Management has a choice of financial reporting frameworks.[3]

Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Audit of the Financial Statement[4]

Opinion
We have audited the statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, and the related notes (the financial statement).[5]

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash receipts and disbursements of ABC Company for the year ended December 31, 20X1, in accordance with the cash basis of accounting described in Note X.

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 Statement 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 — Basis of Accounting [6]
We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than 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 Statement[6]
Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note X, and for

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2 Section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*, contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework

3 Paragraph .18*b* of section 800.

4 The subtitle "Report on the Financial Statement" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable.

5 The auditor may refer to the financial statements as the statement of cash receipts and disbursements.

6 Another appropriate heading may be used.

6 The description of management's responsibilities relating to going concern required by paragraph .32*b* of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section

determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for 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.

Auditor's Responsibilities for the Audit of the Financial Statement

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 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 certain internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would ~~could reasonably be expected to~~ influence the judgment made by a reasonable user based on ~~economic decisions of users made on the basis of~~ the financial statement.

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 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 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 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.[7]

[7] This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.

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.

Report on Other Legal and Regulatory Requirements

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

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

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

Circumstances include the following:

- Audit of a schedule of accounts receivable (that is, a specific element, account, or item of a financial statement).
- The schedule of accounts receivable has been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America.
- The audit of the schedule of accounts receivable was performed in conjunction with an engagement to audit the entity's complete set of financial statements. The opinion on those financial statements was not modified, and the report did not include an emphasis- of-matter paragraph or other-matter paragraph.[1]
- Management determined that the going concern assessment in accounting principles generally accepted in the United States of America ~~GAAP~~ does not apply to the preparation of the schedule of accounts receivable. The auditor agrees with management's determination regarding the applicability of the going concern assessment to the preparation of the schedule of accounts receivable. ~~a specific element, account, or item of a financial statement~~. Although a going concern assessment was made in the preparation of the entity's complete set of financial

[1] If the auditor undertakes an engagement to audit a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, paragraph .16 requires the auditor to indicate in the report on the 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.

statements from which the financial information being reported on has been derived, the going concern assessment period is significantly different because the schedule of accounts receivable is anticipated to be issued several months after the full set financial statements were issued.

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Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Audit of the Schedule [2]

Opinion
We have audited the schedule of accounts receivable of ABC Company as of December 31, 20X1, and the related notes (the schedule).[3]

In our opinion, the accompanying schedule presents fairly, in all material respects, the accounts receivable 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 Schedule 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 Schedule[4]
Management is responsible for the preparation and fair presentation of the schedule in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule
Our objectives are to obtain reasonable assurance about whether the schedule 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

[2] The subtitle "Report on the Audit of the Schedule" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

[3] The auditor may refer to the schedule as the *schedule of accounts receivable*

[4] The description of management's responsibilities relating to going concern required by paragraph .32*b* of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.

assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS~~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 there is a substantial likelihood that, individually or in the aggregate, they would ~~could reasonably be expected to~~ influence the economic decisions of users ~~made~~ judgment made by a reasonable user based on ~~on the basis of~~ the schedule.

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 schedule, 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 schedule.

- 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 appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

- 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. [5]

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.

Other Matter
We have audited, in accordance with GAAS, the financial statements of ABC Company as of and for the year ended December 31, 20X1, and our report thereon, dated March 15, 20X2,expressed an unmodified opinion on those financial statements.

Report on Other Legal and Regulatory Requirements

[5] This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.

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

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

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

Circumstances include the following:

- Audit of a schedule of royalties applicable to engine production (that is, a specific element, account, or item of a financial statement)
- The financial information has been prepared by management of the entity in accordance with a contractual basis of accounting (that is, a special purpose framework) to comply with the provisions of that contract. [7]
- Based on the provisions of the contract, management does not have a choice of financial reporting frameworks. [8]
- The audit of the schedule was not performed in conjunction with an engagement to audit the entity's complete set of financial statements.[3]

<u>Independent Auditor's Report</u>

[*Appropriate Addressee*]

Report on the Audit of the Schedule[4]

[7] Section 800 *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks* contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

[8] Paragraph .18*b* of section 800

[3] If the auditor undertakes an engagement to audit a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, paragraph .16 requires the auditor to indicate in the report on the 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

[4] The subtitle "Report on the Audit of the Schedule" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

Opinion
We have audited the schedule of royalties applicable to engine production of the Q Division of ABC Company for the year ended December 31, 20X1, and the related notes (the schedule).[5] In our opinion, the accompanying schedule presents fairly, in all material respects, the royalties applicable to engine production of the Q Division of ABC Company for the year ended December 31, 20X1, in accordance with the financial reporting provisions of Section Z of the license agreement between ABC Company and XYZ Corporation dated January 1, 20X1 (the contract).

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 Schedule 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 — Basis of Accounting[6]
We draw attention to Note X to the schedule, which describes the basis of accounting. The schedule was prepared by ABC Company on the basis of the financial reporting provisions of Section Z of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America. As a result, the schedule may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Schedule[7]
Management is responsible for the preparation and fair presentation of the schedule in accordance with the financial reporting provisions of Section Z of the contract, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Schedule
Our objectives are to obtain reasonable assurance about whether the schedule 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 GAAS~~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,

[5] The auditor may refer to the schedule as the *schedule of royalties*.
[6] Another appropriate heading may be used.
[7] The description of management's responsibilities relating to going concern required by paragraph .32*b* of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.

misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would ~~could reasonably be expected to~~ influence the judgment made by a reasonable user based on ~~economic decisions of users made on the basis of~~ the schedule.

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 schedule, 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 schedule.

- 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 appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule

- 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.[8]

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

Other Matter Paragraph — Restriction on Use[9]
Our report is intended solely for the information and use of ABC Company and XYZ Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Report on Other Legal and Regulatory Requirements
[*The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.*]

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

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8 This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21.

9 Another appropriate heading may be used.

[*Date of the auditor's report*]

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

Circumstances include the following:

- Audit of the historical summaries of gross income and direct operating expenses (that is, a single financial statement).
- The historical summaries have been prepared by management of the entity in accordance with accounting principles generally accepted in the United States of America but are an incomplete presentation of revenues and expenses.
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Independent Auditor's Report

[*Appropriate Addressee*]

Report on the Historical Summaries[1]

Opinion
We have audited the Historical Summaries of Gross Income and Direct Operating Expenses of ABC Apartments for each of the three years in the period ended December 31, 20X1, and the related notes (the historical summaries).[2]

In our opinion, the accompanying historical summaries present fairly, in all material respects, the gross income and direct operating expenses described in Note X of ABC Apartments for each of the three years in the period ended 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 Historical Summaries section of our report. We are required to be independent of ABC Apartments 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.

[1] The subtitle "Report on the Audit of the Historical Summaries" is unnecessary in circumstances in which the second subtitle, "Report on Other Legal and Regulatory Requirements," is not applicable

[2] The auditor may refer to the historical summaries as the *financial statement*.

Emphasis of Matter — Basis of Accounting

We draw attention to Note X to the historical summaries, which describes that the accompanying historical summaries were prepared for the purpose of complying with the rules and regulations of Regulator DEF (for inclusion in the filing of Form Z of ABC Company) and are not intended to be a complete presentation of the Company's revenues and expenses. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Historical Summaries[3]

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

Auditor's Responsibilities for the Audit of the Historical Summaries

Our objectives are to obtain reasonable assurance about whether the historical summaries 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~~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 there is a substantial likelihood that, individually or in the aggregate, they would ~~could reasonably be expected to~~ influence the judgment made by a reasonable user ~~economic decisions of users made on the basis~~ ~~of~~ based on the historical summaries.

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 historical summaries, 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 historical summaries.

- 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

[3] The description of management's responsibilities relating to going concern required by paragraph .32*b* of AU-C section 700 may not be relevant or may need to be included in this section of the report, adapted as necessary. See paragraph .A21 of this section.

expressing an opinion on the effectiveness of ABC Company's internal control. Accordingly, no such opinion is expressed.

- 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 historical summaries.

- 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. [4]

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.

Report on Other Legal and Regulatory Requirements
[*The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities.*]

[*Signature of the auditor's firm*]
[*City and state where the auditor's report is issued*]
[*Date of the auditor's report*]

[4] This bullet is included only when the auditor determines that section 570 is relevant to the audit of the single financial statement or specific element, account, or item of a financial statement. See paragraph .A21