

PROPOSED INTERNATIONAL STANDARD ON AUDITING 701
QUALIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT
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International Standard on Auditing (ISA) 701, "Qualifications to the Auditor's Opinion in the Independent Auditor's Report" 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 circumstances that may result in a qualification of the auditor's opinion on the financial statements, the form of qualification required, and the form and content of the auditor's report when the auditor's opinion is qualified.
2. Proposed ISA 700 (Revised), "The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements," provides guidance on the form and content of the auditor's report on a complete set of general purpose financial statements when the auditor is able to express an unqualified opinion. The illustrative reports in this ISA (see Appendix) are based on the form and content of the auditor's report on a complete set of general purpose financial statements. However, the standards and guidance in this ISA also apply to qualifications to the opinion in the auditor's report on historical financial information other than a complete set of general purpose financial statements, as described in proposed ISA 800 (Revised), "The Independent Auditor's Report on Historical Financial Information Other than a Complete Set of General Purpose Financial Statements."
3. As stated in proposed ISA 200 (Revised), "Objective and General Principles Governing an Audit of Financial Statements," 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. The auditor evaluates the conclusions drawn from the audit evidence obtained as a basis for forming an opinion on the financial statements.
4. **The auditor should qualify the opinion in the auditor's report when**
 - a) **Based on the audit evidence obtained, the auditor concludes that the financial statements are not free from material misstatement; or**
 - b) **The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement.**

Circumstances Resulting in a Qualification of the Auditor's Opinion

5. In forming the 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, the auditor evaluates whether the financial statements have been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework. The auditor expresses a qualified opinion in the auditor's report on the financial statements when:
 - a) The auditor concludes that, based on the audit evidence obtained, the financial statements are not free from material misstatement due to a disagreement with management¹ about matters such as the acceptability of accounting policies

¹ The term *management* used in this ISA describes 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. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).

- selected, the method of their application, or the adequacy of disclosures in the financial statements;
- b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement (also referred to as a limitation on the scope of the audit).
6. A qualified opinion can take several forms, depending on the materiality and pervasiveness of the matter giving rise to the qualification. This ISA establishes three forms of qualified opinions:
- (a) The auditor expresses an *except for* opinion when the auditor concludes that an unqualified opinion cannot be expressed; however, the effect of any disagreement with management or inability to obtain sufficient appropriate audit evidence, while material, is not so pervasive to the financial statements as to require an adverse opinion or a disclaimer of opinion.
 - (b) The auditor expresses an *adverse* opinion when the auditor concludes that the effect of a disagreement with management is so material and pervasive to the financial statements that an except for opinion is not adequate to disclose the incomplete and misleading nature of the financial statements.
 - (c) The auditor expresses a *disclaimer of opinion* when the possible effect of an inability to obtain sufficient appropriate audit evidence is so material and pervasive to the financial statements that the auditor is unable to express an opinion on the financial statements.
7. The table below illustrates how the nature, materiality and pervasiveness of the matter giving rise to the qualification affect the form of qualification to be used.

<div style="text-align: right;">Affects the True and Fair View²</div> <div style="text-align: left;">Nature of Matter Giving Rise to the Qualification</div>	Materially	Materially and Pervasively
Disagreement With Management	A Except for Opinion (See paragraph 22)	C Adverse Opinion (See paragraph 24)
Inability to Obtain Sufficient Appropriate Audit Evidence	B Except for Opinion (See paragraph 22)	D Disclaimer of Opinion (See paragraph 28)

² As stated in ISA 700, the phrases “give a true and fair view” and “are presented fairly, in all material respects” are equivalent.

Disagreement with Management

8. **The auditor should express an except for opinion or an adverse opinion when disagreements with management are material to the financial statements.** As discussed in paragraph 5 (a), the auditor may disagree with management about the following matters:
- The acceptability of accounting policies selected;
 - The method of application of the accounting policies selected; or
 - The adequacy of disclosures in the financial statements.

ACCEPTABILITY OF ACCOUNTING POLICIES SELECTED

9. Disagreements with management about the acceptability of the accounting policies selected may arise when:
- (a) The accounting policies are not consistent with the applicable financial reporting framework;
 - (b) The accounting policies selected are not appropriate in the circumstances and accordingly the overall presentation of and disclosures in the financial statements are not consistent with the auditor's understanding of the entity and its environment;
 - (c) The financial statements, including the note disclosures, because of the accounting policies selected, do not 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.
10. Where the entity has changed its selection of significant accounting policies, the auditor considers the reasons for the change and whether it is appropriate in the entity's circumstances. Financial reporting frameworks often contain requirements for accounting for, and disclosure of, changes in accounting policies. Where the entity has not complied with these requirements, the auditor considers whether this constitutes a departure from the requirements of the applicable financial reporting framework, and the effect that such departure may have on the auditor's opinion.

METHOD OF APPLICATION

11. Disagreements with management about the method of application of accounting policies may arise when:
- (a) The accounting policies selected have not been applied consistently between periods and to similar transactions and events, or
 - (b) Based on the audit evidence obtained, the auditor has identified a misstatement of the financial statements due to the method of application of an accounting policy.
12. Misstatements due to the method of application of accounting policies may arise from (see ISA 320, "Materiality in the Identification and Evaluation of Misstatements"):
- (a) Known misstatements:

- (i) Misstatements of fact: These are specific misstatements identified during the audit including, for example, those arising from mistakes in gathering or processing data and the oversight or misinterpretation of facts; and
 - (ii) Misstatements involving subjective decisions: These arise from differences between management's and the auditor's judgments concerning accounting estimates (e.g., because an estimate included in the financial statements by management is outside of the reasonable range of outcomes the auditor has determined), or the application of accounting policies, that the auditor considers to be misstatements; and
- (b) Likely misstatements: These are misstatements that the auditor considers likely to exist based on an extrapolation from audit evidence obtained. For example, the amount obtained by projecting known misstatements identified in an audit sample to the entire population from which the sample was drawn.

ADEQUACY OF DISCLOSURES

13. Disagreements with management about the adequacy of disclosures in the financial statements may arise when the financial statements do not provide sufficient disclosures to enable users to understand the effect of material transactions and events on the information conveyed in the financial statements, for example, in the case of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs), the effect on the entity's financial position, financial performance, and cash flows.
14. In accordance with ISA 210, "Terms of Audit Engagements," paragraph 13, when law or regulation requires the use of a financial reporting framework for a complete set of general purpose financial statements that the auditor considers to be unacceptable, the auditor accepts the engagement only if the deficiencies in the framework can be adequately explained to avoid misleading users. Disagreements with management may arise when, in the auditor's judgment, the deficiencies are not adequately explained in the financial statements.³

Inability to Obtain Sufficient Appropriate Audit Evidence

15. **The auditor should express an except for or a disclaimer of opinion when it is not possible for the auditor to obtain sufficient appropriate audit evidence about one or more matters that are or could be material to the financial statements to conclude whether the financial statements are free from material misstatement.**
16. The auditor's inability to obtain sufficient appropriate audit evidence may be imposed by circumstances. For example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories; when, in the auditor's judgment, the entity's accounting records are inadequate; or when the auditor is unable to carry out an audit procedure believed to be desirable. The auditor considers

³ As described in ISA 210, "Terms of Audit Engagements," the auditor only accepts an engagement when the auditor concludes that the financial reporting framework is acceptable or is required by law or regulation and the deficiencies can be adequately explained.

whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence on which to base an unqualified opinion.

17. The auditor's inability to obtain sufficient appropriate audit evidence may be imposed by management, for example, when management precludes the auditor from observing the counting of the physical inventory or from requesting external confirmation of account balances.
18. If the auditor becomes aware, after accepting an engagement, that management has imposed a limitation on the scope of the audit which the auditor considers likely to result in the need to express a disclaimer of opinion on the financial statements, the auditor requests the removal of that limitation. If the limitation is not removed, the auditor considers whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence on which to base an unqualified opinion. If it is not possible to perform such alternative procedures, the auditor will not be able to obtain sufficient appropriate audit evidence and accordingly qualifies the audit opinion. In addition, the auditor does not accept reappointment as auditor unless required by law or regulation.

Determining the Form of Qualification Required

19. Where there is a disagreement with management or an inability to obtain sufficient appropriate audit evidence, the auditor determines whether a qualified opinion is necessary and, if so, what form of qualification (except for opinion, adverse opinion, or disclaimer of opinion) is appropriate in the circumstances.
20. In deciding whether an except for opinion, an adverse opinion, or a disclaimer of opinion is appropriate, the auditor considers the materiality and pervasiveness of the matter to the financial statements.
21. In determining the materiality of a matter the auditor not only considers the financial magnitude but also the qualitative aspects of a matter. The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other identified misstatements, even if they are of a lower level than the auditor had determined to be material when establishing the overall audit strategy. Circumstances that may affect the evaluation include, for example, the extent to which the misstatement affects compliance with regulatory requirements and debt covenants, or other contractual requirements.
22. **The auditor should express an except for opinion when the auditor concludes that an unqualified opinion cannot be expressed; however, the effect of any disagreement with management or inability to obtain sufficient appropriate audit evidence, while material, is not so pervasive to the financial statements as to require an adverse opinion or a disclaimer of opinion.**
23. In determining the pervasiveness of the effect of the disagreement with management or the inability to obtain sufficient appropriate audit evidence, the auditor considers the following:
 - (a) The degree to which the disagreement with management or inability to obtain sufficient appropriate audit evidence impairs the usefulness of the financial statements (see paragraphs 25 and 29).

- (b) The extent to which the disagreement with management or inability to obtain sufficient appropriate audit evidence can be related to specific items in the financial statements and can be quantified (see paragraphs 26 and 30).
 - (c) Whether the extent to which the effect of the disagreement with management on the financial statements can be clearly described in the auditor's report so that the financial statements are not misleading (see paragraph 27).
24. **The auditor should express an adverse opinion when the auditor concludes that the effect of a disagreement with management is so material and pervasive to the financial statements that an except for opinion is not adequate to disclose the misleading or incomplete nature of the financial statements.**
25. When the effect of a disagreement can be clearly described in the auditor's report and does not impair the overall usefulness of the financial statements, the auditor ordinarily expresses an except for opinion.
26. When a disagreement with management clearly relates to specific financial statement line items and is readily quantifiable, for example, an overstatement of cash, revenues or equity, the auditor is able to clearly describe in the auditor's report the effect of the disagreement with management on the financial statements. When it is not possible to determine which financial statement line items are affected or may be affected by a disagreement with management or, when it is not possible to quantify the effect thereof, it may be difficult or impossible for the auditor to describe in the auditor's report the effect of the disagreement with management on the financial statements. In such situations, the auditor ordinarily expresses an adverse opinion.
27. When a disagreement with management relates to multiple departures from the applicable financial reporting framework and those departures affect multiple financial statements line items, the financial statements may be misleading because of the cumulative effect of the departures. Furthermore, as the number of financial statement line items affected by the disagreements with management increases, the more difficult it becomes to clearly describe in the auditor's report the effects of the disagreements. In such situations, the auditor ordinarily expresses an adverse opinion.
28. **The auditor should express a disclaimer of opinion when the possible effect of an inability to obtain sufficient appropriate audit evidence is so material and pervasive to the financial statements that the auditor is unable to express an opinion on the financial statements.**
29. When the potential effect of an inability to obtain sufficient appropriate audit evidence can be clearly described in the auditor's report and the potential effect does not impair the overall usefulness of the financial statements, the auditor ordinarily expresses an except for opinion.
30. When it is not possible to determine which financial statement line items are affected or may be affected by an inability to obtain sufficient appropriate audit evidence, it may be difficult or impossible for the auditor to clearly describe in the auditor's report the effect on the financial statements of the inability to obtain sufficient appropriate audit evidence. In such a situation, the auditor ordinarily expresses a disclaimer of opinion.

Communication with Those Charged With Governance

31. The auditor should communicate expected qualification(s) to the opinion in the auditor's report to those charged with governance in order to:
- (a) Make those charged with governance aware of the expected qualifications and the reasons for the qualification(s) before the financial statements are finalized;
 - (b) Clarify that there are no disputed facts in respect to the matter(s) giving rise to the expected qualification(s), or that matters of disagreement with management are confirmed as such, and
 - (c) Provide those charged with governance with an opportunity to give the auditor further information or explanations in respect of the matter(s) giving rise to the expected qualification(s).

Form and Content of the Auditor's Report When the Opinion is Qualified

Basis for Qualified Opinion Paragraph

32. Consistency in the auditor's report helps to promote the reader's understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a qualified opinion and in the description of the basis for the qualification may not be possible, consistency in both the form and content of the auditor's report is desirable.
33. Proposed ISA 700 (Revised) requires the auditor to include certain specified elements in the auditor's report when the auditor's opinion is unqualified. **Whenever the auditor expresses a qualified opinion on the financial statements, the auditor should include a paragraph that provides:**
- (a) A clear description of all the substantive reasons for the qualification; and
 - (b) In the case of a disagreement with management, a quantification of the possible effects of the matter giving rise to the qualification on the financial statements, unless impracticable.

This paragraph should precede the opinion paragraph in the auditor's report and should have the heading "Basis for Qualified Opinion."

34. **In the event of an inability to obtain sufficient appropriate audit evidence, the auditor should describe in the Basis for Qualified Opinion paragraph whether the inability is due to a scope limitation imposed by management or caused by circumstances (see paragraphs 15-18).**
35. If the qualification arises from a known or likely misstatement (see paragraph 13), the auditor describes all of the financial statement consequences of the qualification. For example, if inventory is overstated, tax, net income and equity will be affected as a consequence). When there is an inability to obtain sufficient appropriate audit evidence, the auditor is not able to quantify the possible effects on the financial statements and thus is not able to include such information in the Basis for Qualified Opinion paragraph.

36. The auditor qualifies the opinion for all necessary matters. One qualification is not a substitute for another form of qualification. For example, an adverse opinion when the auditor concludes that the entity is not a going concern cannot justify the omission of specific qualifications for disagreements with management about the recognition, measurement, or disclosure of certain assets and liabilities. The auditor describes all of the reasons for qualifications in the Basis for Qualified Opinion paragraph of the auditor's report.
37. The auditor's responsibility to include a description of all the substantive reasons for the qualification of the opinion and a quantification of the possible effect on the financial statements does not extend to that of management or result in a responsibility to include disclosures that management is responsible for including in the financial statements.

Opinion Paragraph

38. **When the auditor expresses an *except for* opinion, the opinion paragraph should state that, "In our opinion, except for the effect of the matter described in the preceding paragraph, the financial statements give a true and fair view (or 'present fairly, in all material respects') in accordance with the applicable financial reporting framework."** Other qualifying phrases such as "with the foregoing explanation" or "subject to" are not sufficiently clear or forceful and are not to be used. When the qualification arises from an inability to obtain sufficient appropriate audit evidence, the opinion states "Except for the *potential* effect of the matter ..."
39. **When the auditor expresses an adverse opinion, the opinion paragraph should state that, "In our opinion, because of the matters described in the preceding paragraph, the financial statements do not give a true and fair view (or 'present fairly, in all material respects') in accordance with the applicable financial reporting framework."**
40. **When the auditor expresses a disclaimer of opinion, the opinion paragraph should state that "Because of the matters described in the preceding paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements." Depending on the circumstances, the auditor omits or amends the description of the auditor's responsibility and the description of the scope of the audit.**
41. **When the opinion is qualified, the opinion paragraph should have the heading "Qualified Opinion." Inclusion of a paragraph heading makes it clear to the user that the auditor's opinion is qualified.**

Effective Date

42. This ISA is effective for auditor's reports date on or after [insert date].

APPENDIX

Audit Report with Except for Opinion Due to a Disagreement with Management – Overstatement of Inventories

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements⁴

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 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; 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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.⁵ An audit also includes evaluating the appropriateness of accounting policies used and the

⁴ 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.

⁵ In circumstances when the auditor also has a responsibility to perform an audit of the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "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".

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

In our opinion, the company's inventories, which are recognized in the balance sheet at 16 million EUR, are overstated by 5 million EUR due to missing write downs of slow moving items. The tax effect hereof is 1.5 million EUR. Accordingly, shareholders' equity and profit for the year are overstated by 3.5 million EUR. We qualify our opinion in this respect.

Qualified Opinion

In our opinion, except for the effects of the matters described in the preceding paragraph, 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]

[Auditor's address]

Audit Report with Except for Opinion Due to the Auditor's Inability to Obtain Sufficient Evidence

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements⁶

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 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; 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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.⁷ An audit also includes evaluating the appropriateness of accounting policies used and the

⁶ 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.

⁷ In circumstances when the auditor also has a responsibility to perform an audit of the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "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".

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Except for the matter described in the following paragraph, we believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

We were unable to obtain audited financial statements supporting the Company's investment in a foreign affiliate stated at (X amount of appropriate currency) as at December 31, 20X1, which is included in the net income for the year then ended as described in Note X to the financial statements; nor were we able to satisfy ourselves as to the carrying value of the investment in the foreign affiliate or the equity in its earnings by other auditing procedures and accordingly we qualify our opinion in this respect.

Qualified Opinion

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence (information) regarding the foreign affiliate investment and earnings, 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]

[Auditor's address]

Audit Report Including an Adverse Opinion Due to a Disagreement with Management

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements⁸

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 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; 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The 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.⁹ An audit also includes evaluating the appropriateness of accounting policies used and the

⁸ 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.

⁹ In circumstances when the auditor also has a responsibility to perform an audit of the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "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".

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

ABC Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to re-negotiate or obtain replacement financing and is considering filing for bankruptcy but management has still prepared the F/s on a going concern basis.. These events indicate a material uncertainty which may cast significant doubt on ABC Company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not disclose this fact; accordingly we qualify our opinion in this respect.

Qualified Opinion

In our opinion, because of the effects of the matter(s) discussed in the preceding paragraph(s), the financial statements do not 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]

[Auditor's address]

Audit Report with a Disclaimer of Opinion Due to the Auditor's Inability to Obtain Sufficient Evidence

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹⁰

We were engaged to audit 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 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; and making accounting estimates that are reasonable in the circumstances.

[The following paragraph would have to change or possibly be omitted for a disclaimer]

Auditor's Responsibility

~~Because of the matter described in the following paragraph we were not able to perform an audit in accordance with ISAs. 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in 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~~

¹⁰ 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.

~~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 presentation of the financial statements.~~

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

Basis for Qualified Opinion

We were unable to observe the count of physical inventories and confirm the existence of accounts receivable, due to limitations placed on the scope of our work by the company. The company's records did not permit the application of alternative auditing procedures regarding the inventories and accounts receivable. Consequently, we did not obtain all the information and explanations we considered necessary to satisfy ourselves as to the existence of inventories and accounts receivable.

Included in interest bearing borrowings, under non-current liabilities, are amounts totaling 5 million EUR that are due for settlement within the forthcoming fiscal year. International Accounting Standard No. 1, *Presentation of Financial Statements*, requires separate disclosure of amounts that are to be settled before and after the forthcoming fiscal year. Based on the latter, interest-bearing borrowings would have been stated at 15 million EUR, short-term borrowings at 10 million EUR and current liabilities at 25 million EUR.

Qualified Opinion

Since the Company did not permit us to observe the count of inventories or to confirm the existence of accounts receivable with third parties, and we were not able to apply other auditing procedures to satisfy ourselves as to inventories and accounts receivable, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on these financial statements.

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]

[Auditor's address]

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