

## **The Auditor's Report on Financial Statements**

### **Proposed new ISA 700**

*Note to IAASB: The following is a mark-up of the proposed wording presented on the Friday morning of the Tokyo meeting.*

## **ISA 700, THE INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS**

### **Introduction**

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the ~~form and content of the~~ independent auditor's report issued as a result of an audit of a complete set of general purpose financial statements prepared in accordance with an applicable financial reporting framework (as described in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements"). It also provides guidance on the matters the auditor considers in forming an opinion on those financial statements.
2. ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" establishes standards and guidance on the form and content of the auditor's report issued as a result of an audit of:
  - a complete set of financial statements prepared in accordance with a financial reporting framework that is designed for a special purpose, referred to as an other comprehensive basis of accounting;
  - a component of a complete set of financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
  - compliance with contractual agreements; and
  - summarized financial statements.
3. This ISA addresses circumstances when the auditor is able to express an unqualified opinion and no modification to the audit report is necessary. ISA 701, "Modifications to the Independent Auditor's Report", establishes standards and guidance on the modifications to this report for an emphasis of matter, a qualified opinion, a disclaimer of opinion, or an adverse opinion.
4. **The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.**

### **The Auditor's Opinion on Financial Statements**

5. As stated in ISA 200, the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with ~~the a applicable~~ financial reporting framework.

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

~~7. The financial reporting framework determines the matters on which the auditor expresses an opinion. In an audit of financial statements prepared in accordance with the International Financial Reporting Standards, the auditor expresses an opinion whether the financial statements give a true and fair view of, or present fairly, in all material respects, the financial position, financial performance and cash flows of the entity in accordance with the International Financial Reporting Standards (IFRS). The standards and guidance in this ISA are premised on a financial reporting framework for which such an opinion is appropriate. Auditors of entities whose financial statements have been prepared in accordance with a different financial reporting framework may need to amend the descriptions of the matters addressed in the standards and guidance as appropriate given the financial reporting framework used.~~

#### APPLICABLE FINANCIAL REPORTING FRAMEWORK

~~78. The auditor's judgment regarding whether the financial statements give a true and fair view of, or present fairly, in all material respects, the financial position, financial performance and cash flows is made in the context of the applicable financial reporting framework. Without As discussed in ISA 210, "Terms of Audit Engagements", without an acceptable framework, the auditor would does not have suitable criteria for evaluating the entity's financial statements presentation of its financial position, financial performance and cash flows. ISA 200 describes what constitutes an applicable financial reporting framework for general purpose financial statements.~~

~~9. ISA 200, "Objective and General Principles Governing an Audit of Financial Statements", describes what constitutes an applicable financial reporting framework for general purpose financial statements. ISA 210, "Terms of Audit Engagement", requires the terms of the engagement to identify the applicable financial reporting framework and describes the matters considered by the auditor in agreeing on the applicable financial reporting framework with the client.~~

~~10. ISA 200 and ISA 210 presume that IFRS or established financial reporting standards in a particular jurisdiction are acceptable financial reporting frameworks for general purpose financial statements. ISA 210 addresses the auditor's responsibilities when the entity uses an other financial reporting framework to prepare its general purpose financial statements. It requires the auditor to consider whether that other financial reporting framework is suitable and clearly described in the financial statements. Guidance to assist the auditor in this regard is provided in ISA 200 paragraphs 41 to 44. ISA 210 does not permit the auditor to accept an engagement to audit general purpose financial statements when the auditor concludes that the financial reporting framework identified by management is not acceptable.~~

~~11. After accepting an engagement involving an other financial reporting framework, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was accepted and that indicate that the framework is not acceptable for general purpose financial statements. The auditor discusses this with management and encourages management to revise the financial reporting framework or to adopt another financial reporting framework that is suitable for general purpose financial statements.~~

#### FORMING THE OPINION ON THE FINANCIAL STATEMENTS

~~128.~~ In forming the opinion, the auditor considers all audit evidence obtained and evaluates whether that evidence provides reasonable assurance that the financial statements taken as a whole are free from material misstatement. The auditor considers the sufficiency and appropriateness of audit evidence obtained, and evaluates the effects of misstatements identified.

~~139.~~ The auditor considers whether, in the auditor's judgment:

- (a) the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate in the circumstances;
- (b) the information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable;
- (c) the financial statements reflect the underlying transactions and events in a manner that fairly presents, in the case of financial statements prepared in accordance with IFRS, for example, the financial position, financial performance, and cash flows of the entity; and
- (d) the financial statements provide sufficient disclosures to enable users to understand the impact of particular transactions or events that have a material effect on, in the case of financial statements prepared in accordance with IFRS, for example, the entity's financial position, financial performance and cash flows.

~~1410.~~ The auditor makes these judgments by considering the entity's compliance with specific requirements of the financial reporting framework and the fair presentation of the financial statements as a whole. ~~A~~ In some circumstances, failure to disclose relevant information not specifically contemplated by the financial reporting framework, or in extremely rare circumstances, compliance with a specific requirements in the framework itself, may result in financial statements that are so misleading that they fail to give a true and fair view of, or present fairly, in all material respects, for example, in the case of financial statements prepared in accordance with IFRS, the financial position, financial performance or cash flows of the entity. In such these circumstances, the auditor discusses with management its responsibilities under the financial reporting framework. Some financial reporting frameworks acknowledge that there may be circumstances when it is necessary for the financial statements to disclose information not specifically contemplated by the financial reporting framework, or extremely rare circumstances when it is necessary for the financial statements to depart from a specific requirement in the framework in order to achieve the objective of fair presentation of the financial statements. Those financial reporting frameworks often provide guidance on the disclosures required in such circumstances. Other financial reporting frameworks, however, may not provide any guidance on these circumstances.

**11.** The auditor considers the need to modify the auditor's report, which will depend on how management has addressed the matter in the financial statements and be influenced by how the financial reporting framework deals with these rare circumstances, ~~when a departure from the financial reporting framework is necessary to achieve the objective of fair presentation of the financial statements. The~~ Ultimately, the auditor is guided, ~~in this regard,~~ by the ethical responsibility to avoid being associated with information where the auditor believes that the information contains a materially false or misleading statement, or omits or obscures information required to be included where such omission or obscurity would be misleading<sup>1</sup>. Accordingly, in making a final judgment on the matter, the auditor needs to be satisfied that the information conveyed to readers in financial statements together with the auditor's report is not misleading.

**12.** The auditor's report should be in writing and should contain a clear expression of the auditor's opinion on the financial statements.

### Elements of the Auditor's Report in an Audit Conducted in Accordance with ISAs<sup>2</sup>

**13.** The auditor's report when the audit has been conducted in accordance with the ISAs includes the following elements,:

- (a) title;
- (b) addressee;
- (c) introductory paragraph that identifies ~~each of~~ the financial statements audited;
- (d) a description of management's responsibility for the preparation and fair presentation of the financial statements;
- (e) a description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, which includes:
  - (i) a reference to the International Standards on Auditing (ISAs), and
  - (ii) a description of the work an auditor performs in an audit;
- (f) an opinion paragraph containing ~~either:~~
  - (i)**—an expression of opinion on the financial statements<sup>3</sup> and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin<sup>4</sup> of the financial reporting framework when

<sup>1</sup> See paragraph 2.2 in Section 2 of the "Proposed Revised Code of Ethics for Professional Accountants" July 2003 Exposure Draft.

<sup>2</sup> Paragraphs ~~60-64~~ 52-57 address the auditor's reports when the audit has been conducted in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction.

<sup>3</sup> Circumstances when the auditor needs to qualify the auditor's opinion are addressed in ISA 701, "Modifications to the Independent Auditor's Report". In some circumstances, the auditor may not be able to express an opinion on the financial statements because the effect of a limitation on the scope of the audit is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence. In such circumstances, the auditor expresses a disclaimer of opinion.

<sup>4</sup> In some circumstances it also may be necessary to refer to a particular jurisdiction within the country of origin to identify clearly the financial reporting framework used.

International Financial Reporting Standards or International Public Sector Accounting Standards are not used,); ~~or~~

~~(ii) a disclaimer of opinion when the auditor is unable to express an opinion on the financial statements.~~

- (g) where relevant, reporting on any other reporting responsibilities in addition to the responsibility to report on the financial statements;
- (h) date of the report;
- (i) auditor's address; and
- (j) auditor's signature.

~~1714.~~ Consistency in the content (i.e., the elements), the layout and the wording of the auditor's report when the audit has been conducted in accordance with the 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 reader's understanding and to identify unusual circumstances when they occur. It is important, therefore, that the auditor's report contain all of the elements identified in paragraph ~~16-13~~ and described more fully in the remainder of this ISA. ~~The auditor also adopts the layout and wording used in this ISA so that users can more readily recognize the audit report as a report on an audit conducted in accordance with ISAs.~~

#### TITLE

~~1815.~~ **The auditor's report should have a title that clearly indicates that it is the report of an independent auditor.**

~~1916.~~ A title ~~that indicates that~~ indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report", affirms that the auditor has met all of the ethical requirements, including that of independence, ~~of an independent auditor~~ and, therefore, distinguishes the auditor's report from reports ~~that might be~~ issued by others.

#### ADDRESSEE

~~2017.~~ **The auditor's report should be addressed as required by the circumstances of the engagement.**

~~2118.~~ The auditor's report is addressed to those for whom the report is prepared. National laws or regulations often specify to whom the auditor's report on general purpose financial statements should be addressed in that particular jurisdiction. Ordinarily, the auditor's report on general purpose financial statements is addressed either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

#### INTRODUCTORY PARAGRAPH

~~2219.~~ **The introductory paragraph in the auditor's report should identify the financial statements that have been audited, the entity, and the date of and period covered by the financial statements. The report should specifically identify the title of each of the financial**

**statements that comprise the complete set of financial statements on which the auditor is expressing an opinion, and refer to the related notes.**

2320. This requirement is ordinarily met by stating that the auditor has audited the accompanying financial statements of the entity, which comprise [state the titles of the financial statements required by the applicable financial reporting framework] and the related notes. When the auditor is aware that the financial statements will be included in another document, such as an annual report, the auditor may consider identifying the page numbers on which the financial statements are presented, as this helps readers distinguish the financial statements to which the auditor's report relate from unaudited information contained in the document.

2421. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. ~~Ordinarily~~ In the case of financial statements prepared in accordance with IFRS, this includes: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and ~~other related notes~~ ; ~~although in~~ In some jurisdictions additional information might also be considered to be an integral part of the financial statements. If the entity has not included a financial statement or related note that is required by the applicable financial reporting framework, the auditor expresses either a qualified opinion or an adverse opinion, as appropriate in the circumstances, as discussed in ISA 701, "Modifications to the Independent Auditor's Report."

2522. In some circumstances, the entity may be required by law or regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the 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. The auditor's opinion may or may not cover the supplementary information and it is therefore important for the auditor to be satisfied that any supplementary information that is not covered by the auditor's opinion is clearly differentiated, as discussed in paragraphs ~~60-58~~ to 6462.

2623. Certain supplementary information, by its nature or how it is presented, would be considered by a reasonable user to be an integral part of the entity's financial statements and, therefore, if presented by the entity, that information is considered to be covered by the auditor's opinion. For example, notes or supplementary schedules that are cross-referenced from the financial statements are portrayed as being an integral part of the financial statements and are covered by the auditor's opinion. Equally, the nature of the subject matter may be such that it is so interrelated to the entity's presentation of its financial position, financial performance and cash flows that it is covered by the auditor's opinion because it is not possible to differentiate it sufficiently from the audited financial statements. This would be the case, for example, ~~with an explanation in when~~ the notes to the financial statements include an explanation of regarding the extent to which the financial statements comply with another financial reporting framework.

2724. Supplementary information that is presented as an integral part of the financial statements does not need to be specifically referred to in the introductory paragraph of the auditor's report when



the reference to the notes in the description of the components of the financial statements in the introductory paragraph is sufficient.

#### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

~~28~~25. The auditor's report should state that management is responsible for the preparation and fair presentation of the financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with the applicable financial reporting framework and that this responsibility includes:-

~~29. The auditor's report should also describe important aspects of that responsibility, which at a minimum should include a description of the following matters:~~

- ~~(a) designing and implementing maintaining internal control over financial reporting to prevent or detect and correct relevant to the preparation of financial statements that are free of material misstatements, whether~~ due to fraud and error;
- ~~(b) selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework and appropriate in the circumstances; and~~
- ~~(c) making necessary making accounting estimates that are reasonable in the circumstances, including the significant assumptions on which those estimates are based.~~

~~30~~26. Financial statements are the representations of management. Management is responsible for the preparation and presentation of the preparing financial statements in accordance with the applicable financial reporting framework. For example, in the case of financial statements prepared in accordance with IFRS, management is responsible for preparing financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with ~~the applicable financial reporting framework~~ IFRS. In order to fulfill this responsibility, management designs and implements internal controls to prevent ~~or and~~ to detect and correct misstatements due to fraud and error in order to ensure the reliability of the entity's financial reporting. The preparation of the financial statements requires management to ~~make~~exercise judgment in making necessary accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments will be made in the context of the applicable financial reporting framework.

~~31. The description of management's responsibility includes, as a minimum, the matters identified in paragraph 29 because of their importance as the basis for an audit. The wording used to describe these matters, however, may vary depending on how management's responsibilities are described in law, regulations or practice in a particular jurisdiction.~~

~~32~~27. The term management has been used in this ISA to describe those responsible for the preparation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors), rather than to management.

## AUDITOR'S RESPONSIBILITY

**3328.** The auditor's report should include a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.

**3429.** The auditor's report states that the auditor's responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the preparation and fair presentation of the financial statements.

**3530.** The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs and explain that those standards require that the auditor plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement, whether caused by fraud and error.

**3631.** The term "scope of an audit" refers to the audit procedures deemed appropriate in the circumstances, in the auditor's judgment, to achieve the objective of an audit. The reference to the standards used conveys to the reader that the audit has been conducted in accordance with established standards.

**3732.** ISA 200, "~~Objective and General Principles Governing an Audit of Financial Statements~~" specifies what is required in order to conduct an audit in accordance with the ISAs. Paragraph ~~45~~ **13** in that ISA explains that the auditor cannot describe the audit as being conducted in accordance with the ISAs unless the auditor has complied fully with all of the ISAs relevant to the audit.

**3833.** ~~The description of the auditor's responsibilities should include a statement that the audit was planned and performed to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement caused by fraud and error.~~

~~It should also~~ The auditor's report should describe an audit ~~as including~~ by stating that:

(a) an audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements;

(b) the audit procedures selected depend on the auditor's assessment of the risks of misstatement in the financial statements;

(c) an audit includes considering internal control relevant to the entity's preparation of the financial statements as a basis for designing 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<sup>5</sup>; and

<sup>5</sup> In some jurisdictions, the auditor may have ~~a responsibilities-responsibility~~ responsibility to ~~perform both an audit of the financial statements and an audit of the effectiveness of the entity's internal control. report separately on the entity's internal control.~~ In such circumstances, the auditor reports on ~~that the~~ responsibility to report on internal control as required in that jurisdiction. This ~~paragraph sentence~~ may not be appropriate in such circumstances.



- (d) an audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of significant accounting estimates made by management; as well as the overall financial statement presentation and disclosures.
- ~~(a) obtaining an understanding of the entity, including its internal control over financial reporting, sufficient to assess the risks of material misstatement of the financial statements, and to design and perform audit procedures that in the auditor's judgment address those risks;~~
- ~~(b) evaluating the evidence obtained through tests and other audit procedures;~~
- ~~(ea) evaluating the appropriateness of the accounting policies selected and applied;~~
- ~~(dd) evaluating the reasonableness of significant accounting estimates; and~~
- ~~(ec) evaluating the overall financial statement presentation and disclosures.~~
39. ~~The auditor's report should also explain that, in an audit of financial statements, the auditor obtains an understanding of the entity's internal control over financial reporting, but not with the objective of obtaining a sufficient basis for expressing an opinion on the design or effective operation of some or all of the entity's internal controls<sup>6</sup>.~~
4034. The auditor's report should include a statement that the auditor believes that the audit has~~auditor has obtained sufficient appropriate evidence to be able~~provided a reasonable basis for the auditor to express an opinion on the financial statements.

#### THE AUDITOR'S OPINION

4435. An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view, or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
36. An unqualified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.
37. The opinion paragraph of the auditor's report when an unqualified opinion is appropriate in the circumstances should state the auditor's opinion ~~whether that~~ the financial statements give a true and fair view ~~of, or present fairly, in all material respects, the financial position, financial performance and cash flows of the entity~~ in accordance with the applicable financial reporting framework. The opinion should identify the country of origin of the financial reporting framework when International Financial Reporting Standards or International Public Sector Accounting Standards are not used).

<sup>6</sup> In some jurisdictions, the auditor may have ~~a responsibilities-responsibility~~ to perform both an audit of the financial statements and an audit of the effectiveness of the entity's internal control. ~~report separately on the entity's internal control.~~ In such circumstances, the auditor reports on ~~that the~~ responsibility to report on internal control as required in that jurisdiction. This ~~paragraph-sentence~~ may not be appropriate in such circumstances.

4238. The wording of the auditor's opinion depends on the financial reporting framework. For example, in the case of financial statements prepared in accordance with IFRS, the auditor expresses an opinion that financial statements give a true and fair view of, or present fairly, in all material respects, 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. To advise the reader of the context in which the auditor's opinion is expressed, the auditor's opinion also identifies the applicable financial reporting framework upon which the financial statements are based. When the applicable financial reporting framework is not International Financial Reporting Standards or International Public Sector Accounting Standards, the auditor's opinion also identifies the country of origin for the applicable financial reporting framework. The auditor identifies the applicable financial reporting framework in such terms as:

- "...in accordance with International Financial Reporting Standards" or
- "...in accordance with accounting principles generally accepted in Country X..."

4339. When the applicable financial reporting framework encompasses legal and regulatory requirements, the auditor identifies the applicable financial reporting framework in such terms as:

"...in accordance with International Financial Reporting Standards and the requirements of Country X Corporations Act."

44. ~~An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view of, or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An unqualified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.~~

#### OTHER REPORTING RESPONSIBILITIES

4540. ~~The auditor may also have a responsibility to report on other matters in addition to the responsibility to report whether the general purpose financial statements give a true and fair view of, or present fairly, in all material respects, the financial position, financial performance and cash flows of the entity in accordance with the applicable financial reporting framework.~~ auditor's responsibility to express an opinion on the financial statements. 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 auditing procedures, or to express an opinion on specific matters. National auditing standards often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

41. In some cases, the relevant standards or laws may require or permit the auditor to address-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 address-report on them in a separate report.

**4642. When the auditor addresses other reporting responsibilities within the auditor's report on the financial statements, these other reporting responsibilities should be clearly identified and distinguished from the auditor's responsibilities for and opinion on the financial statements.**

43. This is ordinarily achieved by addressing the other reporting responsibilities in a separate section of the report that follows the opinion paragraph, and when applicable, any emphasis of matter paragraph on the financial statements.

#### DATE OF REPORT

**4744. The auditor should date the report as of the date on which the auditor has obtained sufficient appropriate audit evidence to support the auditor's opinion.**

4845. The date of the auditor's report indicates the date of the completion of the audit, which is considered to be the date on which the auditor has obtained sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion. The auditor may not yet have fulfilled all responsibilities related to the audit, for example, the auditor may not yet have had an opportunity to communicate the audit matters of governance interest that arose from the audit to those charged with governance. However, the auditor has completed the work necessary to support the auditor's opinion on the financial statements. It is important that the auditor's report include this date because it informs the reader that the auditor has considered the effect on the financial statements and on the report of events and transactions of which the auditor became aware and that occurred up to that date. In some jurisdictions, law or regulation may prescribe when the audit is considered to be completed. In such circumstances, the auditor uses this date as the date of the auditor's report.

**4946. Since the auditor's responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the report earlier than the date of approval of the financial statements.**

47. ISA 560, "Subsequent Events" defines the date of approval of the financial statements and how it relates to other important dates that influence the auditor's responsibilities regarding subsequent events.

#### AUDITOR'S ADDRESS

**5048. The report should name a specific location, ordinarily a city, in the jurisdiction where the auditor practices.**

#### AUDITOR'S SIGNATURE

**5149. The report should be signed in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction.**

5350. In addition to the auditor's signature, in certain jurisdictions, the auditor may also be required to declare 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.

## The Auditor's Report

5351. The following is an illustration of the auditor's report incorporating the elements set forth above in for an audit of financial statements prepared in accordance with International Financial Reporting Standards expressing an unqualified opinion. In addition to the audit of the financial statements, the illustration assumes that when the auditor has a number of additional reporting responsibilities required under local law, expressing an unqualified opinion and incorporating the elements set forth above.

### INDEPENDENT AUDITOR'S<sup>2</sup> REPORT

*[Appropriate Addressee]*

#### **Report on the financial statements**

We have audited the accompanying 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 flows statement for the year then ended, and the related notes.

#### *Management's responsibility*

Management is responsible for the preparation and fair presentation of these financial statements ~~that fairly present the financial position, financial performance and cash flows of the company~~ in accordance with International Financial Reporting Standards (IFRS). This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that are consistent with IFRS; and making accounting estimates that are reasonable in the circumstances.

- ~~• designing and implementing internal control over financial reporting to prevent or detect and correct misstatements due to fraud and error;~~
- ~~• selecting and applying accounting policies that are consistent with the International Financial Reporting Standards and appropriate in the circumstances; and~~
- ~~making necessary accounting estimates, including the significant assumptions on which those estimates are based.~~

#### *Auditors' Auditor's responsibility*

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. ~~International Standards on Auditing~~ Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatements, whether caused by fraud or error.

~~In an~~ An audit ~~includes~~ involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of misstatement in the financial statements. An audit includes considering internal control relevant to the entity's preparation of the financial statements as a basis for designing 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.:

- ~~• obtaining an understanding of the company, including its internal control over financial reporting, sufficient to assess the risks of material misstatements in the financial statements, and to design and perform audit procedures that in the auditor's judgment address those risks;~~
- ~~▪ evaluating the evidence obtained through tests and other procedures;~~
- ~~• evaluating the appropriateness of the accounting policies selected and applied;~~
- ~~• evaluating the reasonableness of significant estimates; and~~
- ~~• evaluating the overall financial statement presentation and disclosures.~~

~~In an audit of financial statements, the auditor obtains an understanding of the company's internal control over financial reporting s, but not with the objective of obtaining a sufficient basis for expressing an opinion on the design or effective operation of some or all of the company's internal controls.~~

We believe that our audit ~~we have obtained sufficient appropriate evidence to be able~~ provides a reasonable basis for our ~~to express an~~ opinion on the financial statements.

#### ~~Our opinion~~ Opinion

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

#### **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.]

~~Pursuant to the requirements of the Companies Act in Country X, we report the following:~~

- ~~• We have obtained all the information and explanations we consider necessary for the purposes of our audit.~~
- ~~• In our opinion, proper books of account have been kept by the Company.~~
- ~~• The Company's financial statements are in agreement with the books of account.~~

[Auditors' signature]

[Date of the auditor's report]

[Auditor's address]

## Auditor's Report for Audits Conducted in Accordance with Both ISAs and National Auditing Standards

~~54~~52. The auditor may conduct the audit in accordance with both the ISAs and national auditing standards applicable in a particular jurisdiction. In such circumstances, the auditor complies with ~~all~~each of the ISAs relevant to the ~~engagement~~audit and performs any additional audit procedures necessary to comply with the ~~national auditing relevant~~ standards of that jurisdiction.

~~55~~53. The auditor's report should only refer to the audit having been conducted in accordance with ISAs when the auditor has complied fully with all of the ISAs relevant to the audit.

~~56. When the auditor's report refers to both ISAs and national auditing standards, the auditor's report should identify the country of origin of the national auditing standards.~~

~~57~~54. A reference to both the ISAs and national auditing standards is not appropriate if there is a conflict between the reporting requirements of the ISAs and national auditing standards that affects the auditor's opinion or the need to include an emphasis of matter paragraph in the particular circumstances. For example, some national auditing standards prohibit the auditor from including an emphasis of matter paragraph to highlight a going concern problem, whereas ISA 701, "Modifications to the Independent Auditor's Report" requires the auditor to modify the auditor's report by adding an emphasis of matter paragraph in such circumstances. In case of such conflicts, the auditor's report refers only to the auditing standards (either ISAs or the relevant national auditing standards) in accordance with which the auditor has complied with the reporting requirements.

~~55. When the auditor's report refers to both ISAs and national auditing standards, the auditor's report should identify the country of origin of the national auditing standards.~~

~~58~~56. When the auditor is obliged by law or regulations to prepare the auditor's report using the layout or wording specified by the law, regulation or national auditing standards, the auditor's report should refer to the audit being conducted in accordance with both ISAs and the national auditing standards only if the auditor's report includes, as a minimum, each of the elements identified in paragraph ~~16~~13.

~~59~~57. The auditor may be obliged by national law or regulation to use a layout or wording in the auditor's report that differs from that described in this ISA. When the differences relate to the layout and wording of the auditor's report only, the auditor will be considered to have complied with the reporting requirements of the ISAs provided that the auditor's report includes, as a minimum, each of the elements identified in paragraph ~~17~~13—even if using the layout and wording specified by national laws or regulations. In the absence of specific requirements in a particular jurisdiction that conflict with ISAs, the auditor adopts the layout and wording used in this ISA so that users can more readily recognize the audit report as a report on an audit conducted in accordance with ISAs.



**Unaudited supplementary information presented with audited financial statements**

**6058. The auditor should be satisfied that any supplementary information presented together with the financial statements that is not covered by the auditor's opinion is clearly differentiated from the audited financial statements.**

**6459.** As noted in paragraph **2522**, the entity may be required to, or management may choose to, include supplementary information that is not covered by the auditor's opinion together with the financial statements. In such circumstances, the auditor considers whether that unaudited information is presented in a manner that could be construed as being covered by the auditor's opinion and, if so, asks management to change how the information is presented. The auditor considers, for example, where the unaudited information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited". The auditor asks management to remove any cross references from the financial statements to unaudited supplementary schedules or explanatory-related notes because the demarcation between the audited and unaudited information would not be sufficiently clear. Unaudited notes that are intermingled with the audited notes can also be misinterpreted as being audited. Therefore, the auditor asks the entity to place the unaudited information outside of the set of financial statements, or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited.

**6260.** As noted in paragraph **2320**, identifying the page numbers on which the audited financial statements are presented in the auditor's report may help to differentiate the financial statements from other information not covered by the auditor's opinion.

**6361. If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial statements, the auditor should include a disclaimer of opinion in the auditor's report with respect to that information.**

**6462.** 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 ISA 720, "Other Information in Documents Containing Audited Financial Statements".

**Public Sector Perspective**

*[To be developed.]*

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