

PROPOSED CONFORMING AMENDMENTS

[Note: Only further changes to the conforming amendments previously exposed, or new conforming amendments, are shown below. The changes are shaded in mark-up.]

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

42. In some jurisdictions, legislative and regulatory requirements may supplement a 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 disclosures. If this is not possible, the auditor considers whether it is necessary to modify the opinion in the auditor’s report; (see ISA ~~701~~ 705, “Modifications to the Opinion in the Independent Auditor’s Report”).

49. When the auditor is expressing an opinion on a complete set of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation, the auditor refers to ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements,” for standards and 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 ~~704~~ 5 when expressing a modified audit opinion, including an emphasis of matter, (i.e., a qualified opinion, a disclaimer of opinion or an adverse opinion), and to ISA 706, “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report,” when including an emphasis of matter paragraph or an other matters paragraph in the auditor’s report.

ISA 560, “Subsequent Events”

The reference to ISA 701, “Modifications to the Independent Auditor’s Reports” in paragraph ~~11~~ 12 will be changed to ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report.”

~~A reference to ISA 706, “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report” will be inserted in paragraph 16.~~

ISA 570, “Going Concern”

33. If adequate disclosure is made in the financial statements, the auditor should express an ~~unqualified unmodified~~ opinion but ~~modify~~ include an emphasis of matter paragraph in the auditor’s report ~~by adding an emphasis of matter paragraph that to highlight the existence of a material uncertainty relating to the event or condition that may cast significant doubt on the entity’s ability to continue as a going concern and to draw~~s attention to the note in the financial statements that discloses the matters set out in paragraph 32. (See Proposed ISA 706, “Emphasis of Matter Paragraphs and Other Matters Paragraphs in the Independent Auditor’s Report.”) In evaluating the adequacy of the financial statement disclosure, the auditor considers whether the information explicitly draws the reader’s attention to the possibility that the entity may be unable to continue realizing its assets and discharging its liabilities in the normal course of business. The following is an example of such a paragraph when the auditor is satisfied as to the adequacy of the note disclosure:

“Without qualifying our opinion, we draw attention to Note X in the financial statements which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company’s current liabilities exceeded its total assets by ZZZ. These conditions, along with other matters as set forth in Note X, indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern.”

~~In extreme cases, such as situations involving multiple material uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.~~

36. When the entity’s management has concluded that the going concern assumption used in the preparation of the financial statements is not appropriate, the financial statements need to be prepared on an alternative authoritative basis. If on the basis of the additional audit procedures carried out and the information obtained the auditor determines the alternative basis is appropriate, the auditor can issue an ~~unqualified unmodified~~ opinion if there is adequate disclosure but ~~may require~~ the auditor includes an emphasis of matter paragraph in the auditor’s report to draw the user’s attention to that basis ~~(see ISA 706)~~.

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

The reference to ISA 701 in paragraphs 8 and 15, and footnote 10, will be changed to ISA 705. ~~A reference to ISA 706 will be inserted in paragraph 45.~~ The reference to ISA 701 in paragraph 63 will be changed to ISA 570, “Going Concern,” paragraph 33.

[Note: the following conforming amendments were not previously exposed]

ISA 210, “Terms of Audit Engagements”

The following is added after paragraph 25:

Limitation on Scope Prior to Engagement Acceptance

26. A limitation on the scope of the auditor’s work may sometimes be imposed by management prior to engagement acceptance (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary).
27. If management imposes a limitation on the scope of the auditor’s work in the terms of a proposed engagement such that the auditor believes the limitation will result in the auditor disclaiming an opinion on the financial statements, the auditor should not accept such a limited engagement as an audit engagement, unless required by law or regulation.

Existing paragraph 26 will be renumbered 28.

ISA 330, “The Auditor’s Procedures in Response to Assessed Risks”

The reference to ISA 700 in paragraph 72 will be changed to ISA 705.

ISA 510, “Opening Balances”

11. If, after performing audit procedures including those set out above, the auditor is unable to obtain sufficient appropriate audit evidence concerning opening balances, the auditor’s report should include:
 - (a) **A qualified opinion**, for example:

“We did not observe the counting of the physical inventory stated at XXX as at December 31, 19X1, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the counting of physical inventory and satisfy ourselves as to the opening balance of inventory, the financial statements give a true and fair view of (present fairly, in all material respects,) the financial position of ... as at December 31, 19X2 and the results of its operations and its cash flows for the year then ended in accordance with ...;”
 - (b) **A disclaimer of opinion; or**
 - (c) **In those jurisdictions where it is permitted, an opinion which is ~~qualified or disclaimed~~ regarding the results of, and cash flows from, operations and unqualified regarding financial position**, for example:

“We did not observe the counting of the physical inventory stated at XXX as at December 31, 19X1, since that date was prior to our appointment as auditors. We were unable to satisfy ourselves as to the inventory quantities at that date by other audit procedures.

Because of the significance of the above matter in relation to the results of the Company’s operations for the year to December 31, 19X2, we are not in a position to, and do not, express an opinion on the results of its operations and its cash flows for the year then ended.

In our opinion, the balance sheet gives a true and fair view of (or ‘presents fairly in all material respects,’) the financial position of the Company as at December 31, 19X2, in accordance with ...”

14. If the **audit opinion on the** entity’s prior period **financial statements auditor’s report** was modified, the auditor would consider the effect thereof on the current period’s financial statements. For example, if there was a scope limitation, such as one due to the inability to determine opening inventory in the prior period, the auditor may not need to qualify or disclaim the current period’s audit opinion. **However, if a modification regarding the prior period’s financial statements remains relevant and material to the current period’s financial statements, the auditor should modify the current auditor’s report audit opinion** accordingly.

ISA 560, “Subsequent Events”

Facts Discovered After the Financial Statements have been Issued

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 **opinion in 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.

ISA 620, “Using the Work of an Expert”

Reference to an Expert in the Auditor's Report

16. When issuing an unmodified **auditor’s report audit opinion**, the auditor should not refer to the work of an expert. Such a reference might be misunderstood to be a qualification of the auditor’s opinion or a division of responsibility, neither of which is intended.

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

Extremely Rare Circumstances when Applying the Financial Reporting Framework Results in Misleading Financial Statements

15. As discussed in ISA 210, the auditor considers the acceptability of the financial reporting framework when considering accepting the engagement. Application of 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 **opinion in the** auditor’s report. The modifications, if any, that are appropriate to the auditor’s **reportopinion** will depend on how management addresses the matter in the financial statements and how the financial reporting framework deals with these rare circumstances (see **[proposed]** ISA 70**45**).

Auditor’s Opinion

39. An **unqualifiedunmodified** 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.
40. When expressing an **unqualifiedunmodified** opinion, the opinion paragraph of the auditor’s report 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 or regulation to use different wording for the opinion, in which case the prescribed wording should be used).

Other Matters

45. **Standards, laws or generally accepted practice in a jurisdiction may require or permit Paragraph 17(c) of [proposed] ISA 706, “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report,” provides guidance on how the auditor–to–may elaborate on matters that provide further explanation of the auditor’s**

responsibilities in the audit of the financial statements or of the auditor's report thereon.
~~Such matters may be addressed in a separate paragraph following the auditor's opinion.~~

Auditor's Report

60. 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 IFRSs expressing an ~~unqualified~~~~unmodified~~ opinion. In addition to the audit of the financial statements, the illustration assumes that the auditor has other reporting responsibilities required under local law.

ISAE 3400, "The Examination of Prospective Financial Information"

15. If the audit ~~opinion~~ or review ~~report~~~~conclusion~~ on prior period historical financial information was other than unmodified or if the entity is in a start-up phase, the auditor would consider the surrounding facts and the effect on the examination of the prospective financial information.

29. The following ~~is an example of an extract from~~~~illustrates~~ an unmodified ~~report~~~~opinion~~ on a forecast:

We have examined the forecast in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. Management is responsible for the forecast including the assumptions set out in Note X on which it is based.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion the forecast is properly prepared on the basis of the assumptions and is presented in accordance with

30. The following ~~is an example of an extract from~~~~illustrates~~ an unmodified ~~report~~~~opinion~~ on a projection:

We have examined the projection in accordance with the International Standard on Assurance Engagements applicable to the examination of prospective financial information. Management is responsible for the projection including the assumptions set out in Note X on which it is based.

This projection has been prepared for (describe purpose). As the entity is in a start-up phase the projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's actions that are not necessarily expected to occur. Consequently, readers are cautioned that this projection may not be appropriate for purposes other than that described above.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do

not provide a reasonable basis for the projection, assuming that (state or refer to the hypothetical assumptions). Further, in our opinion the projection is properly prepared on the basis of the assumptions and is presented in accordance with

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the projection since other anticipated events frequently do not occur as expected and the variation may be material.

ISRE 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”

Going Concern and ~~Significant-Material~~ Uncertainties

60. The auditor should consider ~~modifying~~ **adding a paragraph to** the review report ~~by adding a paragraph~~ to highlight a ~~significantmaterial~~ uncertainty (other than a going concern problem) that came to the auditor’s attention, the resolution of which is dependent upon future events and which may affect the interim financial information.

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