CONFORMING AND CONSEQUENTIAL AMENDMENTS ARISING FROM PROPOSED ISA 240 (REVISED)

ISA 700 (REVISED) - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

Requirements

Auditor’s Report

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

Auditor’s Responsibilities for the Audit of the Financial Statements

40. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also shall: (Ref: Para. A50)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any:

(i) Significant deficiencies in internal control that the auditor identifies during the audit; and

(ii) Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance;

(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, actions taken to eliminate threats or safeguards applied; and

(c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters, which includes matters related to fraud. The auditor describes the key audit matters, including matters related to fraud, in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements

Key Audit Matters including Matters Related to Fraud

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives 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.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, 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, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout 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.

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1 The subtitle “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second subtitle “Report on Other Legal and Regulatory Requirements” is not applicable.
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 Company’s internal control.²

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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 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 our audit; and
• Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance.

We also 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters, which includes matters related to fraud. We describe the key audit matters, including matters related to fraud, in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.


² 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.
INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Consolidated Financial Statements

…

Key Audit Matters Including Matters Related to Fraud

…

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

Our objectives 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.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, 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, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout 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 Group’s internal control.4

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if

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3 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.

4 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 consolidated financial statements.
such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up
to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a
going concern.

- 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 or business activities
within the Group to express an opinion on 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 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 our audit; and

- Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor’s judgment, relevant to
the responsibilities of those charged with governance.

We also 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, actions taken to eliminate threats or
safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most
significance in the audit of the financial statements of the current period and are therefore the key audit matters, which
includes matters related to fraud. We describe the key audit matters, including matters related to fraud, in our
auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare
circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of
doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

...
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

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives 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.

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor’s report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, 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, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor’s responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout 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 Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence.

5 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.
obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We 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 our audit; and
- Identified fraud or suspected fraud, or other matters related to fraud that are, in the auditor’s judgment, relevant to the responsibilities of those charged with governance.

ISA 701 - COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR’S REPORT

Requirements

Communicating Key Audit Matters

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor’s report under the heading “Key Audit Matters Including Matters Related to Fraud,” unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of 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]; and

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33)

Form and Content of the Key Audit Matters Section in Other Circumstances

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor’s report under the heading “Key Audit Matters Including Matters Related to Fraud.” (Ref: Para. A57–A59)

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 2)

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6 Unless specifically referring to the title of the section, reference is made to the Key Audit Matters section throughout this ISA.
Conforming and Consequential Amendments Arising from Proposed ISA 240 (Revised)

IAASB Main Agenda (June 2023)

Relationship between Key Audit Matters, the Auditor’s Opinion and Other Elements of the Auditor’s Report (Ref: Para. 4, 12, 15)

... 

A8A. Proposed ISA 240 (Revised)\(^7\) includes requirements for the auditor to determine which matters related to fraud, that are communicated with those charged with governance, are key audit matters. The requirements and guidance in proposed ISA 240 (Revised) refer to, or expand on, the application of this ISA.

Determining Key Audit Matters (Ref: Para. 9–10)

... 

Considerations in Determining Those Matters that Required Significant Auditor Attention (Ref: Para. 9)

... 

A18A. Proposed ISA 240 (Revised)\(^8\) notes that fraud related matters often are matters that require significant auditor attention and that, given the interest of users of the financial statements, fraud related matters “are ordinarily matters of most significance in the audit of the financial statements in the current period and therefore are key audit matters.”

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with ISA 315 (Revised 2019) (Ref: Para. 9(a))

... 

A20. ISA 315 (Revised 2019) defines a significant risk as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum of inherent risk due to the degree to which the inherent risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement should that misstatement occur.\(^9\) Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

A21. However, this may not be the case for all significant risks. For example, Proposed ISA 240 (Revised)\(^10\) 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.\(^10\) In addition, proposed ISA 240 (Revised) 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.\(^11\) The auditor may determine these matters to be fraud related key audit matters because significant risks often are matters that require significant auditor attention. However, the auditor may determine that these risks of material misstatement due to fraud did not require significant auditor attention. Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered in the auditor’s determination of key audit matters in accordance with paragraph 10.

\(^7\) Proposed ISA 240 (Revised), The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements, paragraphs 66–69

\(^8\) Proposed ISA 240 (Revised), paragraph A174 and A179.

\(^9\) ISA 315 (Revised 2019), paragraph 12(l)

\(^10\) Proposed ISA 240 (Revised), The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements, paragraphs 4027–2841

\(^11\) Proposed ISA 240 (Revised), paragraph 4232
Communicating Key Audit Matters

Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor’s Report (Ref: Para. 14)

A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements,\(^{12}\) in addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor’s report. Such communication may also be useful to inform the auditor’s consideration of the adverse consequences that may arise from communicating about the matter.

Form and Content of the Key Audit Matters Section in Other Circumstances (Ref: Para. 16)

A57. The requirement in paragraph 16 applies in three circumstances:

- (a) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).
- (b) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor’s report and no other matters have been determined to be key audit matters.
- (c) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.

A58. The following illustrates the presentation in the auditor’s report if the auditor has determined there are no key audit matters to communicate:

**Key Audit Matters Including Matters Related to Fraud**

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section.] We have determined that there are no [other] key audit matters, including matters related to fraud to communicate in our report.

A59B. Proposed ISA 240 (Revised)\(^{13}\) includes guidance that illustrates the presentation in the auditor’s report if the auditor has determined there are key audit matters to communicate but these key audit matters do not relate to fraud.

\(^{12}\) For example, except for certain specified circumstances, paragraph R114.2 of the IESBA Code does not permit the use or disclosure of information in respect of which the duty of confidentiality applies. As one of the exceptions, paragraph R114.3 of the IESBA Code permits the professional accountant to disclose or use confidential information where there is a legal or professional duty or right to do so. Paragraph 114.3 A1(b)(iv) of the IESBA Code explains that there is a professional duty or right to disclose such information to comply with technical and professional standards.

\(^{13}\) Proposed ISA 240 (Revised), paragraph A185
A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor’s report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.