Auditor's Report on Financial Statements
Wording of the Auditor's Report – Detailed Analysis of Comments

INDEPENDENT AUDITOR'S REPORT	RESPONSES		TF COMMENT	*Change to ED*[1]	New Wording
	Org				
Independent Auditor's Report	IRE	Incorporate a title into the auditor's report, indicating at the start of the report the existence or not of any modification of the auditor's report (e.g. "unqualified report", "disclaimer of opinion", "adverse opinion", "unqualified opinion and emphasis of matter"), or at least give the option to title the report.	The TF is of the view that including a statement in the auditor's report that the audit has not resulted in any qualification is necessary and it should be readily apparent from the content of the report and the wording of the auditor's opinion. It is a reasonable expectation that the audit report is unqualified unless the report wording is modified.	*1.No.*	Unchanged
Title: Report on the financial statements ***The subheading, "Report on the financial statement", is unnecessary in circumstances when the second subheading, "Reporting on other legal and regulatory requirements", is not applicable.***					
	ACAG	**[*Name of Company*]** To Members of the XXX Parliament and [***Members of Name of Company***]	The name of the company is already in the introductory title. However, the illustrative report includes the "appropriate addressee" above the introductory paragraph and this should be sufficient to meet ACAG's requirements.	*6. No*	
	AUASB	The flow and readability of the auditor's report could be improved by using shorter sentences and listing some	IAASB had considered the use of bullets in earlier versions of the draft but decided against the practice because it lengthened the report	*7. No*	

[1] Each point raised in this paper has been assigned a number. The point raised may be suggested wording found in a appendix to a respondents letter, or it may be a comment on a particular paragraph (including paragraph 51, the illustrative audit report). In the latter case, the numbering can be tracked from the detailed comments in Agenda Item 3-D.1. *ISA 700 Detailed Responses by Paragraph for IAASB* back to this paper. The appendices were not numbered.

		matters in point form (or via some other format), for example, management's responsibilities.	overall. The majority of comments regarding the audit report suggested that the report should included additional wording in a number of sentences rather than shorten them (e.g. to take account of additional responsibilities of management and auditor and to extend the scope of the audit.)		
	PAAB – Jo Burg	Request that provision is made for those jurisdictions where the definition of *'financial statements',* in terms of local legislation, is different to that in the ISA, e.g., in SA, the Companies Act uses the term 'Annual Financial Statements' which includes the directors' report.	This is already covered in ISA 200 and ISA 700 guidance. For example in ISA 700 paragraph 21, it states "in some jurisdictions additional information might also be considered to be an integral part of the financial statements".	*9. No*	
We have audited the accompanying financial statement of ABC Company,					
which comprise the balance sheet as at December 31 20X1, and the income statement,	DT	comprise the balance sheet as ~~at~~ **of** December 31, 20X1, and the **related statements of** income ~~statement~~	This is more a matter of preference than principle. Extant 700 used the term "as of". Of 40 audit reports reviewed, 14 include "as of", 6 include "as at" and the remaining 20 use different wording (so are not applicable). However, the ISA was amended to use whenever possible the terminology used in IAS 1 and it uses "as at".	*11. No*	
statement of changes in equity and cash flows statement for the year then ended, and	DCCA	The EU 4th Directive was in June 2003 modernised and updated. One of the elements of the updated 4th Directive is that the Directive now contains	See discussion in Agenda Item 3-A, issue A.1. If this reference is included at the end of the statement it may be interpreted as an assertion	*12. No*	

the related notes.		requirements to the contents of the audit report. One of the requirements to the audit report according to the 4th Directive art. 51a are that there should be a reference to the financial reporting framework in the introductory paragraph. With this update of the 4th Directive, there will be a reference to the relevant reporting framework in the introductory paragraph and in the opinion paragraph. Such financial reporting framework may be IAS/IFRS or any other financial reporting framework, depending on, which reporting framework is relevant, as the concrete case may be.	that the accounts ***are*** "in accordance with" the framework, as if giving an opinion, and causes problems when there are qualifications. A reference to the financial reporting framework does appear elsewhere in the report and the Task Force believes these are more appropriate places. The proposal to include this reference in the 4th Directive may be a matter for further discussions with the EC.		
	RR	The reference to the audit being conducted in accordance with ISAs comes too far down in the report and should appear in the first paragraph: We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and the related notes. <u>We conducted our audit in accordance with International Standards on Auditing (isas).</u>	The TF is of the view that that it is unnecessary to refer to the auditing standards in the introductory paragraph and it is better placed in the description of auditor responsibility and scope of the audit.	*18 & 49 No*	

	DT	~~statement of~~ changes in equity and cash flows ~~statement~~ for the year then ended, and the related notes.	The wording in the ED is consistent with IFRS 1.	*13. No*	
	IDW	statement of changes in equity and , cash flow statement ~~for the year then ended~~, and the related notes. to the financial statements for the year then ended.	The wording in the ED is consistent with IFRS 1, and the comment regarding the positioning of "for the year then ended " has been addressed in the KPMG note below (number 15).	*14. No*	
	KPMG	With respect to the first paragraph of the report, the reference to "and the related notes" would be better presented ahead of "for the year then ended".	The related notes falls at the end of the sentence because it they relate to both the balance sheet date (as at a particular date) and the other statement dates (for the year then ended).	*15. No*	
	ICPA Kenya & BASEL	The introductory paragraph describes all of the components of a complete set of financial statements, as defined by IFRS, except for "a summary of significant accounting policies" Paragraph 21 of the ED actually provides the complete set. Could this have been an omission which can be rectified?	Agreed. Change made to refer to both the summary of significant accounting policies and other explanatory notes, which is consistent with IAS 1. This will lead to conforming amendments to Paragraph 34 *and amendment to Paragraph 43 of ISA 200.*	*16 & 17. Yes ¶21*	
	BASEL	BASEL recommend that the introductory paragraph of the auditor's report specifically mention the period covered by the income statement, statement of changes in equity and cash flow statement (e.g., 'for the period from...to...').	The TF does recognize that there are circumstances when "for the year then ended" is not appropriate. The wording in paragraph 19 instructs the auditor to state the period covered by the financial statements, whatever that period may be. This enables, for example, those entities that prefer to report on a 52 week	*17. No*	

			period to disclose the period covered by the financial statements. Also, where the balance sheet date is changed and the period is longer or shorter than one year. However, it was felt that the the illustrative report (that includes reference to "the year then ended") should reflect the most common situation and be consistent with the format of the illustrative Income Statement (and other statements) in the appendix to IAS 1 . Accordingly, the TF do not believe that further guidance is necessary.		
Management's responsibility					
	FSR and APB	A description of management's responsibility should not appear in the auditor's report but in the 'management report'. In situations where management describes this responsibility in full in the management report, the auditor may refer to this in the auditor's report.	See Agenda Item 3-A issue A.2. For this particular issue, the task force recommended that the description of management responsibilities should remain in the auditor's report.	*19 & 20(a). No*	
	APB	In circumstances where the responsibilities are included in the auditor's report, there needs to be more flexibility in the ISA regarding the form of words that can be used	See Agenda Item 3-A issue A.2. This will lead to inconsistently presented audit reports which is not conducive to the objective of the ISA	*20(b). No*	
	FEE & IDW	The responsibility paragraph should also include a reference to maintaining the	The description of management's responsibilities is intended to include only	*21. No*	

		underlying accounting records.	those matters considered necessary for the auditor to be able to perform an audit. ISA 315 and the proposed new Documentation standard make the auditor's responsibilities are more transparent around matters regarding accounting records. ISA 315 paragraph 81 suggests that the auditor should obtain an understanding of the information system (that includes the related accounting records). Nonetheless, it would add to the length of the report to include this reference. Furthermore, maintaining the underlying accounting records can be considered part of the information systems or internal controls (in accordance with paragraph 80 of ISA 315), which is already addressed in the proposed wording of the auditor's report. In a jurisdiction in which the auditor is required to specifically comment on the accounting records, it would be appropriately addressed in the new section for the auditor's other reporting responsibilities.		
	BASEL	In accordance with IAS 1 and ISA 570, we also recommend that paragraph 25 be extended **to include management's responsibility to assess the entity's ability to continue as a going concern**	As the accounts are prepared in accordance with an applicable accounting framework, then consideration of the entity's ability to continue as a going concern is already be part of preparing and fair presentation of the financial statements in accordance with the applicable	*22.No*	

			financial reporting framework.		
Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS).	IDW	Management is responsible for the preparation ~~and the fair presentation~~ of these financial statements and their fair presentation. (Pursuant to IAS 1.10, financial statements prepared in accordance with IFRS should be *fairly* presented. The use of the term "fair" may not be appropriate when reporting on audits of financial statements prepared using other applicable financial reporting frameworks.), free from material misstatement whether due to fraud or error, in accordance with International Financial Reporting Standards. (IFRS).	IAASB has agreed that fair presentation is a concept that underlies financial reporting frameworks for general purpose financial statements. The wording in the audit report is derived from the IFRS Framework that sets out the concepts that underlie the preparation and presentation of the financial statements. Paragraph 11 of the framework describes management responsibility as follows: "management of an entity has the primary responsibility for the preparation and presentation of the financial statements of the entity". IAS 1.13 gives guidance on the presentation of the financial statements, including that the financial statements shall present "fairly" the financial position etc. It does not seem inconsistent with IAS, therefore, to combine both thoughts into one sentence.	*23. No*	
	FEE & APB	We believe that the document is inconsistent in how it describes, and uses its description of, the respective responsibilities of management (or those charged with governance in the company) and the independent auditor. In particular, it should be made clearer that the preparation and the fair presentation of the financial statements are the responsibility of the executive management (or those charged with	A comparison of auditor's and management responsibilities, as they are described in the illustrative audit report, has been prepared as Appendix 1. Wording changes are proposed to bring them appropriately in line. See further discussion in Agenda Item 3-A section D.	*24. Yes*	

		governance of the company), with the independent auditor's responsibility not exceeding their responsibility.			
		The auditor's report indicates that one of the responsibilities of the independent auditor is "… evaluating the overall financial statement presentation and disclosures." Unfortunately, the description of management's responsibilities in the same report does not include any reference to responsibility for disclosures. Where the financial statements are prepared in compliance with a financial reporting framework other than IFRS, management's responsibility for disclosures needs to be explicitly addressed. Therefore, we encourage the board to include this responsibility in the auditor's report and to adjust paragraphs 25 and 51 accordingly. Without this there will be an inconsistency with paragraph 9.	FEE suggest that "preparation and fair presentation of the financial statements in accordance with the applicable framework" does not necessarily include "disclosures" if the applicable framework is not IAS. However, the Task Force believes that if the financial reporting framework is determined to be acceptable for general purpose financial statements, it will include appropriate disclosures. The Task Force recognizes that the current wording of the auditor's responsibilities refers to disclosures while the description of management's responsibilities does not. Rather than try to fit a reference to disclosures in the description of management's responsibilities (there is no easy fit), a compromise is to remove the reference to disclosures from the auditor's responsibilities entirely . So the sentence in the description of the auditor's responsibilities will end – "as well as evaluating the overall financial statement presentation". This is entirely consistent with paragraphs 8-12 (forming an opinion on the financial statements). Furthermore, the identification of the financial statements audited in the introductory paragraph includes a		

			reference to the explanatory notes.		
	RR	Management is responsible for the preparation of and the true and fair view given by (or "fair presentation of") these financial statements in accordance with International Financial Reporting Standards	Too lengthy and the wording "fair presentation" is consistent with IFRS on which the illustrative audit report is based on. The drafting convention in the exposure draft was that "fair presentation" is used in the context of the financial statements and "true & fair and fairly presents" in the context of the auditor's opinion on the financial statements.	*25. No*	
					No change: Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards.
This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;	RR	~~This responsibility includes~~ Management is [also] responsible for maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;	As drafted in the ED, the focus is management's responsibilities for the preparation and fair presentation of the financial statements, and the responsibilities that flow from that. The proposed revised wording loses that link.	*26. No*	
	GT	This responsibility includes maintaining internal control relevant to the	The ISA should be consistent with other ISAs and Paragraph 48 of ISA 315 states that…	*27. Yes*	**This responsibility includes maintaining**

		preparation **and the fair presentation** of financial statements that are free from material misstatement, whether due to fraud or error.;	"ordinarily, controls that are relevant to an audit pertain to the entity's objective of preparing financial statements for external purposes that ***give a true and fair view or are presented fairly in all material respects…*** Accordingly, it is a reasonable addition to the wording.		**internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error;**
	IDW	This responsibility includes: determining the acceptability of the financial reporting framework (IFRS) identified as having been applied in preparing and presenting the financial statements; …	New guidance addresses the engagement acceptance and reporting implications when the framework is not acceptable. Therefore, the Task Force does not believe that it is necessary to refer to the responsibility to determine the acceptability of the framework in the auditor's report for general purpose financial statements as it's acceptability can be presumed unless there are additional disclosures.	*28. No*	
	LSCA & PwC	The Management's Responsibility paragraph needs a colon following the words "this responsibility includes: xxx" more sense would be made of the paragraph.	Agree. Paragraph might be misinterpreted in its current form.	*29 & 30. Yes*	**This responsibility includes: maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement**
	BASEL & AGAG,	BASEL and AGAG suggest that the final standard include additional	The matters are discussed in more detail in Agenda Item 3-A item A.2.	*31, 32 and 33. Yes*	**This responsibility includes designing,**

	JICPA	wording that acknowledges management's responsibilities with respect to internal control. BASEL suggests that the wording should acknowledge that internal controls relevant to the financial statements are only one component of the comprehensive system of internal controls required to be maintained by management. JICPA suggest Management responsibility for the financial statements is not limited to the matters listed in paragraph 25 or 51. Therefore, as in paragraph 35 of ISA 200, we suggest describing paragraph 51 as follows: "This responsibility includes<u>,</u> <u>*among other matters*</u>, maintaining internal control relevant to the preparation of financial statements …"	Dealing with AGAG's point to include additional wording, and BASEL's point to acknowledge other aspects of management responsibilities, the TF believes that it is not necessary to have a lengthy exhaustive list of management responsibilities. Rather, the report should focus on certain elements that are prerequisites to being able to conduct an ISA audit. It is at the very least consistent with those aspects of the auditor's responsibilities that are aligned with management's and internally consistent with that described in the guidance in paragraphs 25 to 27 However, following a comparison of the illustrative audit report, ISA 200 and paragraph 25, & 26 in ISA 700, the Task Force has proposed amendments to bring the various descriptions in line (e.g., by referring to the design and implementation of internal controls in the description of management's responsibilities). The revised wording would read and is reflected in the mark up and includes: " Management is responsible …This responsibility includes<u>:</u> <u>designing, implementing and</u> maintaining interna control<u>s</u> relevant to the preparation of …		**<u>implementing and</u> maintaining internal control relevant to the preparation <u>and fair presentation</u> of <u>the</u> financial statements that are free from material misstatement, whether due to fraud or error;**

			2. Regarding the point made by BASEL that management *has other* responsibilities for maintaining adequate control systems that extend beyond the financial statements, whilst the TF agree with the point, they do not consider the audit report (that is giving an opinion on the financial statements) the appropriate place to describe management's responsibilities for internal control beyond the responsibility that flows from management's overall responsibility for the preparation and fair presentation of the financial statements. 3. JICPA suggest that management responsibilities *for the financial statements* extend beyond those matters listed in 25 and the audit report and have suggested that the TF adopt the wording in paragraph 20 of ISA 200. However the TF are of the view that the use of the term "includes" already infers that there are responsibilities above and beyond the ones that are listed, otherwise the paragraph would begin by confirming that the following responsibilities are stand alone, "these responsibilities are…". Accordingly no change made.		

selecting and applying appropriate accounting policies that are consistent with IFRS; and making accounting estimates that are reasonable in the circumstances.	GT	**Management's responsibility also includes** selecting and applying appropriate accounting policies that are consistent with …	In the paragraph describing management's responsibilities, it is believed to be important that all of the responsibilities described flow from management's responsibility for the preparation and fair presentation of the financial statements. The proposed alternative wording would lose that important logic.	*40. No*	
		~~…IFRS~~**International Financial Reporting Standards**~~;~~ and making accounting estimates that are reasonable in the circumstances.	The wording in the ED has been amended further down and the reference to IFRS has been moved further down the sentence. However, IFRS has been expanded to the full description.		
	RR	for selecting and applying appropriate accounting policies that are consistent with IFRS; and for making accounting estimates that are reasonable in the circumstances.	The wording in the ED is considered appropriate.	*39. No*	
	AICPA	AICPA suggest that the second sentence in the "Management's responsibility" section of the example report in paragraph 51 is very long and difficult to read. We suggest an edit to resolve the problem. -	This was resolved by inserting a colon. Please see point 29 & 30.	*41. Yes*	
	CICA, IDW & KPMG	selecting and applying appropriate accounting policies that are consistent with IFRS; and making accounting estimates that are reasonable in the circumstances in accordance with IFRS. This sentence should be amended to	The opening sentence in management's responsibilities explains that management's responsibilities relate to the preparation and fair presentation of the financial statements in accordance with the financial reporting framework. Thus the responsibility to consider whether estimates are reasonable in the	*42, 47 & 109. Yes*	

		refer to management's responsibility as making accounting estimates and <u>other relevant judgments</u> that are reasonable in the circumstances. Consistent with paragraph 80 of revised ISA 240, and to incorporate the thought that management is making judgments and assumptions in the financial statements, we suggest that paragraph 25(c) be restated along the following lines: Making <u>judgments or assumptions that affect</u> accounting estimates ~~that are reasonable in the circumstances~~ <u>and monitoring the reasonableness of such estimates.</u>	circumstances is in that context. It would be duplicative to refer to it again in the last sentence. The Task Force is also of the view that judgment permeates all of management's responsibilities and is inherent in the responsibility for fair presentation of the financial statements. It places an over emphasis on the judgment in the context of accounting estimates to make a specific reference in that context alone.		
	ICAS	We believe that further clarification is required here in order that it is made clear that the auditor's responsibilities are not wider than that of management i.e. in the auditor's responsibilities paragraph in paragraph 51 it states that 'An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.' Yet in the same paragraph there is no specific mention of management's responsibility in	The Task Force compared the auditor's and management's responsibilities (see Appendix 1) Please refer to the comparison at the end of this paper. The Task Force accepts that the specific reference to "disclosures" in the description of the auditor's responsibilities is unnecessary as it is encompassed by overall financial statement presentation. The TF, therefore, recommends that the reference to "disclosures" be deleted from the description of the auditor's responsibilities.	*43. No*	

		relation to this. Whilst not necessarily a problem under an IFRS reporting framework it would be an issue where another reporting framework was being used.			
	BASEL	We recommend that paragraph 25(c) be revised to read "making accounting estimates, <u>including fair value estimates where relevant</u>, that are reasonable in the circumstances." Adding a reference to fair value would emphasize the importance of management's responsibility in this area.	We do not believe it is necessary to include a reference to fair value estimates in the audit report, estimates alone is adequate.	*109. No*	
Auditor's Responsibilities					
	APB & ACAG LSCA	Auditor's responsibility The APB supports the inclusion of a description of the auditor's responsibility within the auditor's report. However, paragraphs 28 to 34 of the ED and the example auditor's report: (a)Combine inappropriately matters relating to "the auditor's responsibility" with "the basis of the auditor's opinion"; Paragraphs 28 to 29 address matters relating to the auditor's responsibility and paragraphs 30 to 34 address matters relating to the "basis of the auditor's opinion". As these are quite separate subjects, the APB is of the view that the	With reference to APB point (a) – the TF is of the view that the current wording is adequate. The user is informed of the auditor's responsibility – to form an *opinion based on the audit*. It is then sensible to follow that responsibility with a description of the *audit* on which the auditor bases the opinion. Sub-headings have been commented on in paragraphs 13 above.	*70 & 110.. No*	

		"basis of the auditor's opinion" should be set out separately from the description of the auditor's responsibility and distinguished by the use of separate headings. As a consequence the auditor's report on the financial statements would have four subheadings: •Management's Responsibility (cross referring to management's own description where possible) •Auditor's Responsibility •Basis of Opinion •Opinion LSCA also note that Auditor's responsibility includes details of the basis of the auditor's opinion and recommend, for reasons of clarity, that after the first sentence, a new sub-heading is included entitled "Basis of Opinion" or "Scope".			
	APB & ACAG	(b)Omit a significant and distinct responsibility imposed on auditors by ISA 720 ACAG support the view that the auditor's responsibility should extend to ensuring that the supplementary information included with the financial statements is consistent with the financial statements and notes, where no audit opinion is to be provided on these supplementary	Paragraph 6 of ISA 720 clearly states that the auditor needs to give consideration to such *other information* when *issuing* a report on the financial statements. It could confuse more than clarify to review to this responsibility in the auditor's report because it may blur the boundaries of the scope of the audit inadvertently. No change made.	*110. No*	

		disclosures.			
Our responsibility is to express an opinion on these financial statements based on our audit.	RR & IDW	**The responsibilities of the auditor should match the stated objective of an audit in ISA 200**. RR also suggested that the wording of the opinion paragraph mirrored the stated objective of an audit in ISA 200. IDW made suggestions to the wording as follows: ~~Our responsibility is to express an opinion on these financial statements based on our audit.~~ We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibility under ISA is to express an opinion, ~~on these financial statements~~ based on our audit, <u>on whether these financial statements are fairly presented in accordance with IFRS.</u>	In accordance with paragraph 2 of ISA 200, the objective of an audit of financial statements is to enable the auditor to <u>*express an opinion whether the financial statements are prepared in all material respects, in accordance with an applicable financial reporting framework.*</u> The Auditor's responsibility paragraph, although not worded in exactly the same way still achieves the same point. "Our responsibility is to <u>*express an opinion on these financial statements*</u> based on our audit. The fact that the financial statements are prepared "<u>*in accordance with an applicable financial reporting framework"*</u> is noted in the management responsibility paragraph. The TF prepared the current phrasing of the responsibility paragraph so that it would be as familiar as possible to practitioners in different jurisdictions (following the review of a number of audit reports around the world).	*46 and 48. No.*	
	Several	Reasonable Assurance – main paper (other than those noted below that are comments directly related to the wording)	Agenda Item C-A issues B.10B.3 discuss these comments in detail. In summary, the Task force recommendations are as follows: • the board should place high priority on		

			resolving concerns surrounding the term reasonable assurance. • Delete the modifier "but not absolute" in the proposed revised ISA 700 and ISA 200 • move the expression "whether due to fraud or error" from the first paragraph of the auditor's responsibility section and insert it in the second sentence.		
We conducted our audit in accordance with International Standards on Auditing.	EYN, FEE & NIVRA	It may be appropriate to refer additionally in the 'Auditor's Responsibility' paragraph not only to compliance with ISAs but also to the IFAC Code of Ethics and to relevant national ethical requirements the auditor has to follow in performing an audit of financial statements	The Task Force agreed that adding reference to the auditor's compliance with ethical standards has merits, as discussed more fully in Agenda Item 3-A issue B.4. Proposed wording is: **The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs . The auditor's report should also explain that those standards require that the auditor <u>comply with the applicable ethical requirements and that the auditor</u> plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement, whether due to fraud or error.**	*50, 51 & 52 Yes*	We conducted our audit in accordance with International Standards on Auditing. Those standards require, <u>that we comply with the applicable ethical requirements</u>
Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements	KIBR, CNCC, ACCA, IDW FSR RR BASEL	A number of respondents were uncomfortable with the introduction of the phrase "whether due to fraud or error" in the audit report. KIBR, CNCC and ACCA propose to delete the phrase.. Five respondents (ACCA, FSR IDW, RR and BASEL) have reservations	This issue is discussed in detail in Agenda Item C-A issues B.1 - B.3. In summary, the task force recommends that the modifier "but not absolute" should be deleted and the expression "whether due to fraud or error" should be removed from the first	35, 36, 37 & 38. Yes	Those standards require, <u>that we comply with the applicable ethical requirements and that</u> we plan and perform the audit to obtain reasonable, ~~but not~~

are free from material misstatement, …whether due to fraud or error		about the introduction of the term "but not absolute [assurance]" in the auditor's responsibility paragraph (paragraph 30).	paragraph of the auditor's responsibility and inserted in the second sentence of the paragraph, as follows: An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers…		~~absolute,~~ assurance whether the financial statements are free from material misstatement, ~~whether due to fraud or error.~~
	Taken as a whole				
	CNCC / OEC, JICPA, KIBR, GT and FSR	There were a number of comments in relation to various paragraphs in the Exposure Draft that related to the use of the phrase "taken as a whole".	The Task **Force does not propose to include the phrase in the auditor's report,.** While the Task Force is of the view that it is very useful within the body of the ISAs – where it is in the context of the supporting guidance – the Task Force is concerned that using it on its own in the auditor's report may lead the reader to infer that individual misstatements might be ignored if they counteract one another.	*57, 58, 59, 99 and 100. No*	
	Limitations of an audit and internal control				
	FEE, AUASB, BDO, IDW, ACCA, ACAG, NIVRA, RR, PWC,	A number of respondents (ACCA, ACAG, AUASB, BDO, FEE, IDW , PWC and RR) discuss the inherent limitations of an audit and whether the audit report should explain those limitations. FEE also suggest that further clarification of inherent limitations should be included in	In developing the Exposure Draft, various suggestions for additional wording to better explain the inherent limitations of audit were considered. Some of the options were discussed with CAG, but on balance, CAG members were not supportive of including such explanations in the audit report. They advised that it is better to describe the auditor's responsibilities in a	*56, 60, 61,62,63,64,65, 66 and 67. No*	

		paragraph 26 of the ISA. [PwC also commented but it is not included here as it was not related directly to the audit report] IDW suggested the following wording should be inserted in the audit report: <u>Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements may not be detected; this risk resulting from fraud is generally greater than that resulting from error</u>	positive manner, rather than by describing their limitations. IAASB agreed in Copenhagen that there should be no change.		
Scope Paragraph					
	BDO	There is a need to communicate more clearly what the customer gets and does not get in the report. In this regard, we consider the following are additional matters which could be included in the report: • the concept of materiality, • the identification of the specific users of the report, • the use of experts, • due diligence necessary by significant investors (over 5%), • the fact that more extensive information is available from the company, and • the fact that the auditor has relied on the truthfulness of company representations.	There is a trade-off between including significantly more information in the audit report and keeping the report to a reasonable length. No change recommended.	*No. 116*	
An audit involves performing	IDW	An audit <u>in accordance with ISA</u> involves performing procedures to	Agreed.	*68. Yes*	**An audit <u>conducted in accordance with</u>**

procedures to obtain audit evidence about the amounts and disclosures in the financial statements.		obtain audit evidence about the amounts and disclosures in the financial statements			**International Standards on Auditing** **involves performing**
	GT & BDO	GT suggest that an audit involves performing procedures, on a test basis, to obtain audit evidence about amounts and disclosures in the financial statements [The report should articulate that: •procedures are performed on a test basis and that such procedures are not strictly dependent on the auditor's risk assessment] BDO suggest that paragraph 33(a) and hence the audit scope, should stress the fact that an audit does not examine 100% of items, rather that audit procedures are performed on a test basis. In order to manage the 'expectation gap' it is important that readers understand the nature of audit testing. Suggested wording for paragraph 33(a) is 'an audit involves performing procedures, on a test basis, to obtain evidence……'.	Not all audit procedures are performed on a *test* basis. In developing the ED wording, there was considerable resistance to referring to "a test basis" as it can be interpreted to imply statistical sampling, which does not underlie all procedures. The Task Force is of the view that the reference to the auditor's judgment in selecting procedures adequately conveys the message that not all items are examined or all possible evidence obtained.	*69. No*	
The audit procedures selected depend on the auditor's assessment	GT	The audit procedures selected depend on, among other things, the auditor's an assessment of the risks of material	The task force acknowledge that the reference to judgment when selecting procedures might better inform the reader that audit procedures	*71. Yes*	The audit procedures selected depend on the auditor's judgment,

of the risks of material misstatement of the financial statements.		misstatement of the financial statements.	can be varied, including different balances of testing and substantive testing.		<u>including the</u> assessment of the risks of material misstatement of the financial statements.
	IDW	The auditor's assessment of the risks of material misstatement ~~in~~ <u>of</u> the financial statements <u>forms the basis for further audit procedures selected</u>	Although this wording is consistent with that found in the audit risk ISAs, users may not aprpeciate the subtle difference between procedures. No change recommended.	*72. No*	
	DT	The current wording in sub-paragraph 33b on the auditor's responsibility on internal control makes it seem that the auditor only considers internal controls related to the "preparation of the financial statements", which could be interpreted as internal controls on "the accumulation of information into the appropriate form", not internal controls on the "accuracy of the information in the financial statements." In order to more properly align the description of the auditor's responsibility with regards to internal control to that of management (which is found in sub-paragraph 25a), we suggest the following revision to the second sentence in sub-paragraph 33b and the corresponding sentence in the illustrative auditor's report (additions are shown in bold underline): *33b. In making those risk assessments,…*	The wording in the auditor's report is to "internal control relevant to the entity's preparation and fair presentation of the financial statements" – which is arguable quite broad. There is a risk that the introduction of the term "that are free from material misstatement" changes the comment on audit scope into a conclusion on the preparation of the financial statements. Furthermore, the audit responsibility paragraph already concludes on the auditor's responsibility to obtain evidence.. whether the financial statements are free from material misstatement.	*112. No*	

		financial statements ***<u>that are free from material misstatement</u>*** *as a basis for …"*			
In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances,	RR	In ~~making those risk assessments~~, <u>assessing those risks</u> the auditor considers internal control relevant to the entity's preparation of the financial statements. This consideration forms as a basis for designing audit procedures that are appropriate in the circumstances, but not and is not conducted	The wording is consistent with paragraph 22 and the audit risk ISAs.	*73 & 74. No*	
	GT	~~the auditor considers~~ <u>an audit also includes</u> considering internal control relevant to the entity's preparation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances	It is often appropriate to structure a paragraph in the subject (audit) only - rather than the person (auditor). However, in this case, the paragraph is internally consistent. Because it states that the audit procedures selected depend on the *auditor's* assessment of the risk – not the *audit risk assessment* – accordingly the *auditor* must consider internal control when making the risk assessment not the *audit.*	*75. No*	
	BASEL and AICPA	The auditors responsibility section of the standard and the report should refer to the fact that the auditor is expected to communicate any material weaknesses in internal control which come to the auditor's attention to those charged with governance. AICPA suggest that the auditor's report should acknowledge the	See detailed discussion on this issue in Agenda Paper 3-A issue B.6. In summary, IAASB debated the pros and cons of including this reference to the auditor's responsibility to communicate material weaknesses in internal control to those charged with governance at length in developing the Exposure Draft. The primary reason that the Board decided not to	*76 &77. No*	

		auditor's requirement to report material weaknesses in internal control to management and those charged with governance. Such a statement would complete the discussion on the auditor's responsibility with respect to internal control and inform the users of the auditor's report that there may be important information that is not contained in the financial statements and the auditor's report.	include this reference was because, in the Board's view, it could raise more questions than it answers in the minds of readers. Readers would be left wondering whether the auditor did identify any material weaknesses and what they were. While it could be argued that readers could enquire of the auditor and those charged with governance, it is unclear how this would work in practice (i.e., the auditor would be bound by confidentiality requirements and individual investors may only have the ability to enquire of those charged with governance in an annual meeting). Furthermore, readers might be confused how the auditor can express an opinion without reservation on the financial statements when there is a material weakness in internal control.		
but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control,	RR	but not and is not conducted for the purpose of expressing an opinion on the effectiveness of the entity's internal control. [Where appropriate: An examination for the purpose of expressing such an opinion is carried out alongside our consideration of internal control for the purposes of the audit and our findings as a result of that examination are reported in the section of our report entitled "Report on Other Legal and Regulatory Requirements."]	Paragraph 33 (b), Footnote 6 deals with this matter.	*78. No*	

	CNCC/OEC	Replace the word "opinion" by "conclusion" in the sentence "but not for the purpose of expressing an ~~opinion~~ conclusion on the effectiveness of the entity's internal control". Because in certain countries, and in particular in France, the auditor does not express an opinion (i.e. provide positive assurance) on the effectiveness of internal control. And redraft the footnote. AND 40	The objective of the auditor's report is to express an *opinion* on the financial statements. The report includes responsibilities of management and of the auditor and information on the scope of the audit. What is being made clear in the audit report is that the *opinion* being expressed on the financial statements is not being *extended* to the effectiveness of the company's internal control. Thus it is important that the user not assume the audit *opinion* is being extended beyond the financial statements preparation and fair presentation.	*111. No*	
An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management as well as evaluating the overall financial statement presentation and disclosures.	RR	~~An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.~~	We believe that the current wording is appropriate.	*79. No*	
	IDW	An audit in accordance with ISA also includes, in the context of the applicable financial reporting framework, evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates	We believe that the audit report should be viewed in full and not as stand-alone paragraphs. We believe that these concepts are adequately explained in the context of the audit report as a whole and so don't feel these	*81. No*	

		made by management, as well as evaluating the overall financial statement presentation and disclosures.	additional items are necessary		
	BASEL	…We recommend that the auditor's report state in the Auditor's Responsibility paragraph that the auditor has determined that the financial reporting framework identified by management is acceptable. We believe that this principle, as mentioned in paragraph 37 of the proposed amendment to ISA 200, should be reflected in ISA 700.	New guidance in the ISA addresses the engagement acceptance and reporting implications when the framework is not acceptable. Therefore, the Task Force does not believe that it is necessary to refer to the responsibility to determine the acceptability of the framework in the auditor's report for general purpose financial statements as its acceptability can be presumed unless there are additional disclosures.	*82. No*	
	PwC and LSCA	EDITORIAL In the last sentence of the second paragraph of the Auditor's Responsibility section an amendment is required to insert the word "accounting" as follows: "the reasonableness of significant accounting estimates made by management…" .	Agree.	*83 and 84. Yes,*	**An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant *<u>accounting</u>* estimates made by management,**
	AICPA	Reasonableness of significant estimates: The second paragraph in the "Auditor's responsibility" section of the example report in paragraph 51 states: "An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by	The audit report describes the scope of the audit and is consistent with ISA 540 paragraph 8 where it states (in audit procedures) that the auditor should obtain…evidence as to whether an accounting estimate is *reasonable.* In the proposed revised ISA 540, paragraph 2 also suggests that the auditor should obtain…evidence that accounting	*85. No*	

		management, as well as evaluating the overall financial statement presentation and disclosures." This statement begs the questions: How does the reasonableness of significant estimates compare with the reasonableness of other measurements and disclosures presented in the financial statements? Is this "reasonableness" more or less than "reasonable assurance?" Since most of the numbers in the financial statements are estimates, we suggest the sentence be reworded as follows: "An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures, including significant estimates made by management."	estimates…are *reasonable*. This remains in the current draft of the revised Estimates ISA.		
We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements.	GT, IDW, PwC, LSCA, DT, RR, and JICPA	There were a number of comments on this particular paragraph at the end of the auditor's scope paragraph. Some comments (GT, IDW,) suggested wording amendments that would expand the paragraph. Others (PwC, LSCA, DT and RR) suggested that the wording was redundant as it merely duplicated the audit opinion paragraph. JICPA suggested that "reasonable	Whilst there was no real appetite to delete the sentence entirely, nor was there any desire to expand the wording any further as it appeared to repeat the first sentence in the auditor's responsibility paragraph (GT suggested wording). However, the TF recognised that there was a general feeling among respondents that the current wording could be improved. The Task Force has drawn on the wording in ISA 500 paragraph 2.	*87, 88, 86, 90, 91, 92 and 93(a)*	**We believe that the audit evidence that we have obtained is sufficient and appropriate to ~~provide a reasonable basis for~~ <u>draw reasonable conclusions on which to base</u> our <u>audit</u>**

		basis" and "reasonable conclusions" were being used inconsistently in ISA 200 and ISA 560 and reasonable basis is being used in the auditor's report. (Reasonable conclusions on which to base the auditor's opinion or reasonable basis for the opinion).			**opinion ~~on the financial statements~~.**
	IRE	At opinion level "we believe that (...)", which could be rewritten as "we conclude that (...)", to be consistent with the wording in paragraph 4 of the newly proposed ISA-700;	No change made as it may confuse to refer to "conclusion" in the auditor's report other than the auditor's opinion.	*89. No*	
Opinion					
In our opinion, the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of ABC Company as of December 31, 20X1,	RR	<u>Our opinion is based on audit evidence obtained by [date of the auditor's opinion], being the date by which we believe we obtained sufficient appropriate audit evidence to provide a reasonable basis for our opinion on the financial statements.</u> In our opinion, the financial statements give a true and fair view of (or "present fairly, in all material respects,") the financial position of ABC Company as of December 31, 20X1,,,,	The Task Force does not recommend making a distinction between the date of the auditor's opinion and the date of the report.	*94. No*	
	GT	In our opinion, the financial statements **referred to above** give a true and fair view of	It is unlikely that the user of the accounts would misunderstand that the financial statements referred to in the opinion paragraph would be any different from the ones discussed	*95. No*	

			above the opinion paragraph.		
	IDW	In our opinion, the financial statements present fairly the financial position of ABC Company as of December 31, 20X1, and its financial performance and cash flows for the year then ended in accordance with IFRS.	Change made by IDW (other than to remove T&F view and abbreviate IFRS) is to remove "in all material respects" but that is consistent with reporting requirements in those jurisdictions that use the term "present fairly": In our opinion, the financial statements give a true and fair view of (or "present fairly, in all material respects") the financial position of ABC Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.	*96. No*	
	DCCA	Auditor's reports without qualifications As a part of the Danish regulation regarding the wording of the audit report it has since the approval of the regulation regarding auditors reporting on the work performed as an auditor in 1996 been required that it in the audit report is stressed whether the audit has resulted in any qualifications or not. The following sentence is therefore according to Danish regulation on this matter a part of the section in the audit report, where the basis of opinion is mentioned: "Our audit has not resulted in any qualification." In case of	Whilst we recognise that it is certainly necessary to emphasise certain matters in the auditor report and it would be appropriate to follow the guidance in ISA 701 that offers guidance on modifications to the audit report. The TF are of the view that the opinion paragraph makes it very clear that the audit has not resulted in any qualification by the words "in our opinion, the financial statements give a true and fair view". The TF believe that an additional comment "our audit has not resulted in any qualification" merely serves to repeat the first sentence of the opinion paragraph (and hence is redundant) and in fact may inadvertently confuse the user; whilst the auditing practice may be familiar with the term	*97. No*	

		qualifications in the audit report this sentence is naturally removed from the section regarding basis of opinion and replaced with a new section explaining the qualification emphasized with the heading “qualification”. It is the opinion of the DCCA that this sentence is essential to audit reports without qualifications, as it is a requirement that any qualifications are emphasized. This is required under Danish regulation and also required in the current ISA 700 section 40 and in the proposed ISA 701 section 15. Accordingly, it should also be a requirement that “no qualifications” are emphasized, as the users of the audit report should have the opportunity quickly to see that the audit has not resulted in any qualifications. From the users point of view this is seen to be significant for the understanding of the audit report. The information that the audit has not resulted in any qualifications is the most important information given from the auditor to the user of audit report, and could be stated to be one of the main purposes with the audit report. The DCCA will therefore suggest that the following sentence is added in section 51 in the proposed ISA 700 to the mention of	qualification, it is not necessarily clear to the user of the accounts.		

		Auditor's Responsibility: "Our audit has not resulted in any qualification".			
	ICPA Kenya	There is no grammatical justification for including a comma after "opinion" in the first sentence of the opinion paragraph. There is no qualifying clause.	This is a relevant pause in the sentence to invite users to read "our opinion" and is commonly found in other jurisdictions, for example, Australia, Argentina, Belgium, Chile, Canada, Brazil, Columbia, France, Germany, Greece, Hungary, Italy, Japan, Lux, Malta, Netherlands, Norway, Peru, Portugal, Romania, Slovak Rep, Slovenia, South Africa, Spain, US, Uruguay.	*98. No*	
	KIBR	Why the auditor's opinion – as proposed - does not include information that the audit involved evaluation of correctness of the books of accounts. (In Poland statement on the correctness of the books of accounts – in the light of the binding regulations – is one of the elements of the auditor's opinion).	To opine on books of accounts is not part of the audit under the ISAs. Rather it would be addressed as an "other reporting responsibility".	*101. No*	
and of its financial performance and its cash flow for the year then ended in accordance with International Financial Reporting Standards.					
Report on Other Legal and Regulatory Requirements					
[form and content of this section of the	ICANZ	There should be a requirement to report on the existence or otherwise of	This matter is an independence issue and it needs to be discussed in the broader context of	*102. No*	

auditor's report will vary depending on the nature of the auditor's other reporting responsibilities]		relationships between the auditor and the reporting entity.	independence rather than the auditor's reporting standard for unqualified report.		
	ACAG & BASEL	We believe that the provision should also require auditors to disclose the auditing standards framework on which the additional procedures /responsibilities were conducted, and whether the additional reporting responsibilities conflict with the independent audit process. This section could be headed with an appropriate title eg. "Other Reporting Responsibilities of the Auditor". BASEL also suggest that auditor and management responsibilities are included with respect to the applicable framework also.: "we believe that the ISA should require that management's responsibility also include a reference to compliance with the relevant laws and regulations"	This is a country/jurisdiction issue. The form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities in their particular jurisdiction. Paragraphs 40-43 make this clear – as do 52-57 where relevant. Agreed = management responsibility in this regard is not discussed but this will vary depending on the jurisdiction.	*45 and 103. No*	
[Date of the auditor's report] **[Auditor's signature]** **[Auditor's address]**	RR	RR suggested that the "date of the auditor's report" should be changed to the Date of "Issue" of the auditor's report.	Task Force believes it is the date of the auditor's report – linked to having an appropriate basis for the audit opinion – that is important, rather than the date of issue of the report.	*105. No*	
Combine RR, GT and BDO.	GT , ICAP and BDO	GT, ICAP and BDO suggested that the date of the auditor's report should be	Agreed because the majority of jurisdictions place the auditor's signature *after* the date of	*106, 107 and 108. Yes*	**[Auditor's signature]** **[Date of the auditor's**

		placed below the auditor's signature as follows:	the report.		**report]** **[Auditor's address**
Other Comments					
	RR	The exposure draft requires the identification of the group auditor with some precision and of the standards to which the group auditor is expected to be held, but is silent about the other auditors and relevant standards. The reader of an audit report on group financial statements is entitled to know the names and addresses of the auditors who have the responsibility for the audit opinion irrespective of whether there is a sole responsibility or divided responsibility opinion.	This is an ISA 600 issue: If there is general agreement by the ISA 600 Task Force and the IAASB that the reader of an audit report on group financial statements is entitled to know the names and addresses of the auditors who have the responsibility for the audit opinion (irrespective of whether there is a sole responsibility or divided responsibility opinion), then the matter of preparing guidance on this issue falls to the ISA 600 Task Force. However, a question still remains as to where the guidance on the preparation of the group audit report should finish. Arguably a more practical way of dealing with the matter is to include an illustrative group audit report in the guidance. However, it would not be appropriate to include such an illustration in ISA 700 because it then opens the question as to why other examples of audit reports are not included (e.g. incorporated, non-incorporated, partnership). It might be preferable to include it with guidance on Group Audits, the IAPS in particular as the IAPS provides practical assistance by application of the IASs. Debatably, IAS 700 does not have enough flexibility to allow changes to titles nor names and references to more than one auditor in the	*8. No*	

			audit report, so it would be difficult for the IAPS to apply the guidance in the ISA in this regard.		

APPENDIX 1 – Comparison of Management Responsibility Paragraph to Auditor Responsibility Paragraph

Management's Responsibility	Auditor's Responsibility
	Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance
Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards.	
This responsibility includes maintaining internal controls relevant to the preparation of financial statements, that are free from material misstatement, whether due to fraud or error;	Whether the financial statements are free from material misstatement, whether due to fraud or error.
	An audit conducted in accordance with International Standards on Auditing involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of material misstatement of the financial statements.
	In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements as a basis for designing 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
Selecting and applying appropriate accounting policies that are consistent with IFRS,	An audit also includes evaluating the appropriateness of accounting policies used
And making accounting estimates that are reasonable in the circumstances.	And the reasonableness of significant accounting estimates made by management,
	As well as evaluating the overall financial statement presentation and disclosures.

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