

Auditor Reporting—Illustrative Auditors' Reports

A. Illustrations of an Unmodified (“Clean”) Auditor’s Report¹

Illustration 1 – Listed Entity Required to Communicate Key Audit Matters

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity 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 ISA 210, *Agreeing the Terms of Audit Engagements*.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Key audit matters have been communicated in accordance with proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

Paragraph references below are to the relevant requirements in proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, included as **Agenda Item B.7**.

INDEPENDENT AUDITOR’S REPORT (para. 21)

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

Report on the Audit of the Financial Statements

Opinion (paras. 23–27)

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).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and 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.

¹ Additional illustrative unmodified reports will be developed for the June 2013 IAASB meeting to address circumstances contemplated by the illustrative reports in extant ISA 700, namely (i) an auditor’s report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users, and (ii) an auditor’s report on consolidated financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, IFRSs).

Basis for Opinion (para. 28)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities 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 (para. 29 and **Agenda Item B.8**)

The going concern assumption is a basis of accounting that presumes that an entity will be able to realize its assets and discharge its liabilities in the normal course of business. The going concern basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The financial statements have been prepared using the going concern basis of accounting, taking into account available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. As part of our audit of the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

The financial statements do not include disclosures of any material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that are required to be disclosed if identified. Based on the work we have performed, we have not identified material uncertainties that we believe would need to be disclosed in the financial statements in accordance with IFRSs. Because not all events or conditions can be identified, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters (para. 30 and **Agenda Items B.2 and B.3**)

This section of our auditor's report describes matters that, in our professional judgment, were of most significance in our audit of the financial statements.

The three specific topics and content presented below are purely for illustrative purposes. This section would be tailored to the facts and circumstances of the individual audit engagement and the entity. Accordingly, the IAASB has intentionally drafted these examples in a manner that illustrates that Key Audit Matters will vary in terms of the number and selection of topics addressed and the nature in which they may be described, and importantly are intended to be consistent with the disclosures in the entity's financial statements, but not provide information not reflected in the entity's disclosures.

Discontinued Operations

During 20X1, the Company disposed of its [name] segment of operations. We focused on this transaction because it is material to the financial statements as a whole and is outside of the Company's normal course of business. Among other matters, we discussed the business rationale for discontinuing these operations with [those charged with governance] and legal counsel and evaluated the Company's process for determining the fair value of the disposal group and the non-recurring charge included in the statement of comprehensive income. The Company's disclosures about these discontinued operations are included in the summary of significant accounting policies in Note 1, as well as Note 2.

Goodwill

The Company is required by IFRSs to make an annual assessment to determine whether the value assigned to goodwill has been impaired. This annual impairment assessment is significant to our audit

because the assessment process is complex and highly judgmental and is based on assumptions that are affected by current market or economic conditions, particularly those in [*Countries X and Y*]. As a result, our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular those relating to the forecasted revenue growth and profit margins [*for Countries X and Y*]. We also focused on the adequacy of the Company's disclosures about the sensitivity of the key assumptions used in the impairment assessment and the disclosure that a further decline in the fair value of this reporting unit could give rise to an impairment of the goodwill balance in the future. The Company's disclosures about goodwill are included in the summary of significant accounting policies in Note 1, as well as Note 3.

Valuation of Financial Instruments

There is significant measurement uncertainty involved in the valuation of the Company's structured financial instruments because their valuation is not based on quoted prices in active markets. This, in addition to the fact that the Company uses an entity-developed valuation model, led us to determine that there was a high risk of material misstatement of the financial statements related to the valuation of these instruments. We tested management's controls related to the development and calibration of the model and confirmed that no adjustments had been made to the output of the model. We discussed management's rationale for using an entity-specific model with [*those charged with governance*], and we concluded the use of such a model was appropriate because of the nature of the financial instruments in question. The Company's disclosures about its structured financial instruments are included in Note 5.

Further Information Relevant to Understanding Key Audit Matters

This information is intended to enhance users' understanding of our audit of the financial statements. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Although these matters were discussed with [*those charged with governance*], this communication is not intended to be a comprehensive list of all matters that were discussed. Reading our auditor's report is not intended to be a substitute for reading the financial statements, including the notes, in their entirety. The *Auditor's Responsibilities for the Audit of the Financial Statements* section of our auditor's report provides additional information about the objectives of our audit and may assist users in understanding these matters in the overall context of our audit.

Other Information (para. 31)

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 upon reading it, we have not identified material inconsistencies between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

Responsibilities of [Management² and Those Charged with Governance or other appropriate terms] for the Financial Statements (paras. 32–34)

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 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 Responsibilities for the Audit of the Financial Statements (paras. 35–40)

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.

The shaded material below would be permitted to be relocated to an Appendix to the auditor's report or, where law or regulation permits, reference can be made to a website of an appropriate authority rather than including this material in the auditor's report.

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.³
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the 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, and remain solely

² Throughout these illustrative auditors' 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.

³ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

responsible for our audit opinion. [Bullet applicable for group audits only]

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We take the nature and extent of these communications into account and exercise professional judgment in determining the key audit matters to communicate in our auditor's report. We also consider those risks of material misstatement that we have assessed as requiring special audit consideration, the degree of difficulty we encountered in obtaining sufficient appropriate audit evidence, the difficulty of the judgment involved, and whether we have identified any significant deficiencies in internal control relating to these matters. For audits of listed entities, we are also required to communicate with [*those charged with governance*] regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence.

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 combine reporting on these matters with reporting as required by the ISAs (shown in the *Report on the Audit of 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 only if not otherwise publicly available] (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)

[*Auditor Location and Jurisdiction*] (para. 44)

[*Date*] (para. 45)

Illustration 2 – Report of an Entity Other than a Listed Entity (Where Certain Material Is Not Required or Is Located Elsewhere)

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework.
- The financial statements are prepared for a general purpose by management of the entity in accordance with IFRSs.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The auditor is not required, and otherwise has not agreed, to include key audit matters in accordance with ISA 701.
- No other information is included with audited financial statements (i.e., ISA 720, *The Auditor's Responsibilities Related to Other Information in Documents Containing Auditing Financial Statements*, does not apply).
- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.

INDEPENDENT AUDITOR'S REPORT

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

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 (IFRSs).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and 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.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities 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

The going concern assumption is a basis of accounting that presumes that an entity will be able to realize its assets and discharge its liabilities in the normal course of business. The going concern basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The financial statements have been prepared using the going concern basis of accounting, taking into account available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. As part of our audit of the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

The financial statements do not include disclosures of any material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that are required to be disclosed if identified. Based on the work we have performed, we have not identified material uncertainties related to going concern that we believe would need to be disclosed in the financial statements in accordance with IFRSs. Because not all events or conditions can be identified, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Responsibilities of [Management and Those Charged with Governance or other appropriate terms] for the Financial Statements

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 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 Responsibilities for the Audit of the Financial Statements

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.

A further description of the auditor's responsibilities for the audit of the financial statements that is part of this auditor's report is located at [*Organization's*] website at: [*website link*].

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Location and Jurisdiction*]

[*Date*]

B. Illustrations of Auditors' Reports with Modifications to the Opinion

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements⁴

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with IFRSs.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

Various elements within the illustrative report have been reordered to result in a format similar to the presentation when an unmodified opinion is expressed. Changes from the wording in the unmodified illustrative report are shown in marked text.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, 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).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and 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.

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from IFRSs. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write

⁴ ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, also includes an illustration of a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence. The form and content of that illustration would mirror this, except for the content of the first paragraph in the Basis for Qualified Opinion.

the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

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 qualified audit opinion.

Going Concern

The going concern assumption is a basis of accounting that presumes that an entity will be able to realize its assets and discharge its liabilities in the normal course of business. The going concern basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The financial statements have been prepared using the going concern basis of accounting, taking into account available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. As part of our audit of the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

The financial statements do not include disclosures of any material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that are required to be disclosed if identified. Based on the work we have performed, we have not identified material uncertainties that we believe would need to be disclosed in accordance with IFRSs. Because not all events or conditions can be identified, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

This section of our auditor's report describes matters that, in our professional judgment, were of most significance in our audit of the financial statements.

[Descriptions of individual matters, identified by an appropriate subheading – see examples in Illustration 1 of Section A]

Further Information Relevant to Understanding Key Audit Matters

This information is intended to enhance users' understanding of our audit of the financial statements. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Although these matters were discussed with *[those charged with governance]*, this communication is not intended to be a comprehensive list of all matters that were discussed. Reading our auditor's report is not intended to be a substitute for reading the financial statements, including the notes, in their entirety. The *Auditor's Responsibilities for the Audit of the Financial Statements* section of our auditor's report provides additional information about the objectives of our audit and may assist users in understanding these matters in the overall context of our audit.

Other Information

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 upon reading it, we have not identified material inconsistencies between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

Responsibilities of [Management and Those Charged with Governance or other appropriate terms] for the Financial Statements

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 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 Responsibilities for the Audit of the Financial Statements

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.

The shaded material below would be permitted to be relocated to an Appendix to the auditor's report or, where law or regulation permits, reference can be made to a website of an appropriate authority rather than including this material in the auditor's report.

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.⁵
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

⁵ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the 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, and remain solely responsible for our audit opinion. [Bullet applicable for group audits only]

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We take the nature and extent of these communications into account and exercise professional judgment in determining the key audit matters to communicate in our auditor's report. We also consider those risks of material misstatement that we have assessed as requiring special audit consideration, the degree of difficulty we encountered in obtaining sufficient appropriate audit evidence, the difficulty of the judgment involved, and whether we have identified any significant deficiencies in internal control relating to these matters. For audits of listed entities, we are also required to communicate with [*those charged with governance*] regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence.

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. Depending on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to combine reporting on these matters with reporting as required by the ISAs (shown in the *Report on the Audit of 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 only if not otherwise publicly available]

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Location and Jurisdiction*]

[*Date*]

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Financial Statements

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of consolidated general purpose financial statements prepared by management of the parent in accordance with IFRSs, where the parent is a listed entity.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial statements. The effects of the misstatement on the financial statements have not been determined because it was not practicable to do so.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

Various elements within the illustrative report have been reordered to result in a format similar to the presentation when an unmodified opinion is expressed. Changes from the wording in the unmodified illustrative report are shown in marked text.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph, the accompanying consolidated financial statements do not present fairly (or do not give a true and fair view of) the financial position of ABC Company (the Company) and its subsidiaries as at December 31, 20X1, and (of) their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the consolidated financial statements of the Company and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated 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.

Basis for Adverse Opinion

As explained in Note X, the Company has not consolidated the financial statements of subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to ascertain the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under IFRSs, the subsidiary should have been consolidated because it is controlled by the company. Had XYZ Company been consolidated, many elements in the accompanying financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

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 adverse audit opinion.

Going Concern

The going concern assumption is a basis of accounting that presumes that an entity will be able to realize its assets and discharge its liabilities in the normal course of business. The going concern basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The financial statements have been prepared using the going concern basis of accounting, taking into account available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. As part of our audit of the financial statements, we have concluded that the use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

The financial statements do not include disclosures of any material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that are required to be disclosed if identified. Based on the work we have performed, we have not identified material uncertainties that we believe would need to be disclosed in accordance with IFRSs. Because not all events or conditions can be identified, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Key Audit Matters

This section of our auditor's report describes matters that, in our professional judgment, were of most significance in our audit of the financial statements.

[Descriptions of individual matters, identified by an appropriate subheading – see examples in Illustration 1 of Section A]

Further Information Relevant to Understanding Key Audit Matters

This information is intended to enhance users' understanding of our audit of the financial statements. Our opinion is not modified with respect to any of these matters, and our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Although these matters were discussed with [those charged with governance], this communication is not intended to be a comprehensive list of all matters that were discussed. Reading our auditor's report is not intended to be a substitute for reading the financial statements, including the notes, in their entirety. The *Auditor's Responsibilities for the Audit of the Financial Statements* section of our auditor's report provides additional information about the objectives of our audit and may assist users in understanding these matters in the overall context of our audit.

Other Information

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 upon reading it, we have not identified

material inconsistencies between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

Responsibilities of [Management and Those Charged with Governance or other appropriate terms] for the Financial Statements

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 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 Responsibilities for the Audit of the Financial Statements

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.

The shaded material below would be permitted to be relocated to an Appendix to the auditor's report or, where law or regulation permits, reference can be made to a website of an appropriate authority rather than including this material in the auditor's report.

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.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the 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, and remain solely responsible for our audit opinion. [Bullet applicable for group audits only]

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in

internal control that we identify during our audit. We take the nature and extent of these communications into account and exercise professional judgment in determining the key audit matters to communicate in our auditor's report. We also consider those risks of material misstatement that we have assessed as requiring special audit consideration, the degree of difficulty we encountered in obtaining sufficient appropriate audit evidence, the difficulty of the judgment involved, and whether we have identified any significant deficiencies in internal control relating to these matters. For audits of listed entities, we are also required to communicate with *[those charged with governance]* regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence.

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. Depending on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to combine reporting on these matters with reporting as required by the ISAs (shown in the Report on the Audit of 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 available]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Location and Jurisdiction]

[Date]

Illustration 3 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Financial Statements⁶

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of an entity other than a listed 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 ISA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the company's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.
- As the auditor was unable to express an opinion on the financial statements as a whole, the sections on Going Concern and Other Information would not be applicable.

Various elements within the illustrative report have been reordered to result in a format similar to the presentation when an unmodified opinion is expressed. Changes from the wording in the unmodified illustrative report are shown in marked text.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Disclaimer of Opinion

We ~~were engaged to audit~~ ~~have audited~~ the accompanying financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and 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.

~~We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.~~ Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. In performing our audit, we complied with relevant ethical requirements applicable to financial statement audits, including independence requirements.

⁶ ISA 705 also includes an illustration of a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. The form and content of that illustration would mirror this, except for the content of the first paragraph in the Basis for Disclaimer of Opinion.

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [Relevant material included in the Basis for Opinion section has been incorporated here]

Basis for Disclaimer of Opinion

The company's investment in its joint venture XYZ (Country X) Company is carried at xxx on the Company's statement of financial position, which represents over 90% of the Company's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the company's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the statement of changes in equity and cash flow statement.

Responsibilities of [Management and Those Charged with Governance or other appropriate terms] for the Financial Statements

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 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 Responsibilities for the Audit of the Financial Statements~~

[This section in the unmodified report would be deleted in its entirety and reference to the auditor's responsibilities included in the Opinion section.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Location and Jurisdiction]

[Date]