

The Auditor's Report on Financial Statements Proposed New ISA 701

ISA 701, MODIFICATIONS TO THE AUDITOR'S REPORT

1. The purpose of the International Standard on Auditing (ISA) is to establish standards and provide guidance on the circumstances when the independent auditor's report on general purpose financial statements should be modified and the form and the content of the modifications to the auditor's report in those circumstances.
2. ISA 700, "The Independent Auditor's Report on General Purpose Financial Statements" establishes standards and provides guidance on the form and content of the independent auditor's report on general purpose financial statements when the auditor is able to express an unqualified opinion and no modification to the audit report is necessary¹. This ISA describes how that report wording is modified in the following situations:

~~29. An auditor's report is considered to be modified in the following situations:~~

Matters That Do Not Affect the Auditor's Opinion

- (a) emphasis of matter

Matters That Do Affect the Auditor's Opinion

- (b) qualified opinion,
- (c) disclaimer of opinion, or
- (d) adverse opinion.

Uniformity in the form and content of each type of modified report will further the user's understanding of such reports. Accordingly, this ISA includes suggested wording ~~to express an unqualified opinion as well as examples~~ of modifying phrases for use when issuing modified reports.

¹ IAASB revised ISA 700, "The Independent Auditor's Report on General Purpose Financial Statements" in [XXXX]. This ISA is currently under revision. The only conforming amendment made to this ISA when the revised ISA 700 was issued was to conform the wording of the auditor's report in the illustrative examples.

ISA 700 identifies the basic elements of the auditor's report. It strongly encourages consistency in the structure, content and wording of the auditor's report when the audit has been conducted in accordance with the ISAs in order to promote credibility in the global marketplace by making more recognisable those audits that have been conducted in accordance with globally recognised standards. The auditor may encounter circumstances, however, when the auditor believes it is important to emphasise in the auditor's report certain matters related to procedures performed in the financial statement audit. Paragraph [35] of this ISA notes that the auditor may use an emphasis of matter paragraph to highlight matters other than those affecting the financial statements, preferably after the opinion paragraph (and, as noted in ISA 700 paragraph 49, before the section in the auditor's report reporting on other reporting responsibilities, if any). The use of emphasis of matter paragraphs will be explored more fully in the revision of ISA 701. In the meantime, auditors are encouraged to use the provision in paragraph [35] in the circumstances described above.

[Paragraphs 30-47 of ISA 700 would remain unchanged pending the completion of the ISA 701 project, other than any conforming wording changes to the illustrative example report wording.]