

### An ISA on Forming the Opinion on the Financial Statements

This paper outlines the potential content of an ISA on forming an opinion on the financial statements, including the requirements and guidance from other ISAs that could be moved to such an ISA.

Reference	
Revised ISA 700.11	<b>The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.</b>
Revised ISA 700.12	When forming 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 of the financial statements and evaluating the effects of uncorrected misstatements identified.
<b>EVALUATING WHETHER THE FINANCIAL STATEMENTS HAS A WHOLE ARE FREE FROM MATERIAL MISSTATEMENT</b>	
ISA XXX.21	<b>The auditor should evaluate whether the financial statements as a whole are free of material misstatement. In making this evaluation, the auditor should consider both the results of the evaluation of the uncorrected misstatements and the qualitative aspects of the entity's accounting practices.</b>
Revised ISA 700.13	<p>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 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. This evaluation includes considering whether, in the context of the applicable financial reporting framework:</p> <ul style="list-style-type: none"> <li>(a) The accounting policies selected and applied are consistent with the financial reporting framework and are appropriate in the circumstances;</li> <li>(b) The accounting estimates made by management are reasonable in the circumstances;</li> <li>(c) The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable; and</li> <li>(d) The financial statements 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</li> </ul>

	statements prepared in accordance with International Financial Reporting Standards (IFRSs), the entity's financial position, financial performance and cash flows.
Revised ISA 700.14	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 fair presentation of the financial statements. The auditor considers 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 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 in the context of the financial reporting framework. 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.
ISA XXX.22	<p>In considering the qualitative aspects of the entity's accounting practices, the auditor recognizes that management makes a number of judgments about the amounts and disclosures in the financial statements. During the audit, the auditor is alert for possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, cause the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that the auditor takes into account when evaluating whether the financial statements as a whole are materially misstated include the following:</p> <ul style="list-style-type: none"> <li>• The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).</li> <li>• Possible management bias in the making of accounting estimates.</li> </ul>
ISA XXX.23	[Proposed] ISA 540 (Revised), "Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements and Disclosures)" addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free of material misstatement.
Revised ISA 700.15	As discussed in ISA 210, the auditor considers the acceptability of the financial reporting framework when considering accepting the engagement. Application of

	<p>a financial reporting framework determined to be acceptable for general purpose financial statements will ordinarily result in financial statements that achieve fair presentation. In extremely rare circumstances, however, application of a specific requirement in a framework that has been determined to be acceptable for general purpose financial statements may result in financial statements that are misleading in the particular circumstances of the entity. Some financial reporting frameworks determined to be acceptable for general purpose financial statements acknowledge, implicitly or explicitly, that there are 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 and provide guidance on the disclosures required. Other financial reporting frameworks may not provide any guidance on these circumstances even though they are acceptable frameworks for general purpose financial statements. If the auditor encounters circumstances that lead the auditor to conclude that compliance with a specific requirement results in financial statements that are misleading, the auditor considers the need to modify the auditor's report. The modifications, if any, that are appropriate to the auditor's report will depend on how management addresses the matter in the financial statements and how the financial reporting framework deals with these rare circumstances.</p>
ISA XXX.25	<p><b>If the auditor believes that the financial statements as a whole are materially misstated, the auditor should discuss the matter with management and, where appropriate, request management to make the necessary corrections.</b> If management refuse to make the necessary corrections, the auditor considers the effect thereof on the auditor's report.</p>
ISA XXX.26	<p><b>If the auditor concludes that, or is unable to conclude whether, the financial statements are materially misstated, the auditor should consider the effect thereof on the auditor's report.</b></p>
ISA XXX.27	<p>[Proposed] ISA 705, "Modifications to the Opinion in the Independent Auditor's Report," establishes standards and provides guidance on circumstances that may result in a modification to the auditor's opinion on the financial statements, the type of opinion appropriate in the circumstances, and the content of the auditor's report when the auditor's opinion is modified.</p>
<b>CONCLUDING WHETHER SUFFICIENT APPROPRIATE EVIDENCE HAS BEEN OBTAINED</b>	
ISA 330.70	<p><b>The auditor should conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risk of material misstatement in the financial statements.</b> In developing an opinion, the auditor considers all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.</p>
ISA 330.71	<p>The sufficiency and appropriateness of audit evidence to support the auditor's</p>

	<p>conclusions throughout the audit are a matter of professional judgment. The auditor's judgment as to what constitutes sufficient appropriate audit evidence is influenced by such factors as the following:</p> <ul style="list-style-type: none"> <li>• Significance of the potential misstatement in the assertion and the likelihood of its having a material effect, individually or aggregated with other potential misstatements, on the financial statements.</li> <li>• Effectiveness of management's responses and controls to address the risks.</li> <li>• Experience gained during previous audits with respect to similar potential misstatements.</li> <li>• Results of audit procedures performed, including whether such audit procedures identified specific instances of fraud or error.</li> <li>• Source and reliability of the available information.</li> <li>• Persuasiveness of the audit evidence.</li> <li>• Understanding of the entity and its environment, including its internal control.</li> </ul>
ISA 330.72	<p><b>If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor should attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor should express a qualified opinion or a disclaimer of opinion.</b></p>