

ISA 700 Responses – Appendices attached to individual letters

This paper includes all the appendices that were attached, except those that separately identified detailed comments on specific paragraphs. Such comments have been included in the detailed work papers. Accordingly, most appendices show changes to the independent auditor's report.

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INDEPENDENT AUDITOR'S 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 flow statement for the year then ended, and the related notes. We conducted our audit in accordance with International Standards on Auditing (ISAs).

Management's Responsibility

Management is responsible for the preparation of and the true and fair view given by (or "fair presentation of") these financial statements in accordance with International Financial Reporting Standards. ~~This responsibility includes~~ Management is [also] responsible for maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; for selecting and applying appropriate accounting policies that are consistent with IFRS; and for making accounting estimates that are reasonable in the circumstances.

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. Those standards require that we~~ International Standards on Auditing require us to plan and perform the audit so as to obtain reasonable, but not absolute, assurance as to whether the financial statements are free from material misstatement, whether due to fraud or error. Because of the nature of an audit it is not possible to obtain absolute assurance that the financial statements are free from material misstatement and accordingly ISAs do not require us to do so.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.

The audit procedures selected depend on the auditor's assessment of the risks of material misstatement of the financial statements. In ~~making those risk assessments, assessing those risks~~ the auditor considers internal control relevant to the entity's preparation of the financial statements. This consideration forms as a basis for designing audit procedures that are appropriate in the circumstances, but not and is not conducted for the purpose of expressing an opinion on the effectiveness of the entity's internal control. [Where appropriate: An examination for the purpose of expressing such an opinion is carried out alongside our consideration of internal control for the purposes of the audit and our findings as a result of that examination are reported in the section of our report entitled "Report on Other Legal and Regulatory Requirements."] ~~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.~~

~~We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements.~~

Opinion

Our opinion is based on audit evidence obtained by [date of the auditor's opinion], being the date by which we believe we obtained sufficient appropriate audit evidence to provide a reasonable basis for our opinion on the financial statements. In our opinion, the financial statements give a true and fair view of (or "present fairly, in all material respects,") the financial position of ABC 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.]

[Date of issue of the auditor's report]

[Auditor's signature]

[Auditor's address]

2. File 20 – Grant Thornton - Appendix B

The following provides suggested modifications to the standard report based on recommendations contained in our letter. We have also included other editorial-type revisions.

INDEPENDENT AUDITOR'S 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 **related statements of 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 the fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes maintaining internal control relevant to the preparation **and the fair presentation** of financial statements that are free from material misstatement, whether due to fraud or error. ~~Management's responsibility also includes selecting and applying appropriate accounting policies that are consistent with IFRS~~ **Management's responsibility also includes selecting and applying appropriate accounting policies that are consistent with International Financial Reporting Standards**; and making accounting estimates that are reasonable in the circumstances.

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. 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 misstatement, whether due to fraud or error.

An audit involves performing procedures, **on a test basis**, to obtain audit evidence about amounts and disclosures in the financial statements. The audit procedures selected depend on, **among other things**, ~~the auditor's~~ **an** assessment of the risks of material misstatement of the financial statements. In making those risk assessments, ~~the auditor considers an audit also includes considering~~ internal control relevant to the entity's preparation of the financial statements as a basis for designing 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. An audit ~~also further~~ 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.

In forming our opinion, we evaluated whether the evidence we obtained provides reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements.

Opinion

In our opinion, the financial statements **referred to above** give a true and fair view of (or "present fairly, in all material respects") the financial position of ABC 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.)

~~(Date of the auditor's report)~~

~~(Auditor's signature)~~

~~(Auditor's address)~~

~~(Date of the auditor's report)~~

3. File 21 – PricewaterhouseCoopers - Appendix II

Proposed amendments to paragraphs 8-12 of the proposed revised ISA 700

“Forming the Opinion on the Financial Statements

8. *In forming the opinion, the auditor considers all audit evidence obtained and evaluates whether, based on that evidence, the auditor has obtained reasonable, but not absolute, 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.*

9. *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 the financial information ~~in accordance with the applicable financial reporting framework~~; and

(d) The financial statements provide sufficient disclosures to enable users to understand the impact of particular transactions or events that, as a result of their size, nature or incidence, 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 and disclosure is necessary to understand that impact.

~~10. The auditor makes these judgments by considering the entity's compliance with specific accounting and reporting requirements of the financial reporting framework for particular transactions and events and the fair presentation of the financial statements as a whole. The application of financial reporting frameworks that the auditor has determined to be acceptable for general purpose financial statements will ordinarily result in financial statements that achieve a fair presentation. In most circumstances, proper application of the framework includes consideration of whether there are any disclosures in addition to those specifically required by the framework that are necessary in order to understand the impact of particular transactions or events that have a material effect on the financial statement presentation.~~

~~10. In extremely rare some circumstances, failure to disclose relevant information not specifically contemplated by the financial reporting framework, or in extremely rare circumstances, compliance with a specific requirement in the framework itself, may result in financial statements that are ~~so~~ misleading ~~that they~~ and 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 International Financial Reporting Standards (IFRS), the financial position, financial performance or cash flows of the entity. ~~In 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. Therefore, if such circumstances arise, the auditor discusses with management how to deal with its responsibilities under the financial reporting framework~~

~~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 how the financial reporting framework deals with these rare circumstances and how management has addressed the matter in the financial statements.~~

~~12. Ultimately, the auditor is guided 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. Accordingly, in making a final judgment on the matter, the auditor needs to be satisfied that the information conveyed to readers in the financial statements when considered together with the auditor's report is not misleading.~~

4. File 27 - ACAG - Example of a “Plain English” Independent Audit Report

Single Company Report

INDEPENDENT AUDIT REPORT

[*Name of Company*]

To Members of the XXX Parliament and [*Members of Name of Company*]

[*Qualified*] Audit Opinion

In my opinion, [*except for the effects on the financial report of the matter referred to in the qualification paragraph below,*] the financial report of [*Name of Company*] is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the [*Name of Company's*] financial position as at [*date*] and financial performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*;
- (b) other mandatory financial reporting requirements in Australia; and
- (c) section 41B of the *Public Finance and Audit Act 1983*.

My opinion should be read in conjunction with the rest of this report.

[*Qualification paragraph*]

[*Emphasis of Matter paragraph*]

The Financial Report – Responsibility and Content

The financial report is the responsibility of the company's directors. It consists of the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flows and the accompanying Notes, and Directors' Declaration.

The Auditor's Role and the Audit Scope

As required by the *Public Finance and Audit Act 1983* and the *Corporations Act 2001*, I carried out an independent audit to enable me to express an opinion on the financial report. My audit provides *reasonable assurance* to Members of the XXX Parliament and the members of the [*name of company*] that the financial report is free of *material* misstatement.

My audit accorded with Australian Auditing and Assurance Standards and statutory requirements, and I:

- evaluated the accounting policies and significant accounting estimates used by the directors in preparing the financial report; and

- examined a sample of the evidence that supports the amounts and other disclosures in the financial report.

An audit does not guarantee that every amount and disclosure in the financial report is error free. The terms 'reasonable assurance' and 'material' recognise that an audit does not examine all evidence and transactions. However, the audit procedures used should identify errors or omissions significant enough to adversely affect decisions made by users of the financial report or indicate that the company's directors had not fulfilled their reporting obligations.

My opinion does not provide assurance:

- about the future viability of the company;
- that it has carried out its activities effectively, efficiently and economically; or
- about the effectiveness of its internal controls.

Audit Independence

The Audit Office complies with all applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. The *Public Finance and Audit Act 1983* further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General; and
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office are not compromised in their role by the possibility of losing clients or income.

Auditor-General

[date

5. IDW – Auditor's Report reflecting the changes proposed in the comment letter

Report on the Financial Statement Audit in Accordance with International Standards on Auditing

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, cash flow statement and the related notes to the financial statements for the year then ended.

Management's Responsibility

Management is responsible for the preparation of these financial statements and their fair¹ presentation, free from material misstatement whether due to fraud or error, in accordance with International Financial Reporting Standards (IFRS). This responsibility includes: determining the acceptability of the financial reporting framework (IFRS) identified as having been applied in preparing and presenting the financial statements; maintaining internal control, including establishing and maintaining adequate books and records, so that the financial statements are prepared and presented free from material misstatement whether due to fraud or error in accordance with IFRS; selecting and applying appropriate accounting policies that are consistent with IFRS; and making accounting estimates that are reasonable in the circumstances in accordance with IFRS.

Auditors' Responsibility under International Standards on Auditing

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibility under ISA is to express an opinion, based on our audit, on whether these financial statements are fairly presented in accordance with IFRS. To meet this responsibility, ISA require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement, in accordance with IFRS, whether due to fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements may not be detected; this risk resulting from fraud is generally greater than that resulting from error.

An audit in accordance with ISA involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The auditor's assessment of the risks of material misstatement of the financial statements forms the basis for further audit procedures selected. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements as a basis for designing further 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. An audit in accordance with ISA also includes, in the context of the applicable financial reporting framework, 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.

We believe that we have obtained sufficient appropriate audit evidence to form an opinion, with reasonable assurance, on whether the financial statements are fairly presented in accordance with IFRS.

Auditors' Opinion

In our opinion, the financial statements present fairly the financial position of ABC Company as of December 31, 20X1, and its financial performance and cash flows for the year then ended in accordance with IFRS.

Report on Requirements Beyond Those in ISA

[Form and content of this section of the auditors' report will vary depending on the nature of the auditors' reporting responsibilities beyond those in the ISA.]

6.

¹ Pursuant to IAS 1.10, financial statements prepared in accordance with IFRS should be *fairly* presented. The use of the term "fair" may not be appropriate when reporting on audits of financial statements prepared using other applicable financial reporting frameworks.