

## Proposed International Standard on Auditing (ISA) 700 (Revised) Forming an Opinion and Reporting on Financial Statements

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

**[CLEAN VERSION]**

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Proposed International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. Proposed ISA 701<sup>1</sup> deals with the auditor's responsibility to communicate key audit matters in the independent auditor's report. ISA 705<sup>2</sup> and ISA 706<sup>3</sup> deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other ISAs include reporting requirements to which reference is made in this ISA.
3. This ISA is written in the context of a complete set of general purpose financial statements. ISA 800<sup>4</sup> deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805<sup>5</sup> deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
4. This ISA promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur. The requirements of this ISA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided more relevant to users, including flexibility to accommodate particular circumstances. Paragraphs 46–48 of this ISA address the layout and wording of the auditor's report when those circumstances apply.

### Effective Date

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

### Objectives

6. The objectives of the auditor are:
  - (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
  - (b) To express clearly that opinion through a written report.

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<sup>1</sup> Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>2</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

<sup>3</sup> ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>4</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>5</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

## Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.
- (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term “fair presentation framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.<sup>6</sup>

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>7</sup>
8. Reference to “financial statements” in this ISA means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.
9. Reference to “International Financial Reporting Standards” in this ISA means the International Financial Reporting Standards issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting Standards” means the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board.

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<sup>6</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(a)

<sup>7</sup> Paragraphs 24 and 26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

## Requirements

### Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>8,9</sup>
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
  - (a) The auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained;<sup>10</sup>
  - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;<sup>11</sup> and
  - (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
  - (a) The financial statements adequately disclose the significant accounting policies selected and applied;
  - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
  - (c) The accounting estimates made by management are reasonable;
  - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
  - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A4)
  - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair

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<sup>8</sup> ISA 200, paragraph 11

<sup>9</sup> Paragraphs 24 and 26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

<sup>10</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

<sup>11</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:

- (a) The overall presentation, structure and content of the financial statements; and
  - (b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5–A10)

### **Form of Opinion**

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
17. If the auditor:
- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
  - (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- the auditor shall modify the opinion in the auditor's report in accordance with ISA 705.
18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ISA 705. (Ref: Para. A11)
19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A12)

### **Independent Auditor's Report**

20. The auditor's report shall be in writing. (Ref: Para. A13–A14)

#### *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. (Ref: Para. A15)

#### Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A16)

#### Auditor's Opinion

23. The auditor's report shall include a section with the heading "Opinion." (Ref: Para. A17)
24. 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,... in accordance with [the applicable financial reporting framework]; or
  - (b) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].

The opinion shall make reference to the subject and the date of, or period covered by, each financial statement. (Ref: Para. A18–A23)

25. The auditor's report shall:
- (a) Identify the entity whose financial statements have been audited;
  - (b) State that the financial statements have been audited;
  - (c) Identify the title of each statement comprising the financial statements;
  - (d) Refer to the notes, including the summary of significant accounting policies; and
  - (e) Specify the date or period covered by each financial statement comprising the financial statements. (Ref: Para. A25–A26)
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]. (Ref: Para. A21–A24)
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.

#### Basis for Opinion

28. 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; (Ref: Para. A27)
  - (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs;

- (c) Indicates compliance with relevant ethical requirements applicable to financial statement audits, including independence requirements; and (Ref: Para. A28)
- (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.

#### Going Concern

29. The auditor shall report in accordance with proposed ISA 570 (Revised)<sup>12</sup> under the heading "Going Concern."

#### Key Audit Matters

30. When the auditor communicates key audit matters in the auditor's report, the auditor shall do so in accordance with proposed ISA 701. (Ref: Para. A29)

#### Other Information

31. When other information is included in documents containing audited financial statements, the auditor shall report in accordance with ISA 720<sup>13</sup> under the heading "Other Information."

#### Responsibilities for the Financial Statements

32. The auditor's report shall include a section with a heading using the appropriate term to describe those responsible for the preparation of the financial statements. This heading need not refer specifically to "management," but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A30)
33. This section of the auditor's report shall describe the respective responsibilities of those in the organization that are responsible for:
- The preparation of the financial statements and for such internal control as is determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - Oversight of the financial reporting process.
34. Where the financial statements are prepared in accordance with a fair presentation framework, the 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.

#### Auditor's Responsibilities for the Audit of the Financial Statements

35. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

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<sup>12</sup> Proposed ISA 570 (Revised), *Going Concern*

<sup>13</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

36. The auditor's report shall state that:
- (a) The objectives of the audit are to:
    - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
    - (ii) Issue an auditor's report that includes an opinion. (Ref: Para. A34)
  - (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.
37. The auditor's report shall further:
- (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the planning and performance of the audit; and
  - (b) Describe an audit by stating the auditor's responsibilities:
    - (i) To 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) To 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. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control.
    - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
    - (iv) To 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.
    - (v) When the audit is a group audit:
      - a. To 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;
      - b. For the direction, supervision and performance of the group audit; and

- c. To remain solely responsible for the opinion on the group's financial statements.
38. The auditor's report shall also state that the auditor:
- (a) Is 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 the auditor identifies during the audit;
  - (b) When key audit matters are required to be or are otherwise communicated in the auditor's report in accordance with proposed ISA 701, takes the nature and extent these communications into account and exercises professional judgment in determining the key audit matters to communicate in the auditor's report. The auditor's report shall also state that the auditor considers those risks of material misstatement that the auditor has assessed as requiring special audit consideration, the degree of difficulty the auditor encountered in obtaining sufficient appropriate audit evidence, the difficulty of the judgment involved, and whether the auditor has identified any significant deficiencies in internal control relating to these matters; and
  - (c) For audits of financial statements of listed entities, is also required to communicate with [those charged with governance] regarding all relationships and other matters that the auditor believes may reasonably be thought to bear on the auditor's independence.

#### Relocation of the description of the auditor's responsibilities for the audit of the financial statements

39. The description of the auditor's responsibilities required by paragraphs 37–38 shall be included within the body of the auditor's report or in an Appendix to the auditor's report. When the auditor's responsibilities are included in an Appendix, the body of the auditor's report shall make reference to the location of that Appendix. (Ref: Para. A35–A36)
40. When law, regulation or national auditing standards expressly permits, the auditor may refer to a website of an appropriate authority that contains a description of the auditor's responsibilities in accordance with ISAs, rather than including such material in the auditor's report, provided that this description is not inconsistent with the requirements of paragraphs 37–38. When the auditor does so, the auditor shall include a reference in the auditor's report to clearly indicate where this material is located. (Ref: Para. A35, A37–A38)

#### 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, these other reporting responsibilities shall be clearly differentiated from reporting required by this ISA. (Ref: Para. A39–A41)

#### Name of the Engagement Partner

42. For audits of listed entities, the engagement partner's name shall be included in the auditor's report, if not otherwise publicly available. In exceptional circumstances, the engagement partner's name need not be disclosed to the public if such disclosure could lead to a significant security threat to the person. (Ref: Para. A42)

#### Signature of the Auditor

43. The auditor's report shall be signed. (Ref: Para. A43–A44)

#### Auditor's Location and Jurisdiction

44. The auditor's report shall name the location and the jurisdiction of the auditor. (Ref: Para. A45)

#### 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: (Ref: Para. A46–A49)
- (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.

#### *Auditor's Report Prescribed by Law or Regulation*

46. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor shall comply with all the requirements in paragraphs 20–45 to the extent not explicitly addressed by law or regulation. In such circumstances, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A50–A51)
- (a) A title;
  - (b) An addressee, as appropriate, based on the circumstances of the engagement;
  - (c) A section with a heading titled "Opinion" containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 27);
  - (d) A paragraph that identifies the entity's financial statements, including the notes, that have been audited;
  - (e) A section with a heading "Basis for Opinion" that:
    - Includes a reference to International Standards on Auditing and the law or regulation; and
    - States that the auditor has complied with relevant ethical requirements applicable to financial statements audits, including independence requirements;
  - (f) A section with a heading "Going Concern" that addresses the reporting requirements in proposed ISA 570 (Revised);
  - (g) When communicating key audit matters, a section with a heading "Key Audit Matters" or another appropriate heading that meets the reporting requirements in proposed ISA 701;
  - (h) A section with a heading "Other Information" that addresses the auditor's responsibilities relating to other information and reporting requirements in ISA 720;

- (i) A description of the responsibilities of those in the organization that are responsible for the preparation of the financial statements and oversight of the financial reporting process;
- (j) A description of the auditor's responsibilities for an audit of the financial statements that:
  - States the objectives of an audit; and
  - Either within the body of the auditor's report, an Appendix or, where permitted, on a website of an appropriate authority, describes an audit in accordance with ISAs in a manner that is not inconsistent with the requirements in paragraphs 37–38.<sup>14</sup>
- (k) For audits of listed entities, the name of the engagement partner, if it is not otherwise publicly available;
- (l) The auditor's signature;
- (m) The auditor's location and jurisdiction; and
- (n) The date of the auditor's report.

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

47. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the "national auditing standards"), but may additionally have complied with the ISAs in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A52–A53)
- (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs;
  - (b) The auditor has complied with all the requirements in paragraphs 20–45 to the extent not explicitly addressed by law, regulation, or national auditing standards; and
  - (c) The auditor's report includes, at a minimum, each of the elements set out in paragraph 46(a)–(n) when the auditor uses the layout or wording specified by the national auditing standards. Reference to law or regulation in paragraph 46(e) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards.
48. When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the jurisdiction of origin of the national auditing standards.

**Supplementary Information Presented with the Financial Statements** (Ref: Para. A54–A60)

49. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information is clearly differentiated from the audited financial statements. If such supplementary

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<sup>14</sup> Paragraphs 39–40 also apply when the auditor's report refers to a description of the auditor's responsibilities for the audit of the financial statements that is located in an Appendix, or on a website of an appropriate authority.

information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that such supplementary information has not been audited.

50. Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall be covered by the auditor's opinion.

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## Application and Other Explanatory Material

### Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

- A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.
- A2. Proposed ISA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.<sup>15</sup> In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:
- The selective correction of misstatements brought to management's attention during the audit (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
  - Possible management bias in the making of accounting estimates.
- A3. ISA 540 addresses possible management bias in making accounting estimates.<sup>16</sup> Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

### Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

- A4. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. In such circumstances, the auditor evaluates whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows.

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<sup>15</sup> Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

<sup>16</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21

**Description of the Applicable Financial Reporting Framework (Ref: Para. 15)**

- A5. As explained in ISA 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.<sup>17</sup> That description is important because it advises users of the financial statements of the framework on which the financial statements are based.
- A6. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- A7. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with International Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.

*Reference to More than One Financial Reporting Framework*

- A8. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (for example, the national framework and International Financial Reporting Standards). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (for example, International Financial Reporting Standards) as its own national framework, or has eliminated all barriers to compliance with it.
- A9. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework, are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.
- A10. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (for example, financial statements prepared in accordance with the national framework that also describe the extent to which they comply with International Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph 50, is considered an integral part of the financial statements and, accordingly, is covered by the auditor’s opinion.

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<sup>17</sup> ISA 200, paragraphs A2–A3

**Form of Opinion** (Ref: Para. 18–19)

- A11. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.
- A12. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA 210, the auditor determined that the framework is acceptable.<sup>18</sup>

**Independent Auditor's Report** (Ref: Para. 20)

- A13. A written report encompasses reports issued in hard copy format and those using an electronic medium.
- A14. The Appendix contains illustrations of auditors' reports on financial statements, incorporating the elements set forth in paragraphs 21–45.

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

**Title** (Ref: Para. 21)

- A15. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

**Addressee** (Ref: Para. 22)

- A16. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

**Auditor's Opinion** (Ref. Para. 23–27)

**Placement of the auditor's opinion section**

- A17. The placement of the Opinion section at the beginning of the auditor's report (as illustrated in the Appendix) makes it more prominent to users of the financial statements.

**"Present fairly, in all material respects" or "give a true and fair view"**

- A18. The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect

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<sup>18</sup> ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

the requirement in paragraph 14 of this ISA for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

#### Description of information that the financial statements present

- A19. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements include: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information might also be considered to be an integral part of the financial statements.
- A20. The term subject in paragraph 24 is intended to refer to the topic(s) addressed by the financial statements. The subjects that the financial statements address depend upon the requirements in the fair presentation framework. For example, in some fair presentation frameworks (e.g., International Financial Reporting Standards), the subjects are the financial position, financial performance and cash flows of an entity. Other fair presentation reporting frameworks may require presentation of other subjects.

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

- A21. The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:
- “... in accordance with International Financial Reporting Standards” or
- “... in accordance with accounting principles generally accepted in Jurisdiction X ...”
- A22. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act.” ISA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.<sup>19</sup>
- A23. As indicated in paragraph A8, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 24 and 26 refers to both frameworks as follows:
- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (for example, the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (for example, the financial statements are presented fairly, in all material respects, in accordance with

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<sup>19</sup> ISA 210, paragraph 18

accounting principles generally accepted in Jurisdiction X and with International Financial Reporting Standards).

- (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (for example, the national framework) but a modified opinion given with regard to the other framework (for example, International Financial Reporting Standards) in accordance with ISA 705.

A24. As indicated in paragraph A10, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. As explained in paragraph 50, such supplementary information is covered by the auditor's opinion as it cannot be clearly differentiated from the financial statements.

- (c) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ISA 705.
- (d) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with ISA 706, drawing attention to the disclosure.

Reference to the financial statements that have been audited

A25. The auditor's report states, for example, that the auditor has audited the financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and notes to the financial statements, including a summary of significant accounting policies.

A26. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

Basis for Opinion (Ref: Para. 28)

A27. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

A28. In accordance with ISA 200, the auditor does not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of:

- All ISAs relevant to the audit; and
- All relevant ethical requirements, including those pertaining to independence relating to financial statement audits.<sup>20</sup>

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<sup>20</sup> ISA 200, paragraphs 14 and 20

When indicating compliance with relevant ethical requirements, the auditor may identify the source(s) of those relevant ethical requirements, or include statements about the auditor's independence, or information about non-compliance with relevant ethical requirements.

Key Audit Matters (Ref: Para. 30)

A29. For audits of listed entities, the auditor is required by proposed ISA 701 to communicate key audit matters in the auditor's report. Proposed ISA 701 also addresses circumstances when an auditor of an entity other than a listed entity communicates key audit matters, whether the auditor is required to do so by law or regulation, is requested to do so by management or those charged with governance, or decides to do so on a voluntary basis. Whenever key audit matters are communicated in the auditor's report, the requirements and guidance of proposed ISA 701 are to be applied in their entirety.

Responsibilities for the Financial Statements (Ref: Para. 32–34)

A30. ISA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with ISAs is conducted.<sup>21</sup> Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. Proposed ISA 260 (Revised) uses the term those charged with governance to describe the person(s) or organizations(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.

A31. There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraph 33 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.

A32. Paragraph 33 is consistent with the form in which the responsibilities are agreed in the engagement letter or other suitable form of written agreement, as required by ISA 210.<sup>22</sup> ISA 210 provides some flexibility by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in ISA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 33. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter; the wording of paragraph 33 is used. Where not prohibited, the auditor may elect to refer to a more detailed description of these responsibilities by including a

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<sup>21</sup> ISA 200, paragraph 13(j)

<sup>22</sup> ISA 210, paragraph 6(b)(i)–(ii)

reference to where such information may be obtained (for example, in the annual report of the entity or a website of an appropriate authority).

- A33. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA 315<sup>23</sup>), the descriptions in ISA 210 and in paragraph 33 do not make specific reference to them.

Auditor's Responsibilities for the Audit of the Financial Statements (Ref: Para. 35–40)

- A34. The auditor's report explains that the objective of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement to contrast it to management's responsibilities for the preparation for the financial statements.

Relocation of the description of the auditor's responsibilities for the audit of the financial statements (Ref: Para. 39–40)

- A35. Relocating certain information to an Appendix to the auditor's report, or a website of an appropriate authority, may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with ISAs, reference is to be made to where such information can be accessed.
- A36. For example, paragraph 39 permits the auditor to relocate the statements required by paragraphs 37–38 describing the auditor's responsibilities for the audit of the financial statements to an Appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the Appendix. The following is an illustration of how such a reference to an Appendix could be made in the auditor's report:

**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 discussion of our responsibilities for the audit of the financial statements is included in Appendix X of this auditor's report, which is located at [indicate page number or other reference to location].

- A37. The auditor may only refer to the description of the auditor's responsibilities located on a website of an appropriate regulatory authority or national standard setter if the requirements of paragraph 40 are met. The information included on the website may describe the auditor's work or the audit process in accordance with ISAs more broadly, but cannot be inconsistent with the description required by paragraphs 37–38 of this ISA.

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<sup>23</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c)

- A38. An appropriate authority could be a national auditing standard setter, regulator, or an audit oversight body. Such organizations are well-placed to ensure the accuracy, completeness and continued availability of the standardized information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor's report:

**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 our 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].

Other Reporting Responsibilities (Ref: Para. 41)

- A39. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility under the ISAs to report on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Auditing standards in the specific jurisdiction often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.
- A40. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
- A41. Distinguishing other reporting responsibilities from the auditor's responsibilities under the ISAs may be done in different ways, for example:
- By including a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, the auditor may consider it necessary to include a heading "Report on the Audit of the Financial Statements."
  - 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.

Name of the Engagement Partner (Ref: Para. 42)

- A42. For audits of listed entities, the name of the engagement partner may be made publicly available through means other than the auditor's report, as established by law or regulation in that specific

jurisdiction. For example, such law or regulation may require that the engagement partner's name is available via a website or by submission to a regulatory authority which then discloses the information on its website.

Signature of the Auditor (Ref: Para. 43)

A43. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

A44. In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

Auditor's Location and Jurisdiction (Ref: Para. 44)

A45. The location of the auditor typically refers to the town or city where the audit is conducted or where the issuing office is located. The term jurisdiction refers to the legal territory under which the audit is conducted, which typically refers to the county, state, province, or country where the auditor practices.

Date of the Auditor's Report (Ref: Para. 45)

A46. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ISA 560.<sup>24</sup>

A47. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements that comprise the financial statements, including the related notes, have been prepared and management has accepted responsibility for them.

A48. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.

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<sup>24</sup> ISA 560, *Subsequent Events*, paragraphs 10–17

A49. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of ISAs is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

*Auditor's Report Prescribed by Law or Regulation (Ref: Para. 46)*

A50. ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs.<sup>25</sup> Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in paragraphs 20–45 of this ISA. As explained in paragraph 4, consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements and ISAs relate only to the layout and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph 46(a)–(n) are included in the auditor's report, the auditor's report may refer to International Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of ISAs, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with ISAs, adoption of the layout and wording, including the use of the titles of section headings, used in this ISA assists users of the auditor's report more readily to recognize the auditor's report as a report on an audit conducted in accordance with ISAs.

A51. ISA 210 deals with circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in terms that are significantly different from the requirements of ISAs, which in particular includes the auditor's opinion. In these circumstances, ISA 210 requires the auditor to evaluate:

- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
- (b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, ISA 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ISA 210, an audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with International Standards on Auditing.<sup>26</sup>

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<sup>25</sup> ISA 200, paragraph A55

<sup>26</sup> ISA 210, paragraph 21

*Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing (Ref: Para. 47)*

- A52. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards when, in addition to complying with the relevant national auditing standards, the auditor complies with each of the ISAs relevant to the audit.<sup>27</sup>
- A53. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the requirements in ISAs and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

**Supplementary Information Presented with the Financial Statements (Ref: Para. 49–50)**

- A54. In some circumstances, the entity may be required by law, regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.
- A55. The auditor's opinion covers supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. For example, this would be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- A56. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the introductory paragraph is sufficient.
- A57. Law or regulation may not require that the supplementary information be audited, and management may decide not to ask the auditor to include the supplementary information within the scope of the audit of the financial statements.
- A58. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."

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<sup>27</sup> ISA 200, paragraph A56

A59. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:

- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

A60. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. 3The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720.

**Note:** The illustrative auditors' reports included in the Appendix to extant ISA 700 have not been reproduced here. See Section A of **Agenda Item B.5**.