

Auditor Reporting—Excerpt of Revised Auditor Reporting Requirements Included in Extant ISA 700, *Forming an Opinion and Reporting on Financial Statements*

The following represents the requirements of extant ISA 700, with revisions and additional requirements determined necessary by the ISA 700 Drafting Team (DT-700 or DT) to achieve the suggested improvements to auditor reporting described in the ITC. This paper should be read in conjunction with **Agenda Item 2-C**. These requirements have been reordered to follow the presentation in the illustrative auditor's report included in the ITC, and take into account feedback from the ITC and other outreach about where additional clarification to ISA 700 may be necessary. Application material in support of these requirements will be further refined based on the IAASB's input during its February 2013 meeting. References in shading below indicate the link to extant ISA 700 and the rationale for the changes shown in mark-up. A revised illustrative report is included as an Appendix to this paper.

Auditor's Report

20. The auditor's report shall be in writing. [DT agreed no changes are necessary]

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

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. [DT agreed no changes are necessary]

Addressee

22. The auditor's report shall be addressed, as appropriate, based on-as required by the circumstances of the engagement. [DT agreed clarification is necessary, Application Material (AM) to be developed to link to ISA 210]

Introductory Paragraph

Auditor's Opinion

23. The auditor's report shall include a section with the heading "Opinion." [Relocated para. 34 of ISA 700]
24. The auditor's opinion shall identify the entity whose financial statements have been audited. [Moved from para. 23(b) of ISA 700]
25. When expressing an unmodified opinion on financial statements prepared 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 present fairly, in all material respects, [the subject matter of each financial statement as at the date of, or period covered by, each financial statement]--- in accordance with [the applicable financial reporting framework]; or

- (b) The financial statements give a true and fair view of [the subject matter of each financial statement as at the date of, or period covered by, each financial statement]--- in accordance with [the applicable financial reporting framework]. [Relocated para. 35 of ISA 700 and clarified the wording to be used, AM to be developed to explain what is intended by the subject matter of each financial statement and provide an illustrative example]
26. When expressing an unmodified opinion on financial statements prepared 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]. [Relocated para. 36 of ISA 700]
27. If the reference to the applicable financial reporting framework in the auditor’s opinion is not to International Financial Reporting Standards issued by the International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework. [Relocated para. 37 of ISA 700]
28. The ~~introductory paragraph in the~~ auditor’s report shall: [Moved from para. 23 of ISA 700]
- ~~State that the financial statements have been audited;~~ [Moved from para. 23(a) of ISA 700 but deleted as DT is of the view it is duplicative of para. 24]
- (a) ~~Identify~~Refer to the title of each statement ~~that comprises the financial statements;~~ [Moved from para. 23(c) of ISA 700 ~~and enhanced to emphasize the notes; AM to be developed to link to the concept of a complete set of financial statements defined by IAS 1~~]
- (b) Refer to the notes, including the summary of significant accounting policies ~~and other explanatory information; and~~. [Moved from para. 23(d) of ISA 700 and enhanced to clarify that the notes include the summary of significant accounting policies, as explained in paragraph 8 of ISA 700]
- ~~Specify the date or period covered by each financial statement comprising the financial statements.~~ [Moved from para. 23(e) of ISA 700 but deleted as DT is of the view that it is duplicative of para. 25]
- [AM to explain placement of this contextual paragraph to be developed – will accommodate flexibility in presentation while ensuring that contextual information is presented at the beginning of the Auditor’s Report if the Opinion is not. For example, a statement that the financial statements have been audited, as required by para. 23(a) of ISA 700, will be needed.]

Basis for Opinion [New section of the auditor’s report to align with the ITC incorporating requirements already in ISA 700]

29. The auditor’s report shall include a section with the heading “Basis for Opinion” that:
- (a) States that the audit was conducted in accordance with International Standards on Auditing; [Moved from 1st sentence of para. 30 of ISA 700]
- (b) Refers to the Responsibility for the Audit of the Financial Statements section of the auditor’s report; [New requirement to align with presentation in the ITC]
- (c) The auditor’s report shall also explain that these standards require that the auditorIndicates compliance with relevant ethical requirements applicable to financial statement audits,

including independence requirements; [Adapted from 2nd sentence of para. 30 of ISA 700 to address new required disclosure, AM to be developed to acknowledge law or regulation may prescribe more specific disclosure]

- (d) States 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. [Moved from para. 33 of ISA 700]

Going Concern [New section of the auditor's report to align with the ITC]

30. The auditor shall report in accordance with proposed ISA 570 (Revised) under the heading "Going Concern". [Placeholder – To be further refined based on outcome of IFRIC and IASB work, detailed reporting requirements to be included in proposed ISA 570 (Revised)]

31. Placeholder for description of management's responsibilities relating to going concern

Key Matters of Audit Significance [New section of the auditor's report to align with the ITC, reflects ISA 707 Drafting Team (DT- 707) proposals being brought to the IAASB at its February 2013 meeting in **Agenda Item 2-A**]

32. In the case of a listed entity, the auditor shall report in accordance with proposed ISA 707 under the heading "Key Matters of Audit Significance". [Placeholder – To be further refined based on discussions of DT-707, detailed reporting requirements to be included in proposed ISA 707]

Other Information [New section of the auditor's report to align with the ITC]

33. If proposed ISA 720 (Revised) applies, the auditor shall report in accordance with ISA 720 under the heading "Other Information" or other appropriate heading. Placeholder – To be further refined based on feedback to the ISA 720 Exposure Draft, detailed reporting requirements to be included in proposed ISA 720 (Revised)]

Management's Responsibility for the Preparation of the Financial Statements

34. The auditor's report shall include a section with the heading "Management's [for other appropriate term] Responsibility for the Preparation of the Financial Statements." [Relocated para. 25 of ISA 700]

35. This section of the auditor's report shall describes the respective responsibilities of those in the organization that are responsible for the preparation of the financial statements. ~~The auditor's report shall describe management's responsibility for the preparation of the financial statements. The description shall include an explanation that management is responsible for the preparation of the financial statements~~ in accordance with the applicable financial reporting framework, and for such internal control as ~~it they~~ determines ~~is~~ necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The auditor's report ~~need not refer specifically to "management," but~~ shall use the appropriate term to describe those responsible for the preparation of the financial statements ~~that is appropriate~~ in the context of the legal framework in the particular jurisdiction. ~~In some jurisdictions, the appropriate reference may be to those charged with governance.~~ [Moved from paras. 24 and 26 and combined, AM to be revisited to ensure it explains the possibilities in terms of describing both the responsibilities of management and TCWG, incorporating relevant material in ISA 260 as necessary]

36. Where the financial statements are prepared in accordance with a fair presentation framework, the ~~explanation of management's description of these~~ responsibilities for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances. [Relocated para. 27 of ISA 700]

Auditor's Responsibility for the Audit of the Financial Statements

37. The auditor's report shall include a section with the heading "~~Auditor's~~ Responsibility for the Audit of the Financial Statements." [Relocated para. 28 of ISA 700]

38. The auditor's report shall state that:

(a) The objectives of the audit are to: [New requirement to align with the ITC incorporating material from ISA 700]

(i) ~~auditor plan and perform the audit to o~~btain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and [Moved from 2nd sentence of para. 30 of ISA 700]

(ii) ~~the responsibility of the auditor is to express Issue~~ an auditor's report that includes an opinion ~~on the financial statements based on the audit.~~ [Relocated para. 29 of ISA 700]

(b) 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; and

(c) Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

39. The auditor's report shall:

(a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism through the planning and performance of the audit; and

(b) Further describe an audit by stating ~~that~~ the auditor's responsibilities to:

(i) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(ii) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

(iii) Where applicable, obtain sufficient appropriate audit evidence regarding the financial information of all entities and business activities within the group to express an opinion on the group financial statements, and for the direction, supervision and performance

of the group audit engagement and remain solely responsible for the auditor's audit opinion.

(iv) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(v) 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.

(vi) Communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit, the significant audit findings, and any significant deficiencies in internal control that we identify during our audit, and, in the case of listed entities, to communicate with them regarding all relationships and other matters that the auditor believes may reasonably be thought to bear on the auditor's independence.

[Moved from para. 31 of ISA 700 with new bullets to align with the description included in the ITC; AM to describe in more detail that the wording in the illustrative report is to be used unless law, regulation or national auditing standards prescribes the form and content of this section]

40. Law, regulation or national auditing standards may permit the auditor to refer to material describing the Responsibility for the Audit of the Financial Statements that is located on a website of an appropriate authority rather than including such material in the auditor's report. The auditor may consider it appropriate to present the material describing the Responsibility for the Auditor of the Financial Statements in an Appendix to the auditor's report. When the auditor does so, the auditor shall include a reference in the auditor's report to clearly indicate where this material is located. [New requirement to address relocation of material, AM to be developed to explain the concepts of "website of an appropriate authority" as that of a NSS or regulator and the potential challenges of doing so, consideration to be given as to whether an example of how this may be done should be included in AM]

Other Reporting Responsibilities

41. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the ISAs ~~to report on the financial statements~~, these other reporting responsibilities shall be addressed either:
- (a) In a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23–~~40~~37 shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements." [Relocated paras. 38 and 39 of ISA 700]
 - (b) In the same section where reporting on the matter in accordance with ISAs is presented, with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation. [New requirement to take into account view expressed by respondents to the ITC that greater flexibility is need to combine ISA reporting

with Other Reporting Responsibilities in particular areas, while ensuring it is clear that such responsibilities are in addition to the ISAs]

Name of the Engagement Partner

42. For listed entities, if not otherwise publicly disclosed, the engagement partner's name shall be included in the auditor's report. [New requirement to align with ITC, limited for certain entities. AM to be developed to acknowledge law or regulation may require disclosure of the name of the engagement partner, and provide examples of methods of public disclosure (e.g., proxy filings). In addition, it could be clarified in the AM that the disclosure does not need to occur simultaneously with the release of the auditor's report but within a reasonable period of time]

Signature of the Auditor

43. The auditor's report shall be signed. [Relocated para. 40 of ISA 700. DT agreed no changes are necessary, AM to be developed to acknowledge the acceptable use of electronic signatures in many jurisdictions, as this requirement is sometimes interpreted as a "hand-written" signature, although law or regulation may establish requirements for such signatures. It may also be necessary to consider how the audit firm is identified if law or regulation require the engagement partner to sign in the auditor's own name]

Auditor's Address

44. The auditor's report shall name the location and-in the jurisdiction where-of the auditor ~~practices~~. [Relocated para. 42 of ISA 700, DT agreed clarification is necessary, AM to be developed to describe the circumstance in which the engagement partner may be located elsewhere but the report refers to the jurisdiction in which the audit was conducted]

Date of the Auditor's Report

45. 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, including evidence that:
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements. [Relocated para. 41 of ISA 700, DT agreed no changes are necessary]

Appendix

Illustration of a Possible Improved Auditor’s Report – Markup from ITC

[Reference is made to the proposed revised requirement in ISA 700]

INDEPENDENT AUDITOR’S REPORT (para. 21)

To the Shareholders of ABC Company [or Other Appropriate Addressee] (para. 22)

Report on the Financial Statements (para. 41)

Opinion (paras. 23–28)

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 (IFRSs).¹

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 (para. 29)

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

Going Concern [Same as ITC, with Management Responsibilities relocated as supported by respondents – Subject to further refinement to take into account ITC feedback and IASB/IFRIC developments] (paras. 30–31)

Management’s² Responsibilities Relating to Going Concern

Under IFRSs, management is responsible for making an assessment of the Company’s ability to continue as a going concern when preparing the financial statements. 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. Under IFRSs,

¹ For purposes of this illustration, this auditor’s report has been prepared assuming IFRSs is the applicable financial reporting framework. All references to IFRSs (or requirements under IFRSs) would be tailored to reflect the application of another financial reporting framework.

² Throughout this illustrative auditor’s report, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

the Company's financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so.

IFRSs also require 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.

Use of the Going Concern Assumption

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 Company's Ability to Continue as a Going Concern

Based on the work we have performed, 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 we believe would need to be disclosed in accordance with IFRSs. Because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

~~The responsibilities of management with respect to going concern are described in a separate section of our report.~~

Auditor Commentary Key Matters of Audit Significance

Subject to further refinement by DT-707 as described in **Agenda Item 2-A** (para. 32)

Other Information Revised to align with suggested disclosure included in proposed ISA 720 (Revised) Exposure Draft (para. 33)

As part of our audit, ~~it is our responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the information in³ 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(s) containing the other information, e.g., the entity's annual report for the year ended December 31, 20X1] ("Other Information"), for the purpose of identifying and to report whether we have identified there are material inconsistencies with the audited financial statements in the Other Information. Based upon reading it, w~~we have not identified material inconsistencies ~~between this in the Other i~~information ~~and the audited financial statements~~. However, we have not audited ~~or reviewed the~~this Other iinformation and accordingly do not express an audit opinion or a review conclusion on it.

~~Respective Responsibilities of Management, [Appropriate Title for Those Charged with Governance], and the Auditor~~

Responsibility of Management and [Those Charged with Governance] for the Preparation and Fair Presentation of the Financial Statements (paras. 34–36)

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable

³ ~~The auditor may, if considered helpful, clearly identify the specific other information read and considered, e.g., the Chairman's Statement, the Business Review, etc.~~

the preparation of financial statements that are free from material misstatement, whether due to fraud or error. [Those charged with governance] are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements [Pending further ISA 700 DT consideration as to whether any refinements should be made in response to ITC comments] (paras. 37–40)

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism through the planning and performance of the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Obtain sufficient appropriate audit evidence regarding the financial information of all entities and business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit engagement and remain solely responsible for our audit opinion. [Bullet applicable for group audits only]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.
- Communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit, the significant audit findings, and any significant deficiencies in internal control that we identify during our audit. We also communicate with them regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence. [Last sentence for listed entities only]

Report on Other Legal and Regulatory Requirements (para. 41)

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. Depending

on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to ~~integrate-combine~~ reporting on these matters with reporting as required by the ISAs (shown in the Report on the Financial Statements section), with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation.

The engagement partner responsible for the audit resulting in this report is [*name*]. [Required for listed entities only if not otherwise publicly disclosed] (para. 42)

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction] (para. 43)

[Address] (para. 44)

[Date] (para. 45)