

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 ~~December 15, 2009~~ [date])

MARKED FROM EXTANT ISA 700

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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 701¹ deals with the auditor's responsibility to communicate key audit matters in the independent auditor's report. ISA 705² and ISA 706³ 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 800⁴ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805⁵ 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 ~~December 15, 2009~~[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

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

² ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

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

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

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

- (b) To express clearly that opinion through a written report ~~that also describes the basis for that opinion.~~

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.⁶

- (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.⁷
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.

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

⁷ Paragraphs ~~3524~~ ~~–and~~ ~~3626~~ 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.^{8,9}
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;¹⁰
 - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;¹¹ 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

⁸ ISA 200, paragraph 11

⁹ Paragraphs ~~3524~~ and ~~3626~~ deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

¹⁰ ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

¹¹ 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, required by ~~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) [Relocated para. 34 of extant ISA 700]
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. A27-18-A3323) [Relocated para. 35 of extant ISA 700]

~~Introductory Paragraph~~

25. ~~The introductory paragraph in~~ The auditor's report shall: (Ref: Para. A17-A19)
- (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 ~~that comprises~~ comprising the financial statements;
 - (d) Refer to the notes, including the summary of significant accounting policies ~~and other explanatory information~~; and
 - (e) Specify the date or period covered by each financial statement comprising the financial statements. (Ref: Para. A25-A26) [Relocated para. 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]. (Ref: Para. ~~A27, A2921-A3324~~) [Relocated para. 36 of extant ISA 700]
27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to International Financial Reporting Standards issued by the International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework. [Relocated para. 37 of extant ISA 700]

Basis for Opinion

28. The auditor's report shall include a section with the heading "Basis for Opinion" that:

(a) sStates 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;

~~(a)(c) The auditor's report shall also explain that those standards require that the auditor comply with relevant ethical requirements applicable to financial statement audits, including independence requirements; and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: Para. A25–A2628) [Relocated para. 30 of extant ISA 700]~~

~~(b)(d) The auditor's report shall sStates 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. [Relocated para. 33 of extant ISA 700]~~

Going Concern

29. The auditor shall report in accordance with proposed ISA 570 (Revised)¹² 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 720¹³ under the heading "Other Information."

Management's Responsibilities for the Financial Statements

32. The auditor's report shall include a section with ~~the a~~ heading using the appropriate term to describe "Management's [or other appropriate term] Responsibility for the Financial Statements." This section of the auditor's report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements. The auditor's report 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) ~~In some jurisdictions, the appropriate reference may be to those charged with governance. [Relocated para. 24–25 of extant ISA 700]~~

¹² Proposed ISA 570 (Revised), *Going Concern*

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

33. ~~The~~ This section of the auditor's report shall describe management's—the respective responsibilities of those in the organization that are responsible for: (Ref: Para. A2031–A2333)
- ~~the preparation of the financial statements. The description shall include an explanation that management is responsible for t~~The preparation of the financial statements in accordance with the applicable financial reporting framework, and for such internal control as is it determined is 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. [Relocated para. 26 of extant ISA 700]
34. Where the financial statements are prepared in accordance with a fair presentation framework, the ~~explanation of management's responsibility~~description of these responsibilities for the financial statements in the auditor's report shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances. [Relocated para. 27 of extant ISA 700]

Auditor's Responsibilityies for the Audit of the Financial Statements

35. The auditor's report shall include a section with the heading “Auditor's Responsibilityies for the Audit of the Financial Statements.” [Relocated para. 28 of extant ISA 700]
36. The auditor's report shall ~~describe an audit by stating~~ that:
- (a) The objectives of the audit are to:
 - (i) ~~and that the auditor plan and perform the audit to o~~Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and- [Moved 2nd sentence of para. 30 of extant ISA 700]
 - (ii) Issue an auditor's report that includes an opinion. (Ref: Para. A34) ~~The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.~~ [Replaces para. 29 of extant ISA 700]
 - (b) Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists; and
 - (c) Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
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:
 - (iii) ~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;~~

- ~~(iv)(i) The procedures selected depend on the auditor's judgment, including the assessment of 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.~~
- ~~(v)(ii) In making those risk assessments, the auditor considers To obtain an understanding of internal control relevant to the audit entity's preparation of the financial statements 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 entity'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; and~~
- ~~(iii) An audit also includes To evaluateing the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, as well as the overall presentation of the financial statements. [Relocated from paragraph 31 of extant ISA 700]~~
- ~~(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.~~

~~37. Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor's report shall refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation of financial statements that give a true and fair view," as appropriate in the circumstances. [Extant paragraph 32 of extant ISA 700 no longer necessary because of proposed changes to the description of the auditor's responsibilities]~~

~~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

38. ~~If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the ISAs, to report on the financial statements, these other reporting responsibilities shall be addressed 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, clearly differentiated from reporting required by this ISA. (Ref: Para. A3439–A3541)~~
39. ~~If the auditor's report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23–37 shall be under the sub-title "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements." (Ref: Para. A36) [Relocated from paragraphs 38–39 of extant ISA 700]~~

41. _____

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. A~~3743~~~~A44~~) [Relocated from paragraph 40 of extant ISA 700]

Auditor's ~~Address~~ Location and Jurisdiction

44. The auditor's report shall name the location and in the jurisdiction ~~where~~ of the auditor practices. (Ref: Para. A45) [Relocated from paragraph 42 of extant ISA 700]

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. A~~3846~~~~A449~~)
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements. [Relocated from paragraph 41 of extant ISA 700]

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. A~~4250~~~~A51~~)
- (a) A title;
 - (b) An addressee, as appropriate, based on ~~as required by~~ the circumstances of the engagement;
 - (c) ~~An opinion paragraph~~ 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 ~~3727~~);
 - (d) ~~An introductory~~ 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;
- ~~(e)(i)~~ A description of the responsibilityies of management (or other appropriate term, see paragraph 24) those in the organization that are responsible for the preparation of the financial statements and oversight of the financial reporting process;
- ~~(f)(j)~~ A description of the auditor’s responsibilityies ~~to express an opinion on the financial statements and the scope of~~ for an the audit of the financial statements, that includes:
 - ~~A reference to International Standards on Auditing and the law or regulation; and a description of an audit in accordance with those standards;~~
 - 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 37–38.¹⁴
- (k) For audits of listed entities, the name of the engagement partner, if it is not otherwise publicly available;
- ~~(g)(l)~~ The auditor’s signature;
- ~~(h)(m)~~ The auditor’s ~~address~~ location and jurisdiction; and
- ~~(i)(n)~~ The date of the auditor’s report; ~~and~~ [Relocated from paragraph 43 of extant ISA 700]

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. A4352–A4453)
- (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; ~~and~~

¹⁴ 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.

(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

~~(b)~~(c) The auditor's report includes, at a minimum, each of the elements set out in paragraph 436(a)–(in) when the auditor uses the layout or wording specified by the national auditing standards. Reference to law or regulation in paragraph 4346(e) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards. [Relocated from paragraph 44 of extant ISA 700]

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. [Relocated from paragraph 45 of extant ISA 700]

Supplementary Information Presented with the Financial Statements (Ref: Para. A4554–A5460)

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 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. [Relocated from paragraph 46 of extant ISA 700]

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. [Relocated from paragraph 47 of extant ISA 700]

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.¹⁵ 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).

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

- Possible management bias in the making of accounting estimates.

A3. ISA 540 addresses possible management bias in making accounting estimates.¹⁶ 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.

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.¹⁷ 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,

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

¹⁷ ISA 200, paragraphs A2–A3

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 4750, is considered an integral part of the financial statements and, accordingly, is covered by the auditor's opinion.

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.¹⁸

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 21–4245.

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," ~~affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.~~

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

Addressee (Ref: Para. 22)

A16. ~~Law, or regulation or the terms of the engagement often 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. ~~3523-3727~~)

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 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. [Relocated from paragraph A28 of extant ISA 700]

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. ~~In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of the information that the financial statements are designed to present.~~ 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 the case of many general purposesome fair presentation frameworks, (e.g., International Financial Reporting Standards), the subjects are the financial position of the entity as at the end of the period and the entity's financial performance and cash flows of an entity for the period then ended. Other fair presentation reporting frameworks may require presentation of other subjects.~~ [Relocated from paragraph A29 of extant ISA 700]

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 ...”[Relocated from paragraph A30 of extant ISA 700]

- 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.¹⁹ [Relocated from paragraph A31 of extant ISA 700]
- 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 ~~3524~~ and ~~3626~~ 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 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. [Relocated from paragraph A32 of extant ISA 700]
- 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 ~~A4650~~, such supplementary information is covered by the auditor’s opinion as it cannot be clearly differentiated from the financial statements.
- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ISA 705.

¹⁹ ISA 210, paragraph 18

- (b) 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. [Relocated from paragraph A33 of extant ISA 700]

Introductory Paragraph (Ref. Para. 23) Reference to the financial statements that have been audited

- A25. The ~~introductory paragraph~~ auditor's report states, for example, that the auditor has audited the ~~accompanying~~ 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 ~~the notes to the financial statements, including a summary of significant accounting policies and other explanatory information.~~ [Relocated from paragraph A17 of extant ISA 700]
- 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. [Relocated from paragraph A18 of extant ISA 700]

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. [Relocated from paragraph A24 of extant ISA 700]
- 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:
- ~~ISA 200 and all other~~ All ISAs relevant to the audit; and
 - All relevant ethical requirements, including those pertaining to independence relating to financial statement audits.²⁰ [Relocated from paragraph A24 of extant ISA 700]

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.

²⁰ ISA 200, paragraphs 14 and 20

Management's Responsibilities for the Financial Statements (Ref: Para. ~~2632–34~~)

~~A28.~~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.²¹ 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 organization(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity. [Relocated from paragraph A20 of extant ISA 700]

~~A29.~~A31. _____ There may be circumstances when it is appropriate for the auditor to add to the descriptions of ~~management's responsibility~~ the responsibilities of management and those charged with governance in paragraph ~~2633~~ 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. [Relocated from paragraph A21 of extant ISA 700]

~~A30.~~A32. _____ Paragraph ~~2633~~ 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 210.²² 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 ~~management's~~ the responsibilities as required by paragraph ~~2633~~. 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 ~~2633~~ is used. Where not prohibited, the auditor may elect to refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (for example, in the annual report of the entity or a website of an appropriate authority). [Relocated from paragraph A22 of extant ISA 700]

~~A31.~~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

²¹ ISA 200, paragraph 13(j)

²² ISA 210, paragraph 6(b)(i)–(ii)

defined in ISA 315²³), the descriptions in ISA 210 and in paragraph 2633 do not make specific reference to them. [Relocated from paragraph A23 of extant ISA 700]

Auditor's Responsibilities for the Audit of the Financial Statements (Ref: Para. 2935–3040)

~~A32-A34. The auditor's report states that the auditor's responsibility is to express an opinion on explains that the objective of an audit is to obtain reasonable assurance about whether the financial statements based on the audit in order as a whole are free from material misstatement to contrast it to management's responsibilities for the preparation of the financial statements. [Relocated from paragraph A24 of extant ISA 700]~~

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.

²³ ISA 315, *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. ~~38-39~~41)

A33-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. [Relocated from paragraph A39 of extant ISA 700]

A34-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. [Relocated from paragraph A35 of extant ISA 700]

A41. ~~These other reporting responsibilities are addressed in a separate section of the auditor's report in order to clearly distinguish them from other reporting responsibilities from the auditor's responsibilities~~ under the ISAs may be done in different ways, for example: to report on the financial statements. Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

- _____ 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. [Relocated from paragraphs 38–39 and A36 of extant ISA 700]

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. ~~40~~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. [Relocated from paragraph A37 of extant ISA 700]

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. ~~44~~45)

~~A35-~~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 560.²⁴ [Relocated from paragraph A38 of extant ISA 700]

~~A36-~~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. [Relocated from paragraph A39 of extant ISA 700]

~~A37-~~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

²⁴ ISA 560, *Subsequent Events*, paragraphs 10–17

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. [Relocated from paragraph A40 of extant ISA 700]

~~A38-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. [Relocated from paragraph A41 of extant ISA 700]

Auditor's Report Prescribed by Law or Regulation (Ref: Para. ~~4643~~)

~~A39-A50.~~ ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs.²⁵ 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 ~~4346(a)–(in)~~ 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. [Relocated from paragraph A42 of extant ISA 700]

~~A40. (ISA 210 deals with circumstances where law or regulation prescribes the layout or wording of the auditor's report in terms that are significantly different from the requirements of ISAs.)~~

~~Wording of the auditor's opinion prescribed by law or regulation~~

~~A41-A51.~~ ISA 210 explains that, in some cases, deals with circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report ~~(which in particular includes the auditor's opinion)~~ in terms that are significantly different from the

²⁵ ISA 200, paragraph A55

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.²⁶ [Relocated from paragraph A27 of extant ISA 700]

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing (Ref: Para. 4447)

~~A42-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.²⁷ [Relocated from paragraph A43 of extant ISA 700]

~~A43-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. ~~For example, some national auditing standards prohibit the auditor from including an Emphasis of Matter paragraph to highlight a going concern problem, whereas ISA 570 requires the auditor to add an Emphasis of Matter paragraph in such circumstances.~~²⁸ 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. [Relocated from paragraph A44 of extant ISA 700]

Supplementary Information Presented with the Financial Statements (Ref: Para. 4649-4750)

~~A44-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. [Relocated from paragraph A45 of extant ISA 700]

²⁶ ISA 210, paragraph 21

²⁷ ISA 200, paragraph A56

²⁸ ~~ISA 570, *Going Concern*, paragraph 19~~

~~A45-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. [Relocated from paragraph A46 of extant ISA 700]

~~A46-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. [Relocated from paragraph A47 of extant ISA 700]

~~A47-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. [Relocated from paragraph A48 of extant ISA 700]

~~A48-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." [Relocated from paragraph A49 of extant ISA 700]

~~A49-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. [Relocated from paragraph A50 of extant ISA 700]

~~A50-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. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720.²⁹ [Relocated from paragraph A51 of extant ISA 700]

²⁹ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

Illustrations of Auditors' Reports on Financial Statements¹

- Illustration 1: An auditor's report on financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, International Financial Reporting Standards).
- Illustration 2: An auditor's report on financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 3: An auditor's report on consolidated financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (for example, International Financial Reporting Standards).

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

Illustration 1:

For purposes of this illustrative auditor's report the following ~~C~~circumstances ~~include the following~~ are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework.
- The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- Key audit matters have been identified in accordance with ISA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements²

Opinion

In our opinion, the financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC 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.

We have audited the accompanying financial statements of ABC 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 and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. In performing our audit, ~~These standards require that we~~ comply complied with relevant ethical requirements applicable to financial statement audits, including independence requirements. ~~—and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.~~ We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. [Relocated from first paragraph, and last sentence of the Auditor's Responsibility section in extant ISA 700]

² ~~The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.~~

Going Concern

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

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

Key Audit Matters

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

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

Discontinued Operations

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

Goodwill

The Company is required by IFRSs to make an annual assessment to determine whether the value assigned to goodwill has been impaired. This annual impairment assessment is significant to our audit because the assessment process is complex and highly judgmental and is based on assumptions that are affected by current market or economic conditions, particularly those in [Countries X and Y]. As a result, our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular those relating to the forecasted revenue growth and profit margins [for Countries X and Y]. We also focused on the adequacy of the Company's disclosures about the sensitivity of the key assumptions used in the impairment assessment and the disclosure that a further decline in the fair value of this reporting unit could give rise to an

impairment of the goodwill balance in the future. The Company's disclosures about goodwill are included in the summary of significant accounting policies in Note 1, as well as Note 3.

Valuation of Financial Instruments

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

Further Information Relevant to Understanding Key Audit Matters

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

Other Information

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

Responsibilities of [Management's³ and Those Charged with Governance or other appropriate terms] Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with ~~International Financial Reporting Standards~~IFRSs,⁴ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from

³— Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

⁴— Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such"

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

Auditor's Responsibility for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements 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 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. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the identify and assessment of 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.
- In making these risk assessments, the auditor considers Obtain an understanding of internal control relevant to the entity's preparation and fair presentation⁵ of the financial statements 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 entity's internal control.⁶
- An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

⁵ In the case of footnote 3, this may read: "In making these risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control."

⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 3, this may read: "In making these risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances." This sentence would be modified, as appropriate in the circumstances, when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the group financial statements. We are responsible for the direction, supervision and performance of the group audit, and remain solely responsible for our audit opinion. [Bullet applicable for group audits only]

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

Report on Other Legal and Regulatory Requirements

[The Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities prescribed by law, regulation or national auditing standards. Depending on the matters addressed by other law, regulation or national auditing standards, national auditing standard setters may choose to combine reporting on these matters with reporting as required by the ISAs (shown in the *Report on the Audit of the Financial Statements* section), with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation.]

The engagement partner responsible for the audit resulting in this report is *[name]*. [Required only if not otherwise publicly available]

[Auditor's signature]

[Auditor's address, Location and Jurisdiction]

[Date of the auditor's report]