

**Agenda Item
1-B**

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INTERNATIONAL STANDARD ON AUDITING 800

(REVISED)

**SPECIAL CONSIDERATIONS—AUDITS OF SPECIAL PURPOSE FINANCIAL
STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A
FINANCIAL STATEMENT**

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Introduction

1. This International Standard on Auditing (ISA) contains additional considerations in an audit of special purpose financial statements. See paragraphs 5-21.
2. As explained in ISA 200, “Objective and General Principles Governing an Audit of Financial Statements,” the ISAs are written in the context of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This ISA also contains additional considerations in an audit of a specific element, account or item of a financial statement.¹ See paragraphs 22-36. Examples of specific elements, accounts or items of a financial statement are listed in the Appendix 1.
3. This ISA does not override any of the standards of the other ISAs; nor does it purport to contain all the additional considerations that may be relevant in the circumstances of the engagement.
4. This ISA does not apply to the report of another auditor issued as a result of work performed on the financial information of a component at the request of a group auditor for purposes of the audit of the group financial statements (see [proposed] ISA 600, “The Audit of Group Financial Statements”).

Audits of Special Purpose Financial Statements

5. “Special purpose financial statements” are financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users (“special purpose framework”). Reference to “financial statements” in this ISA should be read as “special purpose financial statements,” and can be to a complete set of financial statements or a single financial statement. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.

Considerations when Determining the Acceptability of the Applicable Financial Reporting Framework

6. ISA 210, “Terms of Audit Engagements” contains standards and guidance for agreeing, and determining the acceptability of, the applicable financial reporting framework. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the applicable financial reporting framework. An understanding of the following assists the auditor in determining the acceptability of the financial reporting framework: (a) the purpose for which the financial statements are prepared, (b) the intended users, and (c) the steps taken by management to determine that the financial reporting framework is appropriate in the circumstances. In the case of financial statements prepared in accordance with the

¹ References to “specific elements, accounts or items of a financial statement” should be read as including any related explanatory notes.

provisions of a contract, it is also important to have an understanding of any significant interpretations of the contract that have been made by management in preparing the financial information.²

7. Examples of special purpose frameworks are:
 - A 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 an entity may be requested to prepare for creditors;
 - The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
 - The financial reporting provisions of a contract, such as a bond indenture or a loan agreement.
8. Financial statements prepared and presented in accordance with a special purpose framework may be the only financial statements prepared by an entity and, in such circumstances, are often used by users in addition to those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the ISAs. Paragraphs 19 and 20 describe reporting considerations when these circumstances occur.
9. Where the applicable financial reporting framework encompasses the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements, those standards will be presumed to be acceptable for that purpose, provided the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in preparing and presenting special purpose financial statements for certain types of entities, for example, the financial reporting provisions established by a regulator to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for special purpose financial statements prepared and presented by such entities.
10. Where the financial reporting standards referred to in paragraph 9 are supplemented by legislative or regulatory requirements, the auditor determines whether any conflicts between the financial reporting standards and the additional requirements exist. If such conflicts exist, the auditor follows the procedures in ISA 210.
11. Where the applicable financial reporting framework encompasses the financial reporting provisions of a contract, or sources other than those described in paragraphs 9 and 10, the

² An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the financial statements.

acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether it exhibits attributes normally exhibited by acceptable financial reporting frameworks (see ISA 210, Appendix 2). In the case of a special purpose framework, the relative importance of each of these attributes to a particular engagement is a matter of professional judgment. For example, for purposes of a balance sheet prepared to establish the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are to be made. This may result in financial information that is not neutral, but it may nevertheless be acceptable in the circumstances of the engagement.

12. There may be circumstances where a special purpose framework is based on, but does not comply with all the requirements of an established financial reporting framework; for example, a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Country X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the financial statements to imply full compliance with the established financial reporting standards. In the example of the contract above, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract.

Considerations when Planning and Performing the Audit

13. ISA 200 requires the auditor to comply with (a) relevant ethical requirements relating to an audit engagement, and (b) all ISAs relevant to the audit. In the case of those ISAs relevant to the audit, the auditor is required to comply with the requirements of each of the ISAs in all cases where the requirements are relevant in the circumstances of the audit, unless, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement by performing alternative audit procedures to achieve the aim of that requirement. These requirements of ISA 200 apply to an audit of special purpose financial statements. However, application of some of the requirements of the ISAs may require special consideration by the auditor. For example, in ISA 320 (Revised), “Materiality in Planning and Performing an Audit,” judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the specific users.
14. In the case of special purpose financial statements prepared for a specific purpose, management may agree with the intended users a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. Although such threshold may represent the financial information needs of the intended users for the purposes of any adjustments that may arise, it may not reflect the amount that the auditor determines as a materiality level for the purposes of the engagement in accordance with ISA 320.

15. Communication with those charged with governance in accordance with the ISAs is based on the relationship between those charged with governance and the financial statements subject to audit, in particular whether those charged with governance have a responsibility to oversee the preparation and presentation of those financial statements. In the case of special purpose financial statements prepared for a specific purpose, those charged with governance may not have such a responsibility; for example, when the financial statements are prepared solely for management's use, or when the party engaging the auditor is not the entity responsible for the financial statements. In these cases, the requirements of ISA 260 (Revised), "Communication with Those Charged with Governance" may not be relevant to the audit of the special purpose financial statements prepared for a specific purpose, except when the auditor is also responsible for the audit of the entity's general purpose financial statements or, for example, has agreed with those charged with governance of the entity to communicate to them relevant matters identified during the audit of the special purpose financial statements prepared for a specific purpose.

Forming an Opinion and Reporting Considerations

16. **When forming an opinion on and reporting on special purpose financial statements, the auditor should apply the standards and guidance in ISA 700 (Revised), "The Independent Auditor's Report on General Purpose Financial Statements."** Additional elements of the auditor's report on special purpose financial statements are set out in paragraphs 17-21 of this ISA. Appendix 2 of this ISA contains illustrations of auditors' reports on special purpose financial statements (see Illustrations 1-3).

Description of the Applicable Financial Reporting Framework

17. **When management has a choice of financial reporting frameworks, the reference to the applicable financial reporting framework in the statement of management's responsibility for the financial statements should be expanded to include the responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances of the engagement.**
18. **The reference to the applicable financial reporting framework in the statement of management's responsibility for the financial statements should make clear the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the financial statements that contains that information.**

Restriction on Distribution or Use

19. **The auditor's report should include a statement that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements and related auditor's report may not be suitable for another purpose.** The statement is included in a separate paragraph following the auditor's opinion.
20. The financial statements and related auditor's report may be read for purposes other than

those for which they were intended. For example, certain entities may be required by a regulator to place the financial statements and related auditor's report on public record. To avoid misunderstandings, the auditor alerts readers of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose.

21. The auditor may also consider including a statement in the auditor's report that it is intended solely for the intended users and should not be distributed to or used by parties other than the intended users.

Audits of Specific Elements, Accounts or Items of a Financial Statement

Considerations when Accepting the Engagement

22. As explained in paragraph 13 of this ISA, ISA 200 requires the auditor to comply with (a) relevant ethical requirements relating to an audit engagement, and (b) all ISAs relevant to the audit. In the case of those ISAs relevant to the audit, the auditor is required to comply with the requirements of each of the ISAs in all cases where the requirements are relevant in the circumstances of the audit, unless, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement by performing alternative audit procedures to achieve the aim of that requirement. These requirements of ISA 200 also apply to an audit of a specific element, account or item of a financial statement (referred to as "element" in paragraphs 23-36), irrespective of whether the auditor is also engaged to audit the entity's financial statements.
23. The relevance of each of the ISAs requires careful consideration. Although an element is the subject of the audit, ISAs such as ISA 240, "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements," ISA 550, "Related Parties" and ISA 570, "Going Concern" are in principle each relevant, since the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern assumption under the applicable financial reporting framework.
24. As the ISAs are written in the context of financial statements, all the relevant ISAs are also to be adapted as necessary in the circumstances when applied to audits of an element. For example, in obtaining written representations from management, representations about the financial statements as a whole might be replaced by representations about the presentation of the element in accordance with the applicable financial reporting framework.
25. Furthermore, compliance with relevant requirements may not be practicable when the auditor is not also engaged to audit the entity's financial statements. In such cases, the auditor ordinarily does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In some cases, certain ISAs require audit work that may be disproportionate to the element being audited. For example, although the requirements of ISA 570 are likely to be relevant in the

circumstances of an audit of a schedule of accounts receivable, it may not be practicable to comply with those requirements, because of the audit effort required.

26. When an audit in accordance with ISAs is not practicable, the auditor discusses with management whether another type of engagement may be more practicable.

Considerations when Planning and Performing the Audit

27. When the audit of the element is conducted in conjunction with the audit of the entity's financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's financial statements in the audit of the element. It is important, however, that the auditor plans and performs the audit of the element to obtain sufficient appropriate audit evidence to reduce audit risk for that element to an acceptably low level.
28. Many financial statement items are interrelated, and are presented with related explanatory notes. Accordingly, when auditing an element, the auditor may not be able to consider the element in isolation. Consequently, the auditor may need to perform additional procedures to meet the objective of an audit.
29. Furthermore, the materiality level determined for the element may be lower than the materiality level or levels determined for the entity's financial statements; this will affect the nature, timing and extent of the audit procedures.
30. In the case of an audit of an element, the auditor also considers whether, in view of the specific requirements of the applicable financial reporting framework, the presentation of the element provides adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the element.

Reporting Considerations

31. Unless otherwise required by law or regulation, in accordance with ISA 200 in conjunction with ISA 700, the opinion paragraph of the auditor's report on an element states that the element gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework when that framework is a fair presentation framework. In all other cases, the auditor's opinion states that the element is prepared, in all material respects, in accordance with the applicable financial reporting framework. Appendix 2 of this ISA contains an illustration of an auditor's report on a specific account (see Illustration 4).
32. **When the auditor undertakes an engagement to report on an element in conjunction with an audit of the entity's financial statements, the auditor should express a separate opinion for each of the engagements.**
33. When the entity intends to publish an audited element together with its audited financial statements, the entity's presentation of the audited element should differentiate it sufficiently from the audited financial statements. The opinion on the element should also be sufficiently differentiated from the opinion on the financial statements. If the auditor concludes that the differentiation is insufficient, the auditor asks management to rectify the situation. The auditor does not issue the auditor's report on the element until satisfied with

the differentiation.

34. **When a modified auditor’s report has been issued on an entity’s financial statements, the auditor should consider the effect that this may have on the auditor’s report on an element.**
35. When a modified opinion on the entity’s financial statements or an Emphasis of Matter paragraph relates to the audited element, the auditor considers whether to modify the auditor’s report on the element in a similar manner. When a modified opinion on the entity’s financial statements or an Emphasis of Matter paragraph does not relate to the audited element, the auditor considers whether it may be necessary to refer to the modified opinion or Emphasis of Matter in an Other Matter(s) paragraph in the auditor’s report on the element (see ISA 706, “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report”).
36. In accordance with ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report,” if the auditor has expressed an adverse opinion or disclaimed an opinion on the entity’s financial statements as a whole, the auditor is not permitted to express an unmodified opinion on an element of those financial statements in the same auditor’s report and with respect to the same applicable financial reporting framework. However, where the opinion on the element is expressed in a separate auditor’s report, the auditor may be able to express an unmodified opinion on it, provided that the matters to be reported on and the related scope of the audit were not intended to, and did not, encompass so many elements as to constitute a major portion of those financial statements.

Effective Date

37. This ISA is effective for engagements for periods beginning on or after [date].

Appendix 1

Examples of Specific Elements, Accounts or Items of a Financial Statement

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for “incurred but not reported” claims in an insurance portfolio, including related explanatory notes.
- A schedule of externally managed assets and income of a private pension plan, including related explanatory notes.
- A schedule of net tangible assets, including related explanatory notes.
- A schedule of disbursements in relation to a lease property, including related explanatory notes.
- A schedule of profit participation or employee bonuses, including related explanatory notes.

Appendix 2

Illustrations of Auditors' Reports on Special Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements prepared in accordance with financial reporting provisions of a contract.
- Illustration 2: An auditor's report on a complete set of financial statements prepared in accordance with a financial reporting framework for special purpose financial statements, but which is not a fair presentation framework.
- Illustration 3: An auditor's report on a single financial statement prepared in accordance with a fair presentation framework for special purpose financial statements.
- Illustration 4: An auditor's report on a specific element, account or item of a financial statement prepared in accordance with a financial reporting framework for special purpose financial statements, but which is not a fair presentation framework.

Illustration 1:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements have been prepared by the management of the entity in accordance with the financial reporting provisions of a contract (i.e., a financial reporting framework designed to meet the financial information needs of specific users, but which is not a fair presentation framework) to comply with the provisions of that contract (i.e., a specific purpose). Management does not have a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 presentation of these financial statements in accordance with the financial reporting provisions of section Z of the contract between ABC Company and DEF Company ("the contract"). This responsibility includes: 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; 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 of 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 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 presentation of the financial statements in order to design 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of ABC Company for the year ended December 31, 20X1 have been prepared, in all material respects, in accordance with the financial reporting provisions of section Z of the contract.

Other Matter – Restriction on Use *[and Distribution]*

As indicated above, the financial statements have been prepared in accordance with the financial reporting provisions of section Z of the contract to assist ABC Company to comply with the provisions of the contract. The financial statements and related auditor’s report may not be suitable for another purpose. *[Our report is intended solely for ABC Company and DEF Company and should not be distributed to or used by parties other than ABC Company or DEF Company.]*

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements.**
- **The financial statements have been prepared by the management of a partnership in accordance with the tax basis of accounting in Country X (i.e., a financial reporting framework designed to meet the financial information of specific users, but which is not a fair presentation framework) to assist the partners in preparing their individual income tax returns (i.e., a specific purpose). Management does not have a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying financial statements of ABC Partnership, which comprise the balance sheet as at December 31, 20X1 and the income 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 presentation of these financial statements in accordance with the tax basis of accounting in Country X. They have been prepared to assist the partners of ABC Partnership in preparing their individual income tax returns. Management's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and 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 of 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 of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the partnership's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the partnership's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of ABC Partnership for the year ended December 31, 20X1 have been prepared, in all material respects, in accordance with [describe the applicable income tax law] of Country X.

Other Matter – Restriction on Use *[and Distribution]*

As indicated above, the financial statements have been prepared in accordance with the tax basis of accounting in Country X to assist the partners of ABC Partnership in preparing their individual income tax returns. The financial statements and related auditor's report may not be suitable for another purpose. *[Our report is intended solely for ABC Partnership and its partners and should not be distributed to or used by parties other than ABC Partnership or its partners.]*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 3:

Circumstances include the following:

- **Audit of a statement of cash receipts and disbursements (i.e., a single financial statement).**
- **The financial statement has been prepared by the management of the entity in accordance with the cash receipts and disbursements basis of accounting (for purposes of this illustration a fair presentation financial reporting framework designed to meet the financial information needs of specific users) to respond to a request for cash flow information received from a creditor (i.e., a specific purpose). Management has a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying statement of cash receipts and disbursements of ABC Company for the year ended December 31, 20X1 and a summary of significant accounting policies and other explanatory notes (together 'the financial statement').

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X for the purpose of providing information to XYZ Creditor. This responsibility includes: determining that the cash receipts and disbursements basis of accounting is an acceptable basis for preparing and presenting the financial statement in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates, if any, that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design 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 accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the cash receipts and disbursements of ABC Company for the year ended December 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X.

Other Matter – Restriction on Use *[and Distribution]*

The financial statement has been prepared in accordance with the cash receipts and disbursements basis of accounting described in Note X for purposes of providing information to XYZ Creditor. The statement and related auditor’s report may not be suitable for another purpose. *[Our report is intended solely for ABC Company and XYZ Creditor and should not be distributed to or used by parties other than ABC Company or XYZ Creditor.]*

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

Illustration 4:

Circumstances include the following:

- **Audit of the liability for “incurred but not reported” claims in an insurance portfolio (i.e., element, account or item of a financial statement).**
- **The financial information has been prepared by the management of the entity in accordance with the financial reporting provisions established by a regulator (i.e., a financial reporting framework designed to meet the financial information needs of specific users, but which is not a fair presentation framework) to meet the requirements of that regulator (i.e., a specific purpose). Management does not have a choice of financial reporting frameworks.**

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

We have audited the accompanying schedule of the liability for “incurred but not reported” claims of ABC Insurance Company as of December 31, 20X1 (‘the schedule’).

Management’s Responsibility for the Schedule

Management is responsible for the preparation and presentation of the schedule in accordance with [describe the financial reporting provisions established by the regulator]. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of the schedule that is 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 the schedule 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 schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and presentation of the schedule in order to design 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 accounting estimates made by management, as well as evaluating the overall presentation of the schedule.

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

Opinion

In our opinion, the financial information in the schedule of the liability for “incurred but not reported” claims of ABC Insurance Company as of December 31, 20X1 has been prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator].

Other Matter – Restriction on Use *[and Distribution]*

The schedule has been prepared in accordance with [describe the financial reporting provisions established by the regulator] and it and the related auditor’s report may not be suitable for another purpose. *[Our report is intended solely for ABC Insurance Company and [insert name of regulator] and should not be distributed to or used by parties other than ABC Insurance Company or [insert name of regulator].]*

[Auditor’s signature]

[Date of the auditor’s report]

[Auditor’s address]

CONFORMING AMENDMENTS
INTERNATIONAL STANDARD ON AUDITING 200
OBJECTIVE AND GENERAL PRINCIPLES GOVERNING
AN AUDIT OF FINANCIAL STATEMENTS

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 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.”~~
- 1a. The ISAs are written in the context of an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.¹ For purposes of the ISAs, the term “financial statements” can refer to a complete set of financial statements, or a single financial statement.²

Objective of an Audit of Financial Statements

[Paragraphs 2-3 are not amended.]

Ethical Requirements Relating to an Audit of Financial Statements

[Paragraphs 4-5 are not amended.]

Conduct of an Audit of Financial Statements

[Paragraphs 6-9 are not amended.]

Scope of an Audit of Financial Statements

[Paragraphs 10-14 are not amended.]

¹ Historical financial information is information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.

² A financial statement is a structured representation of historical financial information, which ordinarily includes related explanatory notes, 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. Examples of a single financial statement are listed in the Appendix to this ISA.

Professional Skepticism

[Paragraphs 15-16 are not amended.]

Reasonable Assurance

[Paragraphs 17-21 are not amended.]

Audit Risk and Materiality

[Paragraphs 22-32 are not amended.]

Responsibility for the Financial Statements

33. Paragraph not amended.
34. ~~The term “financial statements” refers to a structured representation of the financial information, which ordinarily includes 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.~~
35. ~~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, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the Cash Basis of Accounting,” states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS. Financial statements prepared by reference to International Financial Reporting Standards (IFRSs), 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 IFRSs 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.~~
36. Management is responsible for identifying the financial reporting framework to be ~~used~~ adopted in the preparation and presentation of preparing and presenting the financial statements (“applicable financial reporting framework”), in the context of any relevant law or regulation. Management is also responsible for preparing and presenting the financial statements in accordance with that ~~applicable financial reporting~~ framework, and adequately describing that framework in the financial statements.—This Management’s responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework includes:

- Designing, implementing and maintaining internal control relevant to ~~the preparation and presentation of~~ preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error (see paragraph 33);
- Selecting and applying appropriate accounting policies; and
- Making accounting estimates that are reasonable in the circumstances.

36a. The financial statements may be prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users (i.e., “general purpose financial statements” prepared in accordance with a “general purpose framework”) or to meet the financial information needs of specific users (i.e., “special purpose financial statements” prepared in accordance with a “special purpose framework”).

36b. The applicable financial reporting framework often encompasses financial reporting standards established by an authorized or recognized standards setting organization, or legislative or regulatory requirements. In some cases the financial reporting framework may encompass both financial reporting standards established by an authorized or recognized standards setting organization and legislative or regulatory requirements. Other sources may provide direction on the application of the applicable financial reporting framework. In some cases, the applicable financial reporting framework may encompass such other sources, or may even consist only of such sources. Such other sources may include:

- The effect of the legal and ethical environment, including statutes, regulations, court decisions, and professional ethical obligations in relation to accounting matters;
- Published accounting interpretations of varying authority issued by standards setting, professional or regulatory organizations;
- Published views of varying authority on emerging accounting issues issued by standards setting, professional or regulatory organizations;
- General and industry practices widely recognized and prevalent; and
- Accounting literature.

Where conflicts exist between the financial reporting framework and the sources from which direction on its application may be obtained, or amongst the sources that encompass the financial reporting framework, the source with the highest authority prevails.

36c. The requirements of the applicable financial reporting framework determine the form and content of the financial statements. Although the framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework.

36d. Some financial reporting frameworks:

- (a) Acknowledge explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond the specific requirements of the framework; or
- (b) Acknowledge explicitly that, in extremely rare circumstances, it may be necessary for management to depart from a specific requirement of the framework to achieve fair presentation of the financial statements.

For purposes of the ISAs, such frameworks are referred to as “fair presentation frameworks.” Financial reporting frameworks that encompass primarily the financial reporting standards established by an organization that is authorized or recognized to promulgate standards to be used by entities for preparing and presenting general purpose financial statements are often designed to achieve fair presentation, for example, International Financial Reporting Standards (IFRSs).

36e. Other financial reporting frameworks only require compliance with the specific requirements of the framework, that is, the acknowledgements in paragraph 36d do not exist. For purposes of the ISAs, such frameworks are referred to as “compliance frameworks.”

36f. The requirements of the applicable financial reporting framework also determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related explanatory notes, comprising a summary of significant accounting policies and other explanatory notes. For some other financial reporting frameworks, a single financial statement and the related explanatory notes might constitute a complete set of financial statements. For example, the International Public Sector Accounting Standard (IPSAS), “Financial Reporting Under the Cash Basis of Accounting” states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares and presents its financial statements in accordance with that IPSAS.

36g. ISA 210 contains standards and guidance on determining the acceptability of the applicable financial reporting framework. ISA 800, “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” contains additional considerations for special purpose frameworks.

Determining the Acceptability of the Financial Reporting Framework³

[Paragraphs 37-48 were moved to ISA 210. Conforming amendments are shown in ISA 210.]

³—Implementation of paragraphs 37-48 has been deferred until such time as proposed ISA 701, “The Independent Auditor’s Report on Other Historical Financial Information” becomes effective (a date yet to be determined).

Expressing an Opinion on the Financial Statements

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 (Revised), “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 701 when expressing a modified audit opinion, including an emphasis of matter, a qualified opinion, a disclaimer of opinion or an adverse opinion.~~
50. ~~The auditor refers to ISA 800 when expressing an opinion on:~~
- ~~(a) A complete set of financial statements prepared in accordance with 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.~~
51. ~~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

52. This ISA is effective for audits of financial statements for periods beginning on or after ~~December 15, 2005~~ [date].

Public Sector Perspective

[The Public Sector Perspective is not amended.]

Appendix

Examples of a Single Financial Statement

- Balance sheet and related explanatory notes.
- Statement of income or statement of operations and related explanatory notes.
- Statement of retained earnings and related explanatory notes.
- Statement of cash flows and related explanatory notes.
- Statement of changes in owners' equity and related explanatory notes.
- Statement of assets and liabilities that does not include owners' equity and related explanatory notes.
- Statement of revenue and expenses and related explanatory notes.
- Statement of operations by product lines and related explanatory notes.
- Statement of cash receipts and disbursements and related explanatory notes.

CONFORMING AMENDMENTS
INTERNATIONAL STANDARD ON AUDITING 210
TERMS OF AUDIT ENGAGEMENTS

Introduction

[Paragraphs 1-4 are not amended.]

Audit Engagement Letters

[Paragraphs 5-9 are not amended.]

Agreement on the Applicable Financial Reporting Framework

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

~~1311.~~ The auditor should accept an engagement ~~for an to~~ audit ~~of~~ financial statements only when the auditor concludes that the applicable financial reporting framework ~~adopted by management~~ is acceptable or, subject to paragraph 22, when ~~it is required by law or regulation~~ prescribes the use of the financial reporting framework. ~~When law or regulation requires 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.~~

~~12.~~ A condition for acceptance of an assurance engagement is that the criteria referred to in the definition of an assurance engagement are suitable and available to intended users. Criteria are the benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. For purposes of the ISAs, the applicable financial reporting framework provides the criteria the auditor uses to evaluate or measure the preparation and presentation of the financial statements.

~~1413.~~ Without an acceptable financial reporting framework management does not have an appropriate basis for preparing and presenting the financial statements and the auditor does not have suitable criteria for evaluating the entity's financial statements. In many cases the auditor may presume that the financial reporting framework is acceptable, as described in paragraphs 17 and 18 of this ISA. ~~In these circumstances, unless use of the financial reporting framework is required by law or regulation, the auditor encourages management to address the deficiencies in the financial reporting framework or to 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 to the Independent Auditor’s Report,” paragraph 5 and, unless required by law or regulation to do so, does not express the opinion on the financial statements using the terms “give a true and fair view” or “are presented fairly, in all material respects,” in accordance with the applicable financial reporting framework.~~

- ~~15. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an organization that is authorized or recognized to promulgate standards for general purpose financial statements of certain types of entities, 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 management will adopt another financial reporting framework that is acceptable, the auditor 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.~~

Determining the Acceptability of the Applicable Financial Reporting Framework

[The text of this section was moved from extant ISA 200. The deleted paragraph numbers are the paragraph numbers of extant ISA 200. Conforming amendments to those paragraphs are shown in marked text.]

- ~~37. **The auditor should determine whether the financial reporting framework 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.”~~
- ~~38. 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:~~
14. Factors that may affect the auditor’s determination of the acceptability of the applicable financial reporting framework include:
- The nature of the entity (for example, whether it is a business enterprise, a public sector entity or a not for profit organization);
 - The purpose of the financial statements (for example, whether they are prepared to meet the common financial information needs of a wide range of users or the financial information needs of specific users);
 - The nature of the financial statements (for example, whether the financial statements are a complete set of financial statements or a single financial statement); and

- Whether applicable legislative and regulatory requirements prescribe the applicable financial reporting framework.

15. 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 and presented in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users are referred to as “general purpose financial statements.”

~~Financial Statements Designed to Meet the Financial Information Needs of Specific Users~~

~~3916. In some cases, the objective of the financial statements will be prepared and presented in accordance with a financial reporting framework designed to meet the financial information needs of specific users. Such financial statements are referred to as “special purpose financial statements.” The financial information needs of such the intended 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. Financial statements prepared in accordance with such financial reporting frameworks may be the only financial statements prepared by an entity and, in such circumstances, are often used by users in addition to those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be designed to meet the financial information needs of specific users for purposes of the ISAs. ISA 800, “Special Considerations—The Independent Auditor’s Report on Audits of Special Purpose Audit Engagements Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” establishes standards and provides guidance on financial statements whose objective is discusses the acceptability of financial reporting frameworks designed to meet the financial information needs of specific users. Although specific users may not be identified, financial statements that are prepared in accordance with a framework that is not designed to achieve fair presentation are also addressed in ISA 800.~~

~~Financial Statements Designed to Meet the Common Financial Information Needs of a Wide Range of Users~~General Purpose Frameworks

~~40. 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 framework that is designed to meet the common information needs of a wide range of users are referred to as “general purpose financial statements.”~~

~~Financial Reporting Frameworks Established by Authorized or Recognized Organizations~~Financial Reporting Standards

~~4117.~~ At present, there is no objective and authoritative basis that has been generally recognized globally for judging the acceptability of ~~financial reporting frameworks that have been designed for general purpose financial statements~~ general purpose frameworks. ~~Until~~ In the absence of such a basis ~~exists~~, financial reporting ~~frameworks standards~~ established by 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 and presented by such entities provided the organizations follow an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders. Examples of such financial reporting ~~frameworks standards~~ include:

- International Financial Reporting Standards (IFRSs) promulgated by the International Accounting Standards Board;
- International Public Sector Accounting Standards (IPSASs) promulgated by the ~~International Federation of Accountants~~ International Public Sector Accounting Standards Board; and
- ~~Generally accepted~~ Accounting principles promulgated by an authorized or recognized standards setter setting organization in a particular jurisdiction.

These financial reporting ~~frameworks standards~~ are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation and presentation of general purpose financial statements. ~~Refer to ISA 800 for financial reporting frameworks designed to meet the particular needs of a government regulatory agency.~~

Financial Reporting Frameworks Prescribed by Law or Regulation

18. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in preparing and presenting general purpose financial statements for certain types of entities. In the absence of indications to the contrary, such a financial reporting framework is presumed to be acceptable for general purpose financial statements prepared and presented by such entities.

Financial Reporting ~~Frameworks Standards~~ Supplemented ~~with Legislative and Regulatory Requirements~~ by Law or Regulation

~~4219.~~ In some jurisdictions, legislative ~~and~~ or regulatory requirements may supplement the financial reporting ~~framework standards established by an authorized or recognized standards setting organization adopted by management~~ with additional requirements relating to ~~the preparation and presentation of~~ preparing and presenting 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 legislative or regulatory requirements prescribe disclosures in addition to those required by the ~~identified~~ financial reporting framework standards or when they narrow the

range of acceptable choices that can be made within the ~~identified~~ financial reporting ~~framework standards~~.

20. ~~Where financial reporting standards established by an authorized or recognized standards setting organization are supplemented by legislative or regulatory requirements, the auditor determines whether there are any conflicts between the financial reporting standards and the additional requirements. If the additional requirements—Where such conflicts exist—with the applicable financial reporting framework, the auditor discusses the nature of the additional requirements with management and whether (a) the additional requirements can be met through additional disclosures in the financial statements, or (b) the description of the applicable financial reporting framework in the financial statements can be amended accordingly. If this is not possible, the auditor considers whether it is necessary to modify the opinion in the auditor’s report, see ISA 701, “Modifications to the Independent Auditor’s Report in accordance with ISA 705, “Modifications to the Opinion in the Independent Auditors’s Report.”~~

Jurisdictions that Do Not ~~h~~Have an Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation

4321. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, the entity management identifies an applicable financial reporting framework. Appendix 2 contains guidance on determining the acceptability of financial reporting frameworks in such circumstances.

Deficiencies in the Applicable Financial Reporting Framework

22. When law or regulation prescribes the use of a financial reporting framework that the auditor concludes is unacceptable, the auditor should undertake the engagement only if management agrees to provide disclosures in the financial statements beyond the specific requirements of the framework to avoid misleading users of the financial statements. In addition, the auditor should include in the terms of engagement the fact that an Emphasis of Matter paragraph, drawing users’ attention to the additional disclosures, will be included in the auditor’s report in accordance with ISA 706, “Emphasis of Matter Paragraphs or Other Matter(s) Paragraphs in the Independent Auditor’s Report.” Unless the auditor is required by law or regulation to express the opinion on the financial statements using the phrases “give a true and fair view” or “present fairly, in all material respects,” in accordance with the applicable financial reporting framework, the terms of engagement also state that the opinion on the financial statements will not include such phrases.
23. If management refuses to provide additional disclosures, and law or regulation prohibits the auditor from refusing the engagement, the auditor should consider the effect of the misleading nature of the financial statements on the auditor’s report, and include in the terms of engagement an appropriate reference to the matter.
24. Deficiencies in the applicable financial reporting framework that indicate that the framework is not acceptable may be encountered after the engagement has been accepted.

When use of that framework is prescribed by law or regulation, the auditor meets the requirements of paragraphs 22 and 23. When use of that framework is not prescribed by law or regulation, management may decide to adopt another framework that is acceptable. When management does so, the auditor agrees the change in framework in new terms of engagement.

Wording Used to Express the Opinion

25. When law or regulation prescribes wording for the opinion in the auditor's report that differs significantly from the wording described in the ISAs, the auditor considers whether there may be a risk that users might misunderstand the assurance obtained in the audit of the financial statements. In such circumstances, the auditor considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor's report (see ISA 706). **If the auditor concludes that the risk of misunderstanding cannot be mitigated through appropriate explanation in the auditor's report, the auditor should not accept the engagement.**
26. Law or regulation, however, may prohibit the auditor from refusing the engagement. An audit conducted in accordance with such law or regulation does not comply with the ISAs.

Recurring Audits

[Paragraphs 16-17 are not amended; however, the paragraph numbers will be amended to 27-28.]

Acceptance of a Change in Engagement

[Paragraphs 18-25 are not amended; however, the paragraph numbers will be amended to 29-36.]

Effective Date

2637. This ISA is effective for audits of financial statements for periods beginning on or after [date].

Public Sector Perspective

[The Public Sector Perspective is not amended.]

Appendix 1: Example of an Engagement Letter

[Appendix 1 is not amended.]

Appendix 2: Determining the Acceptability of General Purpose Frameworks

Jurisdictions that Do Not Have Authorized or Recognized Standards Setting Organizations or Financial Reporting Frameworks Prescribed by Law or Regulation

[The text of this section was moved from extant ISA 200. The deleted paragraph numbers are the paragraph numbers of extant ISA 200. Conforming amendments to those paragraphs are shown in marked text.]

431. As explained in paragraph 21 of this ISA, when an entity is registered or operating in a jurisdiction that does not have an authorized or recognized standards setting organization, or where use of the financial reporting framework is not prescribed by law or regulation, management identifies an applicable financial reporting framework. Practice in such jurisdictions is often to use ~~a the~~ financial reporting ~~framework standards~~ established by one of the organizations described in paragraph ~~41 17~~ of this ISA. 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 adopted by ~~the entity management~~, the auditor determines whether the accounting conventions collectively can be considered to constitute an acceptable financial reporting framework for general purpose financial statements. When the accounting conventions are widely used in a particular jurisdiction, the accounting profession in that jurisdiction may have considered the acceptability of the financial reporting framework on behalf of the auditors. Alternatively, the auditor makes this determination by considering whether the accounting conventions exhibit attributes normally exhibited by acceptable financial reporting frameworks (see paragraph 2), or by comparing the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable (see paragraph 3).
442. 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 the intended users:
- (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 financial 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 conclusions based on~~ the financial statements are not omitted.
 - (c) Reliability, in that the information provided in the financial statements:
 - (i) Where applicable, Rreflects 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;

- (d) Neutrality, in that it contributes to information in the financial statements that is free from bias ~~and~~.
- (e) Understandability, in that the information in the financial statements is clear and comprehensive and not subject to significantly different interpretation.
- ~~473.~~ The auditor may decide to compare the accounting conventions to the requirements of an existing financial reporting framework considered to be acceptable ~~such as, f~~For example, the auditor may compare the accounting conventions to IFRSs promulgated by the International Accounting Standards Board. For an audit of a small entity, the auditor may decide to compare ~~such the~~ accounting conventions to a financial reporting framework specifically developed for such entities by an authorized or recognized standards setting organization. When the auditor makes such a comparison and differences are identified, the decision as to whether the accounting conventions adopted by management in preparing and presenting the financial statements constitute an acceptable financial reporting framework includes ~~consideration of~~ considering the reasons for the differences and whether application of the accounting conventions, or the description of the financial reporting framework in the financial statements, could result in financial statements that are misleading.
- ~~454.~~ A conglomeration of accounting conventions devised to suit individual preferences is not an acceptable financial reporting framework for general purpose financial statements ~~intended to address the common information needs of a wide range of users~~. Similarly, a compliance framework will not be an acceptable financial reporting framework, unless it is generally accepted in the particular jurisdictions by preparers and users.
- ~~46.~~ ~~The description of the financial reporting framework in the financial statements includes information about the basis of preparation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events.~~
- ~~48.~~ ~~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 (see ISA 210) and the auditor's report (see ISA 701).~~

CONFORMING AMENDMENTS
INTERNATIONAL STANDARD ON AUDITING 700
(REVISED)
THE INDEPENDENT AUDITOR'S REPORT ON ~~A COMPLETE SET OF~~ GENERAL
PURPOSE FINANCIAL STATEMENTS[†]

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 a financial reporting framework that is designed to achieve fair presentation.~~ This ISA also establishes standards and provides guidance on the matters the auditor considers in forming an opinion on those financial statements. ~~As described in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," "general purpose financial statements" are financial statements prepared in accordance with a financial reporting framework that is designed to meet the common information needs of a wide range of users.²~~
2. "General purpose financial statements" are financial statements prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users. Reference to "financial statements" in this ISA should be read as "general purpose financial statements," and can be to a complete set of financial statements or a single financial statement. The requirements of the applicable financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements.
3. ISA 800, "Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement" contains standards and guidance on the independent auditor's report issued as a result of an audit of financial statements prepared in accordance with a financial reporting framework designed to meet the financial information needs of specific users ("special purpose financial statements"), as well as on the independent auditor's report issued as a result of an audit of specific elements, accounts or items of a financial statement.
24. ~~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 701⁵, "Modifications to the Opinion in the Independent Auditor's Report" establishes contains additional standards and provides guidance on the modifications to this report for an emphasis of~~

[†] This ISA is applicable for auditor's reports on financial statements described in paragraph 1 of the ISA.

² Implementation of the final sentence of paragraph 3 and paragraphs 37-48 of ISA 200 (amended as a result of ISA 700 (Revised)) has been deferred until such time as proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information" becomes effective (a date yet to be determined). The remainder of ISA 200 (amended as a result of ISA 700 (Revised)) is effective for audits of financial statements for periods beginning on or after December 15, 2005.

~~matter, a qualified opinion, a disclaimer of opinion, or an adverse opinion circumstances that may result in a modified opinion, the type of modification required, and the form and content of the auditor's report when the opinion is modified. ISA 706, "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report" contains additional standards and guidance on circumstances when the auditor considers including an Emphasis of Matter paragraph or an Other Matter(s) paragraph in the auditor's report, and the form and placement of such paragraphs.~~

- ~~3. ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" establishes standards and provides 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 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.~~

~~The Auditor's Report on Financial Statements~~

- ~~45. The auditor's report should contain a clear expression of the auditor's opinion on the 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 the applicable financial reporting framework.~~
- ~~6. Unless required by law or regulation to use different wording, the auditor's opinion on a complete set³ of general purpose financial statements prepared in accordance with a financial reporting framework that is designed to achieve fair presentation (for purposes of this ISA referred to as "financial statements") 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. These phrases "give a true and fair view" and "are presented fairly, in all material respects," are equivalent. Which of these phrases is used in any particular jurisdiction is determined by the law or regulations governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction.~~

~~³ As explained in paragraph 35 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 International Financial Reporting Standards (IFRSs) 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.~~

- ~~7. In some jurisdictions, law or regulation governing the audit of 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 as described in this ISA for forming the opinion remain the same.~~
- ~~8. 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 the auditor's report (see ISA 701).~~

Applicable Financial Reporting Framework

- ~~9. The auditor's judgment regarding whether the financial statements give a true and fair view 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.⁴ ISA 200 describes the auditor's responsibility to determine whether the financial reporting framework adopted by management in preparing the financial statements is acceptable.⁵~~
- ~~10. In the case of financial statements that are within the scope of this ISA, application of a financial reporting framework determined to be acceptable for general purpose financial statements will, except in the extremely rare circumstances discussed in paragraph 15, result in financial statements that achieve fair presentation. Although the financial reporting framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework. Thus, the financial reporting framework provides a context for the auditor's evaluation of the fair presentation of the financial statements, including 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.~~

Forming an Opinion on the Financial Statements

- ~~146. The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.~~

⁴—Implementation of ISA 210 (amended as a result of ISA 700 (Revised)) has been deferred until such time as proposed ISA 701, "The Independent Auditor's Report on Other Historical Financial Information" becomes effective (a date yet to be determined).

⁵—See footnote 2.

127. When forming an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence ~~obtained, there is~~ reasonable assurance has been obtained 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 statements⁶ and evaluating the effects of uncorrected misstatements identified.⁷
138. The auditor evaluates whether the financial statements adequately refer to or describe the applicable financial reporting framework. 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 also evaluates 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 view~~ of the specific requirements of the applicable financial reporting framework:
- (a) The financial statements adequately disclose the significant accounting policies selected and applied, and significant interpretations by management of regulatory or legal requirements. In jurisdictions where the applicable financial reporting framework is so codified as to preclude a choice of accounting policies or significant interpretations by management, a reference to the applicable financial reporting framework may suffice;
 - (ab) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate ~~in the circumstances~~;
 - (bc) The accounting estimates made by management are reasonable ~~in the circumstances~~;
 - (ed) The information presented in the financial statements, ~~including accounting policies,~~ is relevant, reliable, comparable and understandable; ~~and~~
 - (de) The financial statements provide ~~sufficient adequate~~ disclosures to enable the intended 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 and presented in accordance with ~~International Financial Reporting Standards (IFRSs)~~ many general purpose frameworks, the entity's financial position, financial performance and cash flows; ~~and~~
 - (f) The terminology used in the financial statements, including their titles, is appropriate.
149. Forming an opinion ~~as to whether the on~~ financial statements ~~give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework prepared and presented in accordance with a fair presentation framework~~ also involves evaluating ~~the fair presentation of the~~ whether those financial

⁶ See ISA 330, "The Auditor's Procedures in Response to Assessed Risks."

⁷ See ISA 450, "Evaluation of Misstatements Identified During the Audit."

~~statements achieve fair presentation. 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 related explanatory notes 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 achieves fair presentation. 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.~~

10. ~~There may be cases where the financial statements, although prepared and presented in accordance with the specific requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, management has a responsibility to provide disclosures beyond the specific requirements of the framework or, in extremely rare circumstances, to depart from a specific requirement in the framework to achieve fair presentation of the financial statements, as explained in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements." If management does not do so, the auditor considers the need to modify the opinion in the auditor's report in accordance with ISA 705.~~
11. ~~When financial statements are prepared and presented in accordance with a compliance framework, which is acceptable in the circumstances of the entity, it will be extremely rare for the auditor to consider such financial statements to be misleading. However, if the auditor encounters such extremely rare circumstances (i.e., where, in the auditor's professional judgment, the financial statements are misleading), the auditor discusses the matter with management and considers whether, and how, to deal with the matter in the auditor's report. The auditor's response, if any, will depend on whether, and how, management addresses the matter in the 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.⁸ 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~~

⁸—See footnote 4.

~~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 (see ISA 701).~~

Elements of the Auditor's Report ~~in an Audit Conducted in Accordance with International Standards on Auditing~~⁹

~~1612.~~ Consistency in 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.

~~1713.~~ Paragraphs ~~18-60~~ 14-55 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:~~

- (a) Title;
- (b) Addressee;
- (c) Introductory paragraph;
- (d) Management's responsibility for the financial statements;
- (e) Auditor's responsibility;
- (f) Auditor's opinion;
- (g) Other matters;
- (gh) Other reporting responsibilities;
- (hi) Auditor's signature;
- (ij) Date of the auditor's report; and
- (jk) Auditor's address.

Title

⁹ Paragraphs ~~61-66~~ 59-64 address the auditor's report when the audit has been conducted in accordance with both ISAs and auditing standards of a specific jurisdiction or country.

1814. The auditor's report should have a title that clearly indicates that it is the report of an independent auditor.

1915. 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 relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

Addressee

2016. The auditor's report should be addressed as required by the circumstances of the engagement.

2117. 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

2218. 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 introductory paragraph should also:

- (a) **Identify the title of each of statement that comprises the financial statements ~~that comprise the complete set of financial statements~~;**
- (b) **Refer to the summary of significant accounting policies and other explanatory notes; and**
- (c) **Specify the date ~~and or~~ period covered by each financial statement comprising the financial statements.**

2319. 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 each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework (or, where applicable, the title of the single financial statement), specifying the date ~~and or~~ period covered by ~~those each~~ financial statements] and referring to the summary of significant accounting policies and other explanatory notes. In addition, 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. This helps readers to identify the financial statements to which the auditor's report relates.

2420. In the case of a complete set of financial statements, ~~T~~he auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, In the case of financial statements prepared in accordance with International Financial Reporting Standards (IFRSs), 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 notes. In some jurisdictions additional information might also be considered to be an integral part of the financial statements.

- 2521.** 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 applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable 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 ~~67-71~~ 65-69.
- 2622.** In some circumstances, the supplementary information cannot be clearly differentiated from the financial statements because of its nature and how it is presented. Such supplementary information 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. This would also be the case when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework.
- 2723.** 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 statements that comprise~~ the financial statements in the introductory paragraph is sufficient.

Management's Responsibility for the Financial Statements

- 2824.** The auditor's report should state that management is responsible for ~~the preparation and the fair presentation of preparing and presenting~~ preparing and presenting 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 preparing and presenting~~ financial statements that are free from material misstatement, whether due to fraud or error;**
 - (b) **Selecting and applying appropriate accounting policies; and**
 - (c) **Making accounting estimates that are reasonable in the circumstances.**

Where the phrases "give a true and fair view" or "are presented fairly, in all material respects," are used to express the auditor's opinion on the financial statements, the statement of management's responsibility for the financial statements refers to "the

preparation and fair presentation of the financial statements” instead of “preparation and presentation.”

- 2925.** Financial statements are the representations of management. Management is responsible for ~~the preparation and fair presentation of~~ preparing and presenting the financial statements in accordance with the applicable financial reporting framework. For example, in the case of ~~financial statements prepared in accordance with IFRSs~~ many general purpose frameworks, management is responsible for preparing financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with ~~(IFRSs)~~ those frameworks. To fulfill this responsibility, management designs and implements internal control¹⁰ 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 are made in the context of the applicable financial reporting framework.
- 3026.** There may be circumstances when it is appropriate for the auditor to add to the description of management’s responsibilities in paragraph ~~28~~ 24 to reflect additional responsibilities that are relevant to ~~the preparation and presentation of~~ preparing and presenting the financial statements in the context of the particular jurisdiction or the nature of the entity
- 3127.** The term management has been used in this ISA to describe those responsible for ~~the preparation and fair presentation of~~ preparing and presenting 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).

Auditor’s Responsibility

- 3228.** **The auditor’s report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.**
- 3329.** 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 fair presentation of~~ preparing and presenting the financial statements.
- 3430.** **The auditor’s report should state that the audit was conducted in accordance with International Standards on Auditing. The auditor’s report should also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.**

¹⁰ In some jurisdictions, law or regulation prescribing management’s responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system.—As books, records and systems are an integral part of internal control (as defined in ISA 315, “Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement”), no specific reference is made to them in paragraph ~~28~~ 24 for the description of management’s responsibilities.

3531. The reference to the standards used conveys to the reader that the audit has been conducted in accordance with established standards.

3632. ~~ISA 200 specifies what is required in order to conduct an audit in accordance with the ISAs. Paragraph 14 in that ISA explains that t~~**The auditor cannot should not 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. In accordance with ISA 200, the auditor may in exceptional circumstances judge it necessary to depart from a basic principle or an essential procedure that is relevant in the circumstances of the audit in order to achieve the objective of the audit. In such a case, the auditor is not precluded from representing compliance with ISAs, provided the departure is appropriately documented as required by ISA 230 (Revised), “Audit Documentation.”**

3733. The auditor’s report should describe an audit by stating that:

- (a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;
- (b) The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement 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 in order to design 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. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor should omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and
- (c) An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.

Where the phrases “give a true and fair view” or “are presented fairly, in all material respects,” are used to express the auditor’s opinion on the financial statements, the description of the audit refers to “the preparation and *fair* presentation of the financial statements” instead of “preparation and presentation.”

3834. The auditor’s report should state that the auditor believes that the audit-evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.

Auditor’s Opinion

3935. An ~~unqualified unmodified~~ opinion should be expressed when the auditor concludes that the financial statements ~~give a true and fair view or are presented fairly~~

prepared, in all material respects, in accordance with the applicable financial reporting framework.

- ~~4036.~~ When expressing an ~~unqualified unmodified~~ **opinion on financial statements prepared and presented in accordance with a fair presentation framework**, 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 otherwise~~ required by law or regulation ~~to use different wording for the opinion, in which case the prescribed wording should be used~~). **In all other cases, the auditor's opinion should state that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.**
- ~~37.~~ The phrases "give a true and fair view" and "present fairly, in all material respects," are equivalent for purposes of the ISAs. Which of these phrases is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction. Where law or regulation requires the use of different wording, the auditor's responsibility to evaluate the fair presentation of financial statements prepared and presented in accordance with a fair presentation framework is the same.
- ~~38.~~ 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 present (which is determined by the financial reporting framework). For example, in the case of a complete set of financial statements prepared in accordance with many financial reporting frameworks, the auditor expresses an opinion that the financial statements give a true and fair view of or present fairly, in 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.
- ~~4139.~~ When International Financial Reporting Standards or International Public Sector Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion should identify the jurisdiction or country of origin of the financial reporting framework.
- ~~42.~~ 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 IFRSs, the auditor expresses an opinion that the financial statements give a true and fair view of or are presented fairly, in 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.
- ~~4340.~~ 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 on which the financial statements are based. When the applicable financial reporting framework is not IFRSs or International Public Sector Accounting Standards (IPSASs), the auditor's opinion

also identifies the jurisdiction or country of origin of 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 ...”

41. For example, in the case of a complete set of financial statements prepared in accordance with IFRSs, the auditor expresses an opinion that the financial statements give a true and fair view of or present fairly, in 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 in accordance with International Financial Reporting Standards.

4442. When the applicable financial reporting framework encompasses financial reporting standards supplemented by legal ~~and~~ or 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.”

(ISA 210, “Terms of Audit Engagements” contains standards and guidance for circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.)

Other Matters

4543. Standards, laws or generally accepted practice in a jurisdiction may require or permit the auditor to 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. ISA 706 contains standards and guidance for other matter(s) paragraphs in the auditor’s report.

Other Reporting Responsibilities

4644. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary 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 procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records. Auditing standards in the specific jurisdiction or country often provide guidance on the auditor’s responsibilities with respect to specific additional reporting responsibilities in that jurisdiction or country.

4745. 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.

4846. When the auditor addresses other reporting responsibilities within the auditor's report on the financial statements, these other reporting responsibilities should be addressed in a separate section in the auditor's report that follows the opinion paragraph.

4947. The auditor addresses 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.

Auditor's Signature

5048. The auditor's report should be signed.

5149. 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

5250. The auditor should date the report on the financial statements no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. Sufficient appropriate audit evidence should include evidence that all the entity's complete set of statements that comprise the financial statements ~~has~~ have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

5351. The date of the auditor's report informs the reader that the auditor has considered the effect 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 the date of the auditor's report is addressed in ISA 560, "Subsequent Events."

5452. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until the auditor obtains evidence that ~~a complete set of all the statements that comprise the~~ financial statements ~~has~~ have been prepared and management has accepted responsibility for them.

5553. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that ~~a complete set of all the statements that comprise the~~ financial statements ~~has~~ have been prepared, and specifies the necessary approval process. In such cases, the auditor obtains evidence of that approval before dating the report on the financial statements.¹¹ In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the auditor takes into

¹¹ In rare circumstances, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.

account the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures in order to identify the individuals or body with the authority to conclude that ~~the entity's complete set of all the statements that comprise the~~ financial statements, including the related notes, ~~has~~ have been prepared.

5654. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of the ISAs is the earlier date on which those with the recognized authority determine that ~~a complete set of all the statements that comprise the~~ financial statements ~~has~~ have been prepared.

Auditor's Address

5755. The report should name the location in the country or jurisdiction where the auditor practices.

Auditor's Report

5856. The auditor's report should be in writing.

5957. A written report encompasses both reports issued in hard copy format and those using an electronic medium.

6058. ~~The following is an Appendix contains~~ illustrations ~~of the~~ auditor's' reports ~~on general purpose financial statements,~~ incorporating the elements set forth above ~~for an audit of financial statements prepared in accordance with IFRSs 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.~~

[The illustrative auditor's report was moved to the Appendix.]

Auditor's Report for Audits Conducted in Accordance with Both ISAs and Auditing Standards of a Specific Jurisdiction or Country

6159. The auditor may conduct the audit in accordance with both the ISAs and the auditing standards of a specific jurisdiction or country (for purposes of this ISA referred to as "national auditing standards").

6260. As required in paragraph 32, ~~T~~he auditor's report ~~should~~ refers to the audit having been conducted in accordance with the International Standards on Auditing only when the auditor has complied fully with all of the International Standards on Auditing relevant to the audit.

6361. 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 or country. 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 the ISAs and in the 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 ~~704~~ 570, "Going Concern" 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.

6462. When the auditor's report refers to both International Standards on Auditing and auditing standards of a specific jurisdiction or country, the auditor's report should identify the jurisdiction or country of origin of the auditing standards.

6563. When the auditor prepares the auditor's report using the layout or wording specified by the law, regulation or auditing standards of the specific jurisdiction or country, the auditor's report should refer to the audit being conducted in accordance with both International Standards on Auditing and the auditing standards of the specific jurisdiction or country only if the auditor's report includes, at a minimum, each of the following elements:

- (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 fair presentation of~~ preparing and presenting 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 International Standards on Auditing and the auditing standards of the specific jurisdiction or country, 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 statements¹² 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 that is not~~ International

¹² Circumstances when the auditor needs to modify the auditor's opinion are addressed in ISA 704~~5~~, "Modifications to the Opinion in 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.

Financial Reporting Standards or International Public Sector Accounting Standards ~~are not used~~);

- (g) **The auditor's signature;**
- (h) **The date of the auditor's report; and**
- (i) **The auditor's address.**

6664. 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, 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 ~~65~~ **63** – even if using the layout and wording specified by national laws or regulations. Where specific requirements in a particular jurisdiction do not 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

6765. **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.**

6866. As noted in paragraphs ~~25-26~~ **21-22**, the entity may be required to, or management may choose to, include supplementary information together with the financial statements. The auditor's opinion is considered to cover supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. In other circumstances, however, law or regulation may not require the supplementary information to be audited and management may not ask the auditor to include the supplementary information within the scope of the audit of the financial statements. When the supplementary information is not intended to be audited, the auditor considers whether that supplementary 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 clearly labeled as "unaudited." The auditor asks management to remove any cross references from the financial statements to unaudited supplementary schedules or unaudited 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.

~~6967~~. As noted in paragraph ~~23~~ 19, when the auditor is aware that the financial statements will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented in the auditor's report. This helps readers differentiate the financial statements from other information not covered by the auditor's opinion.

~~7068~~. **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 explain in the auditor's report that that information has not been audited.**

~~7169~~. 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

~~7270~~. This ISA is effective for auditor's reports dated on or after ~~December 31, 2006~~ [date].

Public Sector Perspective

[The Public Sector Perspective is not amended.]

Appendix

Illustrations of Auditors' Reports on General Purpose Financial Statements

- Illustration 1: An auditor's report on a complete set of financial statements prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users (e.g., IFRSs).
- Illustration 2: An auditor's report on a complete set of financial statements prepared in accordance with a compliance framework designed to meet the common financial information needs of a wide range of users.
- Illustration 3: An auditor's report on a single financial statement prepared in accordance with a fair presentation framework designed to meet the common financial information needs of a wide range of users.

Illustration 1:**Circumstances include the following:**

- **Audit of a complete set of financial statements.**
- **The financial statements are prepared for a general purpose by the management of the entity in accordance with International Financial Reporting Standards.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements¹³

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 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 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

¹³ 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.¹⁴ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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]

[Auditor's address]

¹⁴ In circumstances when the auditor also has responsibility to express an opinion on 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 in order to design audit procedures that are appropriate in the circumstances."

Illustration 2:

Circumstances include the following:

- **Audit of a complete set of financial statements required by law or regulation.**
- **The financial statements are prepared for a general purpose by the management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Country X (i.e., a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 presentation of these financial statements in accordance with XYZ Law of Country X. This responsibility includes: 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; 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 of 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 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 presentation of the financial statements in order to design 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 accounting estimates made by management, as well as evaluating the presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of ABC Company are prepared, in all material respects, in accordance with XYZ Law of Country X.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Illustration 3:**Circumstances include the following:**

- **Audit of a balance sheet (i.e., a single financial statement).**
- **The balance sheet has been prepared by the management of the entity in accordance with the requirements of the Financial Reporting Framework in Country X relevant to preparing and presenting a balance sheet (for purposes of this illustration a fair presentation financial reporting framework designed to meet the common financial information needs of a wide range of users).**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

We have audited the accompanying balance sheet of ABC Company as at December 31, 20X1 and a summary of significant accounting policies and other explanatory notes (together "the financial statement").

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with those requirements of the Financial Reporting Framework in Country X relevant to preparing and presenting such a financial statement. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statement that is 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 the financial statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design 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 accounting estimates, if any, made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinion

In our opinion, the financial statement presents fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1 in accordance with those requirements of the Financial Reporting Framework in Country X relevant to preparing and presenting such a financial statement.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

CONFORMING AMENDMENTS
INTERNATIONAL STANDARD ON AUDITING 706
EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER(S) PARAGRAPHS
IN THE INDEPENDENT AUDITOR'S REPORT

The following paragraph is inserted after paragraph 9:

9a. In accordance with ISA 210, "Terms of Audit Engagements," in circumstances where law or regulation prescribes the use of a financial reporting framework that the auditor has determined to be otherwise unacceptable, the auditor includes an Emphasis of Matter paragraph in the auditor's report, drawing attention to the additional disclosures included in the financial statements by management to avoid misleading users.

The introduction to paragraph 10 is amended as follows:

10. Examples of other circumstances ~~other than a going concern uncertainty~~ where the auditor may determine that an Emphasis of Matter paragraph is appropriate may include ...