

Draft Illustrative Report—Illustration of a Possible Enhanced Auditor’s Report for a Public Interest Entity (PIE)

For purposes of the following illustrative Auditor’s Report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a PIE (which includes listed entities) using a fair presentation framework.
- The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in the ISAs.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The auditor has identified key matters of audit significance as required for PIEs. [The section on Auditor Commentary is included beginning on page 2 of this paper. For purposes of this draft, examples have not yet been developed, but will be included in the draft June 2012 Invitation to Comment. Once the 3-4 examples are drafted, there will be a more appropriate balance between the tailored, entity-specific content and standardized language compared to this illustrative report.]
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Financial Statements**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company (the 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. The financial statements comprise the statement of financial position as at December 31, 20X1, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

Basis for Opinion

We have audited the accompanying financial statements in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibility* section of our report. In performing our audit, we complied with relevant ethical requirements applicable to financial statement audits, including those pertaining to independence. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor Commentary [See Section II of Agenda Item 1 – Wording subject to further refinement by TF]

In connection with our audit and without modifying our opinion, we highlight the following to provide transparency about key matters of audit significance. Key matters of audit significance are those that we have judged are likely to be most important to users' understanding of the financial statements and the audit, for their economic decisions taken on the basis of the financial statements. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. We have discussed these matters with those charged with governance as required by the ISAs. This commentary is intended to be read in conjunction with the audited financial statements.

[*Auditor Commentary for PIEs*¹ [See April 17, 2012 IAASB Teleconference Materials, to be refined by the TF]

3-4 examples to be developed based on the proposed requirement [which is subject to further refinement by the TF] for the auditor to include auditor commentary at an appropriate level of detail, based on the auditor's judgment, to provide transparency about key matters of audit significance. These examples will highlight the matters the auditor would be required to take into account in determining which matters to include in auditor commentary:

- Significant risks and areas of high assessed risks of material misstatement identified during the audit, and the auditor's responses to those risks;
- The audit implications, including the adequacy of disclosure, of unusual transactions, restatements, and other significant changes in the financial statements;
- Significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures; and
- Other areas of significant discussion with management and those charged with governance, including discussions about significant management judgments, or the conduct of the audit, and any other matter presented or disclosed in the financial statements that is of such importance that it is fundamental to users' understanding of the financial statements.]

Use of the Going Concern Assumption [See April 17, 2012 IAASB Teleconference Materials and Section II of Agenda Item 1]

As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate.

Material Uncertainties Related to Events or Conditions that May Cast Significant Doubt on the Ability to Continue as a Going Concern [See April 17, 2012 IAASB Teleconference Materials and Section II of Agenda Item 1]

Based on the audit evidence we have obtained, we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that would need to be disclosed for the fair presentation of the financial statements. However, because future events or conditions cannot be predicted, this statement is not a guarantee as to the

¹ It is proposed that, once illustrative examples are developed, each example would be given an appropriate heading and this general heading would be replaced. The auditor would consider the ordering within this section based on the relative importance of the matters.

Company's ability to continue as a going concern. [*This paragraph would be tailored when (a) the auditor judges it necessary to provide additional auditor commentary in relation to going concern when no material uncertainty has been identified or (b) the auditor has identified a material uncertainty and is required to provide a separate emphasis of matter paragraph under ISA 570, Going Concern.*]

*Other Information*² [See April 17, 2012 IAASB Teleconference Materials and Section II of Agenda Item 1]

As part of our audit, we have read [*clearly identify the specific other information read, e.g., the Chairman's Statement, the Business Review, etc.*] contained in [*specify the document containing the other information, e.g., the annual report*], for the purpose of identifying whether there are material inconsistencies with the audited financial statements. Based on reading it, we have not identified material inconsistencies between this information and the audited financial statements. However, we have not audited this information³ and accordingly do not express an opinion on it.

About Our Audit of the Financial Statements

Management's Responsibility for the Financial Statements [See paragraphs 27–28 of Agenda Item 1]

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

[Under [*the applicable financial reporting framework*], management is responsible for making an assessment of the Company's ability to continue as a going concern.]⁴ In assessing whether the going concern assumption is appropriate, management takes into account [all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period (*or specify matters, including the period of assessment, that management is required to consider under the applicable financial reporting framework*).]⁵ The Company's financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Also, [*the applicable financial reporting framework*] requires that when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management disclose those uncertainties in the financial statements.

² This section would not be required if no Other Information is presented with the audited financial statements.

³ In some circumstances, part of the Other Information may include information required to be disclosed by the applicable financial reporting framework but not required to be included in the financial statements, for example, disclosures of risks. In such cases, as those disclosures will be audited, it will be necessary to tailor the statement that the auditor has not audited the Other Information in order to exclude such disclosures.

⁴ This wording can be used if management has an explicit responsibility under the applicable financial reporting framework to assess the entity's ability to continue as a going concern. If management has only an implicit responsibility, the wording would be: "As the going concern assumption is a fundamental principle in the preparation of financial statements, the preparation of the financial statements involves management making an assessment of the Company's ability to continue as a going concern."

⁵ This sentence can be tailored to the applicable financial reporting framework.

Auditor's Responsibility [See paragraphs 23–24 of Agenda Item 1]

The purpose of our audit is to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they would influence economic decisions of users taken on the basis of these financial statements. [See paragraph 24 of Agenda Item 1]

As part of an audit in accordance with ISAs, we are required to use our auditing and accounting competencies and apply professional judgment and skepticism to: [See paragraph 24 of Agenda Item 1]

- Identify, assess and respond to the risks of material misstatement in the financial statements, including selecting audit procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This responsibility includes designing and performing procedures to identify and assess the risk of material misstatement due to fraud, and obtain audit evidence in response to that risk. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error. This is because fraud may involve sophisticated and carefully organized schemes designed to conceal it, such as collusion, forgery, deliberate failure to record transactions, or intentional misrepresentations being made to the auditor, in particular by those in a position to override internal controls. [See paragraph 24 of Agenda Item 1]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, recognizing that financial reporting often involves subjective decisions and uncertainty and, therefore, there may be a range of acceptable judgments about financial statement items that management may make. [See paragraph 24 of Agenda Item 1]
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. [See paragraph 24 of Agenda Item 1]
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. We are required to communicate to management and those charged with governance deficiencies in internal control that we identified that, in our professional judgment, are of sufficient importance to merit their respective attentions. [See paragraphs 24, 29–30 of Agenda Item 1]
- [A paragraph on the group auditor's responsibility in the context of a group audit would appear here when applicable to the engagement - See paragraphs 25–26 of Agenda Item 1]

We are required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audits. We are required to provide a statement to those charged with governance that we have complied with relevant ethical requirements relating to independence. We also communicate with those charged with governance regarding all relationships and other matters that we believe may reasonably be thought to bear on independence, including any safeguards that have been applied to any threats to independence. [See paragraphs 13–18 of Agenda Item 1]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards, and to the extent the NSS decides to adopt the format and presentation of a revised auditor reporting standard. Depending on the matters addressed by other law, regulation or national auditing standards, NSS may choose to include reporting on these matters with related matters required to be reported by the ISAs.]

[Signature] [See paragraphs 8 – 12 of Agenda Item 1]

The engagement partner responsible for the audit resulting in this report is [name]. [See paragraph 8 of Agenda Item 1]

[Address]

[Date]