



*Statement on  
Auditing Standards*

July 2019  
137

*Issued by the Auditing Standards Board*

**The Auditor's Responsibilities Relating to Other Information  
Included in Annual Reports**

*(Supersedes Statement on Auditing Standards No. 118, Other Information in Documents Containing Audited Financial Statements, as amended (AICPA, Professional Standards, AU-C sec. 720); Amends*

- *Statement on Auditing Standards (SAS) No. 119, Supplementary Information in Relation to the Financial Statements as a Whole, as amended [AU-C sec. 725]*
- *SAS No. 120, Required Supplementary Information, as amended [AU-C sec. 730]*
- *SAS No. 122, Statements on Auditing Standards: Clarification and Recodification, as amended*
  - *Section 210, Terms of Engagement*
  - *Section 230, Audit Documentation*
  - *Section 260, The Auditor's Communication With Those Charged With Governance*
  - *Section 450, Evaluation of Misstatements Identified During the Audit*
  - *Section 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*
  - *Section 810, Engagements to Report on Summary Financial Statements*
- *SAS No. 133, Auditor Involvement With Exempt Offering Documents [AICPA, Professional Standards, AU-C sec. 945]*
- *SAS No. 134, Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements, as amended*
  - *Section 700, Forming an Opinion and Reporting on Financial Statements*
  - *Section 705, Modifications to the Opinion in the Independent Auditor's Report*
  - *Section 706, Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*

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

# ***The Auditor's Responsibilities Relating to Other Information Included in Annual Reports***

## **Introduction**

### **Scope of This SAS**

- 1.** This Statement on Auditing Standards (SAS) addresses the auditor's responsibilities relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.
- 2.** This SAS also may be applied, and adapted as necessary in the circumstances, to other documents to which the auditor, at management's request, devotes attention. (Ref: par. A1–A3)
- 3.** This SAS is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this SAS are to be understood in the context of the overall objectives of the auditor as stated in AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.<sup>\*</sup><sup>1</sup> The requirements in the standards are designed to enable the auditor to achieve the objectives specified in the standards, and thereby the overall objectives of the auditor. The auditor's opinion on the financial statements does not cover the other information, nor does this SAS require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.
- 4.** This SAS requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon.
- 5.** Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about amounts or other items in the financial statements and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may include nonfinancial information.

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

<sup>1</sup> Paragraph .12 of AU-C section 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*.

6. The auditor's responsibilities relating to other information, other than applicable reporting requirements, apply regardless of whether the other information is obtained by the auditor prior to or after the date of the auditor's report.
7. The auditor's responsibilities under this SAS do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
8. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this SAS.
9. This SAS does not apply to supplemental information addressed by AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, or required supplementary information addressed by AU-C section 730, *Required Supplementary Information*. (Ref: par. A2)

### **Effective Date**

10. This SAS will be effective for audits of financial statements for periods ending on or after December 15, 2020. Early implementation is not permitted.

### **Objectives**

11. The objectives of the auditor, having read the other information, are as follows:
  - a. To consider whether a material inconsistency exists between the other information and the financial statements
  - b. To remain alert for indications that
    - i. a material inconsistency exists between the other information and the auditor's knowledge obtained in the audit or
    - ii. a material misstatement of fact exists or the other information is otherwise misleading
  - c. To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated
  - d. To report in accordance with this SAS

### **Definitions**

12. For purposes of the auditing standards, the following terms have the meanings attributed:

**Annual report.** A document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders)

with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains, accompanies, or incorporates by reference the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. Annual reports include annual reports of governments and organizations for charitable or philanthropic purposes that are available to the public. (Ref: par. A4–A10)

**Misstatement of the other information.** A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading. (Ref: par. A11–A12)

**Other information.** Financial or nonfinancial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: par. A13)

## Requirements

### Obtaining the Other Information

**13.** The auditor should do the following: (Ref: par. A14–A24)

- a.* Through discussion with management, determine and obtain management's written acknowledgment regarding which document or documents comprise the annual report and the entity's planned manner and timing of the issuance of such documents.
- b.* Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document or documents comprising the annual report.
- c.* When some or all the documents determined in (*a*) will not be available until after the date of the auditor's report on the financial statements, request management to provide a written representation that the final version of the documents will be provided to the auditor when available, and prior to the document's issuance by the entity, such that the auditor can complete the procedures required by this SAS. (Ref: par. A23–A24)

**14.** If the auditor becomes aware that the entity did not provide the auditor with the final version of documents determined in accordance with paragraph 13*a* to be part of the annual report prior to the issuance of those documents to third parties, the auditor should take appropriate action. (Ref: par. A25)

### Communication With Those Charged With Governance

**15.** The auditor should communicate with those charged with governance the auditor's responsibility with respect to other information, the procedures performed related to the other information, and the results.

### Reading and Considering the Other Information

16. The auditor should read the other information and consider whether a material inconsistency exists between the other information and the financial statements. As the basis for this consideration, to evaluate their consistency, the auditor should compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements) with such amounts or other items in the financial statements. (Ref: par. A26–A32)
17. While reading the other information in accordance with paragraph 16, the auditor should remain alert for indications that (Ref: par. A33–A42)
  - a. a material inconsistency exists between the other information and the auditor’s knowledge obtained in the audit.
  - b. a material misstatement of fact exists or the other information is otherwise misleading.
18. The auditor is not responsible for searching for omitted information or for the completeness of the other information.

**Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated**

19. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor should discuss the matter with management and, if necessary, perform other procedures to conclude the following: (Ref: par. A43–A47)
  - a. Whether a material misstatement of the other information exists
  - b. Whether a material misstatement of the financial statements exists
  - c. Whether the auditor’s understanding of the entity and its environment needs to be updated

**Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists**

20. If the auditor concludes that a material misstatement of the other information exists, the auditor should request management to correct the other information and
  - a. if management agrees to make the correction, determine that the correction has been made.
  - b. if management refuses to make the correction, communicate the matter to those charged with governance and request that the correction be made.
21. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor’s report, and the other information is not corrected after communicating with those charged with governance, the auditor should (Ref: par. A48)
  - a. consider the implications for the auditor’s report and communicate to those charged with governance about how the auditor plans to address the material misstatement in the auditor’s report (see paragraph 24cii); (Ref: par. A49)

- b. withhold the auditor's report; or (Ref: par. A51)
  - c. withdraw from the engagement, when withdrawal is possible under applicable law or regulation. (Ref: par. A50–A51)
- 22.** If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor should do the following:
- a. If the other information is corrected, perform the procedures necessary in the circumstances. (Ref: par. A52)
  - b. If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report. (Ref: par. A53–A54)

**Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated**

- 23.** If, as a result of performing the procedures in paragraphs 16–18, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor should respond appropriately in accordance with other relevant AU-C sections. (Ref: par. A55)

**Reporting**

- 24.** At the date of the auditor's report, when the auditor has obtained all the other information, the composition of which was determined through discussion with management and for which the auditor obtained management's written acknowledgment (pursuant to paragraph 13a), the auditor should include a separate section in the auditor's report on the financial statements with the heading "Other Information" or other appropriate heading. The "Other Information" section in the auditor's report on the financial statements should include the following: (Ref: par. A56)
- a. A statement that management is responsible for the other information
  - b. An identification of other information and a statement that the other information does not include the financial statements and the auditor's report thereon
  - c. A statement that the auditor's opinion on the financial statements does not cover the other information and that the auditor does not express an opinion or any form of assurance thereon
  - d. A statement that, in connection with the audit of the financial statements, the auditor is responsible to read the other information and consider whether a material inconsistency exists between the other information and the financial statements or the other information otherwise appears to be materially misstated

- e. A statement that, if, based on the work performed, the auditor concludes that an uncorrected material misstatement of the other information exists, the auditor is required to describe it in the auditor's report
  - f. If the auditor has concluded that an uncorrected material misstatement of the other information exists, a statement that the auditor has concluded that an uncorrected material misstatement of the other information exists and a description of it in the auditor's report
- 25.** When the auditor expresses a qualified or adverse opinion in accordance with AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*, the auditor should consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 24f of this SAS. (Ref: par. A57–A61)

## Documentation

- 26.** In addressing the requirements in AU-C section 230, *Audit Documentation*,<sup>3</sup> as those requirements apply to this SAS, the auditor should include the following in the audit documentation:
- a. The procedures performed under this SAS
  - b. The final version of the other information on which the auditor has performed the work required under this SAS

## Application and Other Explanatory Material

### Scope of This SAS (Ref: par. 2 and 9)

- A1.** In instances in which the auditor applies this SAS to other documents to which the auditor, at management's request, devotes attention, the requirements of this SAS are applicable, adapted as necessary in the circumstances.
- A2.** Other AU-C sections provide requirements and guidance with respect to information in certain documents other than annual reports. For example, AU-C section 925, *Filings With the U.S. Securities and Exchange Commission Under the Securities Act of 1933*; AU-C section 945, *Auditor Involvement With Exempt Offering Documents*; and SAS No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*.<sup>4</sup>
- A3.** This SAS also addresses other information for which a designated accounting standard setter<sup>5</sup> has issued standards or guidance regarding the format to be used and content to be included when such information is voluntarily presented in an annual report — for example, GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*.

## Definitions

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<sup>3</sup> Paragraphs .08–.11 of AU-C section 230, *Audit Documentation*.

<sup>4</sup> Statement on Auditing Standards (SAS) No. 136, *Forming an Opinion and Reporting on Financial Statements of Employee Benefit Plans Subject to ERISA*, which is effective for audits of financial statements for periods ending on or after December 15, 2020, will be codified as AU-C section 703 in *AICPA Professional Standards*. As of the issuance date of this SAS, SAS No. 136 has not been integrated into *AICPA Professional Standards*.

<sup>5</sup> *Designated accounting standards setter* is defined in paragraph .04 of AU-C section 730, *Required Supplementary Information*.

*Annual Report* (Ref: par. 12)

- A4.** Law, regulation, or custom may define the content of an annual report and the name by which it is to be referred.
- A5.** An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.
- A6.** In some cases, an entity's annual report may be a single document and referred to by the title "Annual Report" or by some other title. In other cases, law, regulation, or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (that is, an annual report) by way of a single document or by way of two or more separate documents that, in combination, serve the same purpose.
- A7.** An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an *annual report*, irrespective of the manner in which it is made available to users.
- A8.** An annual report is different in nature, purpose, and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as stand-alone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation, or custom), and, therefore, are not other information within the scope of this SAS, include the following:
- IRS Form 990, *Return of Organization Exempt From Income Tax*
  - IRS Form 5500, *Annual Return/Report of Employee Benefit Plan*
  - Annual statement filed with National Association of Insurance Commissioners
  - Separate industry or regulatory reports (for example, capital adequacy reports), such as those prepared in the banking, insurance, and pension industries
  - Corporate social responsibility reports
  - Sustainability reports
  - Diversity and equal opportunity reports
  - Product responsibility reports
  - Labor practices and working conditions reports
  - Human rights reports
- A9.** Though a document may be referred to as an *annual report*, such document may not meet the definition of an *annual report* for purposes of this SAS.

***Considerations Specific to Governmental Entities***

- A10.** The term *annual reports of governments* is intended to include comprehensive annual financial reports or other annual financial reports that include the government's financial statements and the auditor's report thereon.

*Misstatement of the Other Information* (Ref: par. 12)

**A11.** A misstatement of the other information may be

- an inconsistency;
- a misstatement of fact; or
- information that is otherwise misleading, including because it omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information.

An inconsistency exists when other information conflicts with information contained in the financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements. A misstatement of fact exists when other information that is unrelated to matters appearing in the financial statements is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the annual report. Information that is otherwise misleading, including because it omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information, could result in a material misstatement of the other information.

**A12.** The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgments about materiality under this SAS. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:

- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements because such users may be expected to read the other information to provide context to the financial statements.
- Judgments about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
- Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

*Other Information* (Ref: par. 12)

**A13.** The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report)
- Chairman's statement
- Corporate governance statement

- Management’s internal control and risk assessment reports
- Financial summaries or highlights
- Employment data
- Planned capital expenditures
- Financial ratios
- Names of officers and directors
- Selected quarterly data

**Obtaining the Other Information** (Ref: par. 13–14)

**A14.** Determining the document or documents that comprise the annual report is often clear based on law, regulation, or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that, together, comprise the annual report or may have committed to do so. In some cases, it may not be clear which documents comprise the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor’s determination of which documents are the annual report.

**A15.** In accordance with paragraph 13*a*, management’s written acknowledgment may be included in the engagement letter, an amendment to the engagement letter, a representation letter, or some other written communication.

**A16.** Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate the following to management or those charged with governance:

- The auditor’s expectations in relation to obtaining the final version of the annual report (including a combination of documents that, together, comprise the annual report) in a timely manner prior to the date of the auditor’s report such that the auditor can complete the procedures required by this SAS before the date of the auditor’s report, or if that is not possible, as soon as practicable and, in any case, prior to the entity’s issuance of such information
- The possible implications when the other information is obtained after the date of the auditor’s report

**A17.** The communications referred to in paragraph A16 may be particularly appropriate in the following instances:

- In an initial audit engagement
- When there has been a change in management or those charged with governance
- When other information is expected to be obtained after the date of the auditor’s report

**A18.** When those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the version that has been approved by those charged with governance for issuance.

**A19.** In some cases, the entity’s annual report may be a single document to be released, in accordance with law or regulation or the entity’s reporting practice, shortly after the entity’s financial reporting period such that it is available to the auditor prior to the date of the auditor’s report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity’s choosing. There may also be circumstances in which the entity’s annual report is a combination of documents, each subject to different requirements or reporting practices by the entity with respect to the timing of their release.

**A20.** Obtaining the other information in a timely manner prior to the date of the auditor’s report enables any revisions that are found to be necessary to the financial statements, the auditor’s report, or the other information prior to their issuance. The audit engagement letter<sup>6</sup> may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and, if possible, prior to the date of the auditor’s report.

**A21.** When other information is made available to users only via the entity’s website, the version of the other information obtained from the entity, rather than directly from the entity’s website, is the relevant document on which the auditor would perform procedures in accordance with this SAS. The auditor has no responsibility in accordance with this SAS to search for other information, including other information that may be on the entity’s website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity’s website or otherwise has been appropriately transmitted or displayed electronically.

**A22.** The auditor is not precluded from dating or issuing the auditor’s report if the auditor has not obtained some or all of the other information.

**A23.** When the other information is obtained after the date of the auditor’s report, the auditor is not required to update the procedures performed in accordance with AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.<sup>7</sup>

**A24.** AU-C section 580, *Written Representations*, establishes requirements and provides guidance on the use of written representations. The written representation regarding other information that will be available only after the date of the auditor’s report is intended to support the auditor’s ability to complete the procedures required by this SAS with respect to such information. In addition, the auditor may find it useful to request other written representations, such as the following:

- That management has informed the auditor of all the documents that it expects to issue that may be other information
- That the financial statements and any other information obtained by the auditor prior to the date of the auditor’s report are consistent with one another, and the other information does not contain any material misstatements

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<sup>6</sup> Paragraph .23 of AU-C section 210, *Terms of Engagement*.

<sup>7</sup> Paragraphs .09–.11 of AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*.

- With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that management intends to prepare and issue such other information and the expected timing of such issuance

**A25.** In accordance with paragraph 14, appropriate actions that the auditor may take include the following:

- Obtaining those documents from management and performing the procedures required by this SAS as soon as practical
- Communicating the matter to those charged with governance, if applicable
- Considering the need to obtain legal advice

### **Reading and Considering the Other Information** (Ref: par. 16–17)

**A26.** AU-C section 200<sup>8</sup> requires the auditor to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans.

**A27.** In accordance with AU-C section 220, *Quality Control for an Engagement Performed in Accordance With Generally Accepted Auditing Standards*,<sup>9</sup> the engagement partner is required to take responsibility for the direction, supervision, and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this SAS, factors that may be considered when determining the appropriate engagement team members to address the requirements of paragraphs 16–17 of this SAS include the following:

- The relative experience of engagement team members
- Whether the engagement team members have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge
- The degree of judgment involved in addressing the requirements of paragraphs 16–17 of this SAS, for example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component

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<sup>8</sup> Paragraph .17 of AU-C section 200.

<sup>9</sup> Paragraph .17a of AU-C section 220, *Quality Control for an Engagement Performed in Accordance With Generally Accepted Auditing Standards*

**A28.** Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements. Examples of such amounts or other items may include the following:

- Tables, charts, or graphs containing extracts of the financial statements
- A disclosure providing greater detail about a balance or account shown in the financial statements, such as “Revenue for 20X1 was XXX million from product X and YYY million from product Y”
- Descriptions of the financial results, such as “Total research and development expense was XXX in 20X1”

**A29.** In evaluating the consistency of selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about the amounts or other items in the financial statements, with such amounts or other items in the financial statements.

**A30.** Selecting the amounts or other items to compare is a matter of professional judgment. Factors relevant to this judgment include the following:

- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount)
- If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate
- The sensitivity of the particular amount or other item in the other information, for example, share-based payments for senior management

**A31.** Determining the nature and extent of procedures to address the requirement in paragraph 16 is a matter of professional judgment, recognizing that the auditor’s responsibilities under this SAS do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include the following:

- For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements
- For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings
- Obtaining a reconciliation between an amount within the other information and the financial statements from management
- Comparing items in the reconciliation to the financial statements and the other information
- Checking whether the calculations within the reconciliation are arithmetically accurate

**A32.** Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.

**A33.** Other information may include amounts or items that are related to the auditor’s knowledge obtained in the audit (other than those in paragraph 16). Examples of such amounts or items may include the following:

- A disclosure of the units produced or a table summarizing such production by geographical region
- A statement that “the company introduced product X and product Y during the year”
- A summary of the locations of the entity’s major operations, such as “the entity’s major center of operation is in country X, and there are also operations in countries Y and Z”

**A34.** The auditor’s knowledge obtained in the audit includes the auditor’s understanding of the entity and its environment, including the entity’s internal control, obtained in accordance with AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.<sup>10</sup> AU-C section 315 sets out the auditor’s required understanding, which includes such matters as obtaining an understanding of the following:

- a. The relevant industry, regulatory, and other external factors
- b. The nature of the entity
- c. The entity’s selection and application of accounting policies
- d. The entity’s objectives and strategies
- e. The measurement and review of the entity’s financial performance
- f. The entity’s internal control

**A35.** The auditor’s knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management’s evaluation of whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.

**A36.** In the case of a group audit, though the group auditor is required to read the entirety of the other information if, in accordance with AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*,<sup>11</sup> the group auditor decides to make reference to a component auditor in the auditor’s report on the group financial statements, the group auditor’s knowledge does not extend beyond that obtained by the group auditor during the audit of the group financial statements.

**A37.** While remaining alert for indications that a material inconsistency exists between the other information and the auditor’s knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to those matters could be material.

**A38.** In relation to many matters in the other information, the auditor’s recollection of the audit evidence obtained and conclusions reached during the audit may be sufficient to enable the auditor to consider whether a material inconsistency exists between the other information and the auditor’s knowledge obtained in the audit. For example, the auditor may be able to consider whether a material inconsistency exists between the other information and the auditor’s knowledge obtained in the audit in light of the auditor’s recollection of discussions held with management or those charged with governance or findings from procedures carried

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<sup>10</sup> Paragraphs .12–.13 of AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*.

<sup>11</sup> Paragraph .24 of AU-C section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*

out during the audit, such as the reading of board minutes, without the need to take further action.

**A39.** The manner in which an auditor resolves a concern regarding whether other information is materially inconsistent with the auditor's knowledge obtained in the audit, is a matter of professional judgment. The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors is appropriate as a basis for the auditor's consideration of whether a material misstatement exists. Whether, and if so, the extent to which, the auditor refers to relevant audit documentation or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment.

**A40.** It may not be necessary for the auditor to refer to relevant audit documentation or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information. This may be the case, for example, when the group auditor decides to make reference to a component auditor in the auditor's report in accordance with AU-C section 600,<sup>12</sup> and the group auditor has obtained sufficient knowledge in connection with the group audit about matters in the other information relating to the significant component with respect to which the component auditor has performed an audit of the financial statements.

**A41.** Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor's knowledge obtained in the audit. For example, the other information may include statements about the entity's greenhouse gas emissions.

**A42.** Remaining alert for indications that a material misstatement of fact exists or the other information is otherwise misleading could potentially result in the auditor identifying such matters as the following:

- Information that omits or obscures information necessary for a user to appropriately understand a matter disclosed in the other information
- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that leads the auditor to believe that the other information appears to be materially misstated
- An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated

**Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated** (Ref: par. 19)

**A43.** The auditor's discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management's statements in the other information. Based on management's further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management's explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

**A44.** Conversely, the discussion with management may provide further information that supports the auditor's conclusion that a material misstatement of the other information exists.

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<sup>12</sup> Paragraph .24 of AU-C section 600.

**A45.** It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances in which the auditor concludes that the other information contains a statement that is not consistent with the financial statements or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor's knowledge obtained in the audit.

**A46.** Because there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgment in the circumstances.

**A47.** When a matter is unrelated to the financial statements or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's inquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, management's specialist or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:

- Obtaining advice from the auditor's legal counsel
- Considering the implications for the auditor's report, for example, whether to describe the circumstances when there is a limitation imposed by management
- Withdrawing from the audit, when withdrawal is possible under applicable law or regulation

### **Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists**

*Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained Prior to the Date of the Auditor's Report* (Ref: par. 21)

**A48.** The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgment. The auditor may consider whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation, or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: par. 21a)

**A49.** In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance that it calls into question the reliability of audit evidence in general.

Withdrawal From the Engagement (Ref: par. 21c)

**A50.** Withdrawal from the engagement, when withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management

and those charged with governance that it calls into question the reliability of representations obtained from them during the audit.

*Considerations Specific to Governmental Entities (Ref: par. 21b–c)*

**A51.** In audits of governmental entities, withdrawal from the engagement or withholding the auditor's report may not be possible under law or regulation. In such cases, the auditor may issue a report or written communication to those charged with governance and the appropriate statutory body, if applicable, giving details of the material misstatement.

*Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained After the Date of the Auditor's Report (Ref: par. 22)*

**A52.** If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 20a) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.

**A53.** If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report requires the exercise of professional judgment and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

**A54.** When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of anyone in receipt of the financial statements and the auditor's report, when permitted by law or regulation, include, for example, the following:

- Providing a new or amended auditor's report to management, including a modified section in accordance with paragraph 25, and requesting management to provide this new or amended auditor's report to anyone in receipt of the financial statements and the auditor's report. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of GAAS or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users.
- Bringing the material misstatement of the other information to the attention of known users of the financial statements and the auditor's report.
- Communicating with a regulator or relevant professional body about the uncorrected material misstatement.
- Considering the implications for engagement continuance (see also paragraph A51).

**Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: par. 23)**

**A55.** In reading the other information, the auditor may become aware of new information that has implications for the following:

- The auditor’s understanding of the entity and its environment, which may indicate the need to revise the auditor’s risk assessment<sup>13</sup>
- The auditor’s responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements<sup>14</sup>
- The auditor’s responsibilities relating to subsequent events<sup>15</sup>

**Reporting** (Ref: par. 24–25)

**A56.** Illustrative examples of the “Other Information” section in the auditor's report are included in the exhibit.

*Reporting Implications When the Auditor’s Opinion on the Financial Statements Is Qualified or Adverse* (Ref: par. 25)

**A57.** A qualified or adverse auditor’s opinion on the financial statements may not have an impact on the statement required by paragraph 24f if the matter with respect to the auditor’s opinion has been modified is not included or otherwise addressed in the other information, and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of nondisclosure of directors’ remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this SAS. In other circumstances, there may be implications for such reporting as described in paragraphs A58–A61.

Qualified Opinion Due to a Material Misstatement in the Financial Statements

**A58.** In circumstances in which the auditor’s opinion is qualified, consideration may be given to whether the other information is also materially misstated for the same matter as, or a matter related to, the matter giving rise to the qualified opinion on the financial statements.

Qualified Opinion Due to Limitation of Scope

**A59.** When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 24f to refer to the auditor’s inability to consider management’s description of the matter in the other information with respect to which the auditor’s opinion on the financial statements has been qualified, as explained in the Basis for Qualified Opinion paragraph. The auditor is, nevertheless, required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

**A60.** An adverse opinion on the financial statements relating to a specific matter or matters described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor’s report in accordance with paragraph 24f. When an adverse opinion has been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph 24f, for example, to indicate that amounts or items in the

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<sup>13</sup> Paragraphs .11, .31, and .A1 of AU-C section 315.

<sup>14</sup> AU-C section 450, *Evaluation of Misstatements Identified During the Audit*.

<sup>15</sup> Paragraphs .10 and .14 of AU-C section 560.

other information are materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.

#### Disclaimer of Opinion

**A61.** When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information, may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by AU-C section 705,<sup>16</sup> the auditor's report does not include a section addressing the reporting requirements under this SAS.

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<sup>16</sup> Paragraph .30 of AU-C section 705, *Modifications to the Opinion in the Independent Auditor's Report*.

## A62.

### **Exhibit — Illustrations of Other Information Sections to Be Included in Auditor’s Reports Relating to Other Information Included in the Annual Report**

- Illustration 1: The auditor has not identified an uncorrected material misstatement of the other information.
- Illustration 2: The auditor has concluded that an uncorrected material misstatement of the other information exists.

#### **Illustration 1: The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information**

##### ***Other Information [Included in the Annual Report]***

Management is responsible for the other information [*included in the annual report*]. The other information comprises the [*information included in the annual report*]<sup>1</sup> but does not include the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

#### **Illustration 2: The Auditor Has Concluded That an Uncorrected Material Misstatement of the Other Information Exists**

##### ***Other Information [Included in the Annual Report]***

Management is responsible for the other information [*included in the annual report*]. The other information comprises the [*information included in the annual report*]<sup>2</sup> but does not include the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report. As described below, we have concluded that such an uncorrected material misstatement of the other information exists.

[*Description of material misstatement of the other information*]

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<sup>1</sup> A more specific description of the other information, such as “the management report and chairman’s statement,” may be used to identify the other information.

<sup>2</sup> See footnote 1.

A63.

**Appendix — Amendments to Various Sections in SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*, as amended, and SAS No. 134, *Auditor Reporting and Amendments, Including Amendments Addressing Disclosures in the Audit of Financial Statements***

(*Boldface italics* denotes new language. Deleted text is shown in ~~strikethrough~~.)

**AU-C Section 210, *Terms of Engagement***

[No amendment to paragraphs .01–.05.]

**.06** In order to establish whether the preconditions for an audit are present, the auditor should

- a. determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable and (Ref: par. .A2–.A8)
- b. obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. .A9–.A12 and .A17)
  - i. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; (Ref: par. .A13)
  - ii. 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; and (Ref: par. .A14–.A16)
  - iii. to provide the auditor with
    - (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;
    - (2) additional information that the auditor may request from management for the purpose of the audit; and (*Ref: par. .A17*)
    - (3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

[No amendment to paragraphs .07–.A16.]

***Additional Information (Ref: par. .06biii(2))***

***.A17 Additional information that the auditor may request from management for the purpose of the audit may include, when applicable, matters related to other information in accordance with AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports. When the auditor expects to obtain other information after the date of the auditor’s report, the terms of the audit engagement may also acknowledge the auditor’s responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that an uncorrected material misstatement of the other information exists in such other information.***

[Paragraphs .A17–.A42 are renumbered to paragraphs .A18–.A43. The content is unchanged.]

**Exhibit — Example of an Audit Engagement Letter (Ref: par. .A26)**

~~.A43~~<sup>.A44</sup> The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with accounting principles generally accepted in the United States of America, as promulgated by the Financial Accounting Standards Board. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this section. The letter will vary according to individual requirements and circumstances and is drafted to refer to the audit of financial statements for a single reporting period. The auditor may seek legal advice about whether a proposed letter is suitable.

To the appropriate representative of those charged with governance of ABC Company:<sup>1</sup>

*[The objective and scope of the audit]*

You<sup>2</sup> have requested that we audit the financial statements of ABC Company, which comprise the balance sheet as of December 31, 20XX, 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. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit 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 auditing standards generally accepted in the United States of America (GAAS) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

*[The responsibilities of the auditor]*

We will conduct our audit in accordance with GAAS. As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>3</sup> However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.
- 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, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Conclude, based on the audit evidence obtained, 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 a reasonable period of time.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

*[The responsibilities of management and identification of the applicable financial reporting framework]*

Our audit will be conducted on the basis that *[management and, when appropriate, those charged with governance]*<sup>34</sup> acknowledge and understand that they have responsibility

- a. for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America;
- b. 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; and
- c. to provide us with
  - i. access to all information of which *[management]* is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
  - ii. additional information that we may request from *[management]* for the purpose of the audit; and

- iii. unrestricted access to persons within ABC Company from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [*management and, when appropriate, those charged with governance*] written confirmation concerning representations made to us in connection with the audit.

[*Other relevant information*]

[*Insert other information, such as fee arrangements, billings, and other specific terms, as appropriate.*]

**[Reporting]**

[*Insert appropriate reference to the expected form and content of the auditor's report, including, when applicable, the reporting on other information in accordance with AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports. Example follows:*]

We will issue a written report upon completion of our audit of ABC Company's financial statements. Our report will be addressed to the board of directors of ABC Company. Circumstances may arise in which our report may differ from its expected form and content based on the results of our audit. Depending on the nature of these circumstances, it may be necessary for us to modify our opinion, add an emphasis-of-matter paragraph or other-matter paragraph to our auditor's report, or if necessary, withdraw from the engagement.

We also will issue a written report on [~~i~~*Insert appropriate reference to other auditor's reports expected to be issued.*] upon completion of our audit.

Please sign and return the attached copy of this letter to indicate your acknowledgment of, and agreement with, the arrangements for our audit of the financial statements, including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

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[*Signed*]  
[*Name and Title*]  
[*Date*]

<sup>1</sup>[Footnote omitted for purposes of this SAS.]

<sup>2</sup>[Footnote omitted for purposes of this SAS.]

<sup>3</sup> This sentence would be modified, as appropriate, in circumstances in which the auditor also has a responsibility to issue an opinion on the effectiveness of internal control over financial reporting in conjunction with the audit of the financial statements.

[No further amendments to AU-C section 210.]

### **AU-C Section 230, *Audit Documentation***

[No amendment to paragraphs .01–.A29.]

#### **Exhibit — Audit Documentation Requirements in Other AU-C Sections**

**.A30** The following lists the main paragraphs in other AU-C sections that contain specific documentation requirements. This list is not a substitute for knowledge of the AU-C sections:

- a. Paragraphs .10, .13, and .16 of section 210, *Terms of Engagement*
- b. Paragraphs .25–.26 of section 220, *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*
- c. Paragraphs .43–.46 of section 240, *Consideration of Fraud in a Financial Statement Audit*
- d. Paragraph .28 of section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
- e. Paragraph .20 of section 260, *The Auditor’s Communication With Those Charged With Governance*
- f. Paragraph .12 of section 265, *Communicating Internal Control Related Matters Identified in an Audit*
- g. Paragraph .14 of section 300, *Planning an Audit*
- h. Paragraph .33 of section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*
- i. Paragraph .14 of section 320, *Materiality in Planning and Performing an Audit*
- j. Paragraphs .30–.33 of section 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*
- k. Paragraph .12 of section 450, *Evaluation of Misstatements Identified During the Audit*

- l.* Paragraph .20 of section 501, *Audit Evidence — Specific Considerations for Selected Items*
- m.* Paragraph .08 of section 520, *Analytical Procedures*
- n.* Paragraph .22 of section 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*
- o.* Paragraph .28 of section 550, *Related Parties*
- p.* Paragraph .22 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*
- q.* Paragraphs .49 and .64 of section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*
- r.* Paragraphs .33–.35 of section 610, *Using the Work of Internal Auditors*
- s.* Paragraph .17 of section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*
- t. Paragraph .26 of section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***
- u.* Paragraph .13 of section 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*
- v.* Paragraphs .42–.43 of section 930, *Interim Financial Information*
- w.* Paragraphs .39–.42 of section 935, *Compliance Audits*

[No further amendments to AU-C section 230.]

#### **AU-C Section 260, *The Auditor’s Communication With Those Charged With Governance***

[No amendment to paragraphs .01–.A21.]

**.A22** Other planning matters that may be appropriate to discuss with those charged with governance include

- the views of those charged with governance about the following matters:
  - The appropriate persons in the entity’s governance structure with whom to communicate
  - The allocation of responsibilities between those charged with governance and management

- The entity’s objectives and strategies and the related business risks that may result in material misstatements
- Matters those charged with governance consider as warranting particular attention during the audit and any areas for which they request additional procedures to be undertaken
- Significant communications between the entity and regulators
- Other matters those charged with governance believe are relevant to the audit of the financial statements
- the attitudes, awareness, and actions of those charged with governance concerning
  - ~~(a)~~ the entity’s internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and
  - ~~(b)~~ the detection or the possibility of fraud.
- the actions of those charged with governance in response to developments in law, accounting standards, corporate governance practices, and other related matters, and the effect of such developments on, for example, the overall presentation, structure, and content of the financial statements, including the following:
  - The relevance, reliability, comparability, and understandability of the information presented in the financial statements
  - Whether all required information has been included in the financial statements, and whether such information has been appropriately classified, aggregated or disaggregated, and presented
- the actions of those charged with governance in response to previous communications with the auditor.
- ***if applicable, the document or documents that comprise the annual report and the planned manner and timing of the issuance of such documents in accordance with paragraph .13 of section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports. When the auditor expects to obtain other information after the date of the auditor’s report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists.***

[No amendment to paragraphs .A23–.A56.]

## Exhibit — Requirements to Communicate With Those Charged With Governance in Other AU-C Sections

**.A57** Requirements for the auditor to communicate with those charged with governance are included in other AU-C sections. This section does not change the requirements in

- a. paragraph .17 of section 210, *Terms of Engagement*
- b. paragraphs .21, .38ci, and .39–.41 of section 240, *Consideration of Fraud in a Financial Statement Audit*
- c. paragraphs .14, .18, and .21–.23 of section 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*
- d. paragraph .11 of section 265, *Communicating Internal Control Related Matters Identified in an Audit*
- e. paragraph .27 of section 550, *Related Parties*
- f. paragraphs .10b–c, .12a, .15a, .17a, and .18 of section 560, *Subsequent Events and Subsequently Discovered Facts*
- g. paragraph .28 of section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*
- h. paragraphs .45–.48 of section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)*
- i. paragraph .28 of section 610, *Using the Work of Internal Auditors*
- j. paragraph .16 of section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*
- k. paragraphs .12, .14, .24, and .31 of section 705, *Modifications to the Opinion in the Independent Auditor’s Report*
- l. paragraph .12 of section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report*
- m. paragraphs ~~.08, .12,~~ .15, **.20b**, and **.4821a** of section 720, ~~*Other Information in Documents Containing Audited Financial Statements*~~ **The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports**
- n. paragraph .06 of section 730, *Required Supplementary Information*

- o.* paragraphs .23–.28 of section 930, *Interim Financial Information*
- p.* paragraphs .36–.37 of section 935, *Compliance Audits*

[No further amendments to AU-C section 260.]

**AU-C Section 450, *Evaluation of Misstatements Identified During the Audit***

[No amendment to paragraphs .01–.A27.]

**.A28** The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement

- affects compliance with regulatory requirements.
- affects compliance with debt covenants or other contractual requirements.
- relates to the incorrect selection or application of an accounting policy that has an immaterial effect on the current period’s financial statements but is likely to have a material effect on future periods’ financial statements.
- masks a change in earnings or other trends, especially in the context of general economic and industry conditions.
- affects ratios used to evaluate the entity’s financial position, results of operations, or cash flows.
- affects segment information presented in the financial statements (for example, the significance of the matter to a segment or other portion of the entity’s business that has been identified as playing a significant role in the entity’s operations or profitability).
- has the effect of increasing management compensation (for example, by ensuring that the requirements for the award of bonuses or other incentives are satisfied).
- is significant with regard to the auditor’s understanding of known previous communications to users (for example, regarding forecast earnings).
- relates to items involving particular parties (for example, whether external parties to the transaction are related to members of the entity’s management).
- is an omission of information not specifically required by the applicable financial reporting framework but that, in the professional judgment of the auditor, is

important to the users' understanding of the financial position, financial performance, or cash flows of the entity.

- affects other information that will be communicated in documents containing the audited financial statements (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial statements. Section 720, ~~*Other Information in Documents Containing Audited Financial Statements*~~ **The Auditor's Responsibilities Relating to Other Information Included in Annual Reports**, addresses the auditor's consideration of *responsibilities relating to* other information, ~~on which the auditor has no obligation to report, in documents containing audited financial statements—~~*whether financial or nonfinancial information (other than the financial statements and the auditor's report thereon), included in an entity's annual report.*
- is a misclassification between certain account balances affecting items disclosed separately in the financial statements (for example, misclassification between operating and nonoperating income or recurring and nonrecurring income items or a misclassification between restricted and unrestricted resources in a not-for-profit entity).
- offsets effects of individually significant but different misstatements.
- is currently immaterial and likely to have a material effect in future periods because of a cumulative effect, for example, that builds over several periods.
- is too costly to correct. It may not be cost beneficial for the client to develop a system to calculate a basis to record the effect of an immaterial misstatement. On the other hand, if management appears to have developed a system to calculate an amount that represents an immaterial misstatement, it may reflect a motivation of management.
- represents a risk that possible additional undetected misstatements would affect the auditor's evaluation.
- changes a loss into income or vice versa.
- heightens the sensitivity of the circumstances surrounding the misstatement (for example, the implications of misstatements involving fraud and possible instances of noncompliance with laws or regulations, violations of contractual provisions, and conflicts of interest).
- has a significant effect relative to reasonable user needs (for example,
  - earnings to investors and the equity amounts to creditors,

- the magnifying effects of a misstatement on the calculation of purchase price in a transfer of interests [buy-sell agreement], and
  - the effect of misstatements of earnings when contrasted with expectations).
- relates to the definitive character of the misstatement (for example, the precision of an error that is objectively determinable as contrasted with a misstatement that unavoidably involves a degree of subjectivity through estimation, allocation, or uncertainty).
  - indicates the motivation of management (for example, [i] an indication of a possible pattern of bias by management when developing and accumulating accounting estimates, [ii] a misstatement precipitated by management’s continued unwillingness to correct weaknesses in the financial reporting process, or [iii] an intentional decision not to follow the applicable financial reporting framework).

These circumstances are only examples — not all are likely to be present in all audits nor is the list necessarily complete. The existence of any circumstances such as these does not necessarily lead to a conclusion that the misstatement is material.

[No amendment to paragraphs .A29–.A33.]

[No further amendments to AU-C section 450.]

**AU-C Section 600, *Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)***

[No amendment to paragraphs .01–.A96.]

**Exhibit A — Illustrations of Auditor’s Reports on Group Financial Statements**

**.A97**

Illustration 1 — A Report With a Qualified Opinion When the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion (Ref: par. .A27)

Illustration 2 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Generally Accepted Auditing Standards (Ref: par. .A60)

Illustration 3 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using a Different

Financial Reporting Framework Than That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With GAAS (Ref: par. .A60)

Illustration 4 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Auditing Standards Other Than GAAS (Ref: par. .A60)

Illustration 1 — A Report With a Qualified Opinion When the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (comparative).
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in section 210, *Terms of Engagement*.
- The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity method because the group engagement team was unable to obtain the audited financial statements of the component as of December 31, 20X1 and 20X0, including the auditor's report thereon. In this example, the auditor of the group financial statements is not making reference to the report of a component auditor. In the auditor's professional judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report, and the qualified opinion on the consolidated financial statements also affects the other information included in the annual report.***

- The auditor has not been engaged to communicate key audit matters.

## Independent Auditor's Report

*[Appropriate Addressee]*

*Report on the Audit of the Consolidated Financial Statements<sup>1</sup>*

### *Qualified Opinion*

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Qualified Opinion*

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at \$\_\_\_\_\_ and \$\_\_\_\_\_ at December 31, 20X1 and 20X0, respectively, or its equity in earnings of that affiliate of \$\_\_\_\_\_ and \$\_\_\_\_\_, which is included in net income for the years then ended as described in Note X to the consolidated financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and its subsidiaries and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated 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 consolidated 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 consolidated 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>2</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 consolidated 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.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.]***

*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 auditor’s firm]*

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

*[Date of the auditor’s report]*

**Illustration 2 — A Report in Which the Auditor of the Group Financial Statements Is Making Reference to the Audit of the Financial Statements of a Component Prepared Using the Same Financial Reporting Framework as That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With Generally Accepted Auditing Standards**

<sup>2</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 consolidated 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.”

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (comparative).

- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in section 210, *Terms of Engagement*.
- The auditor of the group financial statements is making reference to the audit of the financial statements of a component prepared using the same financial reporting framework as that used for the group financial statements and performed by a component auditor in accordance with generally accepted auditing standards (GAAS).
- The auditor has concluded that an unmodified (that is, “clean”) opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor’s report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

### Independent Auditor’s Report

*[Appropriate Addressee]*

*Report on the Audit of the Consolidated Financial Statements<sup>1</sup>*

#### *Opinion*

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 20X1 and 20X0, and the related consolidated statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

In our opinion, based on our audits and the report of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ABC Company and its subsidiaries as of December 31, 20X1 and 20X0, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of B Company, a wholly owned subsidiary, which statements reflect total assets constituting 20 percent and 22 percent, respectively, of consolidated total assets at December 31, 20X1 and 20X0, and total revenues constituting 18 percent and 20 percent, respectively, of consolidated total revenues for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for B Company, is based solely on the report of the other auditors.

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated 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 consolidated 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 consolidated 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>2</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 consolidated 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.

<sup>2</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 consolidated 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.”

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]***

*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 auditor's firm]*

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

*[Date of the auditor's report]*

[No amendment to illustrations 3–4.]

[No further amendments to AU-C section 600.]

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

[No amendment to paragraphs .01–.37.]

*Other Information*

***.38 When applicable, the auditor should report in accordance with AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.***

[Paragraphs .38–.60 are renumbered to paragraphs .39–.61. The content is unchanged.]

[No amendment to paragraph .A1.]

**.A2** Other AU-C sections that also contain reporting requirements include, but are not limited to, the following:

- AU-C section 510, *Opening Balances — Initial Audit Engagements, Including Reaudit Engagements*
- AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*
- ***AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports***
- AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*

- AU-C section 730, *Required Supplementary Information*
- AU-C section 810, *Engagements to Report on Summary Financial Statements*
- AU-C section 910, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

[No amendment to paragraphs .A3–.A80.]

**.A81**

**Exhibit — Illustrations of Auditor’s Reports on Financial Statements (Ref: par. .A24, .A32, .A65, and .A71)**

Illustration 1: An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 2: An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America, Including Communication of Key Audit Matters

Illustration 3: An Auditor’s Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America

Illustration 4: An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing

Illustration 5: An Auditor’s Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Audited Financial Statements for the Prior Year Is Presented

Illustration 6: An Auditor’s Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Unaudited Financial Statements for the Prior Year Is Presented

Illustration 7: An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted by a Registered Firm in Accordance With Both Auditing Standards Generally Accepted in the United States of America and the Auditing and Professional Practice Standards of the Public Company Accounting Oversight Board

Illustration 8: An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted by a Nonregistered Firm in Accordance With Both Auditing Standards Generally Accepted in the United States of America and the Auditing Standards of the Public Company Accounting Oversight Board

## **Illustration 1: An Auditor's Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

## Independent Auditor's Report

[Appropriate Addressee]

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

#### ***Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 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 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

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<sup>1</sup> 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.

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>2</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.

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<sup>2</sup> In circumstances in which the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, 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."

- 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.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports (refer to illustration 1, “The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information,” in the exhibit of AU-C section 720)]***

### **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 Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America, Including Communication of Key Audit Matters**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, “clean”) opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor’s report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has been engaged to communicate key audit matters.

## **Independent Auditor's Report**

[*Appropriate Addressee*]

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

#### ***Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Key Audit Matters***

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report, of this SAS*]

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

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<sup>1</sup> 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.

Management is responsible for the preparation and fair presentation of the financial statements 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 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>2</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.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports (see illustration 1, “The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information,” in the exhibit of AU-C section 720)]***

### **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]*

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<sup>2</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.”

### **Illustration 3: An Auditor's Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

## Independent Auditor's Report

[Appropriate Addressee]

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

#### ***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.

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 accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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*].

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<sup>1</sup> 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.

## *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>2</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.

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<sup>2</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."

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 Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports (see illustration 1, “The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information,” in the exhibit of AU-C section 720)]***

### **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 4: An Auditor’s Report on Comparative Financial Statements Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When the Audit Has Been Conducted in Accordance With Both Auditing Standards Generally Accepted in the United States of America and International Standards on Auditing**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is a group audit. The auditor is not making reference to a component auditor in the auditor’s report.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The financial statements are audited in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing (ISAs).<sup>1</sup>
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210, *Terms of Engagement*, and ISA 210, *Agreeing the Terms of Audit Engagements*.
- The auditor has concluded that an unmodified (that is, “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise relevant ethical requirements in the United States of America and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.

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<sup>1</sup> Paragraph 50 of International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, allows the auditor to use the layout or wording of the national auditing standards (in this case, GAAS), provided that (1) there are no conflicts between the requirements in GAAS and the ISAs that would lead to a different conclusion with respect to the opinion, and (2) the layout or wording addresses, and is not inconsistent with, certain of the required minimum reporting elements in ISA 700 (Revised).

- *The auditor has obtained all the other information prior to the date of the auditor’s report and has not identified an uncorrected material misstatement of the other information included in the annual report.*
- The auditor has not been engaged to communicate key audit matters.

## **Independent Auditor’s Report**

[Appropriate Addressee]

### **Report on the Audit of the Financial Statements<sup>2</sup>**

#### ***Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes to the financial statements.

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 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and in accordance with International Standards on Auditing (ISAs). 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 independent of ABC Company, and have fulfilled our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits, which include relevant ethical requirements in the United States of America and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management and Those Charged With Governance for the Financial Statements***

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<sup>2</sup> 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.

Management is responsible for the preparation and fair presentation of the financial statements 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 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*]; to disclose, as applicable, matters related to going concern; and to use the going concern basis of accounting unless management either intends to liquidate ABC Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing ABC Company's financial reporting process.

### ***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 and ISAs 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 and ISAs, 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>3</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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the ABC Company to express an opinion on the financial statements. We are responsible for the direction, supervision, and performance of the group audit of ABC Company. We remain solely responsible for our audit opinion.<sup>4</sup>

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 Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports (see illustration 1, “The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information,” in the exhibit of AU-C section 720)]***

### **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]*

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<sup>3</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.”

<sup>4</sup> This has been included to comply with paragraph 50(k) of ISA 700 (Revised).

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

*[Date of the auditor's report]*

**Illustration 5: An Auditor’s Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Audited Financial Statements for the Prior Year Is Presented**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Prior year summarized comparative financial information derived from audited financial statements is presented.
- Management is responsible for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, “clean”) opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor’s report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

## **Independent Auditor's Report**

[Appropriate Addressee]

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

#### ***Opinion***

We have audited the financial statements of XYZ Not-for-Profit Organization, which comprise the statement of financial position as of September 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of XYZ Not-for-Profit Organization as of September 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of XYZ Not-for-Profit Organization 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 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 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 XYZ Not-for-

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<sup>1</sup> 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.

Profit Organization'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 XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed.<sup>2</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 XYZ Not-for-Profit Organization's ability to continue as a going concern for a reasonable period of time.

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<sup>2</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 XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed."

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 Summarized Comparative Information***

We have previously audited XYZ Not-for-Profit Organization’s 20X0 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 20X0. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 20X0, is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports (see illustration 1, “The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information,” in the exhibit of AU-C section 720)]***

### **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 6: An Auditor’s Report on Financial Statements for a Single Year Prepared in Accordance With Accounting Principles Generally Accepted in the United States of America When Comparative Summarized Financial Information Derived From Unaudited Financial Statements for the Prior Year Is Presented**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Prior year summarized comparative financial information derived from unaudited financial statements is presented.
- Management is responsible for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, “clean”) opinion is appropriate based on the audit evidence obtained.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor’s report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

## Independent Auditor's Report

[Appropriate Addressee]

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

#### ***Opinion***

We have audited the financial statements of XYZ Not-for-Profit Organization, which comprise the statement of financial position as of September 30, 20X1, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of XYZ Not-for-Profit Organization as of September 30, 20X1, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of XYZ Not-for-Profit Organization 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 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 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 XYZ Not-for-

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<sup>1</sup> 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.

Profit Organization'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 XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed.<sup>2</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.

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<sup>2</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 XYZ Not-for-Profit Organization's internal control. Accordingly, no such opinion is expressed."

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about XYZ Not-for-Profit Organization’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.

***Report on Summarized Comparative Information***

The summarized comparative information presented herein as of and for the year ended September 30, 20X0, derived from those unaudited financial statements, has not been audited, reviewed, or compiled, and, accordingly, we express no opinion on it.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports (see illustration 1, “The Auditor Has Not Identified an Uncorrected Material Misstatement of the Other Information,” in the exhibit of AU-C section 720)]***

**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]*

[No amendment to illustrations 7–8.]

[No further amendments to AU-C section 700.]

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

[No amendment to paragraphs .01–.29.]

**.30** When the auditor expresses an adverse opinion or disclaims an opinion on the financial statements, the auditor’s report should not include a “Key Audit Matters” section in accordance with section 701 of this SAS.<sup>1</sup> *Also, when the auditor disclaims an opinion on the financial statements, the auditor’s report should not include an “Other Information” section in accordance with AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.* (Ref: par. .A35–.A36)

[No amendment to paragraphs .31–.A35.]

**.A36** When the auditor expresses an adverse opinion, the communication of any key audit matters other than the matters giving rise to the modified opinion may overshadow the fact that the financial statements as a whole are materially misstated. When the auditor disclaims an opinion, the communication of any key audit matters other than the matters giving rise to the disclaimer of opinion may suggest that the financial statements are more credible in relation to those matters than would be appropriate in the circumstances and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. *Similarly, it would not be appropriate for the auditor to make any statements about the auditor’s consideration of the consistency of other information in an annual report with the financial statements.* Accordingly, paragraph .30 of this section prohibits the inclusion of a “Key Audit Matters” section in the auditor’s report when the auditor issues an adverse opinion or disclaims an opinion on the financial statements *and also prohibits the inclusion of an “Other Information” section in the auditor’s report when the auditor disclaims an opinion on the financial statements.*

[No amendment to paragraphs .A37.]

### **.A38**

#### **Exhibit — Illustrations of Auditor’s Reports With Modifications to the Opinion**

Illustration 1: An Auditor’s Report Containing a Qualified Opinion Due to a Material Misstatement of the Financial Statements

Illustration 2: An Auditor’s Report Containing a Qualified Opinion for Inadequate Disclosure

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<sup>1</sup> Paragraphs .10–.12 of section 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, of this SAS.

Illustration 3: An Auditor's Report Containing an Adverse Opinion Due to a Material Misstatement of the Financial Statements

Illustration 4: An Auditor's Report Containing a Qualified Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence

Illustration 5: An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About a Single Element of the Financial Statements

Illustration 6: An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About Multiple Elements of the Financial Statements

Illustration 7: An Auditor's Report in Which the Auditor Is Expressing an Unmodified Opinion in the Prior Year and a Modified Opinion (Qualified Opinion) in the Current Year

Illustration 8: An Auditor's Report in Which the Auditor Is Expressing an Unmodified Opinion in the Current Year and a Disclaimer of Opinion on the Prior-Year Statements of Income, Changes in Stockholders' Equity, and Cash Flows

## **Illustration 1: An Auditor's Report Containing a Qualified Opinion Due to a Material Misstatement of the Financial Statements**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

## Independent Auditor's Report

[Appropriate Addressee]

### **Report on the Audit of the Financial Statements<sup>2</sup>**

#### ***Qualified Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Qualified Opinion***

ABC Company has stated inventories at cost in the accompanying balance sheets. Accounting principles generally accepted in the United States of America require inventories to be stated at the lower of cost or market. If the Company stated inventories at the lower of cost or market, a write down of \$XXX and \$XXX would have been required as of December 31, 20X1 and 20X0, respectively. Accordingly, cost of sales would have been increased by \$XXX and \$XXX, and net income, income taxes, and stockholders' equity would have been reduced by \$XXX, \$XXX, and \$XXX, and \$XXX, \$XXX, and \$XXX, as of and for the years ended December 31, 20X1 and 20X0, respectively.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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<sup>2</sup> 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.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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>3</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.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.]***

### **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]*

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<sup>3</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.”

## **Illustration 2: An Auditor's Report Containing a Qualified Opinion for Inadequate Disclosure**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (comparative). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The financial statements have inadequate disclosures. The auditor has concluded that (a) it is not practicable to present the required information and (b) the effects are such that an adverse opinion is not appropriate. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.***
- The auditor has been engaged to communicate key audit matters.

## Independent Auditor's Report

[Appropriate Addressee]

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

#### ***Qualified Opinion***

We have audited the financial statements of ABC Company, which comprise the balance sheets as of December 31, 20X1 and 20X0, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1 and 20X0, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Qualified Opinion***

ABC Company's financial statements do not disclose [*describe the nature of the omitted information that is not practicable to present in the auditor's report*]. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

#### ***Key Audit Matters***

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial

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<sup>1</sup> 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.

statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report, of this SAS]*

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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>2</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.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.]***

**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]*

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<sup>2</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.”

### **Illustration 3: An Auditor's Report Containing an Adverse Opinion Due to a Material Misstatement of the Financial Statements**

Circumstances include the following:

- Audit of a complete set of consolidated general purpose financial statements (single year). The audit is a group audit. The auditor is not making reference to a component auditor in the auditor's report.
- Management is responsible for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The financial statements are materially misstated due to the nonconsolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. Accordingly, the auditor's report contains an adverse opinion. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information included in the annual report.***
- The auditor is precluded from communicating key audit matters when issuing an adverse opinion.

## Independent Auditor's Report

[Appropriate Addressee]

### **Report on the Audit of the Consolidated Financial Statements<sup>1</sup>**

#### ***Adverse Opinion***

We have audited the consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated balance sheet as of December 31, 20X1, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not present fairly the financial position of ABC Company and its subsidiaries as of December 31, 20X1, or the results of their operations or their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Adverse Opinion***

As described in Note X, ABC Company has not consolidated the financial statements of subsidiary XYZ Company that it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis by the Company. Under accounting principles generally accepted in the United States of America, the subsidiary should have been consolidated because it is controlled by the Company. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 consolidated 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 consolidated 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 consolidated 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>2</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 consolidated 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.

***Other Information [or another title, if appropriate, such as “Information Other Than the Financial Statements and Auditor’s Report Thereon”]***

***[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.]***

### **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]*

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<sup>2</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 consolidated 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.”

#### **Illustration 4: An Auditor's Report Containing a Qualified Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign affiliate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial statements. Accordingly, the auditor's report contains a qualified opinion.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report, and the matter giving rise to the qualified opinion on the financial statements also affects the other information included in the annual report.***
- The auditor has not been engaged to communicate key audit matters.

## Independent Auditor's Report

[Appropriate Addressee]

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

#### ***Qualified 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.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, 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 accounting principles generally accepted in the United States of America.

#### ***Basis for Qualified Opinion***

ABC Company's investment in XYZ Company, a foreign affiliate acquired during the year and accounted for under the equity method, is carried at \$XXX on the balance sheet at December 31, 20X1, and ABC Company's share of XYZ Company's net income of \$XXX is included in ABC Company's net income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company's investment in XYZ Company as of December 31, 20X1, and ABC Company's share of XYZ Company's net income for the year then ended because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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<sup>1</sup> 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.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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>2</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.

*Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]*

**[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Report]**

### **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]*

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<sup>2</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."

## **Illustration 5: An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About a Single Element of the Financial Statements**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was unable to obtain audit evidence about the financial information of a joint venture investment accounted for under the proportionate consolidation approach. The investment represents over 90 percent of the Company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's report contains a disclaimer of opinion.
- The auditor concluded that it was unnecessary to include in the auditor's report specific amounts for the Company's proportional share of the assets, liabilities, income, and expenses of the joint venture investment because the investment represents over 90 percent of the Company's net assets, and that fact is disclosed in the auditor's report.
- ***The auditor is precluded from including an Other Information section in the auditor's report when disclaiming an opinion on the financial statements.***
- The auditor is precluded from communicating key audit matters when disclaiming an opinion on the financial statements.
- A more limited description of the Auditor's Responsibilities section is required because of the disclaimer of opinion.

## **Independent Auditor's Report**

[Appropriate Addressee]

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

#### ***Disclaimer of Opinion***

We were engaged to audit 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.

We do not express an opinion on the accompanying financial statements of ABC Company. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

#### ***Basis for Disclaimer of Opinion***

ABC Company's investment in XYZ Company, a joint venture, is carried at \$XXX on the Company's balance sheet, which represents over 90 percent of the Company's net assets as of December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company. As a result, we were unable to determine whether any adjustments were necessary relating to the Company's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ Company's income and expenses for the year, and the elements making up the statements of changes in stockholders' equity and cash flows.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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

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<sup>1</sup> 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.

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 responsibility is to conduct an audit of ABC Company's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

### **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 6: An Auditor's Report Containing a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence About Multiple Elements of the Financial Statements**

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was unable to obtain audit evidence about the entity's inventories and accounts receivable at year-end because at that time the auditor had not been engaged. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements. Accordingly, the auditor's opinion contains a disclaimer of opinion.
- ***The auditor is precluded from including an Other Information section in the auditor's report when disclaiming an opinion on the financial statements.***
- The auditor is precluded from communicating key audit matters when disclaiming an opinion on the financial statements.
- A more limited description of the Auditor's Responsibilities section is required because of the disclaimer of opinion.

## **Independent Auditor's Report**

[Appropriate Addressee]

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

#### ***Disclaimer of Opinion***

We were engaged to audit 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.

We do not express an opinion on the accompanying financial statements of ABC Company. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### ***Basis for Disclaimer of Opinion***

We were not engaged as auditors of ABC Company until after December 31, 20X1, and, therefore, did not observe the counting of physical inventories at the beginning or end of the year. We were unable to satisfy ourselves by other auditing procedures concerning the inventory held at December 31, 20X1, which is stated in the balance sheet at \$XXX. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous misstatements in accounts receivable. As of the date of our audit report, management was still in the process of rectifying the system deficiencies and correcting the misstatements. We were unable to confirm or verify by alternative means accounts receivable included in the balance sheet at a total amount of \$XXX at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statements of income, changes in stockholders' equity, and cash flows.

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

Management is responsible for the preparation and fair presentation of the financial statements 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

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<sup>1</sup> 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.

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 responsibility is to conduct an audit of ABC Company's financial statements in accordance with auditing standards generally accepted in the United States of America and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

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.

### **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]*

[No amendment to illustrations 7–8.]

[No further amendments to AU-C section 705.]

### **AU-C Section 706, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report***

[No amendment to paragraphs .01–.02.]

**.03** AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, and AU-C section 720, **The Auditor's Responsibilities Relating to Other Information Included in Annual Reports**, addresses communication in the auditor's report relating to going concern *and other information, respectively*. (Ref: par. .A2)

[No amendment to paragraphs .04–.A14.]

**Exhibit C — List of AU-C Sections Containing Requirements for Other-Matter Paragraphs (Ref: [par. .02](#))**

**.A15**

This exhibit identifies paragraphs in other AU-C sections that require the auditor to include an other-matter paragraph in the auditor’s report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in AU-C sections.

- Paragraph .16c of section 560, *Subsequent Events and Subsequently Discovered Facts*
- [Paragraphs .54–.55](#) and [.57–.58](#) of section 700, *Forming an Opinion and Reporting on Financial Statements*
- ~~[Paragraph .12](#) of section 720, *Other Information in Documents Containing Audited Financial Statements*~~
- [Paragraph .09](#) of section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*
- [Paragraph .07](#) of section 730, *Required Supplementary Information*
- Paragraph .20 of section 800, *Special Considerations — Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*
- Paragraph .13 of section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*
- Paragraph .07 of section 905, *Alert That Restricts the Use of the Auditor’s Written Communication*

[No amendment to paragraph .A16.]

**.A17**

**Exhibit A — Illustrations of Auditor’s Reports With Emphasis-of-Matter or Other-Matter Paragraphs**

Illustration 1: An Auditor’s Report With an Emphasis-of-Matter Paragraph Because There Is Uncertainty Relating to a Pending Unusually Important Litigation Matter

Illustration 2: An Auditor's Report That Includes a Key Audit Matters Section, an Emphasis-of-Matter Paragraph, and an Other-Matter Paragraph

Illustration 3: An Auditor's Report With an Other-Matter Paragraph That May Be Appropriate When an Auditor Issues an Updated Report on the Financial Statements of a Prior Period That Contains an Opinion Different From the Opinion Previously Expressed

Illustration 4: An Auditor's Report With a Qualified Opinion Due to a Material Misstatement of the Financial Statements and an Emphasis-of-Matter Paragraph Because There Is Uncertainty Relating to a Pending Unusually Important Litigation Matter

[No amendment to illustration 1.]

## Illustration 2: An Auditor's Report That Includes a Key Audit Matters Section, an Emphasis-of-Matter Paragraph, and an Other-Matter Paragraph

Circumstances include the following:

- Audit of a complete set of general purpose financial statements. The audit is not a group audit.
- Management is responsible for the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America as promulgated by the Financial Accounting Standards Board.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in AU-C section 210, *Terms of Engagement*.
- The auditor has concluded that an unmodified (that is, "clean") opinion is appropriate based on the audit evidence obtained.
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.<sup>1</sup>
- The prior period financial statements were audited by a predecessor auditor.
- Based on the audit evidence obtained, the auditor has concluded that there are no conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time in accordance with AU-C section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*.
- ***The auditor has obtained all the other information prior to the date of the auditor's report and has not identified an uncorrected material misstatement of the other information included in the annual report.***
- The auditor has been engaged to communicate key audit matters.

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<sup>1</sup> Paragraph .A14 of this section provides guidance about the placement of an emphasis-of-matter or other-matter paragraph in the auditor's report.

## Independent Auditor's Report

[Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>2</sup>

#### *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.

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 accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ABC Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Emphasis of Matter<sup>3</sup>*

As discussed in Note X to the financial statements, subsequent to the date of the financial statements, there was a fire in ABC Company's production facilities. Our opinion is not modified with respect to this matter.

#### *Key Audit Matters*

Key audit matters are those matters that were communicated with those charged with governance and, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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<sup>2</sup> 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.

<sup>3</sup> As noted in paragraph .A14, an emphasis-of-matter paragraph may be presented either directly before or after the "Key Audit Matters" section, based on the auditor's judgment about the relative significance of the information included in the emphasis-of-matter paragraph.

*[Description of each key audit matter in accordance with section 701, Communicating Key Audit Matters in the Independent Auditor's Report, of this SAS.]*

### ***Other Matter***

The financial statements of ABC Company for the year ended December 31, 20X0, were audited by another auditor, who expressed an unmodified opinion on those statements on March 31, 20X1.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 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>4</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.

***Other Information [or another title, if appropriate, such as "Information Other Than the Financial Statements and Auditor's Report Thereon"]***

**[Reporting in accordance with the reporting requirements in AU-C section 720, The Auditor's Responsibilities Relating to Other Information Included in Annual Reports.]**

### **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]*

[No amendment to illustrations 3–4.]

[No further amendments to AU-C section 706.]

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<sup>4</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."

**AU-C Section 725, *Supplementary Information in Relation to the Financial Statements as a Whole***

[No amendment to paragraphs .01–.A1.]

- .A2** The auditor’s responsibility *relating to other information whether for financial and or nonfinancial information (other than the financial statements and the auditor’s report thereon), included in an entity’s annual report* ~~that is included in a document containing audited financial statements and the auditor’s report thereon,~~ excluding required supplementary information, is addressed in [section 720](#), ~~*Other Information in Documents Containing Audited Financial Statements*~~ ***The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.***

[No amendment to paragraphs .A3–.A17.]

[No further amendments to AU-C section 725.]

**AU-C Section 730, *Required Supplementary Information***

[No amendment to paragraphs .01–.09.]

- .A1** The auditor’s responsibility *relating to other information whether for financial and or nonfinancial information (other than the financial statements and the auditor’s report thereon), included in an entity’s annual report* ~~that is included in a document containing audited financial statements and the auditor’s report thereon,~~ excluding required supplementary information, is addressed in [section 720](#), ~~*Other Information in Documents Containing Audited Financial Statements*~~ ***The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports.***

[No amendment to paragraphs .A2–.A3.]

[No further amendments to AU-C section 730.]

**AU-C Section 810, *Engagements to Report on Summary Financial Statements***

[No amendment to paragraphs .01–.26.]

- .27** If, upon reading the other information, the auditor identifies *that* a material inconsistency *appears to exist* or becomes aware of ~~an apparent material misstatement of fact~~ *that the other information appears to be materially misstated*, the auditor should discuss the matter with management and should consider appropriate further action in the circumstances. For an identified material inconsistency, the auditor should also determine whether the summary financial statements or the other information needs to be revised.

[No amendment to paragraphs .28–.A19.]

- .A20** Section 720, ~~*Other Information in Documents Containing Audited Financial Statements*~~ ***The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports***, contains requirements and guidance relating to reading other information included in ~~a document containing the audited financial statements and related auditor’s report~~ *an entity’s annual report* and responding to ~~when a material inconsistencies~~ *inconsistency appears to exist or other information appears to be materially misstated* and ~~material misstatements of fact~~. Adapted as necessary in the circumstances, these requirements and related guidance may be helpful in applying the requirements in [paragraphs .26–.27](#).

[No amendment to paragraphs .A21–.A22.]

[No further amendments to AU-C section 810.]

### **AU-C Section 945, Auditor Involvement With Exempt Offering Documents**

[No amendment to paragraphs .01–.08.]

- .09** When the auditor is involved with an exempt offering document, the auditor should perform the procedures described in paragraphs ~~.06–.18~~ **.15–.23** of section 720, ~~*Other Information in Documents Containing Audited Financial Statements—The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports, adapted as necessary*~~, on the exempt offering document. When performing those procedures, the auditor should determine that the auditor’s role is not described in the exempt offering document in a way that indicates that the auditor’s responsibility is greater than the auditor intends. (Ref: [par. .A27–.A31](#))

[No amendment to paragraphs .10–.A26.]

- .A27** When revision of the other information in the exempt offering document is necessary due to a material ~~inconsistency or a material~~ misstatement of fact that management refuses to correct, section 720 requires the auditor to ~~notify~~ **communicate the matter with** those charged with governance ~~of the auditor’s concerns regarding the other information and request that the correction be made. If the other information is not corrected after communicating with those charged with governance, the auditor is required to~~ **and take any further** appropriate action **in accordance with paragraph .21 of AU-C section 720**. With regard to exempt offerings, actions may also include determining whether to withhold the auditor’s agreement to include the auditor’s report. In such cases, the auditor may consider it appropriate to obtain legal advice.