Mr. J.M. Sylph  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York 10017  
New York  
USA

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Dear Mr Sylph

Response to IAASB Exposure Draft – Auditor’s Report


We strongly support the proposed revised ISA 700 and related amendments to other ISAs. There are a few matters where, in our opinion, there is a need for greater clarity before finalising the ISAs but, on balance, we believe the proposed revisions to the standards and guidance are both important and helpful to practitioners. In appendices to this letter, we also offer a number of suggestions for IAASB’s consideration in finalising the wording of some of the paragraphs.

Overall comments

Following the Enron and WorldCom debacles and their aftermath, there has been increased public attention on the need for high quality international auditing standards and indeed on the entire audit process itself.

Given the visibility of the auditor’s report — being the final product of any audit process that communicates findings to stakeholders — we concur with the IAASB view that consistent and generally accepted guidance on the form and content of the auditor’s report is an important step in gaining both stakeholders’ and auditors’ understanding and acceptance of audits conducted in accordance with the ISAs. It is interesting to note that the recently released proposed Directive on
Statutory Audits in the EU reconfirmed the EU’s intent to adopt the ISAs for statutory audits in Europe as a basis for securing recognition of EU audited financial statements in other jurisdictions.

While much of the debate on the Exposure Draft will undoubtedly focus on the proposed wording of the auditor’s report, in our view, the importance of the supporting guidance proposed in the Exposure Draft should not be underestimated. We welcome the addition of guidance on forming the auditor’s opinion at the conclusion of the audit, on the acceptability of the financial reporting framework, on supplementary information included with the financial statements, and on the auditor’s performance and reporting responsibilities when the auditor has conducted the audit in accordance with both ISAs and relevant national auditing standards.

With respect to the proposed audit report wording, we agree in principle that consistency in the content, the layout and the wording of the auditor’s report for ISA audits will serve to promote credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognised standards. While the ISA defines the elements that should be included in the auditor’s report and provides a model report, it allows flexibility for the report wording when the audit has been conducted in accordance with both ISAs and national auditing standards. We agree with this approach. Although there is strong pressure for convergence, in the immediate future differences between national standards and regulations are likely to exist. We believe that the proposed revised ISA 700 strikes an appropriate balance in this regard.

We also believe that clearly identifying and distinguishing other reporting responsibilities from the auditor’s responsibilities for, and opinion on, the financial statements supports the IAASB goals of global convergence and increased transparency and we are strongly supportive of this reporting model in the context of ISA audit reports. Subject to specific comments discussed later in our response, we are also generally comfortable with the proposed wording of the auditor’s report.

In the context of these opening comments, the following are the issues where we believe there is need for greater clarity before finalising ISA 700.

**Reasonable assurance**

The audit opinion is formed on whether the auditor has obtained reasonable assurance that the financial statements taken as a whole are free from material misstatement. In our response to the Exposure Draft of the proposed revision to ISA 240, “The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements” dated 15 November 2003, we articulated that there is a need for a consistent view of what is meant by reasonable assurance. There are varying views within the profession that could result in different interpretations of the ISAs and, in particular, how they are implemented in practice. By virtue of its reference in the auditor’s report, the visibility of reasonable assurance to users is heightened. In the absence of appropriate explanation, users of auditors’ reports on financial statements may also interpret the concept differently, which will only serve to exacerbate the expectation gap.
The proposed description of the auditor’s responsibilities includes the phrase “Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free of material misstatement, whether due to fraud or error.”

We welcome the clarification to the existing ISA 700 auditor’s report wording that reasonable assurance is not absolute assurance.

On the other hand, we can see advantages and disadvantages to the addition of the phrase “whether due to fraud or error”. It reflects the description of our responsibilities as set out in the ISAs and serves to emphasise that the auditor’s focus is on material misstatements, whatever the cause. Furthermore, since the proposed expanded description of management’s responsibilities includes a reference to management’s responsibilities in relation to fraud, it could be argued that the description of the auditor’s responsibilities should explain the auditor’s responsibilities in relation to fraud. However, there is a risk that readers may draw unwarranted assurance from the brief reference to fraud in the auditor’s report — which will only fuel the expectation gap. There are a number of paragraphs in the recently approved ISA 240 that explain the inherent limitations of an audit in the context of fraud. It is difficult to encapsulate that discussion in the auditor’s report. It may be for these reasons that the phrase “whether due to fraud or error” was not included in the description of the auditor’s overall responsibilities in the extant ISA 700 audit report nor is it included in the audit reports of the majority of jurisdictions around the world.

Whether or not one supports the inclusion of the phrase “whether due to fraud or error”, it undeniably brings into sharp focus the debate as to whether reasonable assurance relates to the absence of misstatements in the financial statements as a whole whatever the cause of those misstatements, or whether it is a variable concept in that what is reasonable in respect to error is different than what is reasonable in respect to fraud. This is not an issue that can remain unchecked without jeopardising the credibility of auditors’ reports on a global basis in the long run.

We strongly encourage the IAASB Task Force that is currently looking at reasonable assurance to conclude its deliberations and engage in public debate on this issue as soon as practicable. We anticipate that the debate may result in further changes to the auditor’s report in future to better explain reasonable assurance. In the meantime we wonder whether the use of the phrase “whether due to fraud or error” may not lead to more confusion rather than less.

Auditor’s duty of care

In this increasingly litigious environment, the auditor’s responsibility and what defines the scope and limitations of the auditor’s duty of care are critical. Whilst in some countries there are legal or regulatory remedies that provide adequate safeguards to support consistent interpretation and application, in other countries it has proved necessary to use the audit report (that is specifically designed in the context of the applicable legal and regulatory framework) to define the scope and limitations of the auditor’s duty of care.

We do not believe the ISA provides sufficient flexibility to meet this need. Paragraphs 17 and 18 require the auditor’s report to “be addressed as required by the circumstances of the engagement”, and explain that the report is addressed to “those for whom the report is prepared” (acknowledged
to be often specified in national laws or regulations). However, the guidance is silent with respect to whether or not additional clarification on the scope of the auditor’s duty of care can be added in the body of the auditor’s report. The ISA does offer guidance where the auditor has a responsibility to report on other matters (Paragraph 40-43), but it is clear that such other matters must be distinguished from the auditor’s responsibilities in the audit opinion (Paragraph 42). This will not meet the needs of those jurisdictions where it is argued duty of care is best explained in the description of the auditor’s responsibilities.

Furthermore, the proposed revised ISA 700 encourages consistency in the content, the layout and the wording of the auditor’s report (Paragraph 14). This might be interpreted to suggest that additional wording cannot be added to the body of the audit report or that it should be limited to an explanatory paragraph at the end of the report. Whilst we applaud the principle of consistency to make ISA audit reports readily recognisable, and believe departures from the ISA should be the exception rather than the rule, we are of the view that there are certain circumstances, such as those described above, when it is important to include additional wording in the body of the audit report.

We believe that the auditor’s duty of care is one of the areas that warrant greater flexibility. In fact, when the addressee alone does not define the parameters of the auditor’s duty of care, it is in the public interest to explain those parameters more fully in the auditor’s report so that readers are not misled. Accordingly, we strongly encourage the IAASB to expand the guidance in Paragraph 18 to acknowledge that, in certain jurisdictions, there may be a need to clarify the scope and limitations of the auditor’s of duty of care in the audit report because the legal or regulatory framework in that jurisdiction does not provide adequate safeguards to support consistent interpretation otherwise. Such clarification might, for example, entail expanding the auditor’s report to clarify to whom the report and opinion have been prepared, (including any limitations on those to whom the auditor accepts or assumes responsibility) and the legal and regulatory parameters within which the auditor is able to express an opinion. We would suggest that such language might best be included in the description of the auditor’s responsibilities or, alternatively, IAASB might conclude that it would be preferable to allow such language in the introductory paragraph.

**Concluding on reasonable basis in the scope of the audit**

We suggest deleting the paragraph directly above the ‘Opinion’ paragraph that states: “We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements.” The auditor would not be able to express an opinion on the financial statements if the auditor had not obtained a reasonable basis for the opinion. Therefore, the sentence is redundant.

Further, although included in the section on the auditor’s responsibilities, the sentence is neither a description of the work the auditor performs nor an integral part of the description of the auditor’s responsibility. Rather the paragraph is more conclusive than descriptive and yet, as noted above, in our view, does not add anything further to the auditor’s opinion. For these reasons, we believe it should be deleted.
Two-part reporting model for other reporting responsibilities

We welcome the new guidance in the proposed revised ISA 700, which clarifies that where the auditor has “other reporting responsibilities” they need to be clearly identified and distinguished from the auditor’s responsibility for, and opinion on, the financial statements. From the perspective of global convergence, a common audit report wording and structure for ISA audits is difficult to dispute. Consequently, we question why this two-part reporting structure isn’t mandated for ISA audits and recommend that, in the case of audits conducted in accordance with ISAs alone, the “two-part reporting model” should be mandated when reporting on additional matters.

Auditor’s report date

In many jurisdictions, there are clearly defined entity and auditor approval processes built into corporate governance and company law that determine the audit report date – which could be a date more specific than the “date on which the auditor has obtained sufficient appropriate audit evidence to support the auditor’s opinion”. In fact, it could arguably be later.

The guidance in Paragraph 45 suggests that the date of the auditor’s report is linked to the point at which the “auditor has completed the work necessary to support the auditor’s opinion on the financial statements”. In addition, the guidance in the proposed revised ISA 700 and the proposed conforming amendments in ISA 560 note that the date of the auditor’s report will be “the same as the date of approval of the financial statements, but it could be later”. Both of which are useful and are perhaps more consistent with the circumstances when the approval process is more specifically defined and linked to an entity approval processes.

Most jurisdictions should be able to work with the proposed definitions. It may not result in consistent application globally but that may not be achievable while there remain such fundamental differences in corporate governance regulations regarding the approval and release of audited financial statements. We therefore support the proposed approach but suggest that further clarification should be included in the proposed revised ISA 700 on the fact that auditors need to be cognisant of national laws and regulations in interpreting the guidance.

Guidance on matters the auditor considers when forming an opinion at the conclusion of the audit

We welcome the new section in the guidance that deals with matters the auditor needs to consider when reflecting, at the end of the audit process, on the “fair presentation” of the financial statements as a whole, but note there is some inconsistency in the guidance and offer some suggestions that we believe would improve the guidance in these paragraphs.

We support the view that when making independent judgements on the presentation of the financial statements as a whole (as described in Paragraph 7), this should include a review of the financial reporting framework. In this regard the financial reporting framework is used as a benchmark. Paragraph 10 of the proposed revised ISA 700 makes this clear commitment to how the auditor makes judgements on audit evidence obtained by separating the term “fair presentation” from the term “financial reporting framework” as follows: “the auditor makes these judgments by
considering the entity’s compliance with specific requirements of the financial reporting framework and the fair presentation of the financial statements as a whole”.

However, contradictory to this statement in Paragraph 10, the matters identified in Paragraph 9 that the auditor should consider when “making these judgements”, are all related or connected to the financial reporting framework with the exception of the last point, which considers sufficient disclosures.

We accept that fair presentation and the financial reporting framework cannot be separated totally, given that the “fairness” of the financial statements needs to be broadly made within the context of the framework. However, we are concerned that the guidance in Paragraph 9 links the auditor’s responsibility to examine the fair presentation of the financial statements too closely with the test of appropriateness, or otherwise, of the framework.

We also believe that the rare circumstance, when an override of the financial reporting framework is needed in order to give a true and fair view, or present fairly, should be discussed on its own. Disclosures in addition to those specifically required by the framework that are necessary in order to understand the impact of particular transactions or events that have a material effect on the financial statement presentation would, in most circumstances, be considered within the financial reporting framework. It is confusing and potentially misleading to deal with both situations together.

We believe that amendments to the proposed wording of the paragraphs set out in Appendix II would better convey the important messages in this section.

Financial reporting framework

Guidance in Paragraphs 36 to 46 in ISA 200 attempt to define what is an applicable financial reporting framework and ISA 210 offers guidance as to what an auditor should do when accepting an engagement if the auditor questions the acceptability of the financial reporting framework identified by management. However, although it is inferred in the guidance as to what a “financial reporting framework” is, we question whether the term is sufficiently well defined. We believe that the guidance in Paragraphs 36 to 46 of ISA 200 and indeed Paragraphs 10 to 18 in ISA 210 would be better supported by a definition of the financial reporting framework. We suggest that the following definition of a “financial reporting framework” could be included following Paragraph 35 of ISA 200:

“A financial reporting framework comprises the conventions, principles, accounting standards, and interpretative guidance that define the accepted accounting practice in a particular jurisdiction at a particular time. It may include, but is not limited to, a conceptual framework of interrelated objectives and fundamentals that underlie the development of accounting standards and may also include a description of the sources of accounting principles and guidance if the framework is considered to be comprised from a number of different sources. In the case of the International Financial Reporting Standards, for example, it would include the Framework for the Preparation and Presentation of Financial Statements as well as the International Financial Reporting Standards and Interpretations of those Standards.”
We understand that Paragraphs 38 to 46 identify the matters an auditor might consider when determining whether the applicable financial reporting framework identified by management is acceptable, however, the title of this section “Applicable Financial Reporting Framework” might be misunderstood to imply the Paragraphs 38 to define what is applicable, yet this is dealt with in Paragraph 36. We therefore suggest that a sub-title of “Determining the acceptability of the applicable financial reporting framework” preceding Paragraph 37, would avoid any misunderstanding.

**Concluding remarks**

In conclusion, we would like to reiterate our support for the proposed revised ISA 700 and the related conforming amendments. We recognise the significant effort involved in developing these proposed revisions and commend IAASB for tackling a number of complex and controversial matters. A consistent approach to auditor’s report on general purpose financial statements and related reporting issues is particularly important as more and more countries adopt the ISAs for statutory audits. The auditor’s report is a topic on which practitioners and stakeholders alike have strongly held views and we do not underestimate the challenge IAASB may yet face in reconciling the various views it receives on this exposure. While we have outlined a few issues which we encourage IAASB to consider before finalising the ISAs, overall, we believe that the Exposure Draft strikes the right balance and is the appropriate revision at this point in time.

Looking further into the future, we can foresee an opportunity for the accountancy profession to consider the future evolution of the audit and the auditor’s report. As stakeholders increasingly seek assurance on a broader range of business performance measures and processes, and new regulatory and legal requirements push the boundaries of the traditional statutory audit, our traditional audit reporting model may need a more fundamental revision. We believe there is an opportunity for the IAASB to take leadership in considering more extensive amendments to the structure of, and even the purpose and role of, the audit report in the future. IAASB is well positioned to undertake this task, which would be consistent with the overall goal of further developing credibility and public confidence in the profession.

Please contact either Diana Hillier (+44 (0)20 7804 0472) or Josephine Jackson (+44 (0)20 7212 2547) if you would like to discuss any of these comments further.

Yours sincerely

PricewaterhouseCoopers
Appendix I

Detailed comments on paragraphs

ISA 700

Header We suggest the headers on pages 9 to 20 of the exposure draft should be consistent with the title of the document as follows: “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”.

Paragraph 6 Paragraphs 5, 35 and 7 define the objective of an audit as to enable the auditor “to express an opinion on whether the financial statements comply with a financial reporting framework”. Paragraph 6 then states that the “terms used” to express compliance are “give a true and fair view” or “presents fairly…”. However, according to the guidance in Paragraphs 8 to 11 the auditor is expected to consider other matters in the context of the fair presentation of the financial statements as a whole that might be considered to be outside of the financial reporting framework when forming an opinion (Paragraph 9). This might be interpreted as inconsistent guidance with the defined objective in Paragraphs 5 and 6. A subtle change to Paragraph 6 would help to remove the suggestion that “fair” is just a matter of terminology and would be a better link with all three sections (Paragraph 5, 6 and part 8 to 11), as follows:

“6. The terms used to express the auditor’s opinion on an audit of a complete set of general purpose financial statements (for purposes of this ISA referred to as financial statements) is either “give a true and fair view” or “presents fairly, in all material respects”, which are considered to be equivalent. Which of these phrases the auditor uses will be determined by the law or regulations governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction as reflected, for example, in national auditing standards.”

Paragraph 8 The introduction to the proposed revised ISA 700 in Paragraph 1 highlights the important aspects of the ISA, namely the guidance on the report that is issued as a result of the audit, the applicable accounting framework and in the last sentence, the matters the auditor considers when forming an opinion. Given the importance of the matters the auditor must consider in these final stages of the audit, we would recommend that Paragraph 8 should be bold-lettered.

Paragraph 10 This paragraph says “compliance with a specific requirement in the framework may result in financial statements that are so misleading that they fail to give a true and fair view”. We are concerned about creating new terms and concepts that are not reflected in current standards and suggest that the reference to “so misleading” be replaced with “misleading”. This maintains consistency throughout the ISAs on the use of the term misleading.
Paragraph 12
This paragraph appears to fall under the general heading of “Forming the Opinion on the Financial Statements”, despite the attempt to separate it by including the guidance as bold-lettered. It would be better placed in a section of the proposed revised ISA 700 that deals with the practicalities of preparing an audit opinion rather than the process. We would suggest splitting the paragraph into two parts. The first part “The auditor’s report should be in writing”, could precede Paragraph 51 under the header, the “Auditor’s Report”. The second part could precede Paragraphs 5 and 6 in the section titled: “The Auditor’s Opinion on Financial Statements”, as follows: “The auditor’s report should contain a clear expression of the auditor’s opinion on the financial statements”.

Paragraph 16
We believe the term “independent” is missing from the last part of the sentence as follows, “distinguishes the independent auditor’s report from reports issued by others”.

Paragraph 20
Both the second sentence of Paragraph 20 and the first sentence of Paragraph 60 suggest that the identification of page numbers in the financial statements may help differentiate audited statements from unaudited statements. However, this guidance applies only in circumstances where paper based annual reports are presented (including computer ‘page’ viewing technology) and/or the specific format indicated by the ISA is adopted. Accordingly we suggest the guidance is extended to consider the situations where number formatting is appropriate. For example:

“20. ...When the auditor is aware that the 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 financial statements are presented. This will help readers to distinguish between the financial statements to which the auditor’s report relates from unaudited information contained in the document”.

Paragraph 27
The last sentence of this paragraph could be interpreted as implying that those charged with governance are not management, which in some jurisdictions is not always true. There are many circumstances where senior management also fill the role of those “charged with governance”. To avoid any such interpretation, we suggest the latter part of the sentence is removed as follows: “For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors) rather than to management.”

Paragraph 35
To assign the term “presents fairly, in all material respects” to brackets could be interpreted as assigning a higher status to the term, “give a true and fair view”. We believe this is inconsistent with the description in Paragraph 6 and extant ISA 700. We suggest the wording should be amended as follows: “An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view or presents fairly, in all
material respects” in accordance with the applicable financial reporting framework”. This comment has implications for other paragraphs in the proposed revised ISA 700 (eg. Paragraph 7, 10 etc).

Paragraph 47  The period in which the auditor forms an opinion on the financial statements, includes the period between the date of the financial statements and the date of the auditor’s report. During this time “events” may occur that will affect the auditor’s decisions. We believe it would be useful making reference to this particular point rather than just directing the user to ISA 560, “Subsequent Events” for guidance. This can be achieved by amending Paragraph 47 as follows:

“47. The auditor should consider the effect of subsequent events when forming an opinion on the financial statements. ISA 560, “Subsequent Events” defines the date of approval of the financial statements and how it relates to other important dates that influence the auditor’s responsibilities regarding subsequent events.”

Paragraph 50  We believe the reference to the specific location as ordinarily being a “city” does not adequately convey the diversity of the locations of international auditing practices. Accordingly we recommend amending the guidance to remove the reference “ordinarily a city”.

Paragraph 51  We have a few suggestions regarding wording in Paragraph 51.

The grammatical structure of the management’s responsibility paragraph in the audit opinion needs revision because it might be misinterpreted in its current form. We suggest using a colon as follows: “This responsibility includes: maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; …”.

There is a reference to 'accounting' estimates in the management’s responsibilities paragraph that is not echoed in the auditor’s responsibilities paragraph and should be inserted in the latter paragraph as follows: “An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation and disclosures”.

ISA 200

Paragraphs 10-18 These paragraphs consider the effect on the terms of the engagement when identifying the applicability of the financial reporting framework. The guidance in Paragraph 12 states that if the auditor concludes that the financial reporting framework is not acceptable, the engagement should not be accepted. However, the guidance is somewhat contradictory because in Paragraph 13 it is suggested
that in such circumstances, the auditor should discuss the deficiencies with management and the need for management to adopt a more suitable framework. We suggest that there should be greater clarity in the guidance regarding when the auditor should not accept the engagement. This may simply be a matter of changing the guidance so it is clear that where the framework is not considered suitable by the auditor and, despite discussions, management’s choice of financial reporting framework remains unchanged, the engagement should not be accepted.

Paragraph 16

The second sentence of Paragraph 16 states that “an attitude of professional scepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances”. As noted earlier, we are concerned about creating new terms that are not reflected in current standards and “suspicious circumstances” is not a term used elsewhere. Accordingly we suggest replacing the phrase with “unusual circumstances”. This term is more common to the ISAs and is found in ISA 700, ISA 200 and ISA 560 of this exposure.

Paragraph 44

The guidance in Paragraph 44 suggests that there may be a need for the entity to identify a financial reporting framework in the situation where it is registered or operating in a jurisdiction that does not have an authorised or recognised national standards setting organisation. Whilst we support the guidance in Paragraphs 44(a) to 44(f) in offering guidance as to whether such a financial reporting framework is acceptable, we do not believe that the second sentence in Paragraph 44, “The entity’s choice is governed by local practice, industry practice, user needs, or other factors”, is appropriate as it gives management the opportunity to adopt a framework that is suitable for its circumstances but may not properly present the financial position, financial performance or cash flows of the entity. Furthermore, it undermines international attempts to promote consistency in the application of financial reporting frameworks. Accordingly we suggest the sentence is removed entirely.

In addition, the fourth sentence of Paragraph 44 uses the term “in fact acceptable” as follows: “whether a financial reporting framework is in fact acceptable”. We do not believe there is any differentiation between “acceptable” and “in fact acceptable” and believe the proposed revised ISA 700 should support common terms throughout and therefore remove “in fact” from this sentence.

ISA 560

Paragraph 4

The guidance in Paragraph 4(c), “Date of the auditors report” suggests that despite the fact “the auditor may not yet have fulfilled all responsibilities related to the audit, for example, the auditor may not yet have had an opportunity to communicate the audit matters of governance interest that arose from the audit to those charged with governance.” the auditor has still
“completed the work necessary to support the auditor’s opinion on the financial statements.” We believe it would be presumptuous of the auditor to suggest that sufficient appropriate audit evidence had been obtained prior to management’s (or those charged with governance) approval of the financial statements. The guidance does attempt to illustrate that the auditor’s date of approval could be the same as management’s “date of approval of the financial statements”, or even later, but the guidance is still open to misinterpretation. We suggest the definition is amended so that it is consistent with Paragraph 45 of the proposed revised ISA 700.
Appendix II

Proposed amendments to paragraphs 8-12 of the proposed revised ISA 700

“Forming the Opinion on the Financial Statements

8. In forming the opinion, the auditor considers all audit evidence obtained and evaluates whether, based on that evidence, the auditor has obtained reasonable, but not absolute, assurance that the financial statements taken as a whole are free from material misstatement. The auditor considers the sufficiency and appropriateness of audit evidence obtained, and evaluates the effects of misstatements identified.

9. The auditor considers whether, in the auditor’s judgment:

(a) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate in the circumstances;

(b) The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable;

(c) The financial statements reflect the underlying transactions and events in a manner that fairly presents the financial information in accordance with the applicable financial reporting framework, and

(d) The financial statements provide sufficient disclosures to enable users to understand the impact of particular transactions or events that, as a result of their size, nature or incidence, have a material effect on, in the case of financial statements prepared in accordance with IFRS, for example, the entity’s financial position, financial performance and cash flows and disclosure is necessary to understand that impact.

10. The auditor makes these judgments by considering the entity’s compliance with specific accounting and reporting requirements of the financial reporting framework for particular transactions and events and the fair presentation of the financial statements as a whole. The application of financial reporting frameworks that the auditor has determined to be acceptable for general purpose financial statements will ordinarily result in financial statements that achieve a fair presentation. In most circumstances, proper application of the framework includes consideration of whether there are any disclosures in addition to those specifically required by the framework that are necessary in order to understand the impact of particular transactions or events that have a material effect on the financial statement presentation.

10. In extremely rare circumstances, failure to disclose relevant information not specifically contemplated by the financial reporting framework, or in extremely rare circumstances, compliance with a specific requirement in the framework itself, may result in financial statements that are misleading and fail to give a true and fair view of (or present fairly, in all material respects) for example, in the case of financial statements prepared in accordance with
International Financial Reporting Standards (IFRS), the financial position, financial performance or cash flows of the entity. In these circumstances, the auditor discusses with management its responsibilities under the financial reporting framework. Some financial reporting frameworks acknowledge that there may be circumstances when it is necessary for the financial statements to disclose information not specifically contemplated by the financial reporting framework, or extremely rare circumstances when it is necessary for the financial statements to depart from a specific requirement in the framework in order to achieve the objective of fair presentation of the financial statements. Those financial reporting frameworks often provide guidance on the disclosures required in such circumstances. Other financial reporting frameworks, however, may not provide any guidance on these circumstances. Therefore, if such circumstances arise, the auditor discusses with management how to deal with its responsibilities under the financial reporting framework.

11. The auditor considers the need to modify the auditor’s report, which will depend on how management has addressed the matter in the financial statements and how the financial reporting framework deals with these rare circumstances. The auditor must ensure that the information conveyed to readers in the financial statements when considered together with the auditor’s report is not misleading.

12. Ultimately, the auditor is guided by the ethical responsibility to avoid being associated with information where the auditor believes that the information contains a materially false or misleading statement, or omits or obscures information required to be included where such omission or obscurity would be misleading. Accordingly, in making a final judgment on the matter, the auditor needs to be satisfied that the information conveyed to readers in the financial statements when considered together with the auditor’s report is not misleading.