

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

ISA 701, MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT

1. The purpose of ~~the~~this International Standard on Auditing (ISA) is to establish standards and provide guidance on the circumstances when the independent auditor's report 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 a complete set of general purpose financial statements when the auditor is able to express an unqualified opinion and no modification to the audit report is necessary¹. ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" establishes standards and provides guidance on the form and content of the independent auditor's report in special purpose audit engagements. This ISA describes how the auditor's report wording is 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.
3. 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 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 701 is currently under revision. The only conforming amendments made to this ISA when the revised ISA 700 was issued have been to conform the wording of the auditor's report in the illustrative examples as necessary to ensure consistency with the illustrative report wording in revised ISA 700 and to specify how modifications to the auditor's report would be positioned in relation to the auditor's description of and reporting on any other responsibilities in addition to the auditor's report on the financial statements.

4. The illustrative reports in this ISA are based on the auditor's report on general purpose financial statements for a profit-oriented enterprise. The principles relating to the circumstances when the auditor's report needs to be modified are, however, also applicable to reports on other engagements related to the audit of historical financial information, such as general purpose financial statements for entities of a different nature (such as a not-for-profit organization) and the special purpose audit engagements described in ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements". The illustrative reports would be adapted as appropriate in the circumstances.

Matters That Do Not Affect the Auditor's Opinion

5. In certain circumstances, an auditor's report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included after the paragraph containing the auditor's opinion on the financial statements but before the section on any other reporting responsibilities, if any. The emphasis of matter paragraph would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.

[Paragraphs 31 – 34 of ISA 700 would remain unchanged pending the completion of the ISA 701 project.]

10. In addition to the use of an emphasis of matter paragraph for matters that affect the financial statements, the auditor may also modify the auditor's report by using an emphasis of matter paragraph, preferably after the paragraph containing the auditor's opinion on the financial statements but before the section on any other reporting responsibilities, if any, to report on matters other than those affecting the financial statements. For example, ... *[remainder of the paragraph would remain unchanged]*

[Paragraphs 36-39 of ISA 700 would remain unchanged pending the completion of the ISA 701 project.]

15. **Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s) on the financial statements.** Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion on the financial statements and may include a reference to a more extensive discussion, if any, in a note to the financial statements.

[Paragraphs 41-47 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]