

*Proposed Redrafted International Standard on
Auditing*

**ISA 700, The Independent Auditor's
Report on General Purpose Financial
Statements**



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC), approved the exposure draft of proposed International Standard on Auditing (ISA) 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements” for publication in July 2007. The proposed ISA may be modified in light of comments received before being issued in final form.

Please submit your comments, preferably by e-mail, so that they will be received by **November 30, 2007**. All comments will be considered a matter of public record. Comments should be addressed to:

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Comments should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to the above address.

Copies of the exposure drafts may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

Copyright © July 2007 by the International Federation of Accountants. All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: “Copyright © July 2007 by the International Federation of Accountants. All rights reserved. Used with permission.”

CONTENTS

	Page
Explanatory Memorandum	2
Introduction.....	2
Background	2
Effective Date	2
Significant Matters.....	3
Guide for Respondents.....	6
Supplement to the Exposure Draft.....	8
Proposed International Standard on Auditing (ISA) 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements”	9

EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to proposed International Standard on Auditing (ISA) 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements.” The proposed ISA has been redrafted in accordance with conventions agreed by the International Auditing and Assurance Standards Board (IAASB) to be applied to all ISAs. The IAASB approved the proposed redrafted ISA for exposure in July 2007.

Background

The project to revise extant ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements” gave rise to conforming amendments to ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements.”

In October 2006, the IAASB approved a “close off” document of ISA 800 (Revised), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” and related conforming amendments in the “old style” (i.e., following the IAASB’s current drafting conventions). ISA 700 (Amended as a result of ISA 800 (Revised)), “The Independent Auditor’s Report on General Purpose Financial Statements” forms the basis for proposed ISA 700 (Redrafted).

The close off document of ISA 800 (Revised) and related conforming amendments is available on the IAASB website at: <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0093>.

The conventions used by the IAASB in redrafting ISA 700 (Amended), and the authority and obligation attaching to those conventions, are established in proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing” approved by the IAASB as an exposure draft in April 2007, and in the amended “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services”¹ (Preface) approved by the IAASB in September 2006.

Effective Date

The current timetable envisages that all ISAs will have been revised and redrafted, or redrafted only, by late 2008 and the IAASB has provisionally agreed that the complete set of ISAs will be effective for audits of financial statements for periods beginning on or after December 15, 2008. This date will depend on satisfactory progress being made, and will be amended to a later date should that prove necessary. The IAASB believes that it is in the interests of auditors and others who use the ISAs that the ISAs should be released as soon as they are approved so as to facilitate their implementation.

¹ The amended Preface can be accessed at http://web.ifac.org/download/IAASB_Preface.pdf. Proposed ISA 200 (Revised and Redrafted) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0079>.

Significant Matters

Forming an Opinion on the Financial Statements

In redrafting ISA 700 (Amended), the IAASB considered how the requirements and guidance in proposed ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit” that deal with the evaluation whether the financial statements as a whole are free from material misstatement relate to the requirements and guidance in ISA 700 (Amended) that deal with forming an opinion on the financial statements.

The IAASB concluded that, in light of the definition of a “misstatement” in proposed ISA 450 (Revised and Redrafted), there is not a clear differentiation between the consideration of “qualitative aspects of the entity’s accounting practices” in proposed ISA 450 (Revised and Redrafted) and the matters that the auditor is asked to evaluate in forming an opinion on the financial statements in ISA 700 (Amended). The IAASB agreed that, in the absence of a separate ISA on forming an opinion on the financial statements, the overlap could be addressed by:

- Transferring the requirements and guidance in proposed ISA 450 (Revised and Redrafted) that deal with the evaluation of whether the financial statements as a whole are free from material misstatement and the consideration of bias to proposed ISA 700 (Redrafted) as indicated below, and amending the objective of proposed ISA 450 (Revised and Redrafted) accordingly;
- Restructuring the Forming an Opinion on the Financial Statements section in proposed ISA 700 (Redrafted) to require the auditor, in forming an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements taken as a whole are free from material misstatement (see paragraph 8 of proposed ISA 700 (Redrafted)). The auditor’s conclusion takes account of the conclusions and evaluations described in or required by paragraphs 9-12 of proposed ISA 700 (Redrafted);
- Clarifying in proposed ISA 700 (Redrafted) that the auditor’s evaluation of whether the financial statements are prepared and presented, in all material respects, in accordance with the specific requirements of the applicable financial reporting framework includes consideration of the *qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments* (see paragraph 10 of proposed ISA 700 (Redrafted)); and
- Inserting the application material regarding evaluating whether the financial statements as a whole are free of material misstatement and the consideration of bias from proposed ISA 450 (Revised and Redrafted) in the application material of proposed ISA 700 (Redrafted) (see paragraphs A1-A2 of proposed ISA 700 (Redrafted)).

If respondents accept the IAASB’s proposal, proposed ISA 450 (Revised and Redrafted) will deal with the evaluation of the effect of uncorrected misstatements, while proposed ISA 700 (Redrafted) will deal with the evaluation whether the financial statements as a whole are free from material misstatement.

Description of Management’s Responsibility for the Financial Statements

Paragraph 24 of ISA 700 (Amended) prescribed the description in the auditor’s report of management’s responsibility for the financial statements. In redrafting ISA 700 (Amended), several IAASB members and national auditing standard setters requested the IAASB to amend the requirement to allow flexibility with regard to the description. The IAASB was of the view that such an amendment goes beyond the application of the clarity drafting conventions and therefore have not proposed an amendment to the requirement in proposed ISA 700 (Redrafted).

However, the notion of the premises, relating to management’s responsibilities, on which an audit in accordance with the ISAs are conducted are currently being considered as part of the project to revise and redraft extant ISA 580, “Management Representations” (see proposed ISA 580 (Revised and Redrafted), “Written Representations”), arising from which a number of conforming amendments are proposed to proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing” and proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements.”² The IAASB has received comments in response to the exposure draft of proposed ISA 580 (Revised and Redrafted) on how the ISAs articulate these premises and will be considering how to respond to those comments in due course. Whilst the IAASB concluded that it would not be appropriate to pre-empt the outcome of these considerations in proposed ISA 700 (Redrafted), the finalization of proposed ISA 580 (Revised and Redrafted) may give rise to conforming amendments to proposed ISA 700 (Redrafted) in this regard.

Financial Reporting Frameworks Described by Reference to International Financial Reporting Standards (IFRSs)

A number of jurisdictions are adopting IFRSs. In some cases, the jurisdictions may adopt less than the complete set of current IFRSs. This may be because of the time it takes a jurisdiction to introduce new standards locally, such that the issue is merely one of timing. It may be because a jurisdiction regards a certain IFRS as unsuitable for the jurisdiction. Or it may be because a regulator wishes to impose its own rules in respect of certain aspects of financial reporting. In each case, national standard setters, legislators or regulators may mandate how the financial reporting framework is to be described in financial statements or the auditor’s report, or both.

Descriptions of financial reporting frameworks that are required in certain jurisdictions include “IFRSs as adopted for use in [country X]” and “IFRSs as modified by banking regulators for the use of banks in [country X].” Such descriptions may be required to be used in the general purpose financial statements of the relevant entities.

A description of a financial reporting framework in terms such as those set out above is not an explicit and unreserved statement of compliance with IFRSs; the user may not know what the differences between the framework and IFRSs are, or where to find them. The user, however, is entitled to expect that there is close relationship between the framework used and IFRSs.

² The exposure draft of proposed ISA 210 (Redrafted) is currently scheduled for approval at the September 2007 IAASB meeting.

In some cases, the differences between adopted or modified IFRSs and the complete set of current IFRSs may be of no significance to some or many entities, such that the effect of using the framework is in fact identical to IFRSs in the vast majority of cases.

In other cases, however, an apparently insignificant difference between adopted or modified IFRSs and the complete set of current IFRSs may have a significant effect on the reported financial position or performance of some or many entities. As a result of such effects, there is the possibility that a user may be misled if he or she were to think that the financial statements comply, or comply in all but immaterial respects, with IFRSs. Accordingly, preparers and auditors should be concerned to avoid such a possibility.

This matter has been of concern to the International Accounting Standards Board (IASB), for the reasons set out above. In December 2006, the IASB agreed to issue an Exposure Draft of a proposed amendment to International Accounting Standard (IAS) 1, “Presentation of Financial Statements” adding disclosure requirements for entities that refer to IFRSs in describing the basis on which their financial statements are prepared, but that are not able to make an explicit and unreserved statement of compliance with IFRSs. Such an entity would be required to make disclosures about how its financial statements would have been different if prepared in full compliance with IFRSs. If, following consideration of comments received on the Exposure Draft, the IASB agrees to proceed with the proposed amendment to IAS 1, it would form part of the annual improvements process of the IASB. The Exposure Draft of the IASB’s annual improvements will be published in October 2007. (The proposed amendment to IAS 1 is already posted on the IASB website (<http://www.iasb.org>) as an Invitation to Comment.)

The IAASB is of the view that, where it is an option, a preferred solution is to avoid references to IFRSs in circumstances when a financial reporting framework is such that compliance with it will not result in an explicit and unreserved statement of compliance with IFRSs, and instead refer to or describe such framework as the following: “the financial reporting framework applicable in [country X],” or “accounting principles applicable to banks in [country X].” The notes to the financial statements would include an appropriate description of the accounting policies.

However, there will be cases where such a solution is not possible because the description of the framework is mandated by law or regulation. In such cases, the auditor’s concern is to ensure that the references are not misleading.

The IAASB proposes that ISA 700 (Redrafted) be the place to address this matter as the auditor is required in ISA 700 (Amended) to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. To enable respondents to consider how this might be addressed in ISA 700 (Redrafted), proposed guidance has been incorporated in paragraphs A9-A11 (addressing the auditor’s evaluation of the description of the financial reporting framework in the financial statements) and paragraphs A33-A34 (addressing the effect that such description may have on the auditor’s opinion). These paragraphs are shaded in the exposure draft.

The IAASB recognizes that the proposed guidance is based on the IASB’s proposed amendment to IAS 1, which has not yet been finally approved by the IASB for inclusion in the annual improvements Exposure Draft and which is dependent on the IASB’s due process. However,

should the IASB proceed with its amendment, the IAASB would propose to incorporate the highlighted guidance in ISA 700 (Redrafted), and, therefore, considered it appropriate to use this opportunity to obtain respondents' comment on the proposed guidance. In the event that the IASB does not proceed with its current proposal, or amends the proposal in a material respect, the IAASB would have to decide how, if at all, to deal with the matter in those changed circumstances.

Respondents' comments, and any changes that the IASB may agree based on comments received on its Invitation to Comment and annual improvements Exposure Draft, will be taken into account in finalizing ISA 700 (Redrafted). At that time, the IAASB will evaluate whether it is necessary to re-expose the proposed guidance.

International Auditing Practice Statement (IAPS) 1014

In considering the proposal regarding financial reporting frameworks described by reference to IFRSs, and in response to questions that have arisen about whether the auditor may express more than one opinion when financial statements represent that they comply with the applicable financial reporting framework and IFRSs, the IAASB was of the view that it may be helpful to incorporate the guidance in IAPS 1014, "Reporting by Auditors on Compliance with International Financial Reporting Standards" in proposed ISA 700 (Redrafted).

To enable respondents to consider this proposal, the guidance in IAPS 1014, appropriately amended, has been incorporated in proposed ISA 700 (Redrafted). See paragraphs A4-A8, which deals with the auditor's evaluation of the description of the financial reporting framework in the financial statements, and paragraphs A31-A32, which deals with the effect that such description may have on the auditor's opinion.

The IAASB proposes that the following text of paragraph 7 of IAPS 1014 not be incorporated in proposed ISA 700 (Redrafted): "If the auditor is of the opinion that the failure to comply with one of the financial reporting frameworks causes the financial statements to fail to comply with the other financial reporting framework, the auditor issues a qualified opinion or adverse opinion on compliance with both frameworks." The IAASB is of the view that such circumstances will be rare and that the guidance confuses rather than clarifies.

Should respondents agree with the proposal to incorporate the guidance in IAPS 1014 in proposed ISA 700 (Redrafted), the IAASB proposes that IAPS 1014 be withdrawn.

Guide for Respondents

Request for Specific Comments

The IAASB would welcome views on the following:

1. The proposal to limit the scope of proposed ISA 450 (Revised and Redrafted) to the evaluation of the effect of uncorrected misstatements, while proposed ISA 700 (Redrafted) deals with the evaluation whether the financial statements as a whole are free from material misstatement.

2. The proposed guidance in paragraphs A9-A11 and A33-A34 of proposed ISA 700 (Redrafted), which was developed to address the matter of financial reporting frameworks described by reference to IFRSs.
3. The proposal to incorporate the guidance in IAPS 1014, appropriately amended, in paragraphs A4-A8 and A31-A32 of proposed ISA 700 (Redrafted) and to withdraw IAPS 1014.

Request for Comments on the Application of the Clarity Drafting Conventions

Except for the matters referred to above, the IAASB is seeking comments **only** on changes resulting from applying the clarity drafting conventions and their effect on the content of the ISA. Respondents are asked to respond in particular to the following questions:

1. Are the objectives to be achieved by the auditor, stated in the proposed redrafted ISA, appropriate?
2. Have the criteria identified by the IAASB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?³

Recognizing that the final ISA will apply to audits of all sizes and in all sectors of the economy, the IAASB is also interested in comments on matters set out below.

- *Special Considerations in the Audit of Small Entities*—Respondents are asked to comment whether, in their opinion, considerations in the audit of small entities have been dealt with appropriately in the proposed redrafted ISA.
- *Special Considerations in the Audit of Public Sector Entities*—Respondents are asked to comment whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed redrafted ISA.
- *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed redrafted ISA in a developing nation environment.

³ The IAASB has identified the following criteria for determining the requirements of a Standard:

- The requirement is necessary to achieve the objective stated in the Standard;
- The requirement is expected to be applicable in virtually all engagements to which the Standard is relevant; and
- The objective stated in the Standard is unlikely to have been met by the requirements of other Standards.

In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.

The criteria, which are intended only to assist the IAASB in appropriately and consistently determining requirements, may be refined as further experience is gained.

- *Translations*—Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed redrafted ISA.

Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in the exposure draft, it will be helpful for the IAASB to be made aware of this view.

Respondents are also invited to comment on any undue costs, set against the benefits of more consistent auditor performance, arising from the fact that the proposed redrafted ISA includes requirements that would previously have been guidance under the old drafting conventions, as in ISA 700 (Amended) (see below). In commenting on this matter, respondents should bear in mind the criteria that the IAASB has applied in redrafting the proposed ISA (see footnote 3) and the fact that the IAASB is seeking to clarify that there was some guidance in extant ISAs that was more in the nature of requirements and would already have been followed by many auditors.

Supplement to the Exposure Draft

To assist respondents in tracking changes, IAASB staff has prepared an analysis of the decisions that have been made by the IAASB with respect to the treatment of the present tense in the explanatory paragraphs of ISA 700 (Amended). This analysis also demonstrates how the material in ISA 700 (Amended) has been reflected in the proposed redrafted ISA. In particular, the analysis:

- Identifies existing sentences in the present tense and whether they are now treated as a requirement or as application material;
- Maps the material of ISA 700 (Amended) to the proposed redrafted ISA; and
- Identifies explanatory material that is proposed to be eliminated or repositioned as a result of redrafting.

In addition, staff has prepared an analysis that maps the guidance in IAPS 1014 to the guidance in proposed ISA 700 (Redrafted).

These staff-prepared mapping documents are available on the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0090>. They are for information purposes only and do not form part of the exposure draft.

To be considered, responses should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by **November 30, 2007**.

PROPOSED INTERNATIONAL STANDARD ON AUDITING 700

(REDRAFTED)

**THE INDEPENDENT AUDITOR’S REPORT ON GENERAL PURPOSE FINANCIAL
STATEMENTS**

(Effective for audits of financial statements for periods beginning on or after [date])*

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1-3
Effective Date	4
Objectives	5
Definitions	6-7
Requirements	
Forming an Opinion on the Financial Statements	8-12
Form of Opinion	13-16
Auditor’s Report	17-42
Supplementary Information Presented with the Financial Statements	43-44
Application and Other Explanatory Material	
Qualitative Aspects of the Entity’s Accounting Practices	A1-A2
Description of the Applicable Financial Reporting Framework	A3-A11
Form of Opinion	A12-A14
Auditor’s Report	A15-A47
Supplementary Information Presented with the Financial Statements	A48-A54
Appendix: Illustrations of Auditors’ Reports on General Purpose Financial Statements	

International Standard on Auditing (ISA) 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements,” should be read in conjunction with [proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”

* See footnote 1.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the independent auditor's report issued as a result of an audit of general purpose financial statements. It also deals with forming an opinion on the financial statements.
2. [Proposed] ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report" deals with circumstances that may result in a modified opinion, the type of modification required, and how the form and content of the auditor's report is affected in such circumstances. [Proposed] ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report" deals with circumstances when the auditor considers including an Emphasis of Matter paragraph or an Other Matter(s) paragraph in the auditor's report, and the form and placement of such paragraphs.
3. Consistency in the auditor's report, when the audit has been conducted in accordance with International Standards on Auditing, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after [date].¹

Objectives

5. The objectives of the auditor are to:
 - (a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
 - (b) Express clearly that opinion through a written report that explains the basis of the opinion.

Definitions

6. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.
 - (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users.
7. Reference to "financial statements" in this ISA should be read as "general purpose financial statements," and can be to a complete set of financial statements or a single

¹ This date will not be earlier than December 15, 2008.

financial statement.²

Requirements

Forming an Opinion on the Financial Statements

8. In forming the auditor's opinion whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, the auditor shall conclude whether reasonable assurance has been obtained about whether the financial statements taken as a whole are free from material misstatement.
9. The auditor's conclusion shall take into account:
 - (a) The auditor's conclusion whether sufficient appropriate audit evidence has been obtained, in accordance with ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks;"
 - (b) The auditor's conclusion whether uncorrected misstatements are material, individually or in aggregate, in accordance with [proposed] ISA 450 (Revised and Redrafted), "Evaluation of Misstatements Identified during the Audit;" and
 - (c) The auditor's evaluations required by paragraphs 10-12.
10. The auditor shall evaluate whether the financial statements are prepared and presented, in all material respects, in accordance with the specific requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1-A2) In particular, the auditor shall evaluate whether, in view of the specific requirements of the applicable financial reporting framework:
 - (a) The financial statements adequately disclose the significant accounting policies selected and applied, and significant interpretations by management of regulatory or legal requirements. In jurisdictions where the applicable financial reporting framework is so codified as to preclude a choice of accounting policies or significant interpretations by management, a reference to the applicable financial reporting framework may suffice;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable and understandable;
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information

² The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

conveyed in the financial statements, for example, in the case of financial statements prepared and presented in accordance with many general purpose frameworks, the entity's financial position, financial performance and cash flows; and

- (f) The terminology used in the financial statements, including their titles, is appropriate.
- 11. When the financial statements are prepared and presented in accordance with a fair presentation framework, the auditor shall evaluate whether the financial statements achieve fair presentation. The auditor's evaluation shall include consideration of:
 - (a) The overall presentation, structure and content of the financial statements; and
 - (b) Whether the financial statements, including the related explanatory notes, faithfully represent the underlying transactions and events in a manner that achieves fair presentation.
- 12. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A3-A11)

Form of Opinion

- 13. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework including, in the case of a fair presentation framework, that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (see paragraphs 31-32).
- 14. If the auditor concludes that the financial statements as a whole are materially misstated, or is unable to conclude that the financial statements as a whole are not materially misstated, the auditor shall consider the effect thereof on the opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised and Redrafted). (Ref: Para. A12)
- 15. When financial statements prepared and presented in accordance with the specific requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised and Redrafted). (Ref: Para. A13)
- 16. When the financial statements are prepared and presented in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, in extremely rare circumstances, the auditor may conclude that such financial statements are misleading. In such a case, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to deal with it in the auditor's report. (Ref: Para. A14)

Auditor's Report

17. The auditor's report shall be in writing. (Ref: Para. A15-A16)

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Title

18. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A17)

Addressee

19. The auditor's report shall be addressed as required by the circumstances of the engagement. (Ref: Para. A18)

Introductory Paragraph

20. The introductory paragraph in the auditor's report shall: (Ref: Para. A19-A20)
- (a) Identify the entity whose financial statements have been audited;
 - (b) State that the financial statements have been audited;
 - (c) Identify the title of each statement that comprises the financial statements;
 - (d) Refer to the summary of significant accounting policies and other explanatory notes; and
 - (e) Specify the date or period covered by each financial statement comprising the financial statements.

Management's Responsibility for the Financial Statements

21. The auditor's report shall include a section with the heading "Management's Responsibility for the Financial Statements."
22. In the Management's Responsibility for the Financial Statements section, the auditor's report shall state that management is responsible for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes: (Ref: Para. A21- A23)
- (a) Designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error;
 - (b) Selecting and applying appropriate accounting policies; and
 - (c) Making accounting estimates that are reasonable in the circumstances.
23. Where the financial statements are prepared in accordance with a fair presentation framework, the statement of management's responsibility for the financial statements shall refer to "the preparation and fair presentation of the financial statements" or "the preparation and presentation of financial statements that give a true and fair view," as

appropriate in the circumstances, instead of “preparation and presentation.”

Auditor’s Responsibility

24. The auditor’s report shall include a section with the heading “Auditor’s Responsibility.”
25. In the Auditor’s Responsibility section, the auditor’s report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: Para. A24)
26. The auditor’s report shall state that the audit was conducted in accordance with International Standards on Auditing. The auditor’s report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. (Ref: Para. A25-A26)
27. The auditor’s report shall describe an audit by stating that:
 - (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
 - (b) The procedures selected depend on the auditor’s judgment, including the 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 internal control relevant to the entity’s preparation and presentation of the 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. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
 - (c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.
28. Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit shall refer to “the entity’s preparation and fair presentation of the financial statements” or “the entity’s preparation and presentation of financial statements that give a true and fair view,” as appropriate in the circumstances, instead of “preparation and presentation.”
29. The auditor’s report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.

Auditor’s Opinion (Ref: Para. A27-A34)

30. The auditor’s report shall include a section with the heading “Opinion.”

31. When expressing an unmodified opinion on financial statements prepared and presented in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
 - (a) The financial statements give a true and fair view in accordance with the applicable financial reporting framework; or
 - (b) The financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework.
32. When expressing an unmodified opinion on financial statements prepared and presented in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
33. When the reference to the applicable financial reporting framework in the auditor's opinion is not to unmodified³ International Financial Reporting Standards or International Public Sector Accounting Standards, the auditor's opinion shall identify the jurisdiction or country of origin of the framework.

Other Matters

34. Law or regulation may require the auditor, or the auditor may consider it appropriate, to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. Such matters shall be addressed under the heading "Other Matters," which follows the Opinion section. (Ref: Para. A35-A36)

Other Reporting Responsibilities

35. When the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility to express the opinion on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report following the Opinion section. This separate section shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. (Ref: Para. A37-A38)
36. If the auditor's report contains a separate section on other reporting responsibilities, the headings and statements referred to in paragraphs 20-34 shall be under the sub-title "Report on the Financial Statements." (Ref: Para. A39)

Signature of the Auditor

37. The auditor's report shall be signed. (Ref: Para. A40)

³ That is, when it is possible to make an explicit and unreserved statement of compliance with International Financial Reporting Standards (as opposed to the circumstances described in paragraph A9).

Date of the Auditor's Report

38. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. Sufficient appropriate audit evidence shall include evidence that: (Ref: Para. A41-A44)
- (a) All the statements that comprise the financial statements have been prepared; and
 - (b) That those with the recognized authority have asserted that they have taken responsibility for them.

Auditor's Address

39. The auditor's report shall name the location in the country or jurisdiction where the auditor practices.

Auditor's Report for Audits Conducted in Accordance with Both International Standards on Auditing and Auditing Standards of a Specific Jurisdiction or Country

40. When the auditor has complied with both International Standards on Auditing and the auditing standards of a specific jurisdiction or country (for purposes of this ISA referred to as "the national auditing standards") in the conduct of the audit, the auditor's report shall refer to International Standards on Auditing in addition to the national auditing standards only if: (Ref: Para. A45-A47)
- (a) There is no conflict between the reporting requirements regarding the auditor's report in International Standards on Auditing and those in the national auditing standards that affects the auditor's opinion or the need to include an Emphasis of Matters paragraph in the particular circumstances; and
 - (b) The auditor's report includes, at a minimum, each of the following elements when the auditor uses the layout or wording specified by the national auditing standards:
 - (i) A title;
 - (ii) An addressee, as required by the circumstances of the engagement;
 - (iii) An introductory paragraph that identifies the financial statements audited;
 - (iv) A description of management's responsibility for preparing and presenting the financial statements;
 - (v) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:
 - A reference to International Standards on Auditing and the national auditing standards; and
 - A description of the work an auditor performs in an audit;
 - (vi) An opinion paragraph containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework

used to prepare the financial statements (including identifying the country of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards);

- (vii) The auditor's signature;
- (viii) The date of the auditor's report; and
- (ix) The auditor's address.

41. When the auditor's report refers to both International Standards on Auditing and the national auditing standards, the auditor's report shall identify the jurisdiction or country of origin of the national auditing standards.

Auditor's Report Prescribed by Law or Regulation

42. When the audit is conducted in accordance with International Standards on Auditing and the auditor is required by law or regulation to use a specific layout or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the conditions in paragraph 40 are met (with references to national standards in paragraph 40 being read as references to the relevant law or regulation, where appropriate), and the auditor's report shall thereby identify such law or regulation. (Ref: Para. A45-A47)

Supplementary Information Presented with the Financial Statements (Ref: Para. A48-A54)

43. Supplementary information that, because of its nature and how it is presented, cannot be clearly differentiated from the audited financial statements, is considered to be an integral part thereof and, accordingly, is covered by the auditor's opinion.
44. The auditor shall evaluate whether supplementary information that is presented together with the audited financial statements (but that is not an integral part thereof) and that is not intended to be covered by the auditor's opinion is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such information has not been audited.

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 10)

- A1. Management makes a number of judgments about the amounts and disclosures in the financial statements. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, cause the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's

evaluation whether the financial statements as a whole are materially misstated include the following:

- The selective correction of misstatements brought to management’s attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
 - Possible management bias in the making of accounting estimates.
- A2. [Proposed] ISA 540 (Revised and Redrafted), “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures” addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor’s evaluation of whether the financial statements as a whole are free from material misstatement.

Description of the Applicable Financial Reporting Framework (Ref: Para. 12)

- A3. As explained in [proposed] ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in accordance with International Standards on Auditing,” management is responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework and for adequately describing that framework in the financial statements. That description is important because it advises users of the financial statements of the framework on which the financial statements are based.
- A4. A description that the financial statements are prepared and presented in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework effective at the date of the financial statements.
- A5. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with International Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

- A6. In some cases, the financial statements may represent that they are prepared and presented in accordance with two financial reporting frameworks (for example, the national framework and International Financial Reporting Standards). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous

compliance is unlikely unless the country has adopted the other framework (for example, International Financial Reporting Standards) as its own national financial reporting framework, or has eliminated all barriers to compliance with it.

- A7. Financial statements that are prepared and presented in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework, are not prepared and presented in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.
- A8. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (for example, financial statements prepared and presented in accordance with the national framework that also describe the extent to which they comply with International Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph 43, is considered an integral part of the financial statements and, accordingly, is covered by the auditor's opinion.

Financial Reporting Framework Described by Reference to International Financial Reporting Standards

- A9. An authorized or recognized standards setting organization, or relevant law or regulation, may describe the applicable financial reporting framework by reference to International Financial Reporting Standards, even though the framework is such that management cannot make an explicit and unreserved statement of compliance with International Financial Reporting Standards. (Examples of such descriptions include "International Financial Reporting Standards as adopted for use in [country X]" and "International Financial Reporting Standards as modified by banking regulators for the use of banks in [country X]."). In such circumstances, [proposed] International Accounting Standard (IAS) 1, "Presentation of Financial Statements"⁴ requires the entity to:
 - (a) Describe each difference between the basis on which its financial statements are prepared and International Financial Reporting Standards that are applicable to its financial statements; and
 - (b) Describe how the reported financial position and performance of the entity would have differed if it had complied with International Financial Reporting Standards.

If the framework is described by reference to International Financial Reporting Standards, but the framework does not require the entity to disclose the information in (a) and (b) above and the financial statements do not in fact disclose such information, the description is likely to be misleading if the effect on financial statements of the difference

⁴ The proposed amendment to International Accounting Standard (IAS) 1, "Presentation of Financial Statements" will form part of the annual improvements process of the International Accounting Standards Board. The exposure draft of the IASB will be published in October 2007. The proposed amendment to IAS 1 is posted on the IASB website (<http://www.iasb.org>) as an Invitation to Comment.

between the framework and International Financial Reporting Standards may be significant.

A10. The financial reporting framework may be described without reference to International Financial Reporting Standards if such a description is not required by an authorized or recognized standards setting organization or relevant law or regulation.

A11. Where the applicable financial reporting framework is described by reference to an established financial reporting framework other than International Financial Reporting Standards, considerations similar to those in paragraphs A9-A10 would apply.

Form of Opinion (Ref: Para. 13-16)

A12. In accordance with [proposed] ISA 705 (Revised and Redrafted), the auditor expresses a modified opinion when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement.

A13. There may be cases where the financial statements, although prepared and presented in accordance with the specific requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, management has a responsibility to provide disclosures beyond the specific requirements of the framework or, in extremely rare circumstances, to depart from a specific requirement in the framework to achieve fair presentation of the financial statements, as explained in [proposed] ISA 200 (Revised and Redrafted).

A14. It will be extremely rare for the auditor to consider financial statements that are prepared and presented in accordance with a compliance framework to be misleading if in accordance with ISA 210, “Terms of Audit Engagements,” the auditor determined that the framework is acceptable.

Auditor’s Report (Ref: Para. 17)

A15. A written report encompasses reports issued in hard copy format and those using an electronic medium.

A16. The Appendix contains illustrations of auditors’ reports on general purpose financial statements, incorporating the elements set forth in paragraphs 18-39.

Auditor’s Report for Audits Conducted in Accordance with International Standards on Auditing

Title (Ref: Para. 18)

A17. A title indicating the report is the report of an independent auditor, for example, “Independent Auditor’s Report,” affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor’s report from reports issued by others.

Addressee (Ref: Para. 19)

- A18. Laws or regulations often specify to whom the auditor’s report is to be addressed in that particular jurisdiction. The auditor’s report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

Introductory Paragraph (Ref: Para. 20)

- A19. The introductory paragraph states, for example, that the auditor has audited the accompanying financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework (or, where applicable, the title of the single financial statement), specifying the date or period covered by each financial statement] and referring to the summary of significant accounting policies and other explanatory notes. In addition, when the auditor is aware that the financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the financial statements are presented. This helps users to identify the financial statements to which the auditor’s report relates.
- A20. In the case of a complete set of financial statements, the auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of financial statements prepared in accordance with many general purpose frameworks, this includes: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory notes. In some jurisdictions additional information might also be considered to be an integral part of the financial statements.

Management’s Responsibility for the Financial Statements (Ref: Para. 22)

- A21. [Proposed] ISA 200 (Revised and Redrafted) explains the premises, relating to management’s responsibilities, on which an audit is conducted. Management is responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. For example, in the case of many general purpose frameworks, management is responsible for preparing financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with those frameworks. To fulfill this responsibility, management designs and implements internal control⁵ to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity’s financial reporting. The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select

⁵ In some jurisdictions, law or regulation prescribing management’s responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA 315 (Redrafted), “Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and Its Environment”), no specific reference is made to them in paragraph 22 for the description of management’s responsibilities.

and apply appropriate accounting policies. These judgments are made in the context of the applicable financial reporting framework.

- A22. There may be circumstances when it is appropriate for the auditor to add to the description of management’s responsibilities in paragraph 22 to reflect additional responsibilities that are relevant to preparing and presenting the financial statements in the context of the particular jurisdiction or the nature of the entity.
- A23. The term management has been used in this ISA to describe those responsible for preparing and presenting the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).

Auditor’s Responsibility (Ref: Para. 26)

- A24. The auditor’s report states that the auditor’s responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management’s responsibility for preparing and presenting the financial statements.
- A25. The reference to the standards used conveys to the users of the auditor’s report that the audit has been conducted in accordance with established standards.
- A26. In accordance with [proposed] ISA 200 (Revised and Redrafted), the auditor does not represent compliance with International Standards on Auditing unless the auditor has complied with all of the International Standards on Auditing relevant to the audit.

Auditor’s Opinion (Ref: Para. 30-33)

“Give a true and fair view” or “present fairly, in all material respects”

- A27. Whether the phrase “give a true and fair view” or the phrase “present fairly, in all material respects,” is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, the auditor’s responsibility to evaluate the fair presentation of financial statements prepared and presented in accordance with a fair presentation framework is the same. ISA 210 deals with circumstances where law or regulation prescribes wording for the auditor’s opinion that differs significantly from the wording described in this ISA.

Description of information that the financial statements present

- A28. In the case of financial statements prepared and presented in accordance with a fair presentation framework, the auditor’s opinion states that the financial statements give a true and fair view of or present fairly, in all material respects, the information that the financial statements are designed to present (which is determined by the financial reporting framework). For example, in the case of a complete set of financial statements, the auditor’s opinion states that the financial statements give a true and fair view of or present fairly, in all material respects, the financial position of the entity as at the end of the period and the entity’s financial performance and cash flows for the period then ended

in accordance with [identify the applicable financial reporting framework, for example, International Financial Reporting Standards].

Description of the applicable financial reporting framework and how it may affect the auditor's opinion

A29. The auditor's opinion identifies the financial reporting framework on which the financial statements are based to advise users of the auditor's report of the context in which the auditor's opinion is expressed. The applicable financial reporting framework is identified in such terms as:

“... in accordance with International Financial Reporting Standards” or

“... in accordance with accounting principles generally accepted in Country X ...”

A30. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with International Financial Reporting Standards and the requirements of Country X Corporations Act.” ISA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.

A31. As indicated in paragraph A6, the financial statements may be prepared and presented in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 31 and 32 refers to both frameworks as follows:

- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is that the financial statements are prepared and presented in accordance with one of the applicable financial reporting frameworks (for example, the national framework) and a separate opinion that the financial statements are prepared and presented in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards).
- (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared and presented in accordance with the one framework (for example, the national framework) but a modified opinion given with regard to the other framework (for example, International Financial Reporting Standards) in accordance with [proposed] ISA 705 (Revised and Redrafted).

A32. As indicated in paragraph A8, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent to which they comply with a framework other than the applicable financial reporting framework.

- (a) If the financial statements fail to comply with the applicable financial reporting framework because the disclosure as to the compliance with the other framework is misleading, a modified opinion would be expressed in accordance with [proposed]

ISA 705 (Revised and Redrafted).

- (b) If the disclosure is not misleading, the auditor may nevertheless decide to add an Emphasis of Matter paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted), drawing attention to the disclosure, if such disclosure is significant.

A33. As indicated in paragraph A9, an authorized or recognized standards setting organization, or law or regulation, may describe the applicable financial reporting framework by reference to International Financial Reporting Standards, even though the framework is such that management cannot make an explicit and unreserved statement that the applicable financial reporting framework complies with International Financial Reporting Standards. In such circumstances:

- (a) If the financial statements do not provide sufficient disclosure of the differences and the auditor concludes that they are misleading (see paragraph A9), the auditor's opinion would be modified in accordance with [proposed] ISA 705 (Revised and Redrafted) as appropriate in the circumstances.
- (b) If the financial statements do provide sufficient disclosure of the difference and are therefore not misleading (see paragraph A9), the auditor may nevertheless decide to add an Emphasis of Matter paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted) if the auditor judges the differences between the applicable financial reporting framework and International Financial Reporting Standards to be of such importance to users' understanding of the financial statements as a whole that it would be appropriate to draw their attention to it.
- (c) In some cases, financial statements prepared and presented in accordance with an applicable financial reporting framework described by reference to International Financial Reporting Standards may also comply with all the requirements of International Financial Reporting Standards applicable in the circumstances. If the financial statements represent, and the auditor concludes, that the financial statements comply with both the applicable financial reporting framework and International Financial Reporting Standards individually, the auditor may express two opinions, that is that the financial statements are prepared and presented in accordance with the applicable financial reporting framework and a separate opinion that the financial statements are prepared and presented in accordance with International Financial Reporting Standards.

A34. Where the applicable financial reporting framework is described by reference to an established financial reporting framework other than International Financial Reporting Standards, considerations similar to those in paragraph A33 would apply.

Other Matters (Ref: Para. 34)

A35. Where relevant, one or more sub-headings may be used that describe the content of the other matters paragraphs.

A36. [Proposed] ISA 706 (Revised and Redrafted) deals with other circumstances in which the inclusion of an Other Matter(s) paragraph in the auditor's report may be appropriate.

Other Reporting Responsibilities (Ref: Para. 35-36)

- A37. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records. Auditing standards in the specific jurisdiction or country often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction or country.
- A38. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
- A39. These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibilities for and opinion on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Signature of the Auditor (Ref: Para. 37)

- A40. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

Date of the Auditor's Report (Ref: Para. 38)

- A41. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in [proposed] ISA 560 (Redrafted), "Subsequent Events."
- A42. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that comprise the financial statements have been prepared and management has accepted responsibility for them.
- A43. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the

report on the financial statements.⁶ In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures is considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

- A44. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of International Standards on Auditing is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements have been prepared.

Auditor's Report for Audits Conducted in Accordance with Both International Standards on Auditing and Auditing Standards of a Specific Jurisdiction or Country or Auditor's Report Prescribed by Law or Regulation (Ref: Para. 40-42)

- A45. [Proposed] ISA 200 (Revised and Redrafted) explains that the auditor may be required to comply with other professional, legal or regulatory requirements in addition to International Standards on Auditing. Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in this ISA. As explained in paragraph 3, consistency in the auditor's report, when the audit has been conducted in accordance with International Standards on Auditing, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences relate only to the layout and wording of the auditor's report, the auditor's report may refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the elements identified in paragraph 40(b). Accordingly, in such circumstances the auditor is considered to have complied with the reporting requirements of International Standards on Auditing, even when the layout and wording used in the auditor's report are specified by the national auditing standards or legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with International Standards on Auditing, adoption of the layout and wording used in this ISA assists users of the auditor's report more readily to recognize the auditor's report as a report on an audit conducted in accordance with International Standards on Auditing.
- A46. The auditor may refer to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards when the auditor complies with each of the International Standards on Auditing relevant to the audit and performs any additional audit procedures necessary to comply with the relevant national auditing standards.

⁶ In rare circumstances, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.

A47. A reference to both International Standards on Auditing and the national auditing standards or legal or regulatory reporting requirements is not appropriate if there is a conflict between the reporting requirements regarding the auditor's report in International Standards on Auditing and those in the national auditing standards or legal or regulatory reporting requirements that affects the auditor's opinion or the need to include an Emphasis of Matter paragraph in the particular circumstances. For example, some national auditing standards prohibit the auditor from including an Emphasis of Matter paragraph to highlight a going concern problem, whereas [proposed] ISA 570 (Redrafted), "Going Concern" requires the auditor to add an Emphasis of Matter paragraph in such circumstances. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor has complied with the reporting requirements.

Supplementary Information Presented with the Financial Statements (Ref. Para. 43-44)

- A48. In some circumstances, the entity may be required by law, regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.
- A49. The auditor's opinion is considered to cover supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. For example, the auditor's opinion covers notes or supplementary schedules that are cross-referenced from the financial statements. This would also be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework.
- A50. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.
- A51. Law or regulation may not require the supplementary information to be audited and management may not ask the auditor to include the supplementary information within the scope of the audit of the financial statements.
- A52. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."
- A53. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:
- Removing any cross references from the financial statements to unaudited

supplementary schedules or unaudited notes because the demarcation between the audited and unaudited information would not be sufficiently clear.

- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

A54. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in [proposed] ISA 720 (Redrafted), "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements."

Appendix

(Ref: Para. A16)

Illustrations of Auditors' Reports on General Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (e.g., International Financial Reporting Standards).
- Illustration 2: An auditor's report on a complete set of financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 3: An auditor's report on a single financial statement prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users.

Illustration 1:**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by the management of the entity in accordance with International Financial Reporting Standards.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements⁷

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 a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation⁸ of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the 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 internal control

⁷ The sub-title “Report on the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

⁸ Depending on the circumstances, this sentence may read: “Management is responsible for the preparation and presentation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards.”

relevant to the entity's preparation and fair presentation⁹ of the 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.¹⁰ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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, the financial statements present fairly, in all material respects, (*or "give a true and fair view of"*) the financial position of ABC Company as at December 31, 20X1, and of its financial performance and its cash flows 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 auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

⁹ Depending on the circumstances, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view 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."

¹⁰ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 9, this sentence may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by the management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Country X (i.e., a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and presentation of these financial statements in accordance with XYZ Law of Country X. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the 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 internal control relevant to the entity's preparation and presentation of the 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.¹¹ An audit also

¹¹ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and

includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the 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, the financial statements of ABC Company for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with XYZ Law of Country X.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.”

Illustration 3:

Circumstances include the following:

- **Audit of a balance sheet (i.e., a single financial statement).**
- **The balance sheet has been prepared by the management of the entity in accordance with the requirements of the Financial Reporting Framework in Country X relevant to preparing and presenting a balance sheet (for purposes of this illustration a fair presentation framework designed to meet the common financial information needs of a wide range of users).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying balance sheet of ABC Company as at December 31, 20X1 and a summary of significant accounting policies and other explanatory notes (together "the financial statement").

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with those requirements of the Financial Reporting Framework in Country X relevant to preparing and presenting such a financial statement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 financial statement 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.¹² An audit also includes

¹² In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair

evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

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, the financial statement presents fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1 in accordance with those requirements of the Financial Reporting Framework in Country X relevant to preparing and presenting such a financial statement.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances.”



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1(212) 286-9570 www.ifac.org