

# Statement on Auditing Standards *Omnibus Statement on Auditing Standards—2013*

*Boldface italic* denotes new language. Deleted text is in strikethrough.

## Amendments to Statement on Auditing Standards No. 122 Section 600

1. Paragraph .25a of Statement on Auditing Standards (SAS) No. 122, *Statements on Auditing Standards: Clarification and Recodification*, section 600, “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)” (AICPA, *Professional Standards*), precludes making reference to the audit of a component auditor in the auditor’s report on the group financial statements unless the component’s financial statements are prepared using the same financial reporting framework as that used for the group financial statements. These amendments permit making reference to the audit of a component auditor in the auditor’s report on the group financial statements when the component’s financial statements are prepared using a different financial reporting framework than that used for the group financial statements, if certain conditions are met. The amendments also add a requirement, when reference is made to a component auditor’s report on financial statements prepared using a different financial reporting framework, for the auditor’s report on the group financial statements to disclose that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component’s financial statements to the financial reporting framework used by the group. The amendments also add application material that addresses making reference when the financial reporting frameworks differ.

2. Paragraph .25b of SAS No. 122 section 600 precludes making reference to the audit of a component auditor in the auditor’s report on the group financial statements unless the component auditor has performed an audit that meets the relevant requirements of generally accepted auditing standards (GAAS). Paragraph .A54 of SAS No. 122 section 600 provides guidance on how the group engagement partner may determine that the audit performed by the component auditor

meets the relevant requirements of GAAS. These amendments clarify that requirement and add additional guidance regarding that determination. The amendments also add a requirement that when the auditor of the group financial statements is making reference to the audit of a component auditor and has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS, the auditor's report on the group financial statements should indicate the set of auditing standards used by the component auditor and that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS.

3. These amendments also clarify that the group engagement team is required to determine component materiality for those components on which the group engagement team will assume responsibility for the work of a component auditor who performs an audit or a review.

4.

.25 Reference to the audit of a component auditor in the auditor's report on the group financial statements should not be made unless

- ~~a. the component's financial statements are prepared using the same financial reporting framework as the group financial statements. (Ref. par. A53)~~
- ~~b. a. the **group engagement partner has determined that the** component auditor has performed an audit ~~on~~ of the financial statements of the component in accordance with **the relevant requirements of** GAAS or, when required by law or regulation, with standards promulgated by the Public Company Accounting Oversight Board (PCAOB) (Ref. par. ~~A54~~**A53**);, and~~
- ~~c. b. the component auditor has issued an auditor's report that is not restricted as to use.<sup>9</sup>~~

**.26 If the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements, reference to the audit of a component auditor in the auditor's report on the group financial statements should not be made unless**

<sup>9</sup> [Footnote omitted for purposes of this Statement on Auditing Standards (SAS).]

- a. *the measurement, recognition, presentation, and disclosure criteria that are applicable to all material items in the component's financial statements under the financial reporting framework used by the component are similar to the criteria that are applicable to all material items in the group's financial statements under the financial reporting framework used by the group, and*
- b. *the group engagement team has obtained sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group without the need to assume responsibility for, and, thus, be involved in, the work of the component auditor. (Ref: par. .A54–A57)*

[Paragraph .26 renumbered to paragraph .27.]

### **Making Reference in the Auditor's Report**

**.27.28** When the group engagement partner decides to make reference to the audit of a component auditor in the auditor's report on the group financial statements, the report on the group financial statements should clearly indicate

- a. that the component was not audited by the auditor of the group financial statements but was audited by the component auditor.
- b. ~~and should include the magnitude of the portion of the financial statements audited by the component auditor.~~
- c. *when the component's financial statements are prepared using a different financial reporting framework from that used for the group financial statements*
  - i. *the financial reporting framework used by the component and*
  - ii. *that the auditor of the group financial statements is taking responsibility for evaluating the appropriateness of the adjustments to convert the component's financial statements to the financial reporting framework used by the group.*

*d. when*

- i. the component auditor's report on the component's financial statements does not state that the audit of the component's financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, and*
- ii. the group engagement partner has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS*
  - (1) the set of auditing standards used by the component auditor and*
  - (2) that additional audit procedures were performed by the component auditor to meet the relevant requirements of GAAS. (Ref: par. ~~A55~~ A57.A58–A60)*

[Paragraphs .28–.30 renumbered.]

## **Materiality**

**.31.32** The group engagement team should determine the following: (Ref: par. ~~A60~~.A63)

- a. Materiality, including performance materiality, for the group financial statements as a whole when establishing the overall group audit strategy.<sup>10</sup>*
- b. Whether, in the specific circumstances of the group, particular classes of transactions, account balances, or disclosures in the group financial statements exist for which misstatements of lesser amounts than materiality for the group financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the group financial statements. In such circumstances, the group engagement team should determine materiality to be applied to those particular classes of transactions, account balances, or disclosures.*
- c. Component materiality for those components on which the group engagement team will perform, or request for which the auditor of the group financial statements*

<sup>10</sup> [Footnote omitted for purposes of this SAS.]

*will assume responsibility for the work of* a component auditor *to perform who performs*, an audit or a review. Component materiality should be determined taking into account all components, regardless of whether reference is made in the auditor's report on the group financial statements to the audit of a component auditor. To reduce the risk that the aggregate of uncorrected and undetected misstatements in the group financial statements exceeds the materiality for the group financial statements as a whole, component materiality should be lower than the materiality for the group financial statements as a whole, and component performance materiality should be lower than performance materiality for the group financial statements as a whole. (Ref: par. ~~A63.A64–A66~~)

- d. The threshold above which misstatements cannot be regarded as clearly trivial to the group financial statements. (Ref: par. ~~A64.A67~~)

See paragraph ~~50.51~~ for additional requirements that apply when the auditor of the group financial statements is assuming responsibility for the work of a component auditor.

[Paragraphs .32–.48 renumbered.]

## Documentation

~~49.50~~ The group engagement team should include in the audit documentation the following:<sup>13</sup>

- a. An analysis of components indicating those that are significant and the type of work performed on the financial information of the components
- b. Those components for which reference to the reports of component auditors is made in the auditor's report on the group financial statements
- c. Written communications between the group engagement team and the component auditors about the group engagement team's requirements
- d. For those components for which reference is made in the auditor's report on the group financial statements to the audit of a component auditor;

<sup>13</sup> [Footnote omitted for purposes of this SAS.]

- i. the financial statements of the component and the report of the component auditor thereon
- ii. ***when the component auditor's report on the component's financial statements does not state that the audit of the component's financial statements was performed in accordance with GAAS or the standards promulgated by the PCAOB, the basis for the group engagement partner's determination that the audit performed by the component auditor met the relevant requirements of GAAS***

See paragraph .64.65 for additional requirements that apply when the auditor of the group financial statements is assuming responsibility for the work of a component auditor.

[Paragraphs .50–.64 renumbered.]

[No amendments to paragraphs .A1–.A52.]

[**Note:** Due to the amendments and arrangement of material in paragraphs .25–.26, the following section has been reorganized. Extant paragraph .A54 becomes paragraph .A53, and extant paragraph .A53 becomes paragraph .A57 after the new paragraphs .A54–.A56 are added.]

### **Determining Whether the Audit Was Conducted in Accordance With GAAS (Ref: par. .25ba)**

~~.A54~~.A53 A component auditor's report stating that the audit was conducted in accordance with GAAS (or, if applicable, the standards promulgated by the PCAOB) is sufficient to make the determination required by paragraph .25ba. When the component auditor has performed an audit of the component financial statements in accordance with auditing standards other than GAAS (or, if applicable, the standards promulgated by the PCAOB), the group engagement partner may evaluate, exercising professional judgment, whether the audit performed by the component auditor met the relevant requirements of GAAS. ***For the purposes of complying with paragraph .25a, relevant requirements of GAAS are those that pertain to planning and performing the audit of the component financial statements and do not include those related to the form of the auditor's report.*** Audits performed in accordance with International Standards on Auditing (**ISAs**) promulgated by the International Auditing and Assurance Standards Board (IAASB) are

more likely to meet the relevant requirements of GAAS than audits performed in accordance with auditing standards promulgated by bodies other than the IAASB. ***The group engagement team may provide the component auditor with AU-C Appendix B, Substantive Differences Between the International Standards on Auditing and Generally Accepted Auditing Standards, that identifies substantive requirements of GAAS that are not requirements in the ISAs. The component auditor may perform additional procedures in order to meet the relevant requirements of GAAS. The communication requested of the component auditor required by paragraph .42 may address whether the audit of the component auditor met the relevant requirements of GAAS.*** The group engagement partner, having determined that all relevant requirements of GAAS have been met by the component auditor, may decide to make reference to the audit of that component auditor in the auditor's report on the group financial statements.

***Determining Whether the Financial Reporting Framework Is the Same***—Determining Whether to Make Reference When the Financial Reporting Framework Is Not the Same (Ref: par. .26)

***.A54 When the component's financial statements are prepared using a financial reporting framework that differs from the financial reporting framework used to prepare the group financial statements, the group engagement team is required by paragraph .37 to evaluate whether the financial information of the component has been appropriately adjusted for purposes of the preparation and fair presentation of the group financial statements in accordance with the applicable financial reporting framework. Evaluating whether the financial statements of the component have been appropriately adjusted to conform with the financial reporting framework used by the group is based on a depth of understanding of the component's financial statements that ordinarily is not obtained unless the auditor of the group financial statements assumes responsibility for, and, thus, is involved in, the work of the component auditor. In rare circumstances, however, the group engagement partner may conclude that the group engagement team can reasonably expect to obtain sufficient appropriate audit evidence for purposes of evaluating the appropriateness of the adjustments to convert the component's financial statements to***

*the financial reporting framework used by the group without the need to assume responsibility for, and, thus, be involved in, the work of the component auditor.*

*.A55 The greater the number of differences or the greater the significance of the differences between the criteria used for measurement, recognition, presentation, and disclosure of all material items in the component's financial statements under the financial reporting framework used by the component and the financial reporting framework used by the group, the less similar they are. Financial statements prepared and presented in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Standard for Small and Medium-sized Entities, as issued by the International Accounting Standards Board, are generally viewed as more similar to financial statements prepared and presented in accordance with accounting principles generally accepted in the United States of America (GAAP) than financial statements prepared and presented in accordance with jurisdiction-specific reporting frameworks or adaptations of IFRSs. In most cases, special purpose frameworks set forth in section 800, Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks, are not similar to GAAP.*

*.A56 Additional considerations in determining whether it may be appropriate to make reference to the audit of a component auditor in the auditor's report on the group financial statements when the component prepares financial statements using a different financial reporting framework than that used by the group include the*

- *effectiveness of groupwide controls and the adequacy of the consolidation process specifically related to the adjustments to convert the component's financial statements to the financial reporting framework used by the group, including the financial reporting competencies of personnel involved in the adjustments.*
- *depth of the group engagement team's understanding of the component and its environment, including the complexity of the events and transactions subject to the differing financial reporting requirements and the*



*assessed risk of material misstatement related to the adjustments.*

- *extent of the group engagement team’s knowledge of the financial reporting framework used to prepare the component financial statements.*
- *group engagement team’s ability to obtain information from group or component management that is relevant to the adjustments.*
- *need and ability to seek, as necessary, the assistance of professionals possessing specialized skills or knowledge related to the adjustments.*

### **Considerations for Governmental Entities (~~Ref. par. 25a~~)**

~~A53.A57~~ When the applicable financial reporting framework *used by the group* provides for the inclusion of component financial statements that are prepared in accordance with a different financial reporting framework, the component financial statements are deemed to be in accordance with the applicable financial reporting framework *used for the group financial statements*. For example, both the financial reporting framework established by the Governmental Accounting Standards Board and the financial reporting framework established by the Federal Accounting Standards Advisory Board have such provisions. Accordingly, ~~the auditor of the group financial statements is permitted to refer to an audit performed by a component auditor on financial statements that are prepared in accordance with a different financial reporting framework when the provisions established by the applicable financial reporting framework for inclusion of those component financial statements have been followed,~~ *the requirements in paragraphs .26 and .28c are not relevant.*

[Paragraphs .A55–.A56 renumbered.]

~~A57.A60~~ Exhibit A contains an ~~example~~ **examples** of appropriate reporting in the auditor’s report on the group financial statements when reference is made to the audit of a component auditor.

[Paragraphs .A58–.A93 renumbered.]

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

~~A94.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. ~~A57.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)*

[No amendments to illustration 1]

**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*

In this example, 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)*.

[No further amendments to illustration 2]

**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 From That Used for the Group Financial Statements and Performed by a Component Auditor in Accordance With GAAS**

*In this example, 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.*

[**Note:** Although this illustration is new, only the changes in the text from illustration 2 are in **bold italic** and ~~strikethrough~~.]

**Independent Auditor's Report**

[*Appropriate Addressee*]

**Report on the Consolidated Financial Statements**

We have audited the accompanying 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 consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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.~~ ***Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of B Company, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for B Company, prior to these conversion adjustments, is based solely on the report of the other auditors.*** We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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>1</sup> Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above 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.

*[Auditor's signature]*

*[Auditor's city and state]*

*[Date of the auditor's report]*

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

### **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**

*In this example, 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 or standards promulgated by the Public Company Accounting Oversight Board. The group engagement partner has determined that the component auditor performed additional audit procedures to meet the relevant requirements of GAAS. If additional procedures were not necessary for the audit of the component auditor to meet the relevant requirements of GAAS, illustration 2 is applicable.*

[**Note:** Although this illustration is new, only the changes in the text from illustration 2 are in ***bold italic*** and ~~strikethrough~~.]

#### **Independent Auditor's Report**

[Appropriate Addressee]

#### **Report on the Consolidated Financial Statements**

We have audited the accompanying 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 consolidated financial statements.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. 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 ***in accordance with [describe the set of auditing standards]***, 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, ***and additional audit procedures to meet the relevant requirements of auditing standards generally accepted in the United States of America performed by***, the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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>1</sup> Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

## Opinion

In our opinion, based on our audit and the report of, **and additional audit procedures performed by**, the other auditors, the consolidated financial statements referred to above 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.

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

[Paragraphs .A95–.A96 renumbered.]

5. These amendments are effective for audits of group financial statements for periods ending on or after December 15, 2012.

## Amendments to SAS No. 122 Section 800

6. SAS No. 122 section 800, "Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks," introduced the term *special purpose framework*, which is a cash, tax, regulatory, or contractual basis of accounting. These amendments add an other basis of accounting that uses a definite set of logical reasonable criteria that is applied to all material items appearing in financial statements to the bases of accounting defined as special purpose frameworks.

7.

### Scope of This Section

.01 AU-C sections 200–700 apply to an audit of financial statements. This section addresses special considerations in the application of those AU-C sections to an audit of financial statements prepared in accordance with a special purpose framework, which is a cash, **a** tax, **a** regulatory, or **a** contractual basis of accounting, **or an other basis of accounting**. This section does not purport to address all special considerations that may be relevant in the circumstances.

[No amendments to paragraphs .02–.06.]



## Definitions

**.07** For purposes of GAAS, the following terms have the meanings attributed as follows:

**Special purpose financial statements.** Financial statements prepared in accordance with a special purpose framework. (Ref: par. .A1)

**Special purpose framework.** A financial reporting framework other than GAAP that is one of the following bases of accounting: (Ref: par. .A2–.A5)

- a. **Cash basis.** A basis of accounting that the entity uses to record cash receipts and disbursements and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets).
- b. **Tax basis.** A basis of accounting that the entity uses to file its income tax return for the period covered by the financial statements.
- c. **Regulatory basis.** A basis of accounting that the entity uses to comply with the requirements or financial reporting provisions of a regulatory agency to whose jurisdiction the entity is subject (for example, a basis of accounting that insurance companies use pursuant to the accounting practices prescribed or permitted by a state insurance commission).
- d. **Contractual basis.** A basis of accounting that the entity uses to comply with an agreement between the entity and one or more third parties other than the auditor.
- e. **Other basis.** *A basis of accounting that uses a definite set of logical, reasonable criteria that is applied to all material items appearing in financial statements.*

The cash **basis**, tax **basis**, and regulatory **bases**, **and other basis** of accounting are commonly referred to as *other comprehensive bases of accounting*.

[No amendments to paragraphs .08–.10.]

### **Preconditions for an Audit (Ref: par. .A10)**

.11 Section 210 requires the auditor to establish whether the preconditions for an audit are present, **including determining whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable.**<sup>3</sup> In an audit of special purpose financial statements, the auditor should obtain the agreement of management that it acknowledges and understands its responsibility to include all informative disclosures that are appropriate for the special purpose framework used to prepare the entity's financial statements, including ...

[No amendments to paragraphs .11a–.17]

### **Auditor's Report**

.18 Section 700 addresses the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements, **the**

- a. ~~The~~ explanation of management's responsibility for the financial statements should also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances, when management has a choice of financial reporting frameworks in the preparation of such financial statements.
- b. ~~The~~ auditor's report should also describe the purpose for which the financial statements are prepared or refer to a note in the special purpose financial statements that contains that information, when the financial statements are prepared in accordance with
  - i. a regulatory or contractual basis of accounting **or**
  - ii. **an other basis of accounting, and the auditor is required to restrict use of the auditor's report pursuant to paragraph .06a–b of section 905, Alert That Restricts the Use of the Auditor's Written Communication.** (Ref: par. .A24)

[No amendments to paragraph .19.]

<sup>3</sup> Paragraph .06 of section 210.

### **Restricting the Use of the Auditor’s Report in an Other-Matter Paragraph (Ref: par. .A26–.A27)**

**.20** Except for the circumstances described in paragraph .21, the auditor’s report on special purpose financial statements should include an other-matter paragraph,<sup>9</sup> under an appropriate heading, that restricts<sup>10</sup> the use of the auditor’s report ~~solely to those within the entity, the parties to the contract or agreement, or the regulatory agencies to whose jurisdiction the entity is subject~~ when the special purpose financial statements are prepared in accordance with either

- a. a contractual basis of accounting, **or**
- b. a regulatory basis of accounting, **or**
- c. ***an other basis of accounting when required pursuant to paragraph .06a–b of section 905.***

[No amendments to paragraphs .21–.A3.]

**.A4** Financial statements prepared in accordance with a cash **basis**, ~~or tax basis, or an other basis~~ of accounting may be the only financial statements an entity prepares. Such special purpose financial statements may be used by users other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements, the financial statements are still considered to be special purpose financial statements for purposes of GAAS. The requirement in paragraph .19 is designed to avoid misunderstandings about the framework used to prepare the financial statements.

**.A5** Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on U.S. GAAP but does not comply with all of the requirements of U.S. GAAP. Such frameworks are regulatory bases of accounting, as defined in paragraph .07. In some circumstances, however, the cash or tax basis of accounting may be ~~prescribed~~ **permitted** by a regulator. For purposes of this section, the cash and tax bases of accounting are not regulatory bases of accounting.

<sup>9</sup> [Footnote omitted for purposes of this SAS.]

<sup>10</sup> [Footnote omitted for purposes of this SAS.]

[No amendments to paragraphs .A6–.A7.]

**.A8** The acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks. **Section 210 discusses the attributes of acceptable financial reporting frameworks, which provide management with an appropriate basis for preparing the financial statements and the auditor with suitable criteria for auditing the financial statements.**<sup>12</sup> In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor *seller* and the purchaser may have agreed that conservative estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information may be biased when compared with financial information prepared in accordance with a general purpose framework.

[No amendments to paragraphs .A9–.A23.]

### **Auditor's Report (Ref: par. .18b)**

**.A24** When the special purpose financial statements are prepared in accordance with a regulatory or contractual basis of accounting **or another basis of accounting that requires an alert that restricts the use of the auditor's report pursuant to paragraph .06a–b of section 905**, the auditor is required by paragraph .18b to describe the purpose for which the financial statements are prepared or refer to a note in the financial statements that contains that information. This is necessary to avoid misunderstandings when the special purpose financial statements are used for purposes other than those for which they were intended. The note to the financial statements may also describe any significant interpretations of the contract on which the financial statements are based.

[No amendments to paragraphs .A25–.A32.]

<sup>12</sup> Paragraphs .A2–.A3 of section 210, *Terms of Engagement*.

## Appendix A—Overview of Reporting Requirements

### .A33

The following table provides an overview of the reporting requirements depending on the special purpose framework:

<http://www.pbookshop.com>

| Opinion(s)  | Cash Basis                                  |   | Tax Basis                                   |   | Regulatory Basis (General Use)  |   | Regulatory Basis (Contractual Basis)        |   | Other Basis                                 |   |
|---|---|---|---|---|---|---|---|---|---|---|
|   | Single opinion on special purpose framework | Single opinion on special purpose framework | Single opinion on special purpose framework | Single opinion on special purpose framework | Dual opinion on special purpose framework and generally accepted accounting principles <sup>¶19</sup> | Single opinion on special purpose framework | Single opinion on special purpose framework | Single opinion on special purpose framework | Single opinion on special purpose framework | Single opinion on special purpose framework   |
| Description of purpose for which special purpose financial statements are prepared <sup>¶20</sup>                                     | No  | No  | Yes   | Yes   | Yes   | Yes   | Yes   | Yes   | Yes   | As required by paragraph .18b(ii)   |
| Emphasis-of-matter paragraph alerting readers regarding the preparation in accordance with a special purpose framework <sup>¶21</sup> | Yes   | Yes   | Yes   | Yes   | No  | Yes   | Yes   | Yes   | Yes   | Yes   |
| Other-matter paragraph including an alert restricting the use of the auditor's report <sup>¶22</sup>                                  | No  | No  | No  | Yes   | No  | Yes   | Yes   | Yes   | Yes   | As required by section 905. Alert That Restricts the Use of the Auditor's Written Communication <sup>23</sup> |
| Exhibit A Illustrations   | 1   | 2   | 3   | 4   | 5   | —   | —   | —   | —   | —   |

[No amendments to paragraphs .A34–.A35.]

8. These amendments are effective for audits of financial statements for periods ending on or after December 15, 2012.

<sup>¶19</sup> Paragraph .21.

<sup>¶20</sup> Paragraph .18b.

<sup>¶21</sup> Paragraphs .19 and .21.

<sup>¶22</sup> Paragraphs .20–.21.

<sup>23</sup> Paragraph .06a–b of section 905.

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