

International
Auditing
and Assurance
Standards Board

Mark-up

Proposed Final Pronouncements on the Auditor's Report

ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"

ISA 200, "Objective and General Principles Governing an Audit of Financial Statements"

Amendment to ISA 210, "Terms of Audit Engagements"

Conforming Amendments



International Federation
of Accountants

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NOTE TO IAASB REGARDING THE MARK-UP

This mark-up shows all changes to the Exposure Draft wording recommended by the Task Force in light of all of the comments received on exposure.

In Copenhagen, the IAASB considered revised wording to:

- ISA 700 paragraphs 4-12 on forming the audit opinion:
- ISA 200 paragraphs 2 and 36-46, and ISA 210 paragraphs 10-18 on the applicable financial reporting framework
- ISA 700 paragraphs 44-47 and ISA 560 paragraphs 3-4 on the date of the auditor’s report.

In order to provide a roadmap to Board members so that both changes to the ED wording and from the Copenhagen wording can be identified:

- All additions to the Exposure Draft wording are underlined.
- All deletions to the Exposure Draft wording are ~~struck through~~.
- Changes from the wording the IAASB considered in Copenhagen are **highlighted**.
- Where an addition proposed in Copenhagen has now been deleted, it is shown as ~~illustrated~~.
- Where additions are being proposed to wording originally considered in Copenhagen, it is shown as **underlined highlighted**.
- Where wording that was proposed to be added in Copenhagen, but a decision has been made to revert to the original Exposure Draft wording, it is shown as **plain highlighted**.

In a few places, [Notes] have been included to further explanation.

PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 700
THE INDEPENDENT AUDITOR'S REPORT ON A COMPLETE SET OF GENERAL
PURPOSE FINANCIAL STATEMENTS

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International Standards on Auditing (ISAs) 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on 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. *[Note: This paragraph has been moved from paragraph 3 of the Exposure Draft, but is otherwise unchanged.]* This ISA addresses circumstances when the auditor is able to express an unqualified opinion and no modification to the auditor’s 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.
23. 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) 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;
 - (b) 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;
 - (c) Compliance with contractual agreements; and
 - (d) Summarized financial statements.
3. *[Note: This paragraph has been moved to paragraph 2.]*

The Auditor’s Report on Financial Statements

4. *[Note: This bold lettered requirement has been moved from former paragraph 12.]* **The auditor’s report should contain a clear expression of the auditor’s opinion on the financial statements.**

[Note: The former bold lettered requirement in paragraph 4 has been moved to paragraph 7b.]

~~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 a the applicable financial reporting framework.

6. Unless required by law or regulation to use different wording, the terms used to express the auditor's opinion on an audit of a complete set¹ of general purpose financial statements (for purposes of this ISA referred to as financial statements) are states whether 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. The phrases "give a true and fair view" and "are presented fairly, in all material respects" and are equivalent. Which of these phrases the auditor uses is used in any particular jurisdiction will be is 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.
- 6a. In some jurisdictions, law or regulation governing the audit of general purpose financial statements may prescribe wording for the auditor's opinion that is different from the phrases described in paragraph 6. Although the auditor may be obliged to use the prescribed wording, the auditor's responsibilities in forming the opinion, as described in this ISA, remain the same.
- 6b. When wording prescribed by law or regulation differs significantly from the phrases in paragraph 6, the auditor carefully considers whether there may be a risk that users might misunderstand the assurance obtained in an audit of financial statements. For example, the wording might convey to readers that the auditor is attesting to the accuracy of the financial statement amounts rather than expressing an opinion on whether the financial statements give a true and fair view or are presented fairly, in all material respects. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in an emphasis of matter paragraph (ISA 701, "Modifications to the Independent Auditor's Report").

Applicable Financial Reporting Framework

7. The auditor's judgment regarding whether the financial statements give a true and fair view, ~~of (or are presented fairly, in all material respects),~~ is made in the context of the applicable financial reporting framework. As discussed in ISA 210, "Terms of Audit Engagements," without an acceptable financial reporting framework, the auditor does not have suitable criteria for evaluating the entity's financial statements. ISA 200 describes the auditor's responsibility to determine whether the what constitutes an applicable financial reporting framework adopted by management in preparing the financial statements is acceptable. ~~for general purpose financial statements.~~
- 7a. [Note: This paragraph was originally introduced as an amendment to the Exposure Draft wording in Copenhagen as paragraph 9b.] By definition, the application of a financial reporting frameworks that the auditor has determined to be acceptable for general purpose financial statements will, except in the extremely rare circumstances discussed in paragraph 10, result

¹ As explained in paragraph 43 of ISA 200, "Objective and General Principles Governing an Audit of Financial Statements", the financial reporting framework determines what constitutes a complete set of financial statements. A complete set of financial statements under IFRS ~~includes comprises~~ 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 explanatory notes.

in financial statements that achieve fair presentation. Although the financial reporting framework may not specify how to account for and report a particular or disclose all transactions or events, but it ordinarily provides embodies sufficient broad principles guidelines of general application that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the and requirements of the framework. Thus, the financial reporting framework provides a context for the auditor's evaluation of whether the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures, as well as the fair presentation of the financial statements. opinion on whether the financial statements give a true and fair view, or are presented fairly, in all material respects.

Forming the Opinion on the Financial Statements

7b. *[Note: This paragraph has been moved from paragraph 4 of the Exposure Draft, but is otherwise unchanged.]* **The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.**

8. ~~It~~ When forming the an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial statements taken as a whole are free from material misstatement. This involves concluding whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement in the financial statements² and evaluating the effects of uncorrected misstatements identified³. ~~considers all audit evidence obtained and evaluates whether, based on that evidence, the auditor has obtained 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.~~

8a. *[Note: The paragraph, which was included in the Copenhagen draft, has been moved to serve as the lead-in to paragraphs 9 (intro from 8a + a) and 9a (intro from 8a + b) respectively.]*

9. *[Note: The first part of the opening sentence of this paragraph has been moved from paragraph 8a of the Copenhagen draft.]* Forming an opinion as to whether 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 involves evaluating ~~The auditor considers whether, in the auditor's judgment the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures. This evaluation including includes considering whether:~~

- (a) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate in the circumstances;

² See ISA 330, "The Auditor's Procedures in Response to Assessed Risks."

³ See ISA 320, "Materiality in the Identification and Evaluation of Misstatements."

- (b) The significant accounting estimates made by management are reasonable in the circumstances.
- (b~~c~~) The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable; and
- (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 about transactions and events that have a material effect on the financial statements to enable users to understand the impact of material transactions and events on the financial statements on the information conveyed in the financial statements, particular transactions or events that have a material effect on, for example, in the case of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), for example, the entity's financial position, financial performance and cash flows.

9a. [Note: The first part of the opening sentence of this paragraph has been moved from paragraph 8a of the Copenhagen draft.] Forming an opinion as to whether 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 also involves evaluating The evaluation of the fair presentation of the financial statements as a whole. This evaluation is a matter of professional judgment made in the context of the financial reporting framework. In making that judgment, The auditor reflects on whether the financial statements, after any adjustments made by management as a result of the audit process, are consistent with the auditor's understanding of the entity and its environment. The auditor considers the overall presentation, structure and content of the complete set of financial statements. The auditor also considers whether the financial statements, including the note disclosures, faithfully represent the underlying transactions and events in a manner that gives a true and fair view of, or presents fairly, in all material respects, the information conveyed in the financial statements. Analytical procedures performed at or near the end of the audit help to corroborate conclusions formed during the audit and assist in arriving at the overall conclusion as to the fair presentation of the financial statements.

9b. [Note: The proposed wording for this paragraph as presented in Copenhagen has been moved to paragraph 8b.]

Extremely rare circumstances when complying with the financial reporting framework results in misleading financial statements

- 10. ~~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. In some circumstances, failure to disclose relevant information not specifically contemplated by the financial reporting framework, or i~~ In extremely rare circumstances, compliance with a specific requirement 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 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 Most acceptable financial reporting frameworks for general purpose financial statements acknowledge, implicitly or explicitly, that there are 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 and provide guidance on the disclosures required in such circumstances. Other financial reporting frameworks, however, may not provide any guidance on these circumstances. If the auditor encounters circumstances that leads the auditor to conclude that compliance with a specific requirement results in financial statements that are misleading, irrespective of the requirements of the financial reporting framework, the auditor discusses the matter with management and considers the need to modify the auditor's report. The modifications, if any, that are appropriate to the auditor's report which will depend on how management has addressed addresses the matter in the financial statements and how the financial reporting framework deals with these rare circumstances (see ISA 701, "Modifications to the Independent Auditor's Report").

11. *[Note: The first two sentences of the proposed wording for this paragraph as presented in Copenhagen have been moved to the end of paragraph 10 above. The last two sentences of paragraph 11 of the Exposure Draft wording are proposed to be deleted, as shown below.]* 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.⁴ 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 together with the auditor's report is not misleading.
12. *[Note: The first part of this bold-lettered requirement has been moved to paragraph 50. The second part of it has been moved to paragraph 4.]* **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 ISAs⁵

- 12a. *[Note: This paragraph has been moved from paragraph 14 of the Exposure Draft, but is otherwise unchanged.]* 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.

⁴ See paragraph 2.2 in Section 2 of the "Proposed Revised Code of Ethics for Professional Accountants" July 2003 Exposure Draft.

⁵ 4 Paragraphs 52-57 address the auditor's report when the audit has been conducted in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction.

13. ~~Paragraphs 15-51 set out the requirements relating to the following elements of 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 the financial statements audited;~~
 - ~~(d) A description of m Management's responsibility for the preparation and the fair presentation of the financial statements;~~
 - ~~(e) A description of the a Auditor's responsibility to express an opinion on the financial statements and the scope of the audit, which includes:~~
 - ~~(i) A reference to the ISAs, and~~
 - ~~(ii) A description of the work an auditor performs in an audit.~~
 - ~~(f) An Auditor's opinion paragraph containing an expression of opinion on the financial statements⁶ and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin^{7,2} of the financial reporting framework when IFRS or International Public Sector Accounting Standards (IPSAS) are not used);~~
 - ~~(g) Where relevant, reporting on any o Other reporting responsibilities in addition to the responsibility to report on the financial statements;~~
 - ~~(h) [Note: This point has been moved to item (i).]~~
 - ~~(h)(i) Auditor's signature; and~~
 - ~~(i)(i) Date of the auditor's report; and~~
 - ~~(j) Auditor's address.~~
14. *[Note: The first two sentences of this paragraph have been moved to paragraph 12a. The last sentence, shown below, has been deleted.]* ~~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 13 and described more fully in the remainder of this ISA.~~

Title

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

⁵⁶ ~~Circumstances when the auditor needs to modify 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.~~

⁶³ ~~In some circumstances it also may be necessary to refer to a particular jurisdiction, within the rather than the country of origin, to identify clearly the financial reporting framework used.~~

16. A title 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~~ regarding independence and, therefore, distinguishes the independent auditor’s report from reports issued by others.

Addressee

17. **The auditor’s report should be addressed as required by the circumstances of the engagement.**
18. ~~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 to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

Introductory Paragraph

19. **The introductory paragraph in the auditor’s report should identify the entity whose financial statements have been audited and should state that the financial statements have been audited. The ~~report~~ introductory paragraph should also:**
- (a) ~~specifically i~~ Identify the title of each of the financial statements that comprise the complete set of general purpose financial statements;
 - (b) Refer to the summary of significant accounting policies and other explanatory notes; and
 - (c) Specify the date and period covered by those the financial statements, and refer to the related notes.
20. 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 complete set of financial statements required by the applicable financial reporting framework, specifying the date and period covered by those financial statements] and referring to the summary of significant accounting policies and other explanatory the related notes. ~~In addition, W~~when the auditor is aware that the financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the financial statements are presented, ~~as this~~ This helps readers to identify distinguish the financial statements to which the auditor’s report relates, ~~from unaudited information contained in the document.~~
21. The auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. 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 explanatory related notes. In some jurisdictions additional information might also be considered to be an integral part of the financial statements.

22. 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 58-62.
23. In some circumstances, the ~~Certain~~ supplementary information cannot be clearly differentiated from the financial statements because of ~~by its nature or how it is presented. Such supplementary information, , 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~~ is ~~covered by the auditor's opinion. For example, the auditor's opinion covers 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 is interrelated to the entity's financial statement presentation 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 also be the case, for example, when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework.~~
24. 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

25. **The auditor's report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:**
- (a) **Designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;**
 - (b) **Selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework; and**
 - (c) **Making accounting estimates that are reasonable in the circumstances.**
26. Financial statements are the representations of management. Management is responsible for the preparation and the presentation of the 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 IFRS. In order to fulfill this responsibility, management designs and implements internal control to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity's financial reporting. The preparation of the financial statements requires management to exercise judgment in making 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.

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

28. **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.**
29. 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 the fair presentation of the financial statements.
30. **The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs and The auditor's report should also explain that those standards require that the auditor comply with the applicable ethical requirements and 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 due to fraud or error.**
31. The term "scope of an audit" refers to the audit procedures that, in the auditor's judgment and based on the ISAs, are 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.
32. ISA 200 specifies what is required in order to conduct an audit in accordance with the ISAs. Paragraph 14 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.
33. **The auditor's report should describe an audit by stating that:**
- (a) **An audit conducted in accordance with the International Standards on Auditing involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;**
 - (b) **The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in of the financial statements. In making those risk assessments, the auditor considers internal control relevant to**

the entity's preparation and fair presentation 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,⁸ and

- (c) 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.~~

34. The auditor's report should include a statement that the auditor believes that the audit evidence that the auditor has obtained is sufficient and appropriate to draw reasonable conclusions on which to base the auditor's opinion. ~~provide a reasonable basis for the auditor's opinion on the financial statements.~~

Auditor's Opinion

35. 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.~~

- ~~3637. When an unqualified opinion is appropriate, T~~the opinion paragraph of the auditor's report, ~~when an unqualified opinion is appropriate in the circumstances~~ should state the auditor's opinion that the financial statements give a true and fair view, ~~(or present fairly, in all material respects)~~, in accordance with the applicable financial reporting framework (unless the auditor is required by law and regulation to use different wording, in which case the prescribed wording should be used).

- ~~36a.~~ 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.

- ~~3738.~~ ~~The wording of the auditor's opinion depends on the financial reporting framework. The auditor's opinion states that the financial statements give a true and fair view of, or present fairly, in all material respects, the information that the financial statements are designed to convey (which is determined by the financial reporting framework).~~ For example, in the case of financial statements prepared in accordance with IFRS, the auditor expresses an opinion that the financial statements give a true and fair view of, ~~(or are presented fairly, in~~

⁶⁸ In some jurisdictions, the auditor may have a responsibility to perform both an audit of the financial statements and an audit of the effectiveness of the entity's internal control. In such circumstances, the auditor reports on the responsibility to report on internal control as required in that jurisdiction. The reference in the auditor's report on the financial statements to the fact that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control may not be appropriate in such circumstances.

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.

37a. To advise the reader of the context in which the auditor's opinion is expressed, the auditor's opinion identifies the applicable financial reporting framework upon which the financial statements are based. When the applicable financial reporting framework is not IFRS or International Public Sector Accounting Standards (IPSAS), the auditor's opinion also identifies the country of origin⁷ 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 ..."

~~38~~³⁹. 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."

Other Reporting Responsibilities⁹

39a. *[Note: This paragraph has been moved from paragraph 42 of the Exposure Draft.]* **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 addressed in a separate section in the auditor's report that follows the opinion paragraph.**

40. The auditor may ~~also~~ have a responsibility to report on other matters in addition to the 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, such as the adequacy of accounting books and records. 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 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 report on them in a separate report.

⁷ *[Note: This footnote has been moved a footnote in former paragraph 13.]* In some circumstances it ~~also~~ may be necessary to refer to a particular jurisdiction, ~~within the~~ rather than the country of origin, to identify clearly the financial reporting framework used.

⁹ In addition to other reporting responsibilities, relevant standards, laws or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters relevant to the auditor's report on the financial statements. Such matters may be addressed in an emphasis of matter paragraph, as discussed in ISA 701, "Modifications to the Independent Auditor's Report."

42. *[Note: This paragraph has been moved to paragraph 39a.]*
43. ~~This is ordinarily achieved by~~ The auditor addresses ~~addressing these~~ other reporting responsibilities in a separate section of the report in order to clearly distinguish them from the auditor's responsibilities for, and opinion on, the financial statements. that follows the opinion paragraph, and when applicable, any emphasis of matter paragraph on the financial statements.

Auditor's Signature

- 43a. *[Note: This paragraph was moved from paragraph 48 of the Exposure Draft, but is otherwise unchanged.]* **The auditor's report should be signed.**
- 43b. *[Note: This paragraph was moved from paragraph 49 of the Exposure Draft, but is otherwise unchanged.]* The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may 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.

Date of the Auditor's Report on the Financial Statements

44. **The auditor should date the report on the financial statements no earlier than as of:**
- (a) The date of approval of the financial statements; and**
 - (b) The date on which the auditor has obtained sufficient appropriate audit evidence on which to base the to support the auditor's opinion on the financial statements.**
45. ~~The date of the auditor's report indicates the date of the completion of the audit, which is 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. The auditor's responsibility for events and transactions after up to the date of the auditor's report is addressed in ISA 560, "Subsequent Events".~~
- 45a. The date of approval of the financial statements is influenced by a number of factors including statutory requirements and procedures the entity follows, in view of its management and governance structure, in preparing and finalizing the financial statements. For audit purposes, the date of approval of the financial statements is the date on which those who are recognized to have the authority to approve the financial statements determine that a complete set of financial statements, including the related notes, has been prepared and approve such financial statements. Some jurisdictions also require final approval of the financial statements by shareholders. In these jurisdictions, the date of approval for audit

purposes, is not the date of final approval by shareholders. It is the date on which those with the recognized authority determine that a complete set of financial statements has been prepared. The auditor's report is therefore not dated earlier than the date that these individuals approve the financial statements.

The date selected by the auditor as the date of the auditor's report is affected by numerous factors relating to completion of the financial statements by the entity, legislative requirements specifying when the financial statements need to be made publicly available and the availability of audit evidence. In some jurisdictions, law or regulation may prescribe when the auditor dates the report. Notwithstanding these factors, the auditor's report is not dated earlier than the date of approval of the financial statements. audit is considered to be completed. In such circumstances, the auditor uses this date as the date of the auditor's report.

45b. The date of approval of the financial statements is the date on which those with primary responsibility for the entity and its financial aspects determine that a complete set of financial statements, including the related notes, has been prepared and accordingly authorize such statements for issue. The financial statement approval process often depends on an entity's management and governance structure, statutory requirements and procedures it follows in preparing and finalizing the financial statements. Some jurisdictions make a distinction between approval of the financial statements by management for issue to shareholders and final approval of the financial statements by shareholders. For the purposes of providing evidence to the auditor, the date of approval of the financial statements is the date on which those with primary responsibility for the entity and its financial aspects conclude that the financial statements are complete and therefore authorize them for issuance to shareholders.

45c. An entity may, on the other hand, operate in an environment that does not have specific approval requirements that are relevant to it. This may be the case for some small entities. In this case the entity's approval process may be less formal and a written representation letter as discussed in ISA 580, "Management Representations" can provide evidence of approval of the financial statements. Accordingly in these circumstances, the auditor's report is dated no earlier than the date of the written representation letter.

45d. The auditor's report is also not dated earlier than the date on which the auditor concludes that has obtained sufficient appropriate audit evidence to support the on which to base the opinion on the financial statements has been obtained. As discussed in paragraph 8, when forming an opinion on the financial statements, one of the matters the auditor considers is whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement in the financial statements. This determination involves deciding on when the work necessary to support the opinion on the financial statements is completed, however even though However, 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 matters of governance interest that arose from the

audit but that do not form part of the audit evidence on which to base the opinion on the financial statements.

~~that do are not form part of the audit evidence on which to base the auditor requires to form an opinion on the financial statements. An example of such matters includes material weaknesses in the design or implementation of internal control which have come to the auditor's attention during the financial statement audit.~~

46. ~~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 Signature

48. **[Note: This paragraph has been moved to paragraph 43a.]**

49. **[Note: This paragraph has been moved to paragraph 43b.]**

Auditor's Address

50. **The report should name a specific location, ~~ordinarily a city~~, in the country or jurisdiction where the auditor practices.**

Auditor's Report

50a. **[Note: This paragraph has been moved from the first part of paragraph 12 of the exposure draft] The auditor's report should be in writing.**

50b. **A written report encompasses both reports issued in hard copy format and those using an electronic medium.**

51. The following is an illustration of the auditor's report incorporating the elements set forth above for an audit of financial statements prepared in accordance with IFRS expressing an unqualified opinion. In addition to the audit of the financial statements, the illustration assumes that the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹⁰

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

⁷¹⁰- The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

~~the related notes~~ a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that are consistent with International Financial Reporting Standards—IFRS; 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 comply with the applicable ethical requirements and 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 conducted in accordance with International Standards on Auditing involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in ~~of~~ the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting 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 draw reasonable conclusions on which to base our audit opinion. ~~provide a reasonable basis for our opinion on the financial statements.~~

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 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.]

[Auditor's signature]

[Date of the auditor's report]

[Note: Moved above Date of the auditor's report.]

[Auditor's address]

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

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 each of the ISAs relevant to the audit and performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction.~~
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.**
54. The auditor may refer to the audit having been conducted in accordance with both ISAs as well as national auditing standards when the auditor complies with each of the ISAs relevant to the audit and performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction. A reference to both the ISAs and national auditing standards is not appropriate if there is a conflict between the reporting requirements regarding the auditor's report in ~~of~~ the ISAs and in 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, 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.**
56. **When the auditor prepares 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 following elements identified in paragraph 13:**
 - (a) A title;**
 - (b) An addressee, as required by the circumstances of the engagement;**

- (c) **An introductory paragraph that identifies the financial statements audited;**
 - (d) **A description of management's responsibility for the preparation and the 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, that includes:**
 - (i) **A reference to the ISAs, and**
 - (ii) **A description of the work an auditor performs in an audit.**
 - (f) **An opinion paragraph containing an expression of opinion on the financial statements¹¹—and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when IFRS or International Public Sector Accounting Standards (IPSAS) are not used);**
 - (g) **The auditor's signature;**
 - (h) **The date of the auditor's report; and**
 - (i) **The auditor's address.**
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 only 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, at a minimum, each of the elements identified in paragraph 56 – even if using the layout and wording specified by national laws or regulations. Where ~~In the absence of~~ specific requirements in a particular jurisdiction do not ~~that~~ conflict with ISAs, the auditor adopts the layout and wording used in this ISA so that users can more readily recognize the auditor's report as a report on an audit conducted in accordance with ISAs.

Unaudited Supplementary Information Presented With Audited Financial Statements

58. **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.**
59. As noted in paragraph 22, 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

¹¹ - 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.

clearly labeled as “unaudited.” The auditor asks management to remove any cross references from the financial statements to unaudited supplementary schedules or 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.

60. As noted in paragraph 20, 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.
61. **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 disclaim any responsibility for auditing that information ~~include a disclaimer of opinion in the auditor's report with respect to that information.~~**
62. 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.”

Effective Date

63. This ISA is effective for auditor's reports dated on or after December 31, 2005. ~~Early application of the provisions of this ISA is permissible.~~

Public Sector Perspective

[A revised Public Sector Perspective will be prepared by the IFAC Public Sector Committee.]

PROPOSED AMENDMENT TO INTERNATIONAL STANDARD ON AUDITING 200

**OBJECTIVE AND GENERAL PRINCIPLES
GOVERNING AN AUDIT OF FINANCIAL STATEMENTS**

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International Standards on Auditing (ISAs) 200, “Objective and General Principles Governing an Audit of Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements. It also describes management's responsibility for the preparation and the fair presentation of the financial statements and for identifying the financial reporting framework to be used in preparing the financial statements, referred to in the ISAs as the "applicable financial reporting framework."

Objective of an Audit of Financial Statements

2. **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 an applicable financial reporting framework.**
3. An audit of financial statements is an assurance engagement, as defined in the International Framework for Assurance Engagements. An "assurance engagement" means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about outcome of the evaluation or measurement of a subject matter against criteria. In an audit of financial statements, the subject matter will depend on nature of the entity and the objective of the financial statements. For example, in the case of a business enterprise that prepares general purpose financial statements, the subject matter is the entity's financial position, financial performance and cash flows. The financial statements are the "outcome of the evaluation or measurement of a subject matter against criteria" (also referred to in the Framework as the "subject matter information"). Paragraphs 34 and 35 in this ISA discuss the meaning of the term "financial statements" and management's responsibility for such statements. As discussed in the Framework, a condition for acceptance of an assurance engagement is that the criteria referred to in the definition be are "suitable criteria" and available to intended users. Paragraphs 36 to 46 discuss suitable criteria and their availability to intended users for an audit of financial statements through the auditor's consideration of the acceptability of the financial reporting framework. Two conditions for acceptance of an assurance engagement are that the subject matter of the engagement is appropriate and that the criteria to be used in assessing the subject matter are suitable and available to intended users. The financial statements are the subject matter of an assurance engagement involving an audit of financial statements. Paragraphs 34 to 35 in this ISA discuss the meaning of the term "financial statements" and management's responsibility for such statements. This is further discussed in this ISA under Applicable Financial Reporting Framework in paragraphs 36-46.

General Principles of an Audit

Ethical Requirements Relating to an Audit of Financial Statements

4. ~~The auditor should comply with the relevant ethical requirements relating to audit engagements, which for an audit of financial statements ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants issued by the International Federation of Accountants together with applicable national requirements where these are more restrictive.~~

5. Ethical requirements relating to audits of financial statements ordinarily comprise Parts A and B of the International Federation of Accountants Code of Ethics for Professional Accountants (IFAC Code) together with national requirements that are more restrictive. ISA 220, “Quality Control for Audit Engagements”¹² identifies the fundamental principles of professional ethics established by Parts A and B of the IFAC Code and sets out the engagement partner’s responsibilities with respect to ethical requirements. ~~Although ISA 220 is directed towards the engagement partner and the engagement team,~~ it recognizes that the engagement team is entitled to rely ~~relies~~ on a firm’s systems in meeting its responsibilities, with respect to quality control procedures applicable to the individual audit engagement, (for example in relation to capabilities and competence of personnel through their recruitment and formal training; independence through the accumulation and communication of relevant independence information; maintenance of client relationships through acceptance and continuance systems; and adherence to regulatory and legal requirements through the monitoring process), unless information provided by the firm or other parties suggests otherwise. Accordingly, International Standard on Quality Control 1, “Quality Control for Audit, Assurance and Related Services Practices”, requires the firm to establish ~~polices~~ policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

Conduct of an Audit of Financial Statements ~~Conduct of an Audit~~

6. **The auditor should conduct an audit in accordance with ISAs.**
7. ISAs contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of explanatory and other material that provide guidance for their application. The text of a whole Standard is considered in order to understand and apply the basic principles and essential procedures.
8. In conducting an audit in accordance with ISAs, the auditor is also aware of and considers International Audit Practice Statements (IAPSs) applicable to the audit engagement. IAPSs provide interpretive guidance and practical assistance to auditors in implementing ISAs. An auditor who does not apply the guidance included in a relevant IAPS needs to be prepared to explain how the basic principles and essential procedures in the Standard addressed by the IAPS have been complied with.
9. The auditor may also conduct the audit in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction.

¹² — The IAASB is currently analyzing responses received to the Exposure Draft, “Quality Control,” which includes proposed revisions to ISA 220, “Quality Control for Audit Engagements” and new International Standard on Quality Control (ISQC) 1, “Quality Control for Audit, Assurance and Related Services Practices.” This wording will be conformed to the final ISA and ISQC when approved by the IAASB.

Scope of an Audit of Financial Statements

10. The term “scope of an audit” refers to the audit procedures that, in the auditor’s judgment and based on the ISAs, are deemed appropriate in the circumstances, in the auditor’s judgment, to achieve the objective of the audit.
11. **In determining the audit procedures to be performed in conducting an audit in accordance with ISAs, the auditor should comply with each of the ISAs relevant to the audit.**
12. In performing an audit, auditors may be required to comply with other professional, legal or regulatory requirements ~~Auditors may have a number of professional and legal requirements with which they must comply,~~ in addition to the ISAs. The ISAs do not override the local laws and regulations that govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs, an audit conducted in accordance with the local laws and regulations will not automatically comply with ISAs.
13. When the auditor ~~is conducting~~ conducts the audit in accordance with ISAs and national auditing standards of applicable in a particular jurisdiction as well as ISAs, in addition to complying with each of the ISAs relevant to the audit the auditor also performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction.
14. **The auditor should not represent compliance with ISAs unless the auditor has complied fully with all of the ISAs relevant to the audit.**

Professional Skepticism

15. **The auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.**
16. An attitude of professional skepticism means the auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents ~~or management representations and responses to inquiries and other information obtained from management and those charged with governance.~~ For example, an attitude of professional skepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious unusual circumstances, of over generalizing when drawing conclusions from audit observations, and of using faulty assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof. ~~In planning and performing an audit, the auditor neither assumes that management is dishonest nor assumes unquestioned honesty.~~ When making inquiries and performing other audit procedures, the auditor is not satisfied with less-than-persuasive audit evidence based on a belief that management and those charged with governance are honest and have integrity. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion on the financial statements.

Reasonable Assurance

17. An auditor conducting an audit in accordance with ISAs ~~is designed to provide~~ obtains reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole. Reasonable assurance relates to the whole audit process.
18. An auditor ~~cannot obtains reasonable but not~~ obtains reasonable but not absolute assurance because there are inherent limitations in an audit that affect the auditor's ability to detect material misstatements. These limitations result from factors such as the following:
- The use of testing.
 - The inherent limitations of internal control (for example, the possibility of management override or collusion).
 - The fact that most audit evidence is persuasive rather than conclusive.
19. Also, the work undertaken by the auditor to form an audit opinion is permeated by judgment, in particular regarding:
- (a) The gathering of audit evidence, for example, in deciding the nature, timing, and extent of audit procedures; and
 - (b) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.
20. Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions¹³ (for example, transactions between related parties). In these cases certain ISAs identify specified audit procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:
- (a) Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or
 - (b) Any indication that a material misstatement has occurred.
21. Accordingly, because of the factors described above, an audit is not a guarantee that the financial statements are free from material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

Audit Risk and Materiality

[Wording of paragraphs 13-23 unchanged from extant ISA 200, however, these paragraphs will be renumbered as paragraphs 22-32.]

¹³ Paragraphs 15-18 of ISA 500, "Audit Evidence," discuss the use of assertions in obtaining audit evidence.

Responsibility for the Financial Statements

33. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for the preparation and ~~the fair~~ presentation of the financial statements in accordance with the applicable financial reporting framework is that of the management¹⁴ of the entity, with oversight from those charged with governance.¹⁵ The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
34. The term “financial statements” refers to a structured representation of the financial information, which includes presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can refer to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
- 34a. *[Formerly paragraph 43]* The requirements of the financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements. For certain financial reporting frameworks, a single financial statement such as a cash flow statement and the related explanatory notes constitutes a complete set of financial statements. For example, International Public Sector Accounting Standards (IPSAS) state that the primary financial statement is the cash flow statement when the cash basis of accounting underlies the preparation of the financial statements.¹⁶ Financial statements prepared by reference to International Financial Reporting Standards (IFRS), on the other hand, are intended to provide information about the financial position, performance and cash flows of an entity. A complete set of financial statements under IFRS includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and notes; comprising a summary of significant accounting policies and other explanatory notes.
35. Management’s is responsibility with respect to for identifying the financial reporting framework to be used in the preparation and presentation of the financial statements, includes identifying Management is also responsible for preparing and presenting the financial statements in accordance with that “applicable financial reporting framework”²² This responsibility It also includes, among other matters:
- Designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error;

¹⁴ The term “management” has been used in this ISA to describe those responsible for the preparation and presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction.

¹⁵ The structures of governance vary from country to country reflecting cultural and legal backgrounds. Therefore, the respective responsibilities of management and those charged with governance vary depending on the legal responsibilities in the particular jurisdiction.

¹⁶ See paragraph 9, of the “Preface to International Public Sector Accounting Standards.”

- Selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework; and
- Making accounting estimates that are reasonable in the circumstances.

Determining the Acceptability of the Applicable Financial Reporting Framework

36. ~~An The applicable financial reporting framework is a the financial reporting framework identified adopted by management in preparing the financial statements. that is acceptable in view of the nature of the entity (for example, whether it is a business enterprise or a not-for-profit organization) and the objective of the financial statements.~~
37. **The auditor should determine whether the financial reporting framework identified adopted by management in preparing the financial statements is acceptable.** The auditor ordinarily makes this determination when considering whether to accept the audit engagement, as discussed in ISA 210, “Terms of Audit Engagements.” An acceptable financial reporting framework is referred to in the ISAs as the applicable financial reporting framework.
- 37a. The auditor determines whether the financial reporting framework adopted by management is acceptable in view of the nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organization) and the objective of the financial statements.
38. In some cases, the objective of the financial statements will be to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in these circumstances. Examples of financial reporting frameworks that address the needs of specific users are: a tax basis of accounting for a set of financial statements that accompany an entity's tax return; the financial reporting provisions of a government regulatory agency for a set of financial statements to meet the information needs of that agency; or a financial reporting framework established by the provisions of an agreement specifying the financial statements to be prepared. ISA 800, “The Independent Auditor's Report on Special Purpose Audit Engagements” establishes standards and provides guidance on financial statements whose objective is to meet the financial information needs of specific users.
39. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared in accordance with a financial reporting frameworks that are is designed to meet the common information needs of a wide range of users are referred to as “general purpose financial statements.”
40. ~~Management may prepare more than one set of financial statements to meet the needs of different users.~~
41. Financial reporting frameworks identified in legislative and regulatory requirements governing the preparation of general purpose financial statements are presumed to be acceptable for general purpose financial statements. Financial reporting frameworks established by international or national standards setting organizations that are authorized or

recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities provided the ~~standards setting organizations follow an established process~~ are developed through an open, public a process involving deliberation and exposure of proposals for comment to a wide range of stakeholders. Examples of such financial reporting frameworks include:

- International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board;
- International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants – Public Sector Committee;
- Generally accepted accounting principles promulgated by a recognized standards setter in a particular jurisdiction.

These financial reporting frameworks are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation of general purpose financial statements. Refer to ISA 800, 'The Auditor's Report on Special Purpose Audit Engagements', for financial reporting frameworks designed to meet the particular needs of a government regulatory agency.

42. In some jurisdictions, legislative and regulatory requirements ~~also may~~ supplement ~~the a identified applicable~~ financial reporting framework adopted by management with additional requirements relating to the preparation and presentation of financial statements. In these jurisdictions, the applicable financial reporting framework, for the purposes of applying the ISAs, encompasses both the identified financial reporting framework and such additional requirements, provided they do not conflict with the applicable financial reporting framework. This may, for example, be the case when additional requirements prescribe disclosures in addition to those required by the identified financial reporting framework or when they narrow the range of acceptable choices that can be made within the identified financial reporting framework. If the additional requirements conflict with the applicable financial reporting framework, the auditor discusses the nature of the requirements with management and whether the additional requirements can be met through additional ~~they can be addressed in the notes to the financial statements as supplementary disclosures.~~ Alternatively, the auditor considers whether it is necessary to modify the report, see ISA 701, "Modifications to the Auditor's Report".
43. *[Moved to 34a]*
44. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized ~~national~~ standards setting organization, the entity identifies an applicable financial reporting framework. ~~The entity's choice is governed by local practice, industry practice, user needs, or other factors.~~ Practice in such jurisdictions is often to use a financial reporting framework established by one of the ~~international or national~~ standards setting organizations described in paragraph 41. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the applicable financial reporting framework for the general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is ~~chosen~~ adopted by the entity, the auditor determines whether the accounting

conventions collectively constitute an acceptable financial reporting framework for general purpose financial statements. The auditor makes this determination by considering whether the accounting conventions exhibits the characteristics of an attributes normally exhibited by acceptable financial reporting frameworks established by authorized or recognized standards setting organizations or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable established by such an organization. considers whether the financial reporting framework is in fact acceptable by considering whether it is clearly described in the financial statements and whether it exhibits the following characteristics of suitable criteria

44a. Acceptable financial reporting frameworks for general purpose financial statements normally exhibit the following attributes that result in information provided in financial statements that is useful to users established by authorized or recognized standards setting organizations normally exhibit the following characteristics:

- (a) Relevance, in that the information provided in the financial statements is relevant to the nature of the entity and the objective of the financial statements. (For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting fairly the financial position, financial performance and cash flows of the business enterprise.)
- (b) Completeness, in that transactions and events, account balances and disclosures that could affect the fair presentation of the financial statements are not omitted.
- (c) Reliability, in that the information provided in the financial statements is:
 - (i) Reflects the economic substance of events and transactions and not merely their legal form; and
 - (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances;
- ~~(e)~~(d) Neutrality, in that it is contributes to information in the financial statements that is free from bias; and
- ~~(f)~~(e) Understandability, in that it the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.

45. A conglomeration of accounting conventions devised to suit individual preferences is not a suitable an acceptable financial reporting framework for financial statements intended to address the common information needs of a wide range of users.

46. The description of the financial reporting framework in the financial statements includes information about the basis of presentation preparation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events.

Two additional characteristics of acceptable financial reporting frameworks are comparability and timeliness. Comparability relates to the measurement and presentation of

like transactions or events in a consistent manner in a particular period and over time. An important implication of comparability is disclosure of the basis of preparation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events. Timeliness relates to when the information is made available to users and weighing the need to increase the relevance of information by providing it on a timely basis without sacrificing its reliability.

- 46a. The auditor may decide to compare the accounting conventions to the requirements of an existing framework established by an authorized or recognized standards setting organization considered to be acceptable such as, for example, IFRS promulgated by the International Accounting Standards Board. For small entities, the auditor may decide to compare them to financial reporting frameworks specifically developed for such entities. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted by management constitute an acceptable financial reporting framework includes consideration of the reasons for the differences and whether application of the accounting conventions could result in financial statements that are misleading.
- 46b. When the auditor concludes that the financial reporting framework adopted by management is not acceptable, the auditor considers the implications in relation to engagement acceptance (ISA 210) and the auditor's report (ISA 701, "Modifications to the Independent Auditor's Report).

Expressing an Opinion on the Financial Statements

47. When the auditor is expressing an opinion on a complete set of general purpose financial statements, as defined by the applicable financial reporting framework, the auditor refers to ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," for guidance on the matters the auditor considers in forming an opinion on such financial statements and on the form and content of the auditor's report. The auditor also refers to ISA 701, "Modifications to the Auditor's Report", when expressing a modified audit opinion, including an emphasis of matter, a qualified opinion, a disclaimer of opinion or an adverse opinion.
48. The auditor refers to ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements," when expressing an opinion on:
- (a) 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;
 - (b) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
 - (c) Compliance with contractual agreements; and
 - (d) Summarized financial statements.

49. In addition to addressing reporting considerations, ISA 800 also addresses other matters the auditor considers in such engagements related to, for example, engagement acceptance and the conduct of the audit.

Effective Date

~~25~~50. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2004.

PROPOSED AMENDMENT TO INTERNATIONAL STANDARD ON AUDITING 210
TERMS OF AUDIT ENGAGEMENTS
CONTENTS

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International Standards on Auditing (ISAs) 210, “Terms of Audit Engagements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on:
 - (a) Agreeing the terms of the engagement with the client; and
 - (b) The auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.
2. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. This ISA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements.
4. In some countries, the objective and scope of an audit and the auditor's obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.

Audit Engagement Letters

5. It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

Principal Contents

6. The form and content of audit engagement letters may vary for each client, but they would generally include reference to:
 - The objective of the audit of financial statements.
 - Management's responsibility for the financial statements as described in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements."
 - The financial reporting framework adopted by management in preparing the financial statements, i.e. the applicable financial reporting framework.
 - The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.
 - The form of any reports or other communication of results of the engagement.
 - The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatement may remain undiscovered.
 - Unrestricted access to whatever records, documentation and other information requested in connection with the audit.

7. The auditor may also wish to include in the letter:

- Arrangements regarding the planning of the audit.
- Expectation of receiving from management written confirmation concerning representations made in connection with the audit.
- Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.
- Description of any other letters or reports the auditor expects to issue to the client.
- Basis on which fees are computed and any billing arrangements.

8. When relevant, the following points could also be made:

- Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
- Arrangements concerning the involvement of internal auditors and other client staff.
- Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
- Any restriction of the auditor's liability when such possibility exists.
- A reference to any further agreements between the auditor and the client.

An example of an audit engagement letter is set out in the Appendix.

Audits of Components

9. When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include:

- Who appoints the auditor of the component.
- Whether a separate auditor's report is to be issued on the component.
- Legal requirements.
- The extent of any work performed by other auditors.
- Degree of ownership by parent.
- Degree of independence of the component's management.

Agreement on the Applicable Financial Reporting Framework

10. **The terms of the engagement should identify the applicable financial reporting framework.**

11. As stated in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," the acceptability of the applicable financial reporting framework adopted by management in preparing the financial statements will depend on the nature of the entity and on the objective of the financial statements. In some cases, the objective of the

financial statements will be to meet the common information needs of a wide range of users; in others, to meet the needs of specific users.

- 11a. *[Note: Appeared in ED as part of ¶14. Deleted for Copenhagen discussion].* ISA 200 describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements. Legislative and regulatory requirements often identify the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be established by a national standards setting organization that is authorized or recognized to promulgate standards in the jurisdiction in which the entity is registered or operates.
12. *[Note: Appeared in ED as ¶12. Moved to ¶14a for Copenhagen meeting]* **The auditor should not accept an engagement for an audit of financial statements only when the auditor concludes that the financial reporting framework identified adopted by management is not acceptable or when it is required by law or regulation. When law or regulation requires the use of a financial reporting framework for general purpose financial statements, that the auditor considers to be unacceptable, the auditor should accept the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users.**
13. Without an acceptable financial reporting framework management does not have an appropriate basis for preparing the financial statements and the auditor does not have suitable criteria for evaluating the entity's financial statements. In these circumstances, the auditor encourages management to address the deficiencies in the financial reporting framework or to identify-adopt another financial reporting framework that is acceptable. When the financial reporting framework is required by law or regulation and management has no choice but to adopt this framework, the auditor accepts the engagement only if the deficiencies can be adequately explained to avoid misleading users, see ISA 701, "Modifications in the Auditor's Report", paragraph 10. ISA 200.37 to 46a describes the factors the auditor considers in determining whether the financial reporting framework adopted by management is acceptable.
14. *[Note: First three sentences moved to paragraph 11a.]* ~~In such cases, the auditor and the entity will have a common understanding of the applicable financial reporting framework.~~
15. ~~When the reporting entity is registered or operating in a jurisdiction that does not have an authorized or recognized national standards setting organization, the entity identifies a financial reporting framework that is acceptable for the nature of the entity and the objective of the financial statements. The entity's choice is governed by local practice, industry practice, user needs, or other factors. For example, the entity's competitors may apply International Financial Reporting Standards (IFRS) and the entity may determine that IFRS are also appropriate for its financial reporting requirements. In these cases, the auditor obtains an understanding of the matters considered by the entity in identifying an applicable financial reporting framework.~~
16. ~~When the financial reporting framework identified by the entity is not established by an authorized or recognized international or national standards setting organization, the auditor considers whether the financial reporting framework is acceptable by considering whether it~~

is clearly described in the financial statements and whether it exhibits the characteristics of suitable criteria as described in ISA 200.

17. ~~The auditor may also decide to compare the framework to the requirements of frameworks established by authorized or recognized international or national standards setting organizations such as, for example, IFRS promulgated by the International Accounting Standards Board. When the auditor makes such a comparison and significant differences are identified, the decision as to whether the financial reporting framework is suitable includes consideration of the reasons for the differences and whether application of the framework will likely result in financial statements that are misleading.~~
18. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an organizations that is are an authorized or recognized regulatory body or international or national to promulgate standards for general purpose financial statements of certain types of entities setting organization, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable for general purpose financial statements. In these circumstances, the auditor discusses the deficiencies with management and the ways in which such deficiencies may be addressed. If the deficiencies result in financial statements that are misleading and there is agreement that and the need for management will to adopt another financial reporting framework that is acceptable then suitable. As discussed in paragraph 20, the auditor ~~also~~ refers to the change in the financial reporting framework in a new engagement letter. If management refuses to adopt another financial reporting framework, the auditor considers the impact of the deficiencies on the auditor's report, see ISA 701, "Modifications to the Auditor's Report".

Recurring Audits

19. On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.
20. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:
 - Any indication that the client misunderstands the objective and scope of the audit.
 - Any revised or special terms of the engagement.
 - A recent change of senior management, board of directors or ownership.
 - A significant change in nature or size of the client's business.
 - Legal requirements.
 - A change in the financial reporting framework adopted by management in preparing the financial statements (as discussed in paragraph 18).

Acceptance of a Change in Engagement

21. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**
22. A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.
23. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.
24. Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with International Standards on Auditing ISAs would consider, in addition to the above matters, any legal or contractual implications of the change.
25. If the auditor concludes, that there is reasonable justification to change the engagement and if the audit work performed complies with the ISAs applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:
 - (a) The original engagement; or
 - (b) Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon procedures and thus reference to the procedures performed is a normal part of the report.
26. **Where the terms of the engagement are changed the auditor and the client should agree on the new terms.**
27. **The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.** An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.
28. **If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances necessitating the withdrawal.**

Effective Date¹⁷

29. The revisions to this ISA are effective for audits of financial statements for periods beginning on or after December 15, 2004.

Public Sector Perspective

[The Public Sector Perspective to the extant ISA 210 will be reviewed by the IFAC Public Sector Committee in the light of the proposed amendments.]

¹⁷ The original ISA did not include an effective date.

Appendix

Example of an Audit Engagement Letter

The following is an example of an engagement letter for an audit of general purpose financial statements prepared in accordance with International Financial Reporting Standards. This letter is to be used as a guide in conjunction with the considerations outlined in this ISA and will need to be varied according to individual requirements and circumstances.

To the Board of Directors or the appropriate representative of senior management:

You have requested that we audit the financial statements of, which comprise the balance sheet as at, and the ~~related~~ income statement, statement of changes in equity and cash flow statements for the year then ended ~~ending~~, and a summary of significant accounting policies and other explanatory notes ~~the related notes~~. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with International Standards on Auditing. Those Standards require that we comply with the applicable ethical requirements and plan and perform the audit to obtain reasonable, ~~but not absolute~~, assurance ~~about~~ whether the financial statements are free from material misstatements, ~~whether due to fraud or error~~. An audit conducted in accordance with the International Standards on Auditing involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of in the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation ~~and disclosures~~.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In making our risk assessments, we consider 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. However, we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of internal control over financial reporting that come to our attention during the audit of the financial statements.¹

¹ In some jurisdictions, the auditor may have responsibilities to report separately on the entity's internal control. In such circumstances, the auditor reports on that responsibility as required in that jurisdiction. The reference

We remind you that the responsibility for the preparation of financial statements that present fairly the financial position, financial performance and cash flows of the company in accordance with International Financial Reporting Standards is that of the management of the company. Our auditors' report will explain that ~~management's responsibility for the preparation of the financial statements also includes:~~ management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and this responsibility includes:

- Designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies that are consistent with International Financial Reporting Standards; and
- Making accounting estimates that are appropriate in the circumstances.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit.

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.

XYZ & Co.

Acknowledged on behalf of
ABC Company by

(signed)

.....

Name and Title

Date

in the auditor's report on the financial statements to the fact that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control may not be appropriate in such circumstances.

**PROPOSED CONFORMING AMENDMENT TO
INTERNATIONAL STANDARD ON AUDITING 701
MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT**

(Based on paragraphs 29 to 46 of extant ISA 700)

1. The purpose of 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 a Complete Set of 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 auditor's report is necessary.¹ 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

- (a) Qualified opinion,
- (b) Disclaimer of opinion, or
- (c) 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.
4. The illustrative reports in this ISA are based on the auditor's report on general purpose financial statements for a business 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 (for example, a not-for-profit organization) and the special purpose audit engagements described in ISA 800, "The

¹ IAASB revised ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements" in [XXXX]. 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.

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 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 IAASB's current project to review the guidance on modifications to the auditor's report and would be renumbered as paragraphs 6-9 in ISA 701.]

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 ~~opinion~~ paragraph containing the auditor's opinion but before the section on any other reporting responsibilities, if any, to report on matters other than those affecting the financial statements. For example, if an amendment to other information in a document containing audited financial statements is necessary and the entity refuses to make the amendment, the auditor would consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency. ~~An emphasis of matter paragraph may also be used when there are additional statutory reporting responsibilities.~~

Matters That Do Affect the Auditor's Opinion

[Paragraphs 36-39 of ISA 700 would remain unchanged pending IAASB's current project to review the guidance on modifications to the auditor's report and would be renumbered as paragraphs 11-14 in ISA 701.]

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 IAASB's current project to review the guidance on modifications to the auditor's report and would be renumbered as paragraphs 16-21 in ISA 701.]

Effective Date

22. The standards and guidance in this ISA are taken from paragraphs 29-46 in the extant ISA 700 that was in effect beginning September 30, 2002 until the revision to ISA 700 that became effective for auditor's reports dated on or after December 31, 2005. Revisions to the

extant ISA 700¹⁸ that were released in 2002 were effective for audits of financial statements for periods ending on or after September 30, 2002. Earlier application was encouraged.

¹⁸ The original ISA 700 before the September 2002 revision did not include an effective date.

PROPOSED CONFORMING AMENDMENT TO INTERNATIONAL STANDARD ON AUDITING 560 SUBSEQUENT EVENTS

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events. In this ISA, the term "subsequent events" is used to refer to both events occurring between ~~period-end~~ and the date of the financial statements and the date of the auditor's report, and facts discovered after the date of the auditor's report.
2. **The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.**
3. International Accounting Standard (IAS) 10, Events After the Balance Sheet Date, deals with the treatment in financial statements of events, both favorable and unfavorable, that occur between the date of the financial statements (referred to as the "balance sheet date" in the IAS) and the date when the financial statements are authorized for issue and identifies two types of events:
 - (a) those that provide evidence of conditions that existed at date of the financial statements; and
 - (b) those that are indicative of conditions that arose after the date of the financial statements.

Definitions

4. In this ISA, the following terms have the meanings attributed below:
 - (a) "Date of the financial statements" is the date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
 - (b) "Date of approval of the financial statements" is the date ~~that the entity's management or those charged with governance determines on which those who are recognized to have the authority to approve the financial statements determine~~ that a complete set of financial statements, including the related notes, has been prepared and ~~approve~~ authorizes such financial statements for issue. The financial statement approval process depends on an entity's management structure. This date is influenced by a number of factors including statutory requirements and procedures it the entity follows, in view of its management and governance structure, in preparing and finalizing the financial statements. Some jurisdictions also require final approval of the financial statements by shareholders. In these jurisdictions, the date of approval for audit purposes, is not the date of final approval by shareholders. It is the date on which those with the recognized authority determine that a complete set of financial statements has been prepared.

~~For example, an entity may operate in a jurisdiction that requires it to submit its financial statements to its shareholders for final approval after the financial statements have been approved authorized by those with primary responsibility for the entity and its financial aspects. The date of approval of the financial statements is the date when the financial statements are authorized for issued, as opposed to the date on which the financial statements are given final approval by the shareholders. In this case the auditor can obtain evidence of management's approval by obtaining a signed copy of the financial statements. An entity may, on the other hand, operate in a jurisdiction that does not have specific approval requirements that are relevant to it. This may be the case for some small entities. In this case the entity's approval process may be less formal and a written representation letter as discussed in ISA 580, "Management Representations" can provide evidence of approval of the financial statements by management, who have primary responsibility for the entity and its financial aspects. The specific approval process followed by the entity depends on legal or regulatory requirements in the jurisdiction, or would be determined by the entity in the absence of such requirements. In some circumstances, the entity may be required to observe additional governance processes required by custom or regulation after the financial statements have been approved by management that may need to occur before the financial statements are considered "final." For example, in some jurisdictions, the entity may be required to submit its financial statements to its shareholders for approval. However, this will usually occur at a date substantially later than the date management or those charged with governance approve the financial statements and does not affect the date which is considered to be the date of approval of the financial statements.~~

- (c) ~~"Date of the auditor's report" is the date selected by the auditor to date the report on the financial statements. This date is affected by numerous factors relating to completion of the financial statements by the entity, legislative requirements specifying when the financial statements need to be made publicly available and the availability of evidence. In some jurisdictions, law or regulation may prescribe when the auditor dates the report. Notwithstanding these factors, the~~ The auditor's report is not dated earlier than the date of approval of the financial statements. The auditor's report is also not dated earlier than the ~~of the completion of the audit.~~⁺ This 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 on the financial statements.~~ 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 ~~but that do not form part of the audit evidence on which to base the opinion on the financial statements.~~ to those charged with governance. However, the auditor has completed the work necessary to support the auditor's opinion on the financial statements. Frequently, this date will be the same as the "date of approval of

⁺ — In some jurisdictions, law or regulation may prescribe when the audit is considered to be completed. In such circumstances, the auditor ~~refers to ISA 700.52 to .56 for further guidance.~~ uses this date as the date of the auditor's report.

~~the financial statements” but it could be later, such as when the auditor has not yet obtained all of the audit evidence necessary to support management’s assertions regarding significant estimates, transactions or events at the time that management approves the financial statements.~~

- (d) “Date the financial statements are issued” is the date that the auditor’s report and audited financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.

Events Occurring up to the Date of the Auditor’s Report

5. **The auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified.** These procedures are in addition to routine procedures which may be applied to specific transactions occurring after the date of the financial statements to obtain audit evidence as to account balances as at the date of the financial statements, for example, the testing of inventory cutoff and payments to creditors. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.
6. The procedures to identify events that may require adjustment of, or disclosure in, the financial statements would be performed as near as practicable to the date of the auditor’s report and ordinarily include the following:
- Reviewing procedures management has established to ensure that subsequent events are identified.
 - Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
 - Reading the entity’s latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.
 - Inquiring, or extending previous oral or written inquiries, of the entity’s lawyers concerning litigation and claims.
 - Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are:
 - The current status of items that were accounted for on the basis of preliminary or inconclusive data.
 - Whether new commitments, borrowings or guarantees have been entered into.
 - Whether sales of assets have occurred or are planned.
 - Whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned.

- Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
 - Whether there have been any developments regarding risk areas and contingencies.
 - Whether any unusual accounting adjustments have been made or are contemplated.
 - Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption.
7. When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would consider the other auditor's procedures regarding events after ~~period-end~~ the date of the financial statements and the need to inform the other auditor of the planned date of the auditor's report.
8. **When the auditor becomes aware of events which materially affect the financial statements, the auditor should consider whether such events are properly accounted for and adequately disclosed in the financial statements.**

Facts Discovered After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued

9. The auditor does not have any responsibility to perform procedures or make any inquiry regarding the financial statements after the date of the auditor's report. During the period from the date of the auditor's report to the date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management.
10. **When, after the date of the auditor's report but before the date the financial statements are issued, the auditor becomes aware of a fact which may materially affect the financial statements, the auditor should consider whether the financial statements need amendment, should discuss the matter with management, and should take the action appropriate in the circumstances.**
11. When management amends the financial statements, the auditor would carry out the procedures necessary in the circumstances and would provide management with a new report on the amended financial statements. The new auditor's report would be dated not earlier than the date of approval of the amended financial statements and, accordingly, the procedures referred to in paragraphs 45 and would be extended to the date of the new auditor's report.
12. **When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express a qualified opinion or an adverse opinion, as described in ISA 701, "Modifications to the Independent Auditor's Report."**

13. When the auditor's report has been released to the entity, the auditor would notify those persons ultimately responsible for the overall direction of the entity not to issue financial statements and the auditor's report thereon to third parties. If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.

Facts Discovered After the Financial Statements Have Been Issued

14. After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.
15. **When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances.**
16. When management revises the financial statements, the auditor would carry out the audit procedures necessary in the circumstances, would review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation, and would issue a new report on the revised financial statements.
17. **The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor.** The new auditor's report would be dated not earlier than the date of approval of the revised financial statements and, accordingly, the procedures referred to in paragraphs 45 and would ordinarily be extended to the date of the new auditor's report. Local regulations of some countries permit the auditor to restrict the audit procedures regarding the revised financial statements to the effects of the subsequent event that necessitated the revision. In such cases, the new auditor's report would contain a statement to that effect.
18. When management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not revise the financial statements in circumstances where the auditor believes they need to be revised, the auditor would notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to prevent future reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.
19. It may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are to be made in such statements.

Offering of Securities to the Public

20. **In cases involving the offering of securities to the public, the auditor should consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered.** For example, the auditor may be required to carry out additional audit procedures to the date of the final offering document. These procedures would ordinarily include carrying out the procedures referred to in paragraphs 4~~5~~ and 5~~6~~ up to a date at or near the effective date of the final offering document and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated.

Effective Date²⁰

21. The conforming amendments to this ISA arising from the revision to ISA 700 are effective for auditor's reports dated on or after December 31, 2005. Early application of the conforming amendments are permissible.

²⁰ The original ISA did not include an effective date.

**PROPOSED CONFORMING AMENDMENT TO
INTERNATIONAL STANDARD ON AUDITING 800
THE INDEPENDENT AUDITOR'S REPORT ON SPECIAL
PURPOSE AUDIT ENGAGEMENTS**

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance in connection with special purpose audit engagements including:
 - 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 general purpose or special purpose 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.

This ISA does not apply to review, agreed-upon procedures or compilation engagements.

[Paragraphs 2-8 of ISA 800 would remain unchanged.]

Reports on Financial Statements Prepared in Accordance with an Other Comprehensive Basis of Accounting

9. A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support. As discussed in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," financial statements that are not prepared to meet the common information needs of a wide range of users may be prepared to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in such circumstances (which is referred to in this ISA as another comprehensive basis of accounting). Examples of financial reporting frameworks that are designed to address the needs of specific users include:
 - The tax basis of accounting for a set of financial statements that accompany an entity's tax return.
 - The cash receipts and disbursements basis of accounting for cash flow information that a business enterprise may be requested to prepare by creditors.
 - The financial reporting provisions of a government regulatory agency for a set of financial statements prepared for regulatory purposes.
10. **The auditor's report on financial statements prepared in accordance with another comprehensive basis of accounting should include a statement that indicates the basis of accounting used or should refer to the note to the financial statements giving that**

information. The opinion should state whether the financial statements are prepared, in all material respects, in accordance with the identified basis of accounting. The terms used to express the auditor's opinion are "give a true and fair view" or "present fairly, in all material respects," which are equivalent terms. Appendix 1 to this ISA gives examples of auditor's reports on financial statements prepared in accordance with another comprehensive basis of accounting.

11. The auditor would consider whether the title of, or a note to, the financial statements makes it clear to the reader that such statements are not prepared in accordance with International ~~Accounting~~ Financial Reporting Standards or generally accepted accounting principles promulgated by a recognized standards setter. For example, a tax basis financial statement might be entitled "Statement of Income and Expenses—Income Tax Basis." **If the financial statements prepared on another comprehensive basis are not suitably titled or the basis of accounting is not adequately disclosed, the auditor should issue an appropriately modified report.**

Reports on a Component of Financial Statements

12. The auditor may be requested to express an opinion on one or more components of financial statements, for example, a single financial statement such as a balance sheet, accounts receivable, inventory, an employee's bonus calculation or a provision for income taxes. The component might be prepared to meet the financial information needs of specific users and have limited distribution, or may be intended to meet the information needs of a wide range of users and, therefore, prepared in accordance with the relevant requirements of an applicable financial reporting framework. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity's financial statements (see Other Reporting Responsibilities in ISA 700, "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements"). However, this type of engagement does not result in a report on the financial statements taken as a whole and, accordingly, the auditor would express an opinion only as to whether the component audited is prepared, in all material respects, in accordance with the identified basis of accounting.
13. Many financial statement items are interrelated, for example, sales and receivables, and inventory and payables. Accordingly, when reporting on a component of financial statements, the auditor will sometimes be unable to consider the subject of the audit in isolation and will need to examine certain other financial information. **In determining the scope of the engagement, the auditor should consider those financial statement items that are interrelated and which could materially affect the information on which the audit opinion is to be expressed.**
14. The auditor should consider the concept of materiality in relation to the component of financial statements being reported upon. For example, a particular account balance provides a smaller base against which to measure materiality compared with the financial statements taken as a whole. Consequently, the auditor's examination will ordinarily be more extensive than if the same component were to be audited in connection with a report on the entire financial statements.

15. **The auditor's report on a component of financial statements should include a statement that indicates the applicable financial reporting framework in accordance with which the component is presented or refers to an agreement that specifies the basis of accounting used. The opinion should state whether the component is prepared, in all material respects, in accordance with the applicable financial reporting framework or identified basis of accounting.** Appendix 2 to this ISA gives examples of auditor's reports on components of financial statements.
- 16 **When an adverse opinion or disclaimer of opinion on the entire financial statements has been expressed, the auditor should report on components of the financial statements only if those components are not so extensive as to constitute a major portion of the financial statements.** To do otherwise may overshadow the report on the entire financial statements.

[Paragraphs 18-25 of ISA 800 would remain unchanged but would be renumbered paragraphs 17-24.]

Effective Date²¹

25. The conforming amendments to this ISA arising from the revision to ISA 700 are effective for auditor's reports dated on or after December 31, 2005. ~~Early application of the conforming amendments are permissible.~~

²¹ The original ISA did not include an effective date.

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