

## PROPOSED INTERNATIONAL STANDARD ON AUDITING 700 (REVISED)

### FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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

**CLEAN**

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Appendix: Illustrations of Independent Auditor's Reports on Financial Statements

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

## Introduction

### Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. Proposed ISA 701<sup>1</sup> deals with the auditor's responsibility to communicate key audit matters in the auditor's report. Proposed ISA 705<sup>2</sup> (Revised) and proposed ISA 706<sup>3</sup> (Revised) 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 also contain reporting requirements that are applicable when issuing an auditor's report.
3. This ISA is written in the context of a complete set of general purpose financial statements. ISA 800<sup>4</sup> deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805<sup>5</sup> deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.
4. 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 in the auditor's report more relevant to users. This ISA promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. 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.

### Effective Date

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

### Objectives

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

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

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

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

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

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

## Definitions

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

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

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

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

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

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>7</sup>

8. Reference to “financial statements” in this ISA means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.

9. Reference to “International Financial Reporting Standards” in this ISA means the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting Standards” means the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board.

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

<sup>7</sup> Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

## Requirements

### Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>8,9</sup>
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
  - (a) The auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained;<sup>10</sup>
  - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;<sup>11</sup> and
  - (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
  - (a) The financial statements appropriately disclose the significant accounting policies selected and applied; (Ref: Para. A4)<sup>+</sup>
  - (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; (Ref: Para. A5)<sup>+</sup>

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

<sup>9</sup> Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

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

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

<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Exposure Draft, *Proposed Changes to the International Standards on Auditing (ISAs)—Addressing Disclosures in the Audit of Financial Statements* (Disclosures ED). IAASB will consider feedback from that consultation in finalizing the proposed changes arising from the Disclosures project. The changes are included here for reference on the proposed direction, but will not be included as part of this final ISA to be approved in September.

<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

- (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. A6)
  - (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 presentation. The auditor’s evaluation as to whether the financial statements achieve fair presentation shall include consideration of: (Ref: Para. A7–A9)<sup>+</sup>
- (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. A10–A15)

### **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 proposed ISA 705 (Revised).
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 proposed ISA 705 (Revised). (Ref: Para. A16)
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. A17)

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<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

## **Auditor's Report**

20. The auditor's report shall be in writing. (Ref: Para. A18–A19)

### *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. A20)

#### Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A21)

#### Auditor's Opinion

23. The auditor's report shall include a section with the heading "Opinion" and that section shall be the first section in the auditor's report. (Ref: Para. A22)

24. The auditor's report shall:

- (a) Identify the entity whose financial statements have been audited;
- (b) State that the financial statements have been audited;
- (c) Identify the title of each statement comprising the financial statements;
- (d) Refer to the notes, including the summary of significant accounting policies; and
- (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A23–A24)

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

- (a) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or
- (b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A25–A32)

26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A27–A32)

27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.

### Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion" that: (Ref: Para. A33)
- (a) States that the audit was conducted in accordance with International Standards on Auditing; (Ref: Para. A34)
  - (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs;
  - (c) Includes an explanation that the auditor is independent of the entity in accordance with the relevant ethical requirements that apply to the audit of the financial statements, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the independence and other relevant ethical requirements unless a reference is made to the IESBA Code; and (Ref: Para. A35–A40)
  - (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

### Going Concern

29. Where applicable, the auditor shall report in accordance with proposed ISA 570 (Revised).<sup>12</sup>

### Key Audit Matters

30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with proposed ISA 701, except when the auditor has expressed an adverse opinion or disclaims an opinion on the financial statements.
- 30a. The auditor shall also apply proposed ISA 701 when the auditor:
- (a) Is required by law or regulation to do so, regardless of the opinion expressed; and
  - (b) Otherwise decides to communicate key audit matters and has not expressed an adverse opinion or disclaimed an opinion on the financial statements. (Ref: Para. A41–A43)

### Other Information

31. When proposed ISA 720 (Revised)<sup>13</sup> applies, the auditor:
- (a) Shall report in accordance with that ISA when the auditor has expressed an unmodified or qualified opinion.
  - (b) Shall not report in accordance with that ISA when the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, unless otherwise required to do so by law or regulation.

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<sup>12</sup> Proposed ISA 570 (Revised), *Going Concern*, paragraphs 22–23

<sup>13</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

## Responsibilities for the Financial Statements

32. The auditor’s report shall include a section with a heading to describe those responsible for the preparation of the financial statements. This heading shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to “management”. (Ref: Para. A44)
33. This section of the auditor’s report shall describe the respective responsibilities of those in the organization that are responsible for: (Ref: Para. A45–A48)
  - (a) The preparation of the financial statements and for such internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
  - (b) The assessment of the entity’s ability to continue as a going concern in the context of the applicable financial reporting framework,<sup>14</sup> including:
    - (i) An explanation of the use of going concern basis of accounting in the preparation of the financial statements; and
    - (ii) An explanation of how material uncertainties relating to events of conditions that may cast doubt on the entity’s ability to continue as a going concern are evaluated and disclosed; and (Ref: Para. A48)
  - (c) Oversight of the financial reporting process, when those responsible for oversight are different from those in (a). (Ref: Para. A49)
34. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities for the financial statements in the auditor’s report shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances.

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

35. The auditor’s report shall include a section with the heading “Auditor’s Responsibilities for the Audit of the Financial Statements.” (Ref: Para. A50)
36. The auditor’s report shall state that: (Ref: Para. A51)
  - (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

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<sup>14</sup> Proposed ISA 570 (Revised), paragraph 2

- (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 audit; and
- (b) Describe an audit by stating that the auditor's responsibilities are:
  - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 the entity's internal control.
  - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - (iv) To evaluate the appropriateness of [management's] use of the going concern basis of accounting in the preparation of the financial statements and evaluate, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. The auditor's evaluations are based on the auditor's consideration of any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that have been identified as of the date of the auditor's report. If a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the relevant disclosures in the financial statements. However, the auditor cannot predict future events or conditions that may cause an entity to cease to continue as a going concern.
  - (v) When the financial statements are prepared in accordance with a fair presentation framework, 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.

- (c) When ISA 600<sup>15</sup> applies, further describe a group audit engagement by stating that the auditor’s responsibilities in a group audit engagement are:
  - (i) 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;
  - (ii) For the direction, supervision and performance of the group audit; and
  - (iii) To remain solely responsible for the auditor’s opinion.

38. The auditor’s report shall also state that the auditor is required to:

- (a) 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) For audits of financial statements of listed entities, provide [those charged with governance] with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, related safeguards; and
- (c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with proposed ISA 701, from the matters communicated with [those charged with governance], determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor is required to describe these matters in the auditor’s report unless public disclosure about the matter is prohibited by law or regulation or, in exceptional circumstances, in the auditor’s judgment, it is not possible to describe the matter in an appropriate manner in the auditor’s report.

In circumstances where the auditor of an entity other than a listed entity is not required to communicate key audit matters but does so voluntarily, the phrase “are required to” is omitted from the statement in the auditor’s report. (Ref: Para. A52)

Location of the description of the auditor’s responsibilities for the audit of the financial statements

39. The description of the auditor’s responsibilities for the audit of the financial statements required by paragraphs 37–38 shall be included: (Ref: Paras. A53-56)

- (a) Within the body of the auditor’s report;
- (b) Within an appendix to the auditor’s report, in which case the auditor’s report shall include a reference to the location of the appendix; or (Ref: Para. A53–A54)
- (c) By a specific reference within the auditor’s report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permits the auditor to do so. (Ref: Para. A53, A55–A56)

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<sup>15</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

40. When the auditor refers to a description of the auditor’s responsibilities on a website of an appropriate authority, the auditor shall determine that such description is not inconsistent with paragraphs 37–38 of this ISA. (Ref: Para. A56)

#### 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 responsibilities under the ISAs, these other reporting responsibilities shall be addressed in a separate section in the auditor’s report with a heading titled “Report on Other Legal and Regulatory Requirements” or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISAs. (Ref: Para. A57–A59)
42. If other reporting responsibilities are presented in the same section as the related report elements required by the ISAs, the auditor’s report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs.
43. If the auditor’s report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 20–38 of this ISA shall be included under a section with a heading “Report on the Audit of the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” shall follow the “Report on the Audit of the Financial Statements.” (Ref: Para. A59)

#### Name of the Engagement Partner

44. The name of the engagement partner shall be included in the auditor’s report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor’s report, the auditor shall communicate this intention with management and, where appropriate, those charged with governance. (Ref: Para. A60–A62)

#### Signature of the Auditor

45. The auditor’s report shall be signed. (Ref: Para. A63–A64)

#### Auditor’s Address

46. The auditor’s report shall name the location in the jurisdiction where the auditor practices.

#### Date of the Auditor’s Report

47. 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. A65–A68)
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and

- (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

*Auditor's Report Prescribed by Law or Regulation*

48. 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'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. A69–A73 and A53–A54)
- (a) A title.
  - (b) An addressee, as required by the circumstances of the engagement.
  - (c) An Opinion section 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 26).
  - (d) An identification of the entity's financial statements that have been audited.
  - (e) A statement that includes an explanation that the auditor is independent of the entity in accordance with the relevant ethical requirements that apply to the financial statements, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall also identify the jurisdiction of origin of the independence and other relevant ethical requirements that apply to the financial statement audit, unless a reference is made to the IESBA Code.
  - (f) Where applicable, a section that addresses the reporting requirements in proposed ISA 570 (Revised) relating to going concern.
  - (g) Where applicable, a section that includes the information required by proposed ISA 701, or additional information about the audit that is prescribed by law or regulation and that is not inconsistent with the reporting requirements in that ISA.<sup>16</sup> (Ref: Para. A70–A73)
  - (h) Where applicable, a section that addresses the reporting requirements in proposed ISA 720 (Revised).
  - (i) A description of the responsibilities of those responsible for the preparation of the financial statements.
  - (j) A reference to International Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements in a manner that is not inconsistent with paragraphs 35–38. (Ref: Paras. A53–54)
  - (k) For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual.

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<sup>16</sup> Proposed ISA 701, paragraphs 12–13

- (l) The auditor’s signature.
- (m) The auditor’s address.
- (n) The date of the auditor’s report.

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

49. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the “national auditing standards”), and has additionally 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. A74–A75)
- (a) There is no conflict between the reporting 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 or Other Matters paragraph that, in the particular circumstances, is required by ISAs; and
  - (b) The auditor’s report includes, at a minimum, each of the elements set out in paragraph 48(a)–(n) above when the auditor uses the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph 48(j) shall be read as reference to the national auditing standards. The auditor’s report shall thereby identify such national auditing standards.
50. When the auditor’s report refers to both the national auditing standards and International Standards on Auditing, the auditor’s report shall identify the jurisdiction of origin of the national auditing standards.

**Supplementary Information Presented with the Financial Statements** (Ref: Para. A76–A82)

51. 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, in the auditor’s professional judgment, supplementary information is nevertheless an integral part of the financial statements due to either its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor’s opinion.
52. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor’s report that such supplementary information has not been audited.

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## Application and Other Explanatory Material

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

- A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.
- A2. Proposed ISA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.<sup>17</sup> In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:
- The selective correction of misstatements brought to management's attention during the audit (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
  - Possible management bias in making accounting estimates.<sup>+</sup>
- A3. ISA 540 addresses possible management bias in making accounting estimates.<sup>18</sup> Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

### Accounting Policies Appropriately Disclosed in the Financial Statements (Ref: Para. 13(a))

- A4. The auditor's evaluation of whether the financial statements appropriately disclose the significant accounting policies selected and applied includes consideration of matters such as the relevance of the accounting policies to the entity, and the clarity with which they have been presented.<sup>+</sup>

### Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable (Ref: Para. 13(d))

- A5. Evaluating the understandability and relevance of the information presented in the financial statements includes consideration of matters such as whether:
- The financial statements, including disclosures, are appropriately classified and characterized, and presented in a clear and concise manner, but do not omit relevant information.
  - The disclosures undermine the overall presentation of the financial statements by including information that is not relevant or that is presented in a manner that may obscure a proper understanding of the matters disclosed.

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<sup>17</sup> Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

<sup>18</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21

<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

- The placement of significant disclosures gives appropriate prominence to them (for example, when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced to draw attention to related matters, where appropriate.<sup>+</sup>

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

A6. 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. Evaluating 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 includes consideration of such matters as the extent to which the information in the financial statements is relevant and specific to the circumstances of the entity and whether the disclosures are adequate to assist the intended users to understand of:

- The nature and extent of the entity's potential assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework.
- The nature and extent of risks of material misstatement arising from transactions and events.
- The methods used and the assumptions and judgments made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analyses.<sup>+</sup>

#### **Evaluating Whether the Financial Statements Achieve Fair Presentation** (Ref: Para. 14)

A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.<sup>19</sup> As noted in paragraph 7(b) of this ISA, a fair presentation<sup>20</sup> financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.<sup>+</sup>

A8. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation takes into account matters such as the facts and circumstances of the entity, including changes thereto, based on the auditor's knowledge of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that may be relevant to the economic decisions of the users of the financial statements, such as evolving financial reporting requirements or the changing economic environment.<sup>+</sup>

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<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

<sup>19</sup> For example, IFRSs note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

<sup>20</sup> See ISA 200, paragraph 13(a)

- A9. Evaluating whether the financial statements achieve fair presentation includes, for example and as appropriate, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:
- The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
  - Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.<sup>+</sup>

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

- A10. As explained in ISA 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.<sup>21</sup> That description advises users of the financial statements of the framework on which the financial statements are based.
- A11. 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.
- A12. 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*

- A13. 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 IFRSs). 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, IFRSs) as its own national framework, or has eliminated all barriers to compliance with it.<sup>+</sup>
- A14. 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

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<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

<sup>21</sup> ISA 200, paragraphs A2–A3

<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

because the financial statements do not include all the information in the manner required by that other framework.

- A15. 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 IFRSs). Such description may constitute supplementary financial information as discussed in paragraph 51 and is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements.<sup>+</sup>

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

- A16. 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.
- A17. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA 210, the auditor determined that the framework is acceptable.<sup>22</sup>

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

- A18. A written report encompasses reports issued in hard copy and those using an electronic medium.
- A19. Paragraphs 20-47 of this ISA set forth requirements for an ISA auditor's report. The Appendix to this ISA contains illustrations of auditor's reports on financial statements, incorporating the elements set forth in these paragraphs. With the exception of the Opinion and Basis for Opinion sections, this ISA does not establish requirements for ordering the elements of the auditor's report. However, this ISA does require the use of specific headings, which assists in making auditor's reports that are conducted in accordance with ISAs more recognizable if the elements of the auditor's report are presented in an order different from that of the illustrative auditor's reports in the Appendix to this ISA. As acknowledged in paragraphs 48–49, law, regulation or national auditing standards may further specify requirements for the wording and layout of the elements, which may include required ordering of the elements in the auditor's report for their respective jurisdictions.

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

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

- A20. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

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<sup>+</sup> Conforming amendments to this paragraph have been proposed in the May 2014 Disclosures ED.

<sup>22</sup> ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

Addressee (Ref: Para. 22)

A21. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

Auditor's Opinion (Ref. Para. 23–27)

Placement of the opinion section

A22. The Opinion section is required to be positioned as the first section of the auditor's report (as illustrated in the Appendix) to make it prominent to users of the financial statements.

Reference to the financial statements that have been audited

A23. The auditor's report states, for example, that the auditor has audited the financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and notes to the financial statements, including a summary of significant accounting policies.

A24. 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.

“Present fairly, in all material respects” or “give a true and fair view”

A25. 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.

A26. When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as “with the foregoing explanation” or “subject to” in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

Description of the financial statements and the matters they present

A27. 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 may 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 may also be considered to be an integral part of the financial statements.

A28. 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 matters that the financial statements are designed to present. For example, in the case of financial statements prepared in accordance with IFRSs, these matters are the *financial position of the entity as at the end of the period and the entity’s financial performance and cash flows for the period then ended*. Consequently, the [...] in paragraph 25 and elsewhere in this ISA would be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is IFRSs or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial statements are designed to present.

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

A29. 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 ...”

A30. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as “... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act.” ISA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.<sup>23</sup>

A31. As indicated in paragraph A13, 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 25–26 refers to both frameworks as follows:

(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (for example, the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (for example, IFRSs). 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 IFRSs).

(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

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<sup>23</sup> ISA 210, paragraph 18

opinion given with regard to the other framework (for example, IFRSs) in accordance with proposed ISA 705 (Revised).

- A32. As indicated in paragraph A15, 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. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 51–52 and related application material in paragraphs A76–A82). Accordingly,
- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with proposed ISA 705 (Revised).
  - (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 proposed ISA 706 (Revised), drawing attention to the disclosure.

#### Basis for Opinion (Ref: Para. 28)

- A33. The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this ISA requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.
- A34. 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.
- A35. A statement about the auditor's independence and fulfillment of other relevant ethical requirements that identifies the jurisdiction of origin of those requirements provides transparency about the relevant ethical requirements that applied to the particular audit engagement. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, for example, one or two, the auditor may choose to name the relevant source(s) (for example, the name of the code, rule or regulation applicable in the jurisdiction).
- A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide more specific information about the sources of the relevant ethical requirements in the auditor's report, including those pertaining to independence that applied to the audit of the financial statements.
- A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relevant to the audit of the financial statements, an important consideration is balancing the need for transparency against the risk of obscuring other useful information in the auditor's report.
- A38. In cases when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference to the jurisdiction ordinarily relates to the relevant ethical

requirements that applied to the group engagement team. This is because, in a group audit, the component auditor is also subject to ethical requirements that are relevant to the group audit.<sup>24</sup>

- A39. The ISAs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group engagement team is subject, nor do the ISAs require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team.
- A40. Although relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex, an understanding of the auditor’s responsibilities under ISA 600<sup>25</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the requirements that are relevant to the group audit. ISA 200 indicates that the auditor shall not represent compliance with ISAs in the auditor’s report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit. This includes complying with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.<sup>26</sup>

Key Audit Matters (Ref: Para. 30a)

- A41. ISA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.<sup>27</sup> ISA 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.<sup>28</sup> When the auditor is not required to communicate key audit matters, ISA 210<sup>29</sup> explains that acknowledging that the auditor intends to communicate key audit matters in the auditor’s report when not otherwise required to do so makes management and those charged with governance aware of the auditor’s intent. It may therefore be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor’s report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.
- A42. The communication requirements relating to key audit matters that apply in the case of listed entities may also be appropriate in the case of some other entities, particularly those that may be of significant public interest because they have a large number and wide range of stakeholders. Factors that may be relevant include:

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<sup>24</sup> ISA 600, paragraph A37

<sup>25</sup> ISA 600, paragraphs 19–20

<sup>26</sup> ISA 200, paragraphs 14 and 20

<sup>27</sup> ISA 210, paragraphs 9 and A21

<sup>28</sup> ISA 210, paragraph 10

<sup>29</sup> ISA 210, paragraph A23a

- The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples may include financial institutions, such as banks and insurance companies, and pension funds;
- Size; and
- Number of employees.

Law or regulation may define these types or other entities as public interest entities, and may require communication of key audit matters for these entities.

#### Considerations specific to public sector entities

A43. Listed entities are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. In such cases, an auditor of a public sector entity may be required by law or regulation, or otherwise intend to communicate key audit matters in the auditor's report.

#### Responsibilities for the Financial Statements (Ref: Para. 32–33)

- A44. ISA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with ISAs is conducted.<sup>30</sup> Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. Proposed ISA 260 (Revised) uses the term those charged with governance to describe the person(s) or organization(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.
- A45. There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraph 33 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.
- A46. Paragraph 33 is consistent with the form in which the responsibilities are agreed in the engagement letter or other suitable form of written agreement, as required by ISA 210.<sup>31</sup> ISA 210 provides some flexibility by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in ISA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or

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<sup>30</sup> ISA 200, paragraph 13(j)

<sup>31</sup> ISA 210, paragraph 6(b)(i)–(ii)

other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 33. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording of paragraph 33 is used. Where not prohibited, the auditor may also 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).

- A47. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA 315 (Revised)<sup>32</sup>), the descriptions in ISA 210 and in paragraph 33 do not make specific reference to them.
- A48. The Appendix to this ISA provides illustrations of how the requirement in paragraph 33(b) would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements featured in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

#### Oversight of the financial reporting process (Ref: Para. 33(c))

- A49. When some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial statements, the description as required by paragraph 33 of this ISA may need to be modified to appropriately reflect the circumstances in the particular audit. When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

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

- A50. The description of the auditor's responsibilities as required by paragraphs 35–38 of this ISA may be tailored to reflect the specific nature of the entity (for example, when the auditor's report addresses consolidated financial statements).
- A51. The auditor's report explains that the objective of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement to contrast it to management's responsibilities for the preparation for the financial statements.

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<sup>32</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c)

Auditor's responsibilities relating to proposed ISA 701 (Ref: Para. 38(c))

A52. The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph 38(c). For example, the auditor may make reference to the requirement in paragraph 9 of ISA 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risks of material misstatement, including significant risks identified in accordance with ISA 315 (Revised), areas in the financial statements that involved the application of significant judgment or estimation by management, and significant events or transactions that occurred during the year.

Relocation of the description of the auditor's responsibilities for the audit of the financial statements (Ref: Para. 39(b)-(c), 48(j))

A53. Relocating certain information to an appendix to the auditor's report or when law, regulation or national auditing standards permit, referring to a website of an appropriate authority containing such information 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, a reference is required to be made to where such information can be accessed.

Relocation to an appendix (Ref: Para. 39(b), 48(j))

A54. 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 description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

Reference to a website of an appropriate authority (Ref: Para. 39(c), 40)

A55. Paragraph 39 explains that the auditor may refer to a description of the auditor's responsibilities located on a website of an appropriate authority, only if permitted by law, regulation or national auditing standards. The information on the website that is incorporated in the auditor's report by

way of a specific reference to the website location where such information can be found may describe the auditor's work, or the audit process in accordance with ISAs more broadly, but it cannot be inconsistent with the description required by paragraphs 37–38 of this ISA. This means that the wording of the description of the auditor's responsibilities on the website may be more detailed, or may address other matters such as the process of an audit of financial statements provided that such wording reflects and does not contradict the principles and key concepts addressed in paragraphs 37–38.

- A56. 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 is located at [*Organization's*] website at: [*website address*]. This description forms part of our auditor's report.

Other Reporting Responsibilities (Ref: Para. 41–43)

- A57. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities under the ISAs. 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.
- A58. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their 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.
- A59. Paragraphs 41–43 of this ISA permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the ISAs only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the ISAs. Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond

those required under the ISAs. Otherwise, other reporting responsibilities are required to be addressed in 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, paragraph 43 requires the auditor to include reporting responsibilities under the ISAs under a heading titled “Report on the Audit of the Financial Statements.”

Name of the Engagement Partner (Ref: Para. 44)

- A60. ISQC 1<sup>33</sup> requires that the firm establish policies and procedures to provide it reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these ISQC 1 requirements, naming the engagement partner provides further transparency to the reader of the auditor’s report of a listed entity.
- A61. Law, regulation or national auditing standards may require that the auditor’s report include the name of the engagement partner responsible for audits other than complete sets of general purpose financial statements of listed entities. The auditor may also be required by law, regulation or national auditing standards, or may decide to include additional information beyond the engagement partner’s name in the auditor’s report to further identify the engagement partner, for example the engagement partner’s professional license number that is relevant to the jurisdiction where the auditor practices.
- A62. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a security threat that, if the identity of the engagement partner is made public, could result in physical harm to the engagement partner or other individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions about these circumstances with those charged with governance may provide the auditor additional information about the likelihood or severity of a security threat. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to the potential security threat. Law, regulation or national auditing standards may establish further requirements relevant to invoking the harm’s way exemption.

Signature of the Auditor (Ref: Para. 45)

- A63. 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.
- A64. In some cases, law or regulation may allow for the use of electronic signatures in the auditor’s report.

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<sup>33</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements*, paragraph 32

Date of the Auditor's Report (Ref: Para. 47)

- A65. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ISA 560.<sup>34</sup>
- A66. 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.
- A67. In some jurisdictions, law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the auditor may obtain evidence that those with the recognized authority have asserted that they have taken responsibility for the financial statements by considering the procedures the entity follows in preparing and finalizing its financial statements and related notes in view of its management and governance structure. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.
- A68. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of ISAs is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

*Auditor's Report Prescribed by Law or Regulation* (Ref: Para. 48)

- A69. ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs.<sup>35</sup> Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in paragraphs 20–47 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 48(a)–(n) are included in the auditor's report, the auditor's report may refer to International Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have

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<sup>34</sup> ISA 560, *Subsequent Events*, paragraphs 10–17

<sup>35</sup> ISA 200, paragraph A55

complied with the requirements of the ISAs, even when the layout and wording used in the auditor’s report is 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 in more readily recognizing the auditor’s report as a report of an audit conducted in accordance with ISAs.

- A70. Law or regulation may require the auditor to provide additional information about the audit that was performed, which may include information that is consistent with the objectives of proposed ISA 701, or may prescribe the nature and extent of communication about such matters.
- A71. The ISAs do not override law or regulation that governs an audit of financial statements. When proposed ISA 701 is applicable, reference can only be made to ISAs in the auditor’s report if, in applying the law or regulation, the section required by paragraph 48(g) of this ISA is not inconsistent with the reporting requirements in proposed ISA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor’s report required by proposed ISA 701, for example by:
- Modifying the heading “Key Audit Matters”, if law or regulation prescribes a specific heading;
  - Explaining why the information required by law or regulation is being provided in the auditor’s report, for example by making a reference to the relevant law or regulation and describing how that information relates to the key audit matters;
  - Where law or regulation prescribes the nature and extent of the description, supplementing the prescribed information to achieve an overall description of each key audit matter that is consistent with the requirement of paragraphs 12–13 of proposed ISA 701.
- A72. ISA 210 deals with circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor’s report in terms that are significantly different from the requirements of ISAs, which in particular includes the auditor’s opinion. In these circumstances, ISA 210 requires the auditor to evaluate:
- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
  - (b) Whether additional explanation in the auditor’s report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor’s report cannot mitigate possible misunderstanding, ISA 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ISA 210, an audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor does not include any reference in the auditor’s report to the audit having been conducted in accordance with International Standards on Auditing.<sup>36</sup>

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<sup>36</sup> ISA 210, paragraph 21

Considerations specific to public sector entities

A73. Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of proposed ISA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by proposed ISA 701 or include a reference in the auditor's report to a description of the matter in the supplementary report.

*Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing* (Ref: Para. 49)

A74. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards when, in addition to complying with the relevant national auditing standards, the auditor complies with each of the ISAs relevant to the audit.<sup>37</sup>

A75. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the reporting 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 or Other Matter paragraph that, in the particular circumstances, is required by ISAs. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

**Supplementary Information Presented with the Financial Statements** (Ref: Para. 51–52)

A76. 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.

A77. Paragraph 51 of this ISA explains that the auditor's opinion covers supplementary information that is an integral part of the financial statements because of its nature and how it is presented. This evaluation is a matter of professional judgment. To illustrate:

- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial statements, the

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<sup>37</sup> ISA 200, paragraph A56

auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

- A78. Supplementary information that is covered by the auditor’s opinion does not need to be specifically referred to in the auditor’s report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor’s report is sufficient.
- A79. 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.
- A80. 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.”
- A81. 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 placing the unaudited notes together at the end of the required notes to the financial statements and clearly labeling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.
- A82. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in proposed ISA 720 (Revised).<sup>^</sup>

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<sup>^</sup> Conforming amendments to this paragraph were proposed in the April 2014 Exposure Draft of proposed ISA 720 (Revised). The IAASB will consider feedback from that consultation in finalizing proposed ISA 720 (Revised). The changes are included here for reference on the proposed direction.

## Appendix

(Ref: Para. A19)

### Illustrations of Independent Auditor’s Reports on Financial Statements

- Illustration 1: An auditor’s report on financial statements of a listed entity prepared in accordance with a fair presentation framework
- Illustration 2: An auditor’s report on consolidated financial statements of a listed entity prepared in accordance with a fair presentation framework
- Illustration 3: An auditor’s report on financial statements of an entity other than a listed entity prepared in accordance with a fair presentation framework (where reference is made to material that is located on a website of an appropriate authority)
- Illustration 4: An auditor’s report on financial statements of an entity other than a listed entity prepared in accordance with a general purpose compliance framework

**Note:** The above listed illustrative auditor’s reports included in the Appendix to proposed ISA 700 (Revised) that formed part of the IAASB’s ED have not been reproduced in this paper. Illustration 2 is presented at **Agenda Item 2-D** and is marked to show changes from the IAASB’s ED version. With input from the IAASB at its June 2014 meeting, DT-700 plans to further refine Illustration 2 and all the other illustrative auditor’s reports for the IAASB’s consideration at its September 2014 meeting.