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International Standards on Auditing

Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

IAASB

International Auditing
and Assurance
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PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 700 (REVISED)

FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

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

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

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. Proposed ISA 701¹ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. Proposed ISA 705² (Revised) and proposed ISA 706³ (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 including proposed ISA 570 (Revised)⁴ 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 800⁵ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805⁶ 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.

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

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

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

⁴ Proposed ISA 570 (Revised), *Going Concern*

⁵ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁶ 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.⁷

- (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.⁸
8. Reference to “financial statements” in this ISA means “a complete set of general purpose financial statements, including the related notes.” The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements.
9. Reference to “International Financial Reporting Standards” in this ISA means the International Financial Reporting Standards issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting Standards” means the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board.

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(a)

⁸ Paragraphs 24–25 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.^{9,10}
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;¹¹
 - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;¹² and
 - (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
 - (a) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The accounting estimates made by management are reasonable;
 - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A4)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

⁹ ISA 200, paragraph 11

¹⁰ Paragraphs 24–25 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

¹¹ ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

¹² ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

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

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.
17. If the auditor:
 - (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,

the auditor shall modify the opinion in the auditor's report in accordance with 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. A11)
19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A12)

Auditor's Report

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

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

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A15)

Addressee

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

Auditor's Opinion

23. The auditor's report shall include a section with the heading "Opinion." (Ref: Para. A17)
24. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:
 - (a) 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. A18–A25)
25. 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. A22–A25)
26. If the reference to the applicable financial reporting framework in the auditor's opinion is not to International Financial Reporting Standards issued by the International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.
27. 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. A26–A27)

Basis for Opinion

28. The auditor's report shall include a section with the heading "Basis for Opinion" that:
 - (a) States that the audit was conducted in accordance with International Standards on Auditing; (Ref: Para. A28)
 - (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs;
 - (c) Includes a statement that the auditor is independent of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation] and has fulfilled the auditor's other responsibilities under those ethical requirements. If the independence and other ethical

responsibilities are established by different sources, then the second part of the statement shall also specify the source of the other relevant ethical requirements; and (Ref: Para. A29)

- (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

- 29. The auditor shall report in accordance with proposed ISA 570 (Revised).

Key Audit Matters

- 30. For audits of complete sets of general purpose financial statements of a listed entity, the auditor shall communicate key audit matters in the auditor's report in accordance with proposed ISA 701. When the auditor of a complete set of general purpose financial statements of an entity other than a listed entity is required by law or regulation to communicate key audit matters in the auditor's report or otherwise decides to do so, the auditor shall apply proposed ISA 701. (Ref: Para. A30–A31)

Other Information

- 31. The auditor shall report in accordance with proposed ISA 720 (Revised).¹³

Responsibilities for the Financial Statements

- 32. The auditor's report shall include a section with a heading using the appropriate term to describe those responsible for the preparation of the financial statements. This heading need not refer specifically to "management," but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A32)
- 33. This section of the auditor's report shall describe the respective responsibilities of those in the organization that are responsible for: (Ref: Para. A33–A35)
 - (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; and
 - (b) Oversight of the financial reporting process, where those responsible for oversight are different from those in (a).
- 34. Where 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.

¹³ Exposure Draft, Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

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."
36. The auditor's report shall state that:
 - (a) The objectives of the audit are to:
 - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
 - (ii) Issue an auditor's report that includes an opinion. (Ref: Para. A36)
 - (b) Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists; and
 - (c) Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
37. The auditor's report shall further: (Ref: Para. A37)
 - (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the planning and performance of the audit; and
 - (b) Describe an audit by stating 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, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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) 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) In circumstances where ISA 600¹⁴ applies, further describe an audit by stating that the auditor's responsibilities in a group audit 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; and
 - (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.

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

39. The description of the auditor's responsibilities required by paragraphs 37–38 shall be included within the body of the auditor's report or in an Appendix to the auditor's report. When the auditor's responsibilities are included in an Appendix, the body of the auditor's report shall make reference to the location of that Appendix. (Ref: Para. A38–A39)
40. Law, regulation or national auditing standards may expressly permit the auditor to refer to a website of an appropriate authority that contains a description of the auditor's responsibilities. When:
- (a) That description is not inconsistent with the requirements set out in paragraphs 37–38; and
 - (b) The auditor decides to refer to that website rather than include the description of the auditor's responsibilities in the auditor's report;
- the auditor shall include a reference in the auditor's report to clearly indicate where this description is located. (Ref: Para. A38, A40–A41)

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 clearly differentiated from reporting required by the ISAs. (Ref: Para. A42–A44)

Name of the Engagement Partner

42. The name of the engagement partner's shall be included in the auditor's report for audits of financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual. (Ref: Para. A45)

¹⁴ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Signature of the Auditor

43. The auditor's report shall be signed. (Ref: Para. A46–A47)

Auditor's Address

44. The auditor's report shall name the location in the jurisdiction where the auditor practices.

Date of the Auditor's Report

45. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A48–A51)
- (a) All the statements that comprise the financial statements, including the related notes, have been prepared; and
 - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

Auditor's Report Prescribed by Law or Regulation

46. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor'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. A52–A56)
- (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 the auditor is independent of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation] and has fulfilled the auditor's other responsibilities under those ethical requirements. If the independence and other ethical responsibilities are established by different sources, then the second part of the statement shall also specify the source of the other relevant ethical requirements.
 - (f) 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.¹⁵ In circumstances where law or regulation either requires or permits the auditor or those charged with governance to prepare a separate report including a description of such information, this section either includes a

¹⁵ Proposed ISA 701, paragraphs 9–11

description of the key audit matters, or refers to such a description in a report issued by those charged with governance, or in a supplementary report of the auditor. (Ref: Para. A53–A55)

- (h) 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 36–38.
- (k) For audits of 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.
- (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

- 47. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the "national auditing standards"), but may additionally have complied with the ISAs in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A57–A58)
 - (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs; and
 - (b) The auditor's report includes, at a minimum, each of the elements set out in paragraph 46(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 46(j) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards.
- 48. When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the jurisdiction of origin of the national auditing standards.

Supplementary Information Presented with the Financial Statements (Ref: Para. A59–A65)

- 49. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, 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. Where it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.
- 50. 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.

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.¹⁶ In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:
- The selective correction of misstatements brought to management's attention during the audit (for example, correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
 - Possible management bias in the making of accounting estimates.
- A3. ISA 540 addresses possible management bias in making accounting estimates.¹⁷ Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

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

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

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

- A5. As explained in ISA 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.¹⁸ That description is

¹⁶ Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

¹⁷ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21

important because it advises users of the financial statements of the framework on which the financial statements are based.

- A6. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- A7. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, “the financial statements are in substantial compliance with International Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

- A8. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (for example, the national framework and International Financial Reporting Standards). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (for example, International Financial Reporting Standards) as its own national framework, or has eliminated all barriers to compliance with it.
- A9. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework, are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.
- A10. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (for example, financial statements prepared in accordance with the national framework that also describe the extent to which they comply with International Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph 49, is considered an integral part of the financial statements and, accordingly, is covered by the auditor’s opinion.

Form of Opinion (Ref: Para. 18–19)

- A11. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.

¹⁸ ISA 200, paragraphs A2–A3

- A12. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA 210, the auditor determined that the framework is acceptable.¹⁹

Auditor's Report (Ref: Para. 20)

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

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

Title (Ref: Para. 21)

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

Addressee (Ref: Para. 22)

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

Auditor's Opinion (Ref. Para. 23–27)

Placement of the opinion section

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

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

- A18. The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this ISA for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.
- A19. 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

- A20. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements include: a balance sheet, an income statement, a statement of changes in

¹⁹ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

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.

- A21. 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 International Financial Reporting Standards, 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.

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

- A22. 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 ..."

- A23. 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.²⁰

- A24. As indicated in paragraph A8, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 24–25 refers to both frameworks as follows:

- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (for example, the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards). These opinions may be expressed separately or in a single sentence (for example, the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in Jurisdiction X and with International Financial Reporting Standards).
- (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (for example, the national framework) but a modified opinion given with regard to the other framework (for example, International Financial Reporting Standards) in accordance with proposed ISA 705 (Revised).

²⁰ ISA 210, paragraph 18

- A25. As indicated in paragraph A10, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 49–50 and related application material in paragraphs A59–A65). 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.

Reference to the financial statements that have been audited

- A26. 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.
- A27. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

Basis for Opinion (Ref: Para. 28)

- A28. 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.
- A29. 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.²¹ Although independence requirements in a group audit situation may be complex, ISA 600²² establishes requirements 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 independence requirements that are relevant to the group audit. However, the ISAs do not establish specific independence or ethical requirements for auditors, or component auditors, and thus do not extend, or otherwise override, the independence requirements of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (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 be subject to the same specific independence rules applicable to the group engagement team.

²¹ ISA 200, paragraphs 14 and 20

²² ISA 600, paragraphs 19–20

Key Audit Matters (Ref: Para. 30)

A30. ISA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and notes 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.²³ When agreeing the terms of engagement, if the auditor of an entity other than a listed entity intends to communicate key audit matters in the auditor's report, ISA 210 requires the auditor to acknowledge this in the terms of the audit engagement in order to inform management and those charged with governance of the auditor's intent.²⁴

Considerations specific to public sector entities

A31. Public sector entities may be significant due to size, complexity or public interest aspects, and may have a wide range of stakeholders. In such cases, an auditor of such an 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. 32–34)

A32. 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.²⁵ 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.

A33. 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.

A34. 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 210.²⁶ ISA 210 provides some flexibility by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in ISA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the

²³ ISA 210, *Agreeing the Terms of Audit Engagements*, paragraphs 9 and A21

²⁴ ISA 210, paragraphs 10(e) and A23a

²⁵ ISA 200, paragraph 13(j)

²⁶ ISA 210, paragraph 6(b)(i)–(ii)

auditor's report to describe the responsibilities as required by paragraph 33. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter; the wording of paragraph 33 is used. Where not prohibited, the auditor may elect to refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (for example, in the annual report of the entity or a website of an appropriate authority).

- A35. 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)²⁷), the descriptions in ISA 210 and in paragraph 33 do not make specific reference to them.

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

- A36. The auditor's report explains that the objective of an audit is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement to contrast it to management's responsibilities for the preparation for the financial statements.

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

- A37. The description of the auditor's responsibilities as required by paragraphs 37(b) and (c) 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).
- A38. Relocating certain information to an Appendix to the auditor's report, or a website of an appropriate authority, may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with ISAs, reference is to be made to where such information can be accessed.
- A39. For example, paragraph 39 permits the auditor to relocate the statements required by paragraphs 37–38 describing the auditor's responsibilities for the audit of the financial statements to an Appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the Appendix. The following is an illustration of how such a reference to an Appendix could be made in the auditor's report:

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

²⁷ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c)

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

- A40. The auditor may only refer to the description of the auditor's responsibilities located on a website of an appropriate authority if the requirements of paragraph 40 are met. The information included on the website may describe the auditor's work or the audit process in accordance with ISAs more broadly, but cannot be inconsistent with the description required by paragraphs 37–38 of this ISA.
- A41. An appropriate authority could be a national auditing standard setter, regulator, or an audit oversight body. Such organizations are well-placed to ensure the accuracy, completeness and continued availability of the standardized information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor's report:

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements that is part of this auditor's report is located at *[Organization's]* website at: *[website link]*.

Other Reporting Responsibilities (Ref: Para. 41)

- A42. 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.
- A43. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities within the auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
- A44. Distinguishing other reporting responsibilities from the auditor's responsibilities under the ISAs may be done in different ways, for example:
- By including a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, the auditor may consider it necessary to include a heading "Report on the Audit of the Financial Statements."

- In the same section where reporting on the matter in accordance with ISAs is presented, with wording in the auditor's report that clearly distinguishes between reporting required by the ISAs and other reporting required by law or regulation.

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

A45. Law or regulation may require that the name of the engagement partner responsible for audits of financial statements of entities other than listed entities be included in the auditor's report.

Signature of the Auditor (Ref: Para. 43)

A46. 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.

A47. In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

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

A48. 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 560.²⁸

A49. 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.

A50. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.

A51. 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

²⁸ ISA 560, *Subsequent Events*, paragraphs 10–17

on which those with the recognized authority determine that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

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

- A52. ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs.²⁹ Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in paragraphs 20–45 of this ISA. As explained in paragraph 4, consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements and ISAs relate only to the layout and wording of the auditor's report and, at a minimum, each of the elements identified in paragraph 46(a)–(n) are included in the auditor's report, the auditor's report may refer to International Standards on Auditing. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of ISAs, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements. Where specific requirements in a particular jurisdiction do not conflict with ISAs, adoption of the layout and wording, including the use of the titles of section headings, used in this ISA assists users of the auditor's report in more readily recognizing the auditor's report as a report of an audit conducted in accordance with ISAs.
- A53. 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. Alternatively, law or regulation may require those charged with governance (for example, an entity's Board of Directors or Audit Committee) to issue a report including a description of certain matters communicated to them by the auditor in connection with their oversight responsibilities. The auditor may then be required to report by exception when the report of those charged with governance does not appropriately address matters communicated by the auditor to those charged with governance, and to remedy such a deficiency by communicating the matter in the auditor's report.
- A54. 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 46(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 applicable, including a cross-reference in the auditor's report to a description of the matter included in the report of those charged with governance; or

²⁹ ISA 200, paragraph A55

- 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 paragraph 10 of proposed ISA 701.

A55. 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.³⁰

Considerations specific to public sector entities

A56. Auditors of public sector entities may also have the ability according 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. 47)

A57. 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.³¹

A58. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the requirements in ISAs and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

³⁰ ISA 210, paragraph 21

³¹ ISA 200, paragraph A56

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

- A59. 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.
- A60. Paragraph 49 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 auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.
- A61. 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.
- A62. 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.
- A63. 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."
- A64. 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.
- A65. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial

statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in proposed ISA 720 (Revised).[^]

[^] Conforming amendments to this paragraph were proposed in the Exposure Draft of proposed ISA 720 (Revised). The IAASB will consider feedback from that consultation in determining whether this change continues to be appropriate as it finalizes both proposed ISA 700 (Revised) and proposed ISA 720 (Revised).

Appendix

(Ref: Para. A14)

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

Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit conducted in accordance with ISA 600.
- The financial statements are prepared for a general purpose by management of the entity in accordance with International Financial Reporting Standards (IFRSs).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- No material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern has been identified in accordance with proposed ISA 570.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

Paragraph references below are to the relevant requirements in this ISA.

INDEPENDENT AUDITOR’S REPORT (para. 21)

To the Shareholders of ABC Company [or Other Appropriate Addressee] (para. 22)

Report on the Audit of the Financial Statements³²

Opinion (paras. 23–27)

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

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion (para. 28)

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of [*indicate relevant ethical requirements or applicable law or regulation*] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

³² The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

Key Audit Matters (para. 30 and paras. 9–11 of proposed ISA 701)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

The two specific topics and content presented below are purely for illustrative purposes. This section would be tailored to the facts and circumstances of the individual audit engagement and the entity. Accordingly, the IAASB has intentionally drafted these examples in a manner that illustrates that Key Audit Matters will vary in terms of the number and selection of topics addressed and the nature in which they may be described, and are intended to be consistent with the disclosures in the entity's financial statements.

Valuation of Financial Instruments

The Company's disclosures about its structured financial instruments are included in Note 5. The Company's investments in structured financial instruments represent [x%] of the total amount of its financial instruments. Because the valuation of the Company's structured financial instruments is not based on quoted prices in active markets, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. The Company has determined it is necessary to use an entity-developed model to value these instruments, due to their unique structure and terms. We challenged management's rationale for using an entity-developed model, and discussed this with *[those charged with governance]*, and we concluded the use of such a model was appropriate. Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances.

Revenue Recognition Relating to Long-Term Contracts

The terms and conditions of the Company's long-term contracts in its *[name of segment]* affect the revenue that the Company recognizes in a period, and the revenue from such contracts represents a material amount of the Company's total revenue. The process to measure the amount of revenue to recognize in the *[name of industry]*, including the determination of the appropriate timing of recognition, involves significant management judgment. We identified revenue recognition of long-term contracts as a significant risk requiring special audit consideration. This is because side agreements may exist that effectively amend the original contracts, and such side agreements may be inadvertently unrecorded or deliberately concealed and therefore present a risk of material misstatement due to fraud. In addition to testing the controls the Company has put in place over its process to enter into and record long-term contracts and other audit procedures, we considered it necessary to confirm the terms of these contracts directly with customers and testing journal entries made by management related to revenue recognition. Based on the audit procedures performed, we did not find evidence of the existence of side agreements. The Company's disclosures about revenue recognition are included in the summary of significant accounting policies in Note 1, as well as Note 4.

Going Concern (para. 29 and paras. 19–25 of proposed ISA 570 (Revised))

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we

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

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Other Information (para. 31)

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management³³ and Those Charged with Governance or other appropriate terms] for the Financial Statements (paras. 32–34)

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs,³⁴ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. *[Those charged with governance]* are responsible for overseeing the Company's financial reporting process.

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

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.

The shaded material below can be located in an Appendix to the auditor's report (see paragraph 39 of this ISA). When law, regulation or national auditing standards expressly permits, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report (see paragraph 40 of this ISA).

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit

³³ Throughout the illustrative auditor's reports in the Proposed ISAs, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

³⁴ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such ..."

evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.³⁵
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with *[those charged with governance]* regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide *[those charged with governance]* with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements (para. 41)

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

The engagement partner responsible for the audit resulting in this independent auditor's report is *[name]*.
(para. 42)

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction] (para. 43)

[Auditor Address] (para. 44)

[Date] (para. 45)

³⁵ This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

Illustration 2 – Auditor’s Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries conducted in accordance with ISA 600.
- The consolidated financial statements are prepared for a general purpose by management of the entity in accordance with IFRSs.
- The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- No material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern has been identified in accordance with proposed ISA 570.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Consolidated Financial Statements³⁶

Opinion

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

We have audited the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate

³⁶ The sub-title “Report on the Audit of the Consolidated Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

The four specific topics and content presented below are purely for illustrative purposes. This section would be tailored to the facts and circumstances of the individual audit engagement and the entity. Accordingly, the IAASB has intentionally drafted these examples in a manner that illustrates that Key Audit Matters will vary in terms of the number and selection of topics addressed and the nature in which they may be described, and are intended to be consistent with the disclosures in the entity's consolidated financial statements.

Goodwill

Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the assessment process is complex and highly judgmental and is based on assumptions that are affected by expected future market or economic conditions, particularly those in *[Countries X and Y]*. As a result, our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins for *[name of business lines]*. We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill. The Group's disclosures about goodwill are included in Note 3, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.

Valuation of Financial Instruments

The Group's disclosures about its structured financial instruments are included in Note 5. The Group's investments in structured financial instruments represent *[x%]* of the total amount of its financial instruments. Because the valuation of the Group's structured financial instruments is not based on quoted prices in active markets, there is significant measurement uncertainty involved in this valuation. As a result, the valuation of these instruments was significant to our audit. The Group has determined it is necessary to use an entity-developed model to value these instruments, due to their unique structure and terms. We challenged management's rationale for using an entity-developed model, and discussed this with *[those charged with governance]*, and we concluded the use of such a model was appropriate. Our audit procedures also included, among others, testing management's controls related to the development and calibration of the model and confirming that management had determined it was not necessary to make any adjustments to the output of the model to reflect the assumptions that marketplace participants would use in similar circumstances.

Acquisition of XYZ Business

As described in Note 2, in December 20X1, the Group completed the acquisition of XYZ Business. XYZ Business was a division of a large private company. As of December 31, 20X1 the Group has completed the

initial acquisition accounting on a preliminary basis. The Group will finalize the initial acquisition accounting during 20X2, and the amounts recorded as of December 31, 20X1 could change. We focused on this transaction because it is material to the consolidated financial statements as a whole and the fact that values had not previously been assigned to the division as a standalone operation. In addition, determining the assumptions that underlie the initial acquisition accounting and the useful lives associated with the acquired intangible assets involves significant management judgment given the nature of the *[name of industry]*.

Revenue Recognition Relating to Long-Term Contracts

The terms and conditions of the Group's long-term contracts in its *[name of segment]* affect the revenue that the Group recognizes in a period, and the revenue from such contracts represents a material amount of the Group's total revenue. The process to measure the amount of revenue to recognize in the *[name of industry]*, including the determination of the appropriate timing of recognition, involves significant management judgment. We identified revenue recognition of long-term contracts as a significant risk requiring special audit consideration. This is because side agreements may exist that effectively amend the original contracts, and such side agreements may be inadvertently unrecorded or deliberately concealed and therefore present a risk of material misstatement due to fraud. In addition to testing the controls the Group has put in place over its process to enter into and record long-term contracts and other audit procedures, we considered it necessary to confirm the terms of these contracts directly with customers and testing journal entries made by management related to revenue recognition. Based on the audit procedures performed, we did not find evidence of the existence of side agreements. The Group's disclosures about revenue recognition are included in the summary of significant accounting policies in Note 1, as well as Note 4.

Going Concern

The consolidated financial statements of the Group have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. As part of our audit of the consolidated financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Group's consolidated financial statements is appropriate.

Management has not identified a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and accordingly none is disclosed in the consolidated financial statements of the Group. Based on our audit of the consolidated financial statements of the Group, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Group's ability to continue as a going concern.

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management³⁷ and Those Charged with Governance or other appropriate terms] for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs,³⁸ and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. [*Those charged with governance*] are responsible for overseeing the Group's financial reporting process.

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

The objectives of our audit are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

The shaded material below can be located in an Appendix to the auditor's report (see paragraph 39 of this ISA). When law, regulation or national auditing standards expressly permits, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report (see paragraph 40 of this ISA).

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.³⁹
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements.

³⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

³⁸ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such ..."

³⁹ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide [*those charged with governance*] with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

[*Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1.*]

The engagement partner responsible for the audit resulting in this independent auditor's report is [*name*].

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

[*Auditor Address*]

[*Date*]

Illustration 3 – Auditor’s Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit conducted in accordance with ISA 600.
- The financial statements are prepared for a general purpose by management of the entity in accordance with IFRSs.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- No material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern has been identified in accordance with proposed ISA 570.
- The auditor is not required, and otherwise has not decided, to include key audit matters in accordance with proposed ISA 701.
- No other information is included with audited financial statements (i.e., proposed ISA 720 (Revised) does not apply).
- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor’s responsibility included on a website of an appropriate authority.

INDEPENDENT AUDITOR’S REPORT

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

Opinion

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

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of [*indicate relevant ethical requirements or applicable law or regulation*] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Responsibilities of [Management⁴⁰ and Those Charged with Governance or other appropriate terms] for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs,⁴¹ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. *[Those charged with governance]* are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities 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 the auditor's responsibilities for the audit of the financial statements that is part of this auditor's report is located at *[Organization's]* website at: *[website link]*.

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

[Auditor Address]

[Date]

⁴⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁴¹ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs, and for such..."

Illustration 4 – Auditor’s Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity other than a listed entity required by law or regulation. The audit is not a group audit conducted in accordance with ISA 600.
- The financial statements are prepared for a general purpose by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- No material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern has been identified in accordance with proposed ISA 570.
- The auditor is not required, and otherwise has not decided, to include key audit matters in accordance with proposed ISA 701.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Opinion

In our opinion, the accompanying financial statements of ABC Company (the Company) are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

We have audited the financial statements of the Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

[Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 1]

Other Information

[The illustrative wording for this section is subject to the IAASB’s finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor’s responsibilities

with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management⁴² and Those Charged with Governance or other appropriate terms] for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with XYZ Law of Jurisdiction X, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. *[Those charged with governance]* are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities 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.

The shaded material below can be located in an Appendix to the auditor's report (see paragraph 39 of this ISA). When law, regulation or national auditing standards expressly permits, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report (see paragraph 40 of this ISA).

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁴³
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We are required to communicate with *[those charged with governance]* regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

⁴² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁴³ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

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

[Auditor Address]

[Date]

PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 701

COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR’S REPORT

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

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Proposed International Standard on Auditing (ISA) 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*, 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*.

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to communicate key audit matters in the auditor's report.
2. Communicating key audit matters provides additional information to users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements, as such matters are areas of focus in performing the audit.
3. The communication of key audit matters in the auditor's report may also provide users of the financial statements a basis to further engage with management and those charged with governance about certain matters relating to the entity and the audited financial statements.
4. This ISA applies to audits of complete sets of general purpose financial statements of listed entities. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication. This ISA also applies when auditors of financial statements of entities other than listed entities communicate key audit matters in the auditor's report.

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 to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

Definition

7. For purposes of the ISAs, the following term has the meaning attributed below:

Key audit matters—Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Requirements

Determining Key Audit Matters

8. The auditor shall determine which of the matters communicated with those charged with governance are the key audit matters. In making this determination, the auditor shall take into account areas of significant auditor attention in performing the audit, including: (Ref: Para. A1–A14, A24)
 - (a) Areas identified as significant risks in accordance with ISA 315 (Revised)¹ or involving significant auditor judgment. (Ref: Para. A15–A19)
 - (b) Areas in which the auditor encountered significant difficulty during the audit, including with respect to obtaining sufficient appropriate audit evidence. (Ref: Para. A20–A21)
 - (c) Circumstances that required significant modification of the auditor's planned approach to the audit, including as a result of the identification of a significant deficiency in internal control. (Ref: Para. A22–A23)

Communicating Key Audit Matters

9. The auditor shall communicate the key audit matters determined in accordance with paragraph 8 in a separate section of the auditor's report under the heading "Key Audit Matters." The auditor's report shall state that:
 - (a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period];
 - (b) Key audit matters are selected from matters communicated with [those charged with governance], but are not intended to represent all matters that were discussed with them;
 - (c) The auditor's procedures relating to these matters were designed in the context of the audit of the financial statements as a whole; and
 - (d) The auditor's opinion on the financial statements is not modified with respect to any of the key audit matters, and the auditor does not express an opinion on these individual matters. (Ref: Para. A25–A29)
10. The auditor shall describe each key audit matter in the Key Audit Matters section using an appropriate subheading, except in the circumstances explained in paragraph 11. The description of each key audit matter shall include: (Ref: Para. A30)
 - (a) An explanation of why the auditor considered the matter to be one of most significance in the audit and, to the extent the auditor considers it necessary as part of this explanation, its effect on the audit; and (Ref: Para. A31–A41)
 - (b) A reference to the related disclosure(s), if any, in the financial statements. (Ref: Para. A42–A43)

¹ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report

11. A matter giving rise to a qualified or adverse opinion in accordance with proposed ISA 705 (Revised),² or the existence of a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") in accordance with proposed ISA 570 (Revised),³ is by its nature a key audit matter. However, the auditor shall:
 - (a) Report on these matter(s) in accordance with the applicable ISA(s);
 - (b) Not describe these matter(s) in the Key Audit Matters section of the auditor's report; and
 - (c) Include a reference to the Basis for Qualified (or Adverse) Opinion or the Going Concern section(s) in the introductory language of the Key Audit Matters section. (Ref: Para. A44–A45)

Communication with Those Charged with Governance

12. The auditor shall communicate with those charged with governance those matters the auditor has determined are the key audit matters to be included in the auditor's report. (Ref: Para. A46)

Circumstances in which the Auditor Has Determined There Are No Key Audit Matters

13. If the auditor determines that there are no key audit matters to communicate in the auditor's report, the auditor shall:
 - (a) Discuss this conclusion with the engagement quality control reviewer, for those engagements where one has been appointed;
 - (b) Communicate this conclusion with those charged with governance; and
 - (c) Explain in the auditor's report that this section of the auditor's report is intended to describe the matters communicated with those charged with governance that the auditor has determined, in the auditor's professional judgment, were of most significance in the audit of the financial statements and the auditor has determined that there are no matters to report. (Ref: Para. A47–A48)

Documentation

14. The auditor shall document the matters that will be communicated as key audit matters, and the significant professional judgments made in reaching this determination, in accordance with ISA 230.⁴ This includes, where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A49)

² Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs 7–8

³ Proposed ISA 570 (Revised), *Going Concern*, paragraphs 21–23

⁴ ISA 230, *Audit Documentation*, paragraphs 8(c) and A10

Application and Other Explanatory Material

Determining Key Audit Matters

The Auditor's Decision-Making Process to Determine Key Audit Matters (Ref: Para. 8)

- A1. Determining the key audit matters to communicate in the auditor's report is a matter of the auditor's professional judgment. The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters, from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit.
- A2. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance. For example, the auditor may have had more in-depth and frequent communications with those charged with governance on more difficult and complex matters.
- A3. ISA 320⁵ notes that it is reasonable for the auditor to assume that users of the financial statements:
 - (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
 - (b) Understand that the financial statements are prepared, presented and audited to levels of materiality;
 - (c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and
 - (d) Make reasonable economic decisions on the basis of the information in the financial statements.

Because the auditor's report accompanies the audited financial statements, the users of the auditor's report are considered to be the same as the users of the financial statements.

- A4. Users of the financial statements have expressed an interest in those matters about which the auditor and those charged with governance had the most robust dialogue as part of the two-way communication required by proposed ISA 260 (Revised)⁶ and have called for additional transparency about those communications. Therefore, a focus on "matters of most significance in the audit" and the application of the requirement in paragraph 8 of this ISA is intended to result in the auditor reporting on matters that are likely to be of interest to users.
- A5. Of the matters communicated with those charged with governance, users have expressed particular interest in understanding areas of significant auditor attention in performing the audit because they are often related to the areas of significant management judgment in preparing the financial statements. Users have also called for greater transparency about significant judgments made by the auditor in forming the opinion on the financial statements as a whole.

⁵ ISA 320, *Materiality in Planning and Performing the Audit*

⁶ Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*

- A6. The auditor may develop a preliminary view at the planning stage about matters that are likely to be the key audit matters in the audit and may communicate this with those charged with governance when discussing the planned scope and timing of the audit in accordance with proposed ISA 260 (Revised).
- A7. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of key audit matters, the less useful the auditor's communication of key audit matters may be. When the auditor has determined a long list of key audit matters, the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter.
- A8. The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented (i.e., even when the auditor's opinion refers to each period for which financial statements are presented).⁷ When comparative financial information is presented, as required by paragraph 9(a) the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended December 31, 20X1").
- A9. Notwithstanding that the auditor's communication of key audit matters is for the audit of the financial statements of the current period, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the previous period continues to be a key audit matter in the audit of the financial statements of the current period. For example, the auditor may consider whether any economic conditions or entity-specific circumstances that led to a matter being determined as a key audit matter in the prior period continue to exist. It may also be appropriate for the auditor to consider whether the significance of a key audit matter in the prior period has diminished, for example if the effects of a significant unusual transaction in the prior period are not material in the current period. Finally, it may be the case that, while a matter communicated as a key audit matter in the prior period continues to affect the financial statements of the current period, other matters arising during the current period audit may be considered to be relatively more significant and the prior period key audit matter may not, in the auditor's judgment, be considered to be among those of most significance in the current period's audit.

Relationship between Key Audit Matters and the Auditor's Opinion (Ref: Para. 8)

- A10. As explained in paragraph 11, matters giving rise to a modification of the auditor's opinion are, by their nature, key audit matters, notwithstanding that such matters are not presented in the Key Audit Matters section of the auditor's report.
- A11. When the auditor is expressing a qualified or adverse opinion, a discussion of any other key audit matters would still be relevant to enhancing users' understanding of the audit and therefore the requirement in paragraph 8 applies. However, proposed ISA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements.⁸

⁷ See ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

⁸ Proposed ISA 705, paragraph 29

Areas of Significant Auditor Attention (Ref: Para. 8)

- A12. The concept of significant auditor attention relates to the fact that an audit is risk-based and focuses on areas of higher assessed risks of material misstatement, including significant risks, and areas of complexity. This affects the allocation of resources or extent of audit effort in relation to such matters, in particular in relation to the extent of involvement of senior personnel on the audit engagement. The auditor may also have considered it necessary to involve persons with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, on the engagement, to address these areas. Matters that required significant hours by the engagement partner, or an auditor's expert, may be key audit matters.
- A13. ISA 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.⁹ The auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality control reviewer.¹⁰ Key audit matters are likely to have been discussed with, or evaluated by,¹¹ the engagement quality control reviewer, in particular those involving consultation.
- A14. Paragraph 8 includes certain areas of significant auditor attention that may be indicative of key audit matters. As the areas may be interrelated, the applicability of more than one of them in the context of a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.

Significant risks (Ref: Para. 8(a))

- A15. Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor.¹² Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. However, the identification of a matter as a significant risk, including a matter identified as a significant risk due to fraud, does not necessarily mean that such a matter will be determined to be a key audit matter.
- A16. In determining whether significant risks are key audit matters, it is likely that the auditor will give greater consideration to significant risks that have been specifically identified in the context of the entity, rather than to those that have been so identified only because they are presumed in the ISAs to be significant risks. For example, ISA 240 presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.¹³ In addition, ISA 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.¹⁴

⁹ ISA 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

¹⁰ ISA 220, paragraph 19

¹¹ ISA 220, paragraph 20

¹² Proposed ISA 260 (Revised), paragraph 15

¹³ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 26–27

¹⁴ ISA 240, paragraph 31

- A17. Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures.¹⁵ In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and therefore may be identified as significant risks. Accounting estimates with high estimation uncertainty are of interest to users of the financial statements because, among other things, they are highly dependent on judgment, may require the involvement of both a management's expert and an auditor's expert, and may be identified as significant risks.¹⁶ As a result, these areas of the audit may be considered key audit matters.
- A18. Significant unusual transactions, including significant transactions with related parties, and the auditor's response to them, also may be key audit matters about which communication in the auditor's report would be useful. When such a transaction exists, management or those charged with governance may have communicated the matter with the auditor prior to undertaking the transaction and at various stages throughout the audit. The auditor may have assessed the transaction as a significant risk and there may have been difficult judgments both by management and the auditor in relation to recognition, measurement, presentation or disclosure of the transaction.
- A19. Paragraph A12 of proposed ISA 260 (Revised) explains that the auditor may also communicate with those charged with governance about assessed risks of material misstatement other than identified significant risks that are anticipated to have the greatest effect on the overall audit strategy or on the audit plan, including on the efforts of the engagement team. Such matters may also be determined to be key audit matters.

Significant difficulty during the audit (Ref: Para. 8(b))

- A20. Proposed ISA 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.¹⁷ The ISAs acknowledge potential difficulties in relation to, for example:
- Related party transactions,¹⁸ in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
 - Limitations on the group audit, for example, where the group engagement's team's access to information may have been restricted.¹⁹
 - Extensive unexpected effort required to obtain sufficient appropriate audit evidence.²⁰

¹⁵ Proposed ISA 260 (Revised), paragraph 16(a)

¹⁶ See paragraph 11 of ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

¹⁷ Proposed ISA 260 (Revised), paragraph 16(b)

¹⁸ ISA 550, *Related Parties*, paragraph A42

¹⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

²⁰ Proposed ISA 260 (Revised), paragraph A18

The auditor may also communicate with those charged with governance about significant difficulties encountered when obtaining sufficient appropriate audit evidence relating to critical accounting estimates made by management or a management's expert.

- A21. In some circumstances, difficulties encountered during the audit may constitute a scope limitation that requires a modification of the auditor's opinion.²¹ As explained in paragraph A10, a matter giving rise to a modification of the auditor's opinion is, by its nature, a key audit matter. However, because of the importance of communicating to users the reasons for the modifications of the opinion, the description of the key audit matter leading to the modified opinion is presented in the Basis for Qualified (or Adverse) Opinion section of the auditor's report instead of the Key Audit Matters section (see paragraph 11).

Circumstances that required significant modification of the auditor's planned approach to the audit (Ref: Para. 8(c))

- A22. Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, when a significant deficiency in internal control has been identified) may lead the auditor to determine that area to be a key audit matter. ISA 315 (Revised) notes that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.²² Difficulties in obtaining audit evidence, as contemplated by paragraph 8(b), may cause the auditor to reevaluate the planned audit approach. Further, if during the audit the auditor's risk assessment is significantly revised, the auditor may consider the facts and circumstances giving rise to the changed assessment to be a key audit matter. In particular, if the auditor encounters circumstances that cause the auditor significant difficulty in applying necessary audit procedures, the auditor may need to obtain audit evidence by performing additional audit procedures beyond those originally contemplated.
- A23. ISA 265 requires the auditor to communicate in writing significant deficiencies in internal control identified during the audit to those charged with governance on a timely basis.²³ The auditor is not required by the ISAs to report externally on significant deficiencies in internal control identified during the audit. However, the identification of a significant deficiency may be an indicator of a key audit matter relating to the area(s) of the financial statements affected by the significant deficiency.

Other considerations relevant to determining the significance of individual matters

- A24. In addition to the factors included in paragraph 8 and others that may be indicative of an area of significant auditor attention (see paragraph A14), considerations that may be relevant to determining the significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:
- The industry in which the entity operates. There may be areas of complexity in financial reporting that are specific to a particular industry, or accounting policies unique to that industry.

²¹ See paragraph A8 of proposed ISA 705 (Revised).

²² ISA 315 (Revised), paragraph 31

²³ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 9

- Recent significant economic, accounting, regulatory or other developments. For example, significant changes to the economic environment that affected management's assumptions or judgments, or the auditor's approach, may cause the auditor to determine that a matter is a key audit matter.
- Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.
- Whether the auditor determined it was necessary to obtain written representation from management to support other audit evidence relevant to the matter or one or more specific assertions in the financial statements relating to the matter.²⁴ For example, such written representations may include representations about plans or intentions that may affect the carrying value or classification of assets and liabilities.

Communicating Key Audit Matters (Ref: Para. 9–12)

A25. The objective of communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not intended to:

- (a) Express an opinion on individual matters; or
- (b) Be a substitute for the auditor expressing a qualified opinion or an adverse opinion when required by the circumstances of a specific audit engagement (see proposed ISA 705 (Revised)).

A26. Proposed ISA 706 (Revised)²⁵ establishes mechanisms for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter and Other Matter paragraphs when the auditor considers it necessary to do so. The use of such paragraphs is not a substitute for a description of individual matters as key audit matters determined in accordance with paragraph 8 of this ISA.²⁶

A27. Illustrations 1 and 2 of the Appendix to proposed ISA 700 (Revised)²⁷ include descriptions of key audit matters in the auditor's report when the auditor of financial statements of a listed entity expresses an unmodified opinion on the financial statements.

Placement of the Key Audit Matters Section in the Auditor's Report

A28. Placement of the Key Audit Matters section in close proximity to the auditor's opinion is intended to give prominence to such information, and to acknowledge the perceived value of engagement-specific information to users.

A29. The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgment. Such information may be best organized in order of relative importance,

²⁴ See ISA 580, *Written Representations*.

²⁵ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

²⁶ Proposed ISA 706 (Revised), paragraphs 8(b) and 10(b)

²⁷ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

based on the auditor's judgment, and the requirement in paragraph 10 to include subheadings is intended to further differentiate the matters.

Nature and Extent of the Description of a Key Audit Matter in the Auditor's Report (Ref: Para. 10)

A30. The sufficiency and appropriateness of the description of a key audit matter is a matter of professional judgment, but the description is intended to provide a succinct explanation to enable users of the financial statements to understand why the matter was one of most significance in the audit and, to the extent the auditor considers it necessary, its effect on the audit. Limiting the use of highly technical auditing terms helps to enable users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit.

Explaining Why the Auditor Considered the Matter to Be One of Most Significance in the Audit (Ref: Para. 10(a))

A31. The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter. The description may make reference to the following:

- Factors that may have influenced the auditor's risk assessment, for example:
 - High estimation uncertainty.
 - Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.
 - New or emerging accounting policies, for example entity-specific or industry-specific matters on which the engagement team consulted within the firm.
 - Changes in the entity's strategy or business model that had a material effect on the financial statements.
- The auditor's approach to the matter, for example whether the auditor used an expert to obtain audit evidence, for example the use of actuaries or other experts to evaluate management's assumptions.
- Whether the matter involved significant management judgment.
- Key communications with those charged with governance.

A32. Written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with ISA 230 is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions, and serves as a record of the nature, timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 14.

A33. The factors in paragraph 8 and the related guidance in paragraphs A12–A24 related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to

conclude that a particular matter was the subject of significant auditor attention and therefore a key audit matter is likely to be of interest to users.

- A34. The discussion of key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or a remedy for material misstatement of the financial statements relating to non-disclosure of information required to be disclosed. In such cases, the auditor is required to express a modified opinion in accordance with proposed ISA 705 (Revised).
- A35. In addition, law, regulation or ethical standards may restrict the auditor's ability to communicate key audit matters because of investigations, auditor confidentiality or data protection requirements. The ISAs do not override law or regulation that governs an audit of financial statements or relevant ethical requirements, but potential conflicts between the auditor's legal and ethical obligations and obligations to communicate in accordance with this ISA may be complex. In such cases, the auditor may consider discussing the situation with those charged with governance and may consider obtaining legal advice.
- A36. Some matters that are determined to be key audit matters may be viewed as sensitive, because of their nature and the fact that such matters may not be disclosed in the financial statements, for example:
- A fraud risk specifically identified in the context of the entity.
 - A significant deficiency in internal control.

In such cases, the auditor may need to consider how best to describe the key audit matter in order to explain why the matter was one of most significance in the audit.

- A37. It is appropriate for the auditor to seek to avoid the description of key audit matters inappropriately providing original information about the entity that is the responsibility of the entity's management and those charged with governance unless, in the auditor's judgment, the additional information that the auditor may provide is critical to the auditor's description of the key audit matter and providing such information is not prohibited by law or regulation. In such circumstances, the auditor may encourage management or those charged with governance to make relevant disclosures in the financial statements that include such other information, so that reference can be made to those disclosures within the description of the key audit matters in the auditor's report, rather than the auditor providing original information.

The effect on the audit

- A38. In explaining why the auditor considered a matter to be one of most significance in the audit, the auditor may consider it necessary to describe its effect on the audit. This may include a brief overview of procedures performed or the auditor's approach to the matter, or may include an indication of the outcome of the auditor's procedures with respect to the matter.
- A39. There may be challenges in describing the auditor's procedures, particularly in complex, judgmental areas of the audit. In particular, it may be difficult to summarize the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risks of material misstatement, and the significant auditor judgments involved. Nonetheless, the auditor may consider it necessary, or may be required to, describe certain procedures performed to appropriately communicate to users why the auditor considered the

matter to be of most significance in the audit. Such description typically would be at a high level, rather than include a detailed description of procedures.

- A40. Describing the audit approach in relation to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist users in understanding unusual circumstances and significant auditor judgment required to address the risk of material misstatement. This may be appropriate, for example, when the auditor employed or engaged an auditor's expert or the auditor consulted on complex matters within or outside the firm. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry-developments (see paragraph A24). Noting these types of circumstances in the auditor's report and their effect on the audit assists users in understanding why matters were key audit matters in the audit.
- A41. In order to avoid creating uncertainty as to whether the matter was satisfactorily resolved, the auditor may also consider it necessary to address the specific outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if in explaining the effect on the audit, the auditor considers it necessary to indicate findings or a conclusion in relation to a matter, there is also a need for the auditor to avoid giving the impression that the discussion about key audit matters in the auditor's report is intended to convey an opinion on individual matters (see paragraph 9(d)).

Reference to Where the Matter Is Disclosed in the Financial Statements (Ref: Para. 10(b))

- A42. Paragraph 10 requires the description of each key audit matter to explain why the auditor considered the matter to be one of most significance in the audit. Accordingly, the description of key audit matters cannot merely reiterate what is disclosed in the financial statements. However, a reference to any related disclosures enables users to understand both management's and the auditor's perspectives on these matters.
- A43. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. More robust disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that users can understand why the matter is a key audit matter. For example, when an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions and other sources of estimation uncertainty, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of explaining why the matter was one of most significance in the audit.

Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report (Ref: Para. 11)

- A44. Presenting the description of matters for which the auditor has concluded it is necessary to modify the opinion separately in the Basis for Qualified (or Adverse) Opinion section helps to promote users' understanding and to identify such circumstances when they occur. Separating the discussion of these matters from other key audit matters therefore gives them the appropriate prominence in the auditor's report. The Appendix in proposed ISA 705 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected in such circumstances.

A45. The existence of a material uncertainty relating to going concern is, by its nature, a key audit matter. However, the auditor's statements relating to going concern are required to be presented in a separate section of the auditor's report under the heading "Going Concern."²⁸ When a material uncertainty has been identified and adequate disclosure is made in the financial statements, proposed ISA 570 (Revised) requires the auditor to include a statement in the auditor's report to draw attention to the note in the financial statements that discloses a material uncertainty relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.²⁹ When a material uncertainty has been identified and adequate disclosure is not made in the financial statements, proposed ISA 570 (Revised) requires the auditor to modify the auditor's opinion and describe this in the Basis for Qualified (or Adverse) Opinion paragraph as well as the Going Concern section of the auditor's report.³⁰ The Appendix in proposed ISA 570 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected in such circumstances.

Communication with Those Charged with Governance (Ref: Para. 12)

A46. The communication required by paragraph 12 enables those charged with governance to be made aware of the key audit matters that the auditor intends to communicate in the auditor's report, and provides them with an opportunity to obtain further clarification where necessary. As explained in paragraph A37, in some cases, management or those charged with governance may decide to include new or enhanced disclosures in the financial statements relating to the key audit matter, for example to provide more robust disclosures about sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

Circumstances in which the Auditor Has Determined There Are No Key Audit Matters (Ref: Para. 13)

A47. Except in certain limited circumstances (e.g., a listed entity that has very limited operations or assets), it is expected to be rare that the auditor of financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance. In addition, the requirements in paragraph 13(a)–(b) may provide an opportunity for those most familiar with the significant matters arising during the audit to provide input that may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

A48. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to report:

Key Audit Matters

This section of our auditor's report is intended to describe the matters selected from those communicated with [*those charged with governance*] that, in our professional judgment, were of most significance in our audit of the financial statements. [Except for the matter described in the *Basis for Qualified (or Adverse) Opinion* section and the material uncertainty described in the *Going Concern* section,] We have determined that there are no such matters to report.

²⁸ Proposed ISA 570 (Revised), paragraph 19

²⁹ Proposed ISA 570 (Revised), paragraph 22

³⁰ Proposed ISA 570 (Revised), paragraph 23

Documentation (Ref: Para. 14)

- A49. The professional judgments for the matters determined to be key audit matters are likely to be supported by the documentation of the auditor's communications with those charged with governance and the audit documentation relating to each individual key audit matter (see paragraph A32), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). The documentation of the significant professional judgments made in determining the key audit matters draws upon this documentation. Such documentation also may provide an indication that other matters communicated with those charged with governance are not key audit matters.

PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 260 (REVISED)

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

(Effective for audits of financial statements for periods [beginning/ending on or after date December 15, 2009])

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[MARKED FROM EXTANT ISA 260]

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Proposed International Standard on Auditing (ISA) 260 (Revised), *Communication with Those Charged with Governance*, 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 communicate with those charged with governance in an audit of financial statements. Although this ISA applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This ISA does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.
2. This ISA is written in the context of an audit of financial statements, but may also be applicable, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation of the other historical financial information.
3. Recognizing the importance of effective two-way communication in an audit of financial statements, this ISA provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this ISA, are identified in other ISAs (see Appendix 1). In addition, ISA 265¹ establishes specific requirements regarding the communication of significant deficiencies in internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other ISAs, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body. Nothing in this ISA precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A24–A27)

The Role of Communication

4. This ISA focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:
 - (a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;
 - (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and
 - (c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.
5. Although the auditor is responsible for communicating matters required by this ISA, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility.

¹ ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Similarly, communication by management with those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them. Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.

6. Clear communication of specific matters required to be communicated by ISAs is an integral part of every audit. ISAs do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.
7. Law or regulation may restrict the auditor's communication of certain matters with those charged with governance. For example, laws or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act. In some circumstances, potential conflicts between the auditor's obligations of confidentiality and obligations to communicate may be complex. In such cases, the auditor may consider obtaining legal advice.

Effective Date

8. This ISA is effective for audits of financial statements for periods [beginning/ending on or after date December 15, 2009].

Objectives

9. The objectives of the auditor are:
 - (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;
 - (b) To obtain from those charged with governance information relevant to the audit;
 - (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and
 - (d) To promote effective two-way communication between the auditor and those charged with governance.

Definitions

10. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Those charged with governance – The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1–A8.
 - (b) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of

those charged with governance, for example, executive members of a governance board, or an owner-manager.

Requirements

Those Charged with Governance

11. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Para. A1–A4)

Communication with a Subgroup of Those Charged with Governance

12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Para. A5–A7)

When All of Those Charged with Governance Are Involved in Managing the Entity

13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this ISA are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(de). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A8)

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Statement Audit

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:
 - (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
 - (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10)

Planned Scope and Timing of the Audit

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A15)

Significant Findings from the Audit

16. The auditor shall communicate with those charged with governance: (Ref: Para. A16)
 - (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor

considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A17–A17a)

- (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A18)
- (c) Circumstances that required significant modification of the auditor's planned approach to the audit; (Ref: Para. A18a–A18b)
- (de) Unless all of those charged with governance are involved in managing the entity:
 - (i) Significant matters, ~~if any,~~ arising ~~during~~^{from} the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A19)
 - (ii) Written representations the auditor is requesting; and
- (ed) Any ~~Other significant~~ matters, ~~if any,~~ arising ~~from~~^{during} the audit that, in the auditor's professional judgment, are relevant~~significant~~ to the oversight of the financial reporting process. (Ref: Para. A20–A20a)

Auditor Independence

17. In the case of listed entities, the auditor shall communicate with those charged with governance:
 - (a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and
 - (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and
 - (ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A21–A23)

The Communication Process

Establishing the Communication Process

18. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A28–A36)

Forms of Communication

19. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A37–A39)
20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17.

Timing of Communications

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A40–A41)

Adequacy of the Communication Process

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor’s assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Para. A42–A44)

Documentation

23. Where matters required by this ISA to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.² (Ref: Para. A45)

Application and Other Explanatory Material

Those Charged with Governance (Ref: Para. 11)

- A1. Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:
- In some jurisdictions, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a “two-tier board” structure). In other jurisdictions, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a “one-tier board” structure).
 - In some entities, those charged with governance hold positions that are an integral part of the entity’s legal structure, for example, company directors. In others, for example, some government entities, a body that is not part of the entity is charged with governance.
 - In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.
 - In some cases, those charged with governance are responsible for approving³ the entity’s financial statements (in other cases management has this responsibility).
- A2. In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a

² ISA 230, *Audit Documentation*, paragraphs 8–11, and A6

³ As described in paragraph A50A40 of proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.

- A3. Such diversity means that it is not possible for this ISA to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with ISA 315 (Revised)⁴ is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.
- A4. ISA 600 includes specific matters to be communicated by group auditors with those charged with governance.⁵ When the entity is a component of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components are the same (for example, common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

Communication with a Subgroup of Those Charged with Governance (Ref: Para. 12)

- A5. When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:
- The respective responsibilities of the subgroup and the governing body.
 - The nature of the matter to be communicated.
 - Relevant legal or regulatory requirements.
 - Whether the subgroup has the authority to take action in relation to the information communicated, and can provide further information and explanations the auditor may need.
- A6. When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.
- A7. Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs 46–49

exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:

- The auditor will be invited to regularly attend meetings of the audit committee.
- The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
- The audit committee will meet the auditor without management present at least annually.

When All of Those Charged with Governance Are Involved in Managing the Entity (Ref: Para.13)

A8. In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their governance capacity. For example, in a company where all directors are involved in managing the entity, some of those directors (for example, one responsible for marketing) may be unaware of significant matters discussed with another director (for example, one responsible for the preparation of the financial statements).

Matters to Be Communicated

The Auditor's Responsibilities in Relation to the Financial Statement Audit (Ref: Para. 14)

A9. The auditor's responsibilities in relation to the financial statement audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement. Law, regulation or the governance structure of the entity may require those charged with governance to agree the terms of the audit with the auditor. When this is not the case, providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:

- The auditor's responsibility for performing the audit in accordance with ISAs, which is directed towards the expression of an opinion on the financial statements. The matters that ISAs require to be communicated, therefore, include significant matters arising ~~from~~ during the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.
- The fact that ISAs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
- When applicable, the auditor's responsibilities to determine and communicate key audit matters in the auditor's report in accordance with proposed ISA 701.⁶
- When applicable, the auditor's responsibility for communicating particular matters required by law or regulation, by agreement with the entity or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body.

A10. Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For

⁶ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial statement audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.

Planned Scope and Timing of the Audit (Ref: Para. 15)

A11. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and
- (b) Assist the auditor to understand better the entity and its environment.

A11a. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.^{*}

A12. Matters communicated may include:[^]

- How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
- Assessed risks of material misstatement other than identified significant risks that are anticipated to have the greatest effect on the overall audit strategy or on the audit plan, including on the efforts of the engagement team.
- The auditor's approach to internal control relevant to the audit.
- The application of the concept of materiality in the context of an audit.⁷
- The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.⁸

A13. Other planning matters that it may be appropriate to discuss with those charged with governance include:

- Where the entity has an internal audit function, the extent to which how the external auditor will use the work of internal audit, and how the external and internal auditors can best work together in a constructive and complementary manner, including any planned use of the work

^{*} When the final standard is issued, this paragraph will become paragraph A12 and all subsequent paragraphs will be renumbered accordingly.

[^] Conforming amendments to this paragraph also were proposed in the Exposure Draft, Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*. The IAASB will consider feedback from that consultation in determining whether such changes continue to be appropriate as it finalizes both proposed ISA 260 (Revised) and proposed ISA 720 (Revised).

⁷ ISA 320, *Materiality in Planning and Performing an Audit*

⁸ See ISA 620, *Using the Work of an Auditor's Expert*.

of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.⁹

- The views of those charged with governance of:
 - The appropriate person(s) in the entity's governance structure with whom to communicate.
 - The allocation of responsibilities between those charged with governance and management.
 - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
 - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
 - Significant communications with regulators.
 - Other matters those charged with governance consider may influence the audit of the financial statements.
- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.
- The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters.
- The responses of those charged with governance to previous communications with the auditor.

A14. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

A15. Care is ~~necessary~~^{required} when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

Significant Findings from the Audit (Ref: Para. 16)

A16. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.

⁹ ISA 610 (Revised), *Using the Work of Internal Auditors*, paragraph 18, and ISA 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 31

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

A17. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to “critical accounting estimates” or “critical accounting policies and practices” to identify and provide additional information to users about the most difficult, subjective or complex judgments made by management in preparing the financial statements.

A17a. As a result, the auditor’s views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A17, those charged with governance may be interested in the auditor’s evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks. Open and constructive communication about significant qualitative aspects of the entity’s accounting practices also may include comment on the acceptability of significant accounting practices. Appendix 2 identifies matters that may be included in this communication.

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

A18. Significant difficulties encountered during the audit may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness ~~in by management to provide~~ ing required information necessary for the auditor to perform the auditor’s procedures.
- An unreasonably ~~unnecessarily~~ brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management’s unwillingness to make or extend its assessment of the entity’s ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor’s opinion.¹⁰

Circumstances that Required Significant Modification of the Auditor’s Planned Approach to the Audit (Ref: Para. 16(c))

A18a. ISA 300¹¹ notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of risks. Timely communication about significant changes to the planned audit strategy, the audit plan or the significant risks identified (i.e., updates

¹⁰ Proposed ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor’s Report

¹¹ ISA 300, Planning an Audit of Financial Statements, paragraph A13

to the matters required to be communicated by paragraph 15) and the reasons for such changes as they arise during the audit is also likely to be relevant to the responsibilities of those charged with governance to oversee the financial reporting process.

A18b. Modification of the auditor's planned approach to the audit may be necessary when a significant deficiency in internal control has been identified in accordance with ISA 265.¹² For example, when deviations from controls upon which the auditor intends to rely are detected, ISA 330¹³ requires the auditor to understand these matters and their potential consequences and determine whether, among other things, additional tests of controls may be necessary or the potential risks of misstatement need to be addressed using substantive procedures.

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 16(~~de~~)(i))

A19. Significant matters discussed, or subject to correspondence with management may include such matters as:

- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Concerns about management's consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.
- Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(~~ed~~))

A20. Other significant matters arising ~~during from~~ the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of fact or material inconsistencies in information accompanying the audited financial statements that have been corrected.[^]

A20a. To the extent not already addressed by the requirements in paragraphs 16(a)–(e) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with ISA 220.¹⁴

¹² ISA 265, paragraph 9

¹³ ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 17

[^] Conforming amendments to this paragraph are likely to be needed in light of the Exposure Draft of proposed ISA 720 (Revised).

¹⁴ See paragraphs 19–22 and A23–A31 of ISA 220, *Quality Control for an Audit of Financial Statements*.

Auditor Independence (Ref: Para. 17)

- A21. The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.¹⁵
- A22. The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:
- (a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and
 - (b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.

~~The communication required by paragraph 17(a) may include an inadvertent violation of relevant ethical requirements as they relate to auditor independence, and any remedial action taken or proposed.~~

A22a. Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.¹⁶

- A23. The communication requirements relating to auditor independence that apply in the case of listed entities may also be relevant in the case of some other entities, particularly those that may be of significant public interest because, as a result of their business, their size or their corporate status, they have a wide range of stakeholders. Examples of entities that are not listed entities, but where communication of auditor independence may be appropriate, include public sector entities, credit institutions, insurance companies, and retirement benefit funds. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

Supplementary Matters (Ref: Para. 3)

- A24. The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.
- A25. The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example,

¹⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 14

¹⁶ See Section 290.39–49 of the IESBA Code, which addresses breaches of independence.

significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorization.

- A26. In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.
- A27. If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:
- (a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial statements;
 - (b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial statements; and
 - (c) No procedures were carried out to determine whether other such matters exist.

The Communication Process

Establishing the Communication Process (Ref: Para. 18)

- A28. Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.
- A29. Matters that may also contribute to effective two-way communication include discussion of:
- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
 - The form in which communications will be made.
 - The person(s) in the engagement team and amongst those charged with governance who will communicate regarding particular matters.
 - The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.
 - The process for taking action and reporting back on matters communicated by the auditor.
 - The process for taking action and reporting back on matters communicated by those charged with governance.
- A30. The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A44).

Considerations Specific to Smaller Entities

A31. In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

A32. Many matters may be discussed with management in the ordinary course of an audit, including matters required by this ISA to be communicated with those charged with governance. Such discussions recognize management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the preparation of the financial statements.

A33. Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognizing management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

Communication with Third Parties

A34. Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

- (a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;
- (b) That no responsibility is assumed by the auditor to third parties; and
- (c) Any restrictions on disclosure or distribution to third parties.

A35. In some jurisdictions the auditor may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action;
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or
- Make reports prepared for those charged with governance publicly available.

- A36. Unless required by law or regulation to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may need the prior consent of those charged with governance before doing so.

Forms of Communication (Ref: Para. 19–20)

- A37. Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 19–~~and~~ 20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.

- A38. In addition to the significance of a particular matter, the form of communication (for example, whether to communicate orally or in writing, the extent of detail or summarization in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as:

- Whether a discussion of the matter will be included in the auditor's report.
- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity.
- In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.

- A39. When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarize the matter in later communications so that all of those charged with governance have full and balanced information.

Timing of Communications (Ref: Para. 21)

- A40. The appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:

- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.
- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may

communicate orally to those charged with governance as soon as practicable significant deficiencies in internal control that the auditor has identified, prior to communicating these in writing as required by ISA 265.¹⁷

- Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion. A concluding discussion may also be an appropriate time to communicate findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices.
- When auditing both general purpose and special purpose financial statements, it may be appropriate to coordinate the timing of communications.

A41. Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (for example, noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

Adequacy of the Communication Process (Ref: Para. 22)

A42. The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to inquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.
- The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, for example, the extent to which those charged with governance probe issues, and question recommendations made to them.

¹⁷ ISA 265, paragraphs 9 and A14

- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
- Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.
- Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.

A43. As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, ISA 315 (Revised) identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.¹⁸ Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatements. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

A44. If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (for example, a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (for example, shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

Documentation (Ref: Para. 23)

A45. Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.

¹⁸ ISA 315 (Revised), paragraph A77A79

Appendix 1

(Ref: Para. 3)

Specific Requirements in ISQC 1 and Other ISAs that Refer to Communications with Those Charged With Governance

This appendix identifies paragraphs in ISQC 1¹⁹ and other ISAs in effect for audits of financial statements for periods [beginning/ending on or after ~~date December 15, 2009~~] that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 21, 38(c)(i) and 40-42
- ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 14, 19 and 22-24
- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- ISA 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- ISA 505, *External Confirmations* – paragraph 9
- ISA 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- ISA 550, *Related Parties* – paragraph 27
- ISA 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- Proposed ISA 570 (Revised), *Going Concern* – paragraph 27~~23~~
- ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 49
- ISA 610 (Revised), *Using the Work of Internal Auditors* – paragraph 18; ISA 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 12 and 13(b)
- Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23~~19~~(a) and 30~~28~~
- Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12~~9~~
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18

¹⁹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements* – paragraphs 10, 13 and 16 [to be updated when proposed ISA 720 (Revised) is finalized]

Appendix 2

(Ref: Para. 16(a), A17–A17a)

Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A17–A17a, may include such matters as:

Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).
- The effect of the timing of transactions in relation to the period in which they are recorded.

Accounting Estimates

- For items for which estimates are significant, issues discussed in ISA 540,²⁰ including, for example:
 - How management's identification of accounting estimates identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements.
 - Changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
 - Whether management's decision to recognize, or to not recognize, the accounting estimates in the financial statements is in accordance with the applicable financial reporting framework.
 - Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.
 - Management's process for making accounting estimates (e.g., when management has used a model), including whether the selected measurement basis for the accounting estimate is in accordance with the applicable financial reporting framework.
 - Whether the significant assumptions used by management in developing the accounting estimate are reasonable.

²⁰ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

- Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.
- Risks of material misstatement.
- Indicators of possible management bias.
- How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
- The adequacy of disclosure of estimation uncertainty in the financial statements.

Financial Statement Disclosures

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (for example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial statements.

Related Matters

- The potential effect on the financial statements of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial statements.
- The extent to which the financial statements are affected by significant non-routine~~unusual~~ transactions, including transactions that are unusual, due either to size or nature, or are not in the ordinary course of business. This communication may highlight:
 - The non-recurring amounts recognized during the period,~~and~~
 - ~~†~~The extent to which such transactions are separately disclosed in the financial statements.
 - Whether any such transactions appear to have been designed to have a particular accounting treatment or tax, legal or regulatory transaction.
 - Whether the form of such transactions appears overly complex or where extensive advice regarding the structuring of the transaction has been taken.
 - Where management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.
- The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

PROPOSED INTERNATIONAL STANDARD ON AUDITING 570 (REVISED)

GOING CONCERN

(Effective for audits of financial statements for periods [beginning/ending on or after ~~December 15,~~
2009)date])

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[MARKED FROM EXTANT ISA 570]

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Proposed International Standard on Auditing (ISA) 570 (Revised), *Going Concern*, 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 responsibilities in the audit of financial statements relating to ~~management's use of the going concern assumption in the preparation of the financial statements.~~

Going Concern ~~Assumption~~Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption, ~~an that the entity is viewed as continuing in business~~ a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared ~~on using the going concern basis of accounting~~, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (for example, the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern ~~assumption~~basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A1)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.¹ The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.
4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, since the going concern ~~assumption~~basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment

¹ IAS 1, *Presentation of Financial Statements*, ~~as at 1 January 2009~~, paragraphs 25–26

specify the period for which management is required to take into account all available information.

- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's ~~responsibility~~ responsibilities ~~is~~ are to obtain sufficient appropriate audit evidence and conclude about the appropriateness of management's use of the going concern ~~assumption~~ basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether there is a material uncertainty about the entity's ability to continue as a going concern. ~~This~~ These ~~responsibility~~ responsibilities ~~exists~~ even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ISA 200,² the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to going concern uncertainty in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA is effective for audits of financial statements for periods [beginning/ending on or after December 15, 2009] [date].

Objectives

9. The objectives of the auditor are:
 - (a) To obtain sufficient appropriate audit evidence and conclude regarding the appropriateness of management's use of the going concern ~~assumption~~ basis of accounting in the preparation of the financial statements;
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (c) To ~~determine the implications for the auditor's report~~ determine the implications for the auditor's report in accordance with this ISA.

² ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A51–A52

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA 315 (Revised)³ the auditor shall consider whether there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A2–A5)
 - (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
 - (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern ~~assumption~~basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.
11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A6)

Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A7–A9, A11–A12)
13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in ISA 560,⁴ the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A10–A12)
14. In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

Period beyond Management's Assessment

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A13–A14)

³ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5

⁴ ISA 560, *Subsequent Events*, paragraph 5(a)

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") exists through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A15)
 - (a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.
 - (b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A16)
 - (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future action: (Ref: Para. A17–A18)
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
 - (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
 - (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future action and the feasibility of these plans.

Auditor Conclusions and Reporting

Auditor Conclusions

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained and conclude regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- ~~17.~~18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A19)
 - (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
 - (b) In the case of a compliance framework, the financial statements not to be misleading.

Auditor Reporting

19. The auditor's report shall include a separate section under the heading "Going Concern" and address the matters described within paragraphs 20, 22 and 23 of this ISA unless: (Ref: Para. A20–A21)
- (a) The auditor disclaims an opinion in accordance with proposed ISA 705 (Revised);⁵ or
 - (b) The auditor determines that management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate and the auditor expresses an adverse opinion in accordance with paragraph 24 of this ISA.

Auditor Reporting When the Use of the Going Concern Basis of Accounting Is Appropriate and No Material Uncertainty Has Been Identified

20. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances and no material uncertainty has been identified, the Going Concern section of the auditor's report shall include:
- (a) An explanation of the going concern basis of accounting in the context of the applicable financial reporting framework;
 - (b) A statement that, as part of the audit of the financial statements, the auditor has concluded that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate;
 - (c) A statement that , based on the audit of the financial statements, the auditor has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (d) A statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern. (Ref: Para. A22)

Auditor Reporting When the Use of Going Concern Assumption-Basis of Accounting Is Appropriate but a Material Uncertainty Exists Has Been Identified

- ~~18-21.~~ If the auditor concludes that the management's use of the going concern assumption basis of accounting is appropriate in the circumstances but a material uncertainty exists has been identified, the auditor shall determine whether the financial statements:
- (a) Adequately ~~describe~~ disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
 - (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. ~~A20~~A23–A25)

⁵ Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 29

Adequate disclosure of a material uncertainty is made in the financial statements

19.22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and include an ~~Emphasis of Matter~~ paragraph in the ~~Going Concern~~ section of the auditor's report ~~shall include~~: (Ref: Para. A26)

- (a) A statement under a subheading "Disclosures about a Material Uncertainty Identified" or other appropriate subheading to: Highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity's ability to continue as a going concern; and
 - ~~(b)(i).~~ Draw attention to the note in the financial statements that discloses the matters set out in paragraph 2148.⁶ and (Ref: Para. A21–A22)
 - (ii). Explain that these events or conditions indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter; and
- (b) A statement under a subheading "Going Concern Basis of Accounting" or other appropriate subheading that includes:
 - (i). An explanation of the going concern basis of accounting in the context of the applicable financial reporting framework; and
 - (ii). A statement that, as part of the audit of the financial statements, the auditor has concluded that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate.

Adequate disclosure of a material uncertainty is not made in the financial statements

20.23. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall:

- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with proposed ISA 705 (Revised);⁷ and
- (b) Include in the ~~Going Concern~~ section of ~~The auditor shall state in~~ the auditor's report:
 - (i). When the auditor expresses a qualified opinion, a statement under a subheading "Inadequate Disclosures about a Material Uncertainty Identified" or other appropriate subheading that there is a material uncertainty that may cast significant doubt ~~about~~ on the entity's ability to continue as a going concern– that has not been adequately disclosed in the financial statements and a statement that the auditor's opinion is qualified with respect to this matter;
 - (ii). When the auditor expresses an adverse opinion, a statement under a subheading "Inadequate Disclosures about a Material Uncertainty Identified" or other appropriate subheading that there is a material uncertainty that may cast significant doubt on the

⁶—See ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

⁷—ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

entity's ability to continue as a going concern that has not been adequately disclosed in the financial statements and a statement that the auditor has expressed an adverse opinion as a result of this matter;

(iii). An explanation of the going concern basis of accounting in the context of the applicable financial reporting framework; and

(iv). A statement under a subheading "Going Concern Basis of Accounting" or other appropriate subheading that, as part of the audit of the financial statements, the auditor has concluded that management's use of the going concern basis of accounting in the preparation of the entity's financial statements is appropriate. (Ref: Para. A23–A24A27)

Auditor Reporting When the Use of Going Concern Assumption Basis of Accounting Is Inappropriate

24.24. If the financial statements have been prepared on a using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern assumption basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. In this circumstance, as set out in paragraph 19, the auditor's report shall not include a Going Concern section. (Ref: Para. A25–A26A28–A29)

Auditor Reporting When the Form and Content of the Auditor's Report Is Prescribed by Law or Regulation

25. If law or regulation prescribes the specific layout or wording to be used in the auditor's report with respect to going concern, the auditor's report shall include:

- (a) A separate section of the auditor's report with a heading "Going Concern," unless a specific heading is prescribed by law or regulation; and
- (b) Statements in relation to both the appropriateness of management's use of the going concern basis of accounting and the identification of a material uncertainty in a manner that is not inconsistent with the reporting requirements established in paragraphs 20, 22 and 23 of this ISA.

Management Unwilling to Make or Extend Its Assessment

22.26. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A27A30)

Communication with Those Charged with Governance

23.27. Unless all those charged with governance are involved in managing the entity,⁸ the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

- (a) Whether the events or conditions constitute a material uncertainty;
- (b) Whether the management's use of the going concern assumption basis of accounting is appropriate in the preparation of the financial statements; and
- (c) The adequacy of related disclosures in the financial statements.

⁸ Proposed ISA 260 (Revised), Communication with Those Charged with Governance, paragraph 13

Significant Delay in the Approval of Financial Statements

24-28. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 47-18.

Application and Other Explanatory Material

Going Concern ~~Assumption~~ Basis of Accounting (Ref: Para. 2)

Considerations Specific to Public Sector Entities

A1. Management's use of the going concern ~~assumption~~ basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.⁹ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt about on the Entity's Ability to Continue as a Going Concern Assumption (Ref: Para. 10)

A2. The following are examples of events or conditions that, individually or collectively, may cast significant doubt ~~about on the~~ entity's ability to continue as a going concern assumption. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.

⁹ IPSAS 1, *Presentation of Financial Statements*, as at January 1, 2009, paragraphs 38–41

- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory requirements.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

- A3. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern ~~assumption~~basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities

- A4. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- A5. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

- A6. ISA 315 (Revised) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.¹⁰ If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. ISA 330¹¹ establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

- A7. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern assumption basis of accounting.
- A8. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern assumption basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern assumption basis of accounting in the preparation of the financial statements is appropriate in the circumstances.
- A9. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

The Period of Management's Assessment (Ref: Para. 13)

- A10. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.¹²

Considerations Specific to Smaller Entities (Ref: Para. 12–13)

- A11. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the

¹⁰ ISA 315 (Revised), paragraph 31

¹¹ ISA 330, *The Auditor's Responses to Assessed Risks*

¹² For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

business and anticipated future prospects. Nevertheless, in accordance with the requirements of this ISA, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 13 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

- A12. Continued support by owner-managers is often important to smaller entities' ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Period beyond Management's Assessment (Ref: Para. 15)

- A13. As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern assumption¹ basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances the procedures in paragraph 16 apply.
- A14. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of the financial statements.

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para.16)

- A15. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:
- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
 - Analyzing and discussing the entity's latest available interim financial statements.
 - Reading the terms of debentures and loan agreements and determining whether any have been breached.

- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))

A16. Evaluating management's plans for future actions may include inquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

The Period of Management's Assessment (Ref: Para. 16(c))

A17. In addition to the procedures required in paragraph 16(c), the auditor may compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date.

A18. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Auditor Conclusions and Reporting

Auditor Conclusions (Ref: Para. 47-18)

A19. The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

Auditor Reporting (Ref: Para. 19)

A20. Paragraph A22 and the Appendix to this ISA provide illustrations of the statements that are required to be included in the auditor's report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting

framework other than IFRSs is used, the illustrative statements featured in paragraph A22 and the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A21. The statements required by paragraphs 20, 22, and 23 of this ISA in relation to going concern represent the minimum information that is to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements. For example, in situations where a material uncertainty has been identified, the auditor is not prohibited from providing additional information to explain that neither management nor the auditor can guarantee the entity's ability to continue as a going concern.

Auditor Reporting When the Use of Going Concern Assumption Basis of Accounting Is Appropriate and but No Material Uncertainty Exists Has Been Identified (Ref: Para. 20)

A22. The following is an illustration of the statement included in the auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting and a material uncertainty has not been identified:

Going Concern

The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Management has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, and accordingly none is disclosed in the financial statements. Based on our audit of the financial statements, we also have not identified such a material uncertainty. However, neither management nor the auditor can guarantee the Company's ability to continue as a going concern.

Auditor Reporting When the Use of the Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Has Been Identified (Ref: Para. 21)

A23. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a subheading to clearly make reference to the fact that a material uncertainty has been identified and positioning this statement before the auditor's statement in relation to the appropriateness of management's use of the going concern basis of accounting alerts users to this circumstance.

A22-A24. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of adding an Emphasis of Matter paragraph including the statements required by paragraph 22 of this ISA. Proposed ISA 705 (Revised) provides guidance on this issue.¹³

¹³ Proposed ISA 705 (Revised), paragraph 10

~~Adequacy of Disclosure of a Material Uncertainty (Ref: Para. 18)~~

~~A20-A25.~~ The determination of the adequacy of the financial statement disclosure may involve determining whether the information explicitly draws the reader's attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business.

~~Audit Reporting When Disclosure of Material Uncertainty Is Adequate~~ disclosure of a material uncertainty is made in the financial statements (Ref: Para. 2022)

~~A21-A26.~~ Illustration 1 of the Appendix to this ISA is an example of an auditor's report containing a statement regarding a material uncertainty identified when disclosure is adequate in the financial statements and the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting. The following is an illustration of an Emphasis of Matter paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

~~Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY.~~

Adequate disclosure of a material uncertainty is not made in the financial statements (Ref: Para. 22– 23)

~~A27.~~ Illustrations 2 and 3 of the Appendix to this ISA are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

~~A23.~~ The following is an illustration of the relevant paragraphs when a qualified opinion is to be expressed:

~~Basis for Qualified Opinion~~

~~The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X1. The Company has been unable to re-negotiate or obtain financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not fully disclose this fact.~~

~~Qualified Opinion~~

~~In our opinion, except for the incomplete disclosures of the information referred to in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects (or "give a true and fair view of"), the financial position of the Company as at December 31, 20x0, and of its financial performance and its cash flows for the year then ended in accordance with ...~~

~~A24.~~ The following is an illustration of the relevant paragraphs when an adverse opinion is to be expressed:

~~Basis for Adverse Opinion~~

~~The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X0. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy. These events indicate a~~

material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact.

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly (or "give a true and fair view of") the financial position of the Company as at December 31, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with ...

Auditor Reporting When Use of Going Concern Assumption Basis of Accounting Is Inappropriate (Ref: Para. 2424)

~~A25-A28.~~ If the financial statements have been prepared ~~on a using the~~ going concern basis of accounting but, in the auditor's judgment, management's use of the going concern ~~assumption~~ basis of accounting in the financial statements is inappropriate, the requirement ~~of in~~ paragraph 2424 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern ~~assumption~~ basis of accounting.

~~A26-A29.~~ If the entity's management is required, or elects, to prepare financial statements when the use of the going concern ~~assumption~~ basis of accounting is not appropriate in the circumstances, the financial statements are prepared on an alternative basis (for example, liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the alternative basis is an acceptable financial reporting framework in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with proposed ISA 706 (Revised)¹⁴ in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 2226)

~~A27-A30.~~ In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding ~~the management's~~ use of the going concern ~~assumption~~ basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

¹⁴ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

Appendix

(Ref: Para. A20, A26–A27)

Illustrations of Auditor's Reports Relating to Going Concern

Note: Only the required reporting elements that would be affected by going concern have been reproduced in these illustrations. The Appendix to proposed ISA 700 (Revised)¹⁵ contains the illustrative wording for sections whose contents would not be affected by this ISA.

- Illustration 1: An auditor's report containing an unmodified opinion when a material uncertainty has been identified and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when a material uncertainty has been identified and disclosure in the financial statements is inadequate.
- Illustration 3: An auditor's report containing an adverse opinion when a material uncertainty has been identified but is not disclosed in the financial statements.

¹⁵ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

Illustration 1 – Unmodified Opinion When a Material Uncertainty Has Been Identified and Disclosure in the Financial Statements Is Adequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with IFRSs. The audit is not a group audit conducted in accordance with ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210, *Agreeing the Terms of Audit Engagements*.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- A material uncertainty was identified. The disclosure of the identified material uncertainty in the financial statements is adequate.
- Key audit matters have been communicated in accordance with proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements¹⁶

Opinion

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

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements*

¹⁶ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

section of our report. We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

Disclosures about a Material Uncertainty Identified

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these conditions, along with other matters as set forth in Note 6, indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Going Concern Basis of Accounting

The material uncertainty identified above does not indicate that the going concern basis of accounting is inappropriate. The Company's financial statements have been prepared using the going concern basis of accounting. The use of the going concern basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the material uncertainty as described in the *Going Concern* section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

[Reporting of individual matters in accordance with paragraph 10 of proposed ISA 701 – see Illustration 1 in proposed ISA 700 (Revised).]

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised).¹⁷ The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

¹⁷ Exposure Draft, Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

Responsibilities of [Management¹⁸ and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – If local law, regulation or national auditing standards requires additional reporting on going concern, such reporting can be included in the Going Concern section of the auditor's report, provided wording is included that clearly distinguishes between the reporting required by this ISA and other reporting required by law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor's report is [name].

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

[Auditor Address]

[Date]

¹⁸ Throughout the illustrative auditor's reports in the Proposed ISAs, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

Illustration 2 – Qualified Opinion When a Material Uncertainty Has Been Identified and Disclosure in the Financial Statements Is Inadequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with IFRSs. The audit is not a group audit conducted in accordance with ISA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- A material uncertainty was identified. The disclosure in the financial statements of the material uncertainty identified is inadequate. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements¹⁹

Qualified Opinion

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

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Qualified Opinion

The Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements (and notes thereto) do not fully disclose this fact.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements*

¹⁹ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

section of our report. We are independent of the Company within the meaning of [indicate relevant ethical requirements or applicable law or regulation] and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Going Concern

Inadequate Disclosures about a Material Uncertainty Identified

As described in the *Basis for Qualified Opinion* section of our report, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern has been identified. This material uncertainty has not been adequately disclosed in the financial statements. Our opinion is qualified in respect of this matter.

Going Concern Basis of Accounting

The material uncertainty identified above does not indicate that the going concern basis of accounting is inappropriate. The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with [those charged with governance], but are not intended to represent all matters that were discussed with them. In addition to the material uncertainty as described in the *Basis for Qualified Opinion* and *Going Concern* sections of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

[Reporting of individual matters in accordance with paragraph 10 of proposed ISA 701 – see Illustration 1 in proposed ISA 700 (Revised).]

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management²⁰ and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – If local law, regulation or national auditing standards requires additional reporting on going concern, such reporting can be included in the Going Concern section of the auditor's report, provided wording is included that clearly distinguishes between the reporting required by this ISA and other reporting required by law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor's report is [name].

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

[Auditor Address]

[Date]

²⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

Illustration 3 – Adverse Opinion When a Material Uncertainty Has Been Identified but Is Not Disclosed in the Financial Statements

For purposes of the illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with IFRSs. The audit is not a group audit conducted in accordance with ISA 600.
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- A material uncertainty was identified, and the Company is considering bankruptcy. The financial statements (and notes thereto) omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.
- Key audit matters have been communicated in accordance with proposed ISA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements²¹

Adverse Opinion

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of ABC Company (the Company) as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Adverse Opinion

The Company’s financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates the existence of a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern. The financial statements (and notes thereto) do not disclose this fact.

²¹ The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Going Concern

Inadequate Disclosures about a Material Uncertainty Identified

As described in the *Basis for Adverse Opinion* section of our report, a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern has been identified. This material uncertainty has not been disclosed in the financial statements. We have expressed an adverse opinion as a result of this matter.

Going Concern Basis of Accounting

The material uncertainty identified above does not indicate that the going concern basis of accounting is inappropriate. The Company's financial statements have been prepared using the going concern basis of accounting. The use of this basis of accounting is appropriate unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. As part of our audit of the financial statements, we have concluded that management's use of the going concern basis of accounting in the preparation of the Company's financial statements is appropriate.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the material uncertainty as described in the *Basis for Adverse Opinion* and *Going Concern* sections of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

[Reporting of individual matters in accordance with paragraph 10 of proposed ISA 701 – see Illustration 1 in proposed ISA 700 (Revised).]

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management²² and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised)]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – If local law, regulation or national auditing standards requires additional reporting on going concern, such reporting can be included in the Going Concern section of the auditor's report, provided wording is included that clearly distinguishes between the reporting required by this ISA and other reporting required by law or regulation.]

The engagement partner responsible for the audit resulting in this independent auditor's report is [name].

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

[Auditor Address]

[Date]

²² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

PROPOSED INTERNATIONAL STANDARD ON AUDITING (ISA) 705 (REVISED)

MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

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

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Proposed International Standard on Auditing (ISA) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, 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 issue an appropriate report in circumstances when, in forming an opinion in accordance with proposed ISA 700 (Revised),¹ the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

Types of Modified Opinions

2. This ISA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:
 - (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements. (Ref: Para. A1)

Effective Date

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

Objective

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:
 - (a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Definitions

5. For purposes of the ISAs, the following terms have the meanings attributed below:
 - (a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:
 - (i) Are not confined to specific elements, accounts or items of the financial statements;
 - (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or

¹ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.
- (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion.

Requirements

Circumstances When a Modification to the Auditor's Opinion Is Required

6. The auditor shall modify the opinion in the auditor's report when:
 - (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7)
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8–A12)

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

7. The auditor shall express a qualified opinion when:
 - (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a

qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

12. If management refuses to remove the limitation referred to in paragraph 11 of this ISA, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,² and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
 - (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
 - (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13–A14)
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements.
14. If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report³ in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

Form and Content of the Auditor's Report When the Opinion Is Modified

Auditor's Opinion

16. When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the opinion paragraph. (Ref: Para. A17–A19)

² Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

³ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

Qualified Opinion

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:
 - (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20)

Adverse Opinion

18. When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:
 - (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
 - (a) State that the auditor does not express an opinion on the accompanying financial statements;
 - (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
 - (c) Amend the statement that indicates that the financial statements have been audited required by paragraph 27(b) of proposed ISA 700 (Revised) to state that the auditor was engaged to audit the financial statements.

Basis for Opinion

20. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by proposed ISA 700 (Revised): (Ref: Para. A21–A22)
 - (a) Amend the heading "Basis for Opinion" required by paragraph 28 of proposed ISA 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and

- (b) Within this section, include a description of the matter giving rise to the modification.
21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A23)
 22. If there is a material misstatement of the financial statements that relates to narrative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.
 23. If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:
 - (a) Discuss the non-disclosure with those charged with governance;
 - (b) Describe in the Basis for Opinion section the nature of the omitted information; and
 - (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A24)
 24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.
 25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of proposed ISA 700 (Revised) to include the word "qualified" or "adverse", as appropriate.
 26. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of proposed ISA 700 (Revised). Those elements are:
 - (a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and
 - (b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
 27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A25)

Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion

28. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 36–38 of proposed ISA 700 (Revised) to include only the following: (Ref: Para. A26)
- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with International Standards on Auditing and to issue an auditor's report;
 - (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
 - (c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of proposed ISA 700 (Revised).

Special Considerations When the Auditor Disclaims an Opinion

29. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include: (Ref: Para. A27)
- (a) A section addressing the reporting requirements in proposed ISA 701;⁴ (Ref: Para. A28)
 - (b) A section addressing the reporting requirements in proposed ISA 570 (Revised);⁵
 - (c) A section addressing the reporting requirements in proposed ISA 720 (Revised);⁶ or
 - (d) A further description of the audit and the auditor's responsibilities as required by paragraphs 37–38 of proposed ISA 700 (Revised).

Communication with Those Charged with Governance

30. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the proposed wording of the modification. (Ref: Para. A29)

⁴ Paragraphs 9–11 and 13 of proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

⁵ Paragraphs 19–20 and 22–25 of proposed ISA 570 (Revised), *Going Concern*

⁶ Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

Application and Other Explanatory Material

Types of Modified Opinions (Ref: Para. 2)

- A1. The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Circumstances When a Modification to the Auditor's Opinion Is Required

Nature of Material Misstatements (Ref: Para. 6(a))

- A2. Proposed ISA 700 (Revised) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.⁷ This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with ISA 450.⁸
- A3. ISA 450 defines a misstatement as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:
- (a) The appropriateness of the selected accounting policies;
 - (b) The application of the selected accounting policies; or
 - (c) The appropriateness or adequacy of disclosures in the financial statements.

Appropriateness of the Selected Accounting Policies

- A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise when:
- (a) The selected accounting policies are not consistent with the applicable financial reporting framework; or
 - (b) The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.

⁷ Proposed ISA 700 (Revised), paragraph 11

⁸ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

- A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.

Application of the Selected Accounting Policies

- A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:
- (a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or
 - (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness or Adequacy of Disclosures in the Financial Statements

- A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:
- (a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
 - (b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
 - (c) The financial statements do not provide the disclosures necessary to achieve fair presentation.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

- A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:
- (a) Circumstances beyond the control of the entity;
 - (b) Circumstances relating to the nature or timing of the auditor's work; or
 - (c) Limitations imposed by management.
- A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.
- A10. Examples of circumstances beyond the control of the entity include when:
- The entity's accounting records have been destroyed.
 - The accounting records of a significant component have been seized indefinitely by governmental authorities.

A11. Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

Determining the Type of Modification to the Auditor's Opinion

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Ref: Para. 13(b)–14)

A13. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing.

A14. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial statements of public sector entities. It may also be the case in jurisdictions where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report.⁹

A15. When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

⁹ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph A9

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: Para. 15)

A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:

- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework.¹⁰
- The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see ISA 510¹¹). In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.

Form and Content of the Auditor's Report When the Opinion Is Modified

Illustrative Auditor's Reports

A17. Illustrations 1 and 2 in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial statements are materially misstated.

A18. Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive. The Appendices to other ISAs that include reporting requirements, including proposed ISA 570 (Revised), also include illustrations of auditor's reports with modified opinions.

Auditor's Opinion (Ref: Para. 16)

A19. Amending this heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

Qualified Opinion (Ref: Para. 17)

A20. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.

Basis for Opinion (Ref: Para. 20–27)

A21. Consistency in the auditor's report helps to promote users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.

A22. The Basis for Opinion section of the auditor's report provides important context about the auditor's opinion, in particular in cases where the auditor's opinion is modified. The placement of this information

¹⁰ See paragraph A24 of proposed ISA 700 (Revised) for a description of this circumstance.

¹¹ ISA 510, *Initial Audit Engagements—Opening Balances*, paragraph 10

in close proximity to the auditor's opinion in the auditor's report enhances the usefulness of the auditor's report.

- A23. An example of the financial effects of material misstatements that the auditor may describe within the Basis for Opinion section in the auditor's report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated.
- A24. Disclosing the omitted information within the Basis for Opinion section would not be practicable if:
- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
 - (b) In the auditor's judgment, the disclosures would be unduly voluminous in relation to the auditor's report.
- A25. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

Description of Auditor's Responsibilities for the Audit or the Financial Statements When the Auditor Disclaims an Opinion (Ref: Para. 28)

- A26. When the auditor disclaims an opinion on the financial statements, the following statements may be better positioned within the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report, as illustrated in Illustrations 4–5 of the Appendix to this ISA:
- The statement required by paragraph 28(a) of proposed ISA 700 (Revised), amended to state that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with ISAs; and
 - The statement required by paragraph 28(c) of proposed ISA 700 (Revised) about independence and other ethical responsibilities.

Special Considerations When the Auditor Disclaims an Opinion (Ref: Para. 29)

- A27. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them. However, providing further details about the audit, including addressing the auditor's responsibilities about going concern, key audit matters, other information, or providing an extensive description of the auditor's responsibilities for the audit of the financial statements may overshadow the disclaimer of opinion on the financial statements as a whole.

Key Audit Matters (Ref: Para. 29(a))

- A28. Paragraph 27 of this ISA explains that, even when the auditor disclaims an opinion on the financial statements, any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof, should be addressed within the Basis for Opinion section of the auditor's report. In contrast, any discussion of key audit matters unrelated to the disclaimer of opinion may suggest the financial statements are more credible in relation to those matters than

would be appropriate in the circumstances and would overshadow the disclaimer of an opinion on the financial statements as a whole.

Communication with Those Charged with Governance (Ref: Para. 30)

A29. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the proposed wording of the modification enables:

- (a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
- (b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and
- (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

Appendix

(Ref: Para. A17–A18, A26)

Illustrations of Auditor's Reports with Modifications to the Opinion

Note: Only the required reporting elements that would be affected by the auditor expressing a modified opinion have been reproduced in these illustrations. The Appendix to proposed ISA 700 (Revised) contains the illustrative wording for sections whose contents would not be affected by this ISA.

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of a listed entity in accordance with International Financial Reporting Standards (IFRSs), which is a fair presentation framework. The audit is not a group audit conducted in accordance with ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210, *Agreeing the Terms of Audit Engagements*.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- Key audit matters have been communicated in accordance with proposed ISA 701.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements¹²

Qualified Opinion

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

We have audited the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from IFRSs. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial*

¹² The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Statements section of our report. We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those relevant ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the *Basis for Qualified Opinion* section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

[Reporting of individual matters in accordance with paragraph 10 of proposed ISA 701 – see Illustration 1 in proposed ISA 700 (Revised).]

Going Concern

[Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 1 in proposed ISA 700 (Revised) and proposed ISA 570 (Revised).]

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management¹³ and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustrations 1 and 3 in proposed ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

¹³ Throughout the illustrative auditor's reports in the Proposed ISAs, the term management may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. For example, those charged with governance, rather than management, may have these responsibilities.

The engagement partner responsible for the audit resulting in this independent auditor's report is [*name*].

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

[Auditor's Address]

[Date]

Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements

For purposes of the illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose consolidated financial statements prepared by management of the parent in accordance with IFRSs, where the parent is a listed entity. The audit is a group audit of an entity with subsidiaries conducted in accordance with ISA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.
- The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- Key audit matters have been communicated in accordance with proposed ISA 701.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements¹⁴

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the consolidated financial position of ABC Company and its subsidiaries (the Group) as at December 31, 20X1, and (of) their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company it acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under IFRSs, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

¹⁴ The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is applicable.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the *Basis for Adverse Opinion* section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

[Reporting of individual matters in accordance with paragraph 10 of proposed ISA 701 – see Illustration 2 in proposed ISA 700 (Revised).]

Going Concern

[Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 2 in Proposed ISA 700 (Revised) and proposed ISA 570 (Revised).]

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management¹⁵ and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in Proposed ISA 700 (Revised).]

The engagement partner responsible for the audit resulting in this independent auditor's report is *[name]*.

¹⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

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

[Auditor's Address]

[Date]

Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose consolidated financial statements of a listed entity prepared by management of the entity in accordance with IFRSs. The audit is a group audit of an entity with subsidiaries conducted in accordance with ISA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified auditor's opinion is appropriate).
- Key audit matters have been communicated in accordance with proposed ISA 701.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements¹⁶

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company and its subsidiaries (the Group) as at December 31, 20X1, and (of) their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We have audited the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

¹⁶ The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with *[those charged with governance]*, but are not intended to represent all matters that were discussed with them. In addition to the matter described in the *Basis for Qualified Opinion* section of our report, we have determined the matters described below to be the key audit matters. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

[Reporting of individual matters in accordance with paragraph 10 of proposed ISA 701 – see Illustration 2 in proposed ISA 700 (Revised).]

Going Concern

[Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 2 in proposed ISA 700 (Revised) and proposed ISA 570 (Revised).]

Other Information

[The illustrative wording for this section is subject to the IAASB's finalization of proposed ISA 720 (Revised). The content of this section may include, among other matters: (a) a description of the auditor's responsibilities with respect to other information; (b) identification of the document(s) available at the date of the auditor's report that contain the other information to which the auditor's responsibilities apply; (c) a statement addressing the outcome of the auditor's work on the other information; and (d) a statement that the auditor has not audited or reviewed the other information and, accordingly, does not express an audit opinion or a review conclusion on it.]

Responsibilities of [Management¹⁷ and Those Charged with Governance or other appropriate terms] for the Consolidated Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

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

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

The engagement partner responsible for the audit resulting in this independent auditor's report is *[name]*.

¹⁷ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

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

[Auditor's Address]

[Date]

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose consolidated financial statements prepared by management of an entity other than a listed entity in accordance with IFRSs. The audit is a group audit of an entity with subsidiaries conducted in accordance with ISA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.
- As the auditor was unable to express an opinion on the consolidated financial statements as a whole, the sections on Going Concern, Key Audit Matters, and Other Information would not be applicable. Further, a more limited description of the auditor's responsibilities section is required.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements¹⁸

Disclaimer of Opinion

We do not express an opinion on the accompanying consolidated financial statements of ABC Company and its subsidiaries (the Group). Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We were engaged to audit the consolidated financial statements of the Group, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at xxx on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments

¹⁸ The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

Responsibilities of [Management¹⁹ and Those Charged with Governance or other appropriate terms] for the Consolidated Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 2 in proposed ISA 700 (Revised).]

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

[Auditor's Address]

[Date]

¹⁹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of general purpose financial statements prepared by management of an entity other than a listed entity in accordance with IFRSs. The audit is not a group audit conducted in accordance with ISA 600.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. That is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.
- As the auditor was unable to express an opinion on the financial statements as a whole, the sections on Going Concern, Key Audit Matters, and Other Information would not be applicable. Further, a more limited description of the auditor's responsibilities section is required.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements²⁰

Disclaimer of Opinion

We do not express an opinion on the accompanying financial statements of ABC Company (the Company). Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We were engaged to audit the financial statements of the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statement of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our audit report, management was still in the

²⁰ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Responsibilities of [Management²¹ and Those Charged with Governance or other appropriate terms] for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

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

[Auditor's Address]

[Date]

²¹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

PROPOSED INTERNATIONAL STANDARD ON AUDITING 706 (REVISED)

EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

(Effective for audits of financial statements for periods beginning/ending on or after ~~December 15,~~
2009~~date~~)

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[MARKED FROM EXTANT ISA 706]

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PROPOSED ISA 706 (REVISED), EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE
INDEPENDENT AUDITOR'S REPORT

Proposed International Standard on Auditing (ISA) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, 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 additional communication in the auditor's report when the auditor considers it necessary to:
 - (a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
 - (b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
2. Proposed ISA 701¹ establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor's report. When the auditor includes a Key Audit Matters section in the auditor's report, this ISA addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this ISA. (Ref: Para. A1–A2)
3. Proposed ISA 570 (Revised)² and proposed ISA 720³ establish requirements and provide guidance about communication in the auditor's report relating to going concern and other information, respectively.
- 2.4. Appendices 1 and 2 identify ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in this ISA regarding the form and placement of such paragraphs apply. (Ref: Para. A3)

Effective Date

- 3.5. This ISA is effective for audits of financial statements for periods [beginning/ending on or after December 15, 2009]date].

Objective

- 4.6. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:
 - (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
 - (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

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

² Proposed ISA 570, *Going Concern*, paragraphs 19–25

³ Exposure Draft, Proposed ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

Definitions

~~5.7.~~ For purposes of the ISAs, the following terms have the meanings attributed below:

- (a) Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.
- (b) Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

Requirements

Emphasis of Matter Paragraphs in the Auditor's Report

~~6.8.~~ If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. ~~A4~~A4–A5)

- (a) ~~¶~~The auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements; ~~and. Such a paragraph shall refer only to information presented or disclosed in the financial statements.~~
- (b) The matter has not been determined to be a key audit matter in accordance with proposed ISA 701, if applicable. (Ref: Para. A1–A2)

~~7.9.~~ When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- ~~(a) Include it immediately after the Opinion paragraph in the auditor's report;~~
- ~~(a) Use the heading "Emphasis of Matter in the Financial Statements," or other appropriate heading;~~
- (b) When key audit matters are communicated in the auditor's report, include a statement that explains that the matter being emphasized is separate from key audit matters;
- (c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements; and-
- (d) Indicate that the auditor's opinion is not modified in respect of the matter emphasized; ~~and.~~ (Ref: Para. ~~A6~~A2–A7A4, A15–A16)

Other Matter Paragraphs in the Auditor's Report

~~8.10.~~ If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users'

understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

- (a) ~~and~~ This is not prohibited by law or regulation; ~~and~~
- (b) The matter has not been determined to be a key audit matter in accordance with proposed ISA 701, if applicable. (Ref: Para. ~~A8A5–A13A44~~)

~~9.11.~~ When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall ~~do so in a paragraph in the auditor's report, with~~ use the heading "Other Matter," or other appropriate heading. ~~The auditor shall include this paragraph immediately after the Opinion paragraph and any Emphasis of Matter paragraph, or elsewhere in the auditor's report if the content of the Other Matter paragraph is relevant to the Other Reporting Responsibilities section.~~ (Ref: Para. ~~A14–A15~~)

Communication with Those Charged with Governance

~~10.12.~~ If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the ~~proposed~~ wording of this paragraph. (Ref: Para. ~~A17A42~~)

Application and Other Explanatory Material

The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report (Ref: Para. 2, 8(b))

- A1. Key audit matters are defined in proposed ISA 701 as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include the significant findings from the audit of the financial statements of the current period.⁴ In many instances, key audit matters will relate to matters presented or disclosed in the financial statements, and the auditor is required to refer to these disclosures in accordance with proposed ISA 701.⁵
- A2. Communicating key audit matters provides additional information to users of the financial statements to assist them in understanding those matters. Communicating key audit matters may also assist users of the financial statements in understanding the entity and areas of significant management judgment in the audited financial statements, as such matters are areas of focus in performing the audit. When key audit matters are communicated in the auditor's report, the purpose of an Emphasis of Matter paragraph is to draw users' attention in specific circumstances to other financial statement matters that are not key audit matters in accordance with proposed ISA 701. Accordingly, when a Key Audit Matters section is included in the auditor's report, Emphasis of Matter paragraphs are expected to be rare, except when otherwise required by other ISAs or by law or regulation.

⁴ Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16

⁵ Proposed ISA 701, paragraph 10

Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 4, 86)

A3. Appendix 1 identifies ISAs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).⁶ In such circumstances, ISA 560 permits the auditor to include an Other Matter paragraph rather than an Emphasis of Matter paragraph if additional information is provided beyond a reference to the applicable disclosure in the notes to the financial statements.

A4-A4. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- ~~Early application (where permitted) of a~~ new accounting standard (for example, a new International Financial Reporting Standard) that is not yet effective but is expected to have a material that has a pervasive effect on the financial statements in advance of its effective date.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.⁷

A2-A5. However, a widespread use of Emphasis of Matter paragraphs may diminishes the effectiveness of the auditor's communication about such matters. ~~Additionally, to include more information in an Emphasis of Matter paragraph than is presented or disclosed in the financial statements may imply that the matter has not been appropriately presented or disclosed; accordingly, paragraph 6 limits the use of an Emphasis of Matter paragraph to matters presented or disclosed in the financial statements.~~

Including an Emphasis of Matter Paragraph in the Auditor's Report (Ref: Para. 97)

A3-A6. The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for ~~either~~:

- (a) The auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement (see proposed ISA 705 (Revised)⁸); or

⁶ ISA 560, *Subsequent Events*, paragraph 12 and 16

⁷ See paragraph 6 of ISA 560.

⁸ Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

- (b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make; or
- (c) Required statements in the auditor's report relating to going concern in accordance with proposed ISA 570.⁹

A4-A7. The illustrative report in Appendix 3 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a listed entity that contains a qualified opinion and for which key audit matters have not been communicated. Paragraphs A15–A16 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.

Other Matter Paragraphs in the Auditor's Report (Ref: Para. 810–11)

Circumstances in Which an Other Matter Paragraph May Be Necessary

Relevant to Users' Understanding of the Audit

A8. Proposed ISA 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.¹⁰ Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in proposed ISA 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.

A5-A9. In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,¹¹ the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

A6-A10. Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. Where relevant, one or more sub-headings may be used that describe the content of the Other Matter paragraph.

A7-A11. An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the ISAs to report on the financial statements (see "Other Reporting Responsibilities" section in proposed ISA 700 (Revised)¹²), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.

⁹ Proposed ISA 570 (Revised), *Going Concern*

¹⁰ Proposed ISA 260 (Revised), paragraph 15

¹¹ See paragraph 13(b)(ii) of proposed ISA 705 (Revised) for a discussion of this circumstance.

¹² Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 4138–39

Reporting on more than one set of financial statements

~~A8-A12.~~ An entity may prepare one set of financial statements in accordance with a general purpose framework (for example, the national framework) and another set of financial statements in accordance with another general purpose framework (for example, International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

Restriction on distribution or use of the auditor's report

~~A9-A13.~~ Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

Including an Other Matter Paragraph in the Auditor's Report

~~A10-A14.~~ The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report (Ref: Para. 9, 11)

~~A11-A15.~~ The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to the user compared to other elements required to be reported in accordance with proposed ISA 700 (Revised). For example:

Emphasis of Matter Paragraphs

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework,¹³ the auditor may consider it necessary to place the paragraph immediately following the Basis of Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented after the Key Audit Matters section. The auditor may also consider it necessary to add further context to the heading "Emphasis of Matter in the

¹³ For example, as required by ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

Financial Statements”, such as “Emphasis of Matter in the Financial Statements – Subsequent Events”, to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

Other Matter Paragraphs

- When a Key Audit Matters section is presented in the auditor’s report and an Other Matter paragraph is also considered necessary, the auditor may wish to add further context to the heading “Other Matter”, such as “Other Matter – Scope of the Audit”, to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
~~When an Other Matter paragraph is included to draw users’ attention to a matter relevant to their understanding of the audit of the financial statements, the paragraph is included immediately after the Opinion paragraph and any Emphasis of Matter paragraph.~~
- When an Other Matter paragraph is included to draw users’ attention to a matter relating to Other Reporting Responsibilities addressed in the auditor’s report, the paragraph may be included in the section sub-titled “Report on Other Legal and Regulatory Requirements.”
- ~~Alternatively, w~~When relevant to all the auditor’s responsibilities or users’ understanding of the auditor’s report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

A16. The following is an illustration of the interaction between the Key Audit Matters section and an Emphasis of Matter paragraph when both are presented in the auditor’s report.

Key Audit Matters

[Introductory language as required by paragraph 9 of proposed ISA 701]

Subheading for each individual matter

[Description of each individual matters as required by paragraph 10 of proposed ISA 701]

Emphasis of Matter in the Financial Statements – Uncertainty Related to the Outcome of a Lawsuit

Separately from the matters described in the *Key Audit Matters* section of our report, we also draw attention to Note 4 of the financial statements, which describes the uncertainty related to the outcome of the lawsuit filed against the Company by XYZ Company. Our opinion is not qualified in respect of this matter.

Going Concern

[Reporting in accordance with proposed ISA 570 (Revised). For purposes of this illustration, it is assumed that the auditor has not identified a material uncertainty relating to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.]

Communication with Those Charged with Governance (Ref. Para. 129)

~~A12-A17. Such~~The communication required by paragraph 12 enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the

auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement, unless otherwise required to do so by law or regulation.

Appendix 1

(Ref: Para. 24, A3)

List of ISAs Containing Requirements for Emphasis of Matter Paragraphs

This appendix identifies paragraphs in other ISAs in effect for audits of financial statements for periods [beginning/ending on or after date ~~December 15, 2009~~] that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 210, *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- ISA 560, *Subsequent Events* – paragraphs 12(b) and 16
- ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* – paragraph 14
- ~~ISA 570, *Going Concern* – paragraph 19~~

Appendix 2

(Ref: Para. 42)

List of ISAs Containing Requirements for Other Matter Paragraphs

This appendix identifies paragraphs in other ISAs in effect for audits of financial statements for periods [beginning/ending on or after date ~~December 15, 2009~~] that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in ISAs.

- ISA 560, *Subsequent Events* – paragraphs 12(b) and 16
- ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraphs 13–14, 16–17 and 19
- ~~ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*—paragraph 10(a)~~

Appendix 3

(Ref: Para. A7A4)

Illustration of an Auditor's Report that Includes an Emphasis of Matter Paragraph

Note: Only the required reporting elements that would be affected by this ISA have been reproduced in this illustration. The Appendix of proposed ISA 700 (Revised) contains the illustrative wording for sections whose contents would not be affected by this ISA.

For purposes of this illustrative auditor's report, the following ~~c~~Circumstances include the following~~are assumed:~~

- ~~Audit of a complete set of general purpose financial statements prepared by management of an~~the entity ~~other than a listed entity~~ in accordance with International Financial Reporting Standards (IFRSs). ~~The audit is not a group audit conducted in accordance with ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.~~
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- There is uncertainty relating to a pending exceptional litigation matter.
- ~~The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with proposed ISA 701.~~
- A departure from the applicable financial reporting framework resulted in a qualified opinion.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements¹⁴

Qualified Opinion

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

We have audited the ~~accompanying~~ financial statements of ~~ABC~~the Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the

¹⁴ The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

financial statements, including a summary of significant accounting policies and other explanatory information.

Basis for Qualified Opinion

The eCompany's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from ~~International Financial Reporting Standards~~ IFRSs. The eCompany's records indicate that had management marked the marketable securities to market, the company would have recognized an unrealized loss of xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company within the meaning of *[indicate relevant ethical requirements or applicable law or regulation]* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter in the Financial Statements

We draw attention to Note X of the financial statements, which describes the uncertainty related to the outcome of the lawsuit filed against the company by XYZ Company. Our opinion is not qualified in respect of this matter.

Going Concern

[Reporting in accordance with proposed ISA 570 (Revised) – see Illustration 1 in proposed ISA 700 (Revised) and proposed ISA 570 (Revised).]

Other Information

[Reporting in accordance with proposed ISA 720 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

Responsibilities of [Management's¹⁵ and Those Charged with Governance or other appropriate terms] Responsibility for the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700 (Revised).]

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards,¹⁶ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.~~

¹⁵ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

¹⁶ ~~Where management's responsibility is to prepare financial statements that give a true and fair view, this may read:~~
~~"Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs International Financial Reporting Standards, and for such ..."~~

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 in proposed ISA 700].

~~Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation¹⁷ of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.¹⁸ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~

~~We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities]~~
Reporting in accordance with proposed ISA 700 (Revised) – see Illustration 1 of proposed ISA 700 (Revised).

~~[Auditor's sSignature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]~~

~~[Auditor's aAddress]~~

~~[Date of the auditor's report]~~

¹⁷ In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."

¹⁸ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 4, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."

PROPOSED CONFORMING AMENDMENTS TO OTHER ISAs

Note: The following are proposed conforming amendments to other ISAs as a result of the Proposed ISAs. These amendments will become effective at the same time as the Proposed ISAs. The footnote numbers within these amendments do not align with the ISAs that will be amended, and reference should be made to those ISAs.

ISA 210, *Agreeing the Terms of Audit Engagements*

Agreement on Audit Engagement Terms

10. Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A22–A25)
- (a) The objective and scope of the audit of the financial statements;
 - (b) The responsibilities of the auditor;
 - (c) The responsibilities of management;
 - (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
 - (e) Reference to the expected form and content of any reports to be issued by the auditor, including, if the auditor is not required to communicate key audit matters but intends to do so, a statement that the auditor intends to communicate key audit matters; and (Ref: Para. A23a)
 - (f) A statement that there may be circumstances in which a report may differ from its expected form and content.

Agreement on Audit Engagement Terms

*Audit Engagement Letter or Other Form of Written Agreement*¹ (Ref: Para. 10–11)

Form and Content of the Audit Engagement Letter

- A23. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on ISA 200.² Paragraphs 6(b) and 12 of this ISA deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:
- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, ISAs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
 - The form of any other communication of results of the audit engagement.

¹ In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement.

² ISA 200, paragraphs 3–9

- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with proposed ISA 701.³
- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- The expectation that management will provide written representations (see also paragraph A13).
- The agreement of management to make available to the auditor draft financial statements and any accompanying other information in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

A23a. Referring to the expected form and content of the auditor's report in agreeing the terms of the audit engagement enables management and, where appropriate, those charged with governance to understand how the auditor may communicate about the audit, in particular in relation to key audit matters. 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. However, the form and content of the auditor's report, including the description of key audit matters, is the sole responsibility of the auditor. When the auditor is not required to communicate key audit matters, it may 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.

A24. When relevant, the following points could also be made in the audit engagement letter:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other staff of the entity.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the entity.

³ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- Any obligations to provide audit working papers to other parties.

An example of an audit engagement letter is set out in Appendix 1.

Appendix 1

Example of an Audit Engagement Letter

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with International Financial Reporting Standards. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13 of this ISA). It may be appropriate to seek legal advice that any proposed letter is suitable.

To the appropriate representative of management or those charged with governance of ABC Company:⁴

[The objective and scope of the audit]

You⁵ have requested that we audit the financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

~~Our audit will be conducted with 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 expressing an opinion on the financial statements.~~ Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (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.

⁴ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A21.

⁵ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

[The responsibilities of the auditor]

We will conduct our audit in accordance with ~~International Standards on Auditing (ISAs)~~. Those standards require that we comply with ethical requirements, and As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performing of the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also involves We also:

- ~~performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of~~ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ~~In making our risk assessments, we~~ Obtain an understanding of ~~consider~~ internal control relevant to the ~~entity's preparation of the financial statements~~ audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.⁶ However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- ~~An audit also includes evaluating~~ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management, ~~as well as~~
- ~~evaluating~~ 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.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.

[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this ISA are therefore used).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]⁷ acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards;⁸

⁶ This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

⁷ Use terminology as appropriate in the circumstances.

⁸ Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards"

- (b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- (c) To provide us with:
 - (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - (ii) Additional information that we may request from [management] for the purpose of the audit; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report, including where applicable the intent of an auditor of financial statements of an entity other than a listed entity to communicate key audit matters if not otherwise required to do so. This section may also include reference to the auditor's required reporting responsibilities in relation to going concern, other information and key audit matters.]

The form and content of our report may need to be amended in the light of our audit findings.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

ISA 230, *Audit Documentation*

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

Documentation of Significant Matters and Related Significant Professional Judgments (Ref: Para. 8(c))

A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:

- The rationale for the auditor's conclusion when a requirement provides that the auditor "shall consider" certain information or factors, and that consideration is significant in the context of the particular engagement.
- The basis for the auditor's conclusion on the reasonableness of areas of subjective judgments (for example, the reasonableness of significant accounting estimates).
- The basis for the auditor's conclusions about the authenticity of a document when further investigation (such as making appropriate use of an expert or of confirmation procedures) is undertaken in response to conditions identified during the audit that caused the auditor to believe that the document may not be authentic.
- When a Key Audit Matters section is included in the auditor's report in accordance with proposed ISA 701,⁹ the auditor's determination of the key audit matters, or the determination that there are no key audit matters.

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

Further Substantive Procedures to Respond to Significant Risks (Ref: Para. 15)

Recognition and Measurement Criteria

Recognition of the Accounting Estimates in the Financial Statements (Ref: Para. 17(a))

A114. With respect to accounting estimates that have not been recognized, the focus of the auditor's evaluation is on whether the recognition criteria of the applicable financial reporting framework have in fact been met. Even where an accounting estimate has not been recognized, and the auditor concludes that this treatment is appropriate, there may be a need for disclosure of the circumstances in the notes to the financial statements. The auditor may also determine that there is a need to draw the reader's attention to a significant uncertainty by including an Emphasis of Matter paragraph (see proposed ISA 706 (Revised)¹⁰) ~~to~~ or, where applicable, communicating this as a key audit matter in the auditor's report in accordance with proposed ISA 701.¹¹ If the matter is determined to be a key audit matter, proposed ISA 706 (Revised) prohibits the auditor from including an Emphasis of Matter

⁹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁰ Proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹¹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

paragraph in the auditor's report.¹² ~~ISA 706¹³ establishes requirements and provides guidance concerning such paragraphs.~~

ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements

Auditor Reporting

Corresponding Figures

Prior Period Financial Statements Not Audited

14. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. (Ref: Para. A7a)

...

Comparative Financial Statements

...

16. When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with proposed ISA 706 (Revised).

...

Prior Period Financial Statements Not Audited

19. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. (Ref: Para. A12)

Auditor Reporting

Corresponding Figures

Prior Period Financial Statements Not Audited (Ref: Para. 14)

A7a. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by proposed ISA 705 (Revised)¹⁴ to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with proposed ISA 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate

¹² Proposed ISA 706 (Revised), paragraph 7(b)

¹³ ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

¹⁴ Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with proposed ISA 701.¹⁵

...

Comparative Financial Statements

...

Prior Period Financial Statements Not Audited (Ref: Para. 19)

A12. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by proposed ISA 705 (Revised) to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with proposed ISA 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with proposed ISA 701.

¹⁵ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

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