

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

MARKED FROM FEBRUARY 2013 IAASB MEETING

At its February 2013 meeting, the IAASB considered potential revisions to the requirements addressing the auditor's report in extant ISA 700. The following incorporates the changes presented to the IAASB at that meeting, and shows the additional changes proposed by the ISA 700 Drafting Team to arise at the version of proposed ISA 700 (Revised) presented in **Agenda Item 2-F**. Changes to the remaining requirements in extant ISA 700, as well as the application material, are included in **Agenda Item 2-G**.

Auditor's Report

20. The auditor's report shall be in writing.

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.

Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement.

Auditor's Opinion

23. The auditor's report shall include a section with the heading "Opinion."

~~24. The auditor's opinion shall identify the entity whose financial statements have been audited. [Moved to paragraph 25(a)]~~

2425. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

(a) The financial statements present fairly, in all material respects, ~~... [the subject matter of each financial statement as at the date of, or period covered by, each financial statement]~~ in accordance with [the applicable financial reporting framework]; or

(b) The financial statements give a true and fair view of ... [the subject matter of each financial statement as at the date of, or period covered by, each financial statement] in accordance with [the applicable financial reporting framework].

The opinion shall make reference to the subject and the date of, or period covered by, each financial statement.

2528. The auditor's report shall:

- (a) Identify the entity whose financial statements have been audited; [Moved from paragraph 24]
- (b) State that the financial statements have been audited;
- (c) ~~(a) Refer to~~ Identify the title of each statement comprising the financial statements;
- (d) ~~(b) 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. [Reinstate concepts from paragraph 23 of extant ISA 700]

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].
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

2829. 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;
- (b) Refers to the ~~Responsibility for the Audit of the Financial Statements~~ 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
- (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

2930. The auditor shall report in accordance with proposed ISA 570 (Revised) under the heading "Going Concern".

~~31. Placeholder for description of management's responsibilities relating to going concern~~ [Requirement no longer considered necessary because of proposals to combine the description of management's responsibilities with the auditor's statements regarding going concern – see **Agenda Item 2.H**]

Key Audit Matters of Audit Significance

3032. ~~In the case of a listed entity~~ When the auditor communicates key audit matters in the auditor's report, the auditor shall ~~do so~~ report in accordance with proposed ISA ~~701~~707 under the heading "Key Matters of Audit Significance". [All requirements relating to KAM included in proposed ISA 701 – see **Agenda Item 2-C** and related issues in **Agenda Item 2-B.**]

Other Information

~~3133.~~ ~~If proposed ISA 720 (Revised) applies~~ When other information is included in documents containing audited financial statements, the auditor shall report in accordance with ISA 720 under the heading “Other Information” ~~or other appropriate heading.~~

Responsibility for ~~the Preparation of~~ the Financial Statements

~~3234.~~ The auditor’s report shall include a section with the heading “Responsibility for the Preparation of the Financial Statements,” using the appropriate term to describe those responsible for the preparation of the financial statements. The 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. [Moved from paragraph 35]

~~3335.~~ 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 in accordance with the applicable financial reporting framework, and for such internal control as they is determined necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; The auditor’s report shall use the appropriate term to describe those responsible for the preparation of the financial statements in the context of the legal framework in the particular jurisdiction, and~~
- Oversight of the financial reporting process.

~~3436.~~ 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 ~~Responsibility~~ for the Audit of the Financial Statements

~~3537.~~ The auditor’s report shall include a section with the heading “Auditor’s Responsibilities ~~Responsibility~~ for the Audit of the Financial Statements.”

~~3638.~~ 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.
- (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.

3739. 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 through the planning and performance of the audit; and
- (b) ~~Further describe~~ Describe an audit by stating the auditor's responsibilities to:
 - (i) ~~To identify~~ 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~~ 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. [To reinstate relevant material from paragraph 31 of extant ISA 700]
 - (iii) ~~To evaluate~~ To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - (iv) ~~To evaluate~~ 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, where applicable,
 - a. To obtain sufficient appropriate audit evidence regarding the financial information of all the entities and business activities within the group to express an opinion on the group financial statements; and
 - b. For the direction, supervision and performance of the group audit engagement; and
 - a-c. To remain solely responsible for the auditor's audit opinion on the group's financial statements. [Moved from (iii) with subbullets added for readability]
 - (vi) ~~[Moved to paragraph 38]~~

38. The auditor's report shall also state that the auditor

- (a) ~~Is required to communicate~~ Is required to communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit ~~and the significant audit findings, and including any significant deficiencies in internal control that the auditor identifies~~ we identify during ~~the~~ our 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 of 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; [See **Agenda Item 2-B**]
- (c) ~~in the case~~For audits of financial statements of listed entities, is also required to communicate with them [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 [See **Agenda Item 2-D.**]

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. [Moved from paragraph 40]
40. When ~~law~~, regulation or national auditing standards ~~may expressly permits~~, the auditor ~~to~~may refer to material describing the ~~Responsibility for the Audit of the Financial Statements~~ that is located on 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. The auditor may consider it appropriate to present the material describing the Responsibility for the Auditor of the Financial Statements in an Appendix to the auditor's report. When the auditor does so, the auditor shall include a reference in the auditor's report to clearly indicate where this material is located.

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 ~~addressed either:~~ clearly differentiated from reporting required by this ISA.
- (a) ~~In a separate section in the auditor's report that shall be sub-titled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23–40 shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements."~~
- (b) ~~In the same section where reporting on the matter in accordance with ISAs is presented, with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation.~~ [Moved to application material]

Name of the Engagement Partner

42. For audits of listed entities, if not otherwise publicly disclosed, 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. [See **Agenda Item 2-D.**]

Signature of the Auditor

43. The auditor's report shall be signed.

Auditor's ~~Address~~ Location and Jurisdiction

44. The auditor's report shall name the location and the jurisdiction of the auditor. [See **Agenda Item 2-D.**]

Date of the Auditor's Report

45. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - ~~(b)~~ (a) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Appendix

Illustration of a Possible Improved Auditor's Report – Markup from February 2013 IAASB Meeting Material

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company (the Company) as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).¹

We have audited ~~the~~ 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~~Responsibility for the Audit of the Financial Statements~~ section of our report. In performing our audit, we complied with relevant ethical requirements applicable to financial statement audits, including independence requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

~~Management's Responsibilities Relating to Going Concern~~

~~Under IFRSs, management is responsible for making an assessment of the Company's ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Under IFRSs, the Company's financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative but to do so.~~

~~IFRSs also require that, when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern, management disclose those uncertainties in the financial statements.~~

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

Use of the Going Concern Assumption

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 management's use of the going concern assumption basis of accounting in the preparation of the Company's financial statements is appropriate.

Material Uncertainties Related to Events or Conditions that May Cast Significant Doubt on the Company's Ability to Continue as a Going Concern

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 events or conditions that may cast significant doubt on the Company's ability to continue as a going concern that we believe would need to be disclosed in the financial statements in accordance with IFRSs. Because not all future 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 of Audit Significance

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.

See examples presented in **Agenda Item 2-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 Reverted to the material in the ITC based on extant ISA 720

As part of our audit, it is ~~our responsibility to read and consider in light of our understanding of the entity and its environment acquired during our audit the information in²—we have read [clearly identify the specific other information read, e.g., the Chairman's Statement, the Business Review, etc.] contained in [specify the document(s) containing the other information, e.g., the ~~entity's annual report for the year ended December 31, 20X1~~] ("Other Information") and to report whether we have identified for the purpose of identifying whether there are material inconsistencies in the ~~Other Information~~ with the audited financial statements. Based upon reading it, ~~W~~we have not identified material inconsistencies in the ~~Other~~ between this ~~information~~ and the audited financial statements. However, we have not audited or reviewed the ~~Other~~ this ~~information~~ and accordingly do not express an audit opinion or a review conclusion on it.~~

Responsibility of [Management³ and Those Charged with Governance or other appropriate terms] for the Preparation and Fair Presentation of 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 Responsibility 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.

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

² The auditor may, if considered helpful, clearly identify the specific other information read and considered, e.g., the Chairman's Statement, the Business Review, etc.

³ Throughout this illustrative auditor's report, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

effectiveness of the Company's internal control.⁴

- 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 all entities and business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit ~~engagement~~ and remain solely responsible for our audit opinion. [Bullet applicable for group audits only]

We are required to communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit and, the significant audit findings, and 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~~ we are also required to communicate with ~~them~~ [those charged with governance] regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence. [Last sentence for listed entities only]

Report on Other Legal and Regulatory Requirements

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 disclosed available]

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

[~~Address~~ Auditor Location and Jurisdiction]

[Date]

⁴ 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.