Agenda Item 6-B

CLEAN

INTERNATIONAL STANDARD ON AUDITING 700

(REDRAFTED)

THE INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods beginning on or after [date])

CONTENTS

	Paragraph
Introduction	
Scope of this ISA	1-3
Effective Date	4
Objectives	5
Definitions	6-7
Requirements	
Forming an Opinion on the Financial Statements	8-13
Form of Opinion	14-17
Auditor's Report	18-42
Supplementary Information Presented with the Financial Statements	43-44
Application and Other Explanatory Material	
Qualitative Aspects of the Entity's Accounting Practices	A1-A2
Description of the Applicable Financial Reporting Framework	A3-A11
Form of Opinion	A12-A14
Auditor's Report	A15-A47
Supplementary Information Presented with the Financial Statements	A48-A54
Appendix: Illustrations of Auditors' Reports on General Purpose Financial Statements	

International Standard on Auditing (ISA) 700 (Redrafted), "The Independent Auditor's Report on General Purpose Financial Statements," should be read in the context of the "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services," which sets out the authority of ISAs.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the independent auditor's report issued as a result of an audit of general purpose financial statements. It also deals with forming an opinion on the financial statements.

2. [Proposed] ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report" deals with circumstances that may result in a modified opinion, the type of modification required, and how the form and content of the auditor's report is affected in such circumstances. [Proposed] ISA 706 (Revised and Redrafted), "Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report" deals with 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. Consistency in the auditor's report, when the audit has been conducted in accordance with International Standards on Auditing, 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.

Effective Date

4. This ISA is effective for audits of financial statements for periods beginning on or after [date].[1]

Objectives

5. The objectives of the auditor are to:

   (a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

   (b) Express clearly that opinion through a written report that explains the basis of the opinion.

Definitions

6. For purposes of the ISAs, the following terms have the meanings attributed below:

   (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.

   (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users.

[1] This date will not be earlier than December 15, 2008.

7. 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.[2]

Requirements

Forming an Opinion on the Financial Statements

8. ***[First part of paragraph 8 is now paragraph 13. See below.]***In forming an opinion on the financial statements, the auditor shall take into account the auditor's conclusions regarding:

   (a) Whether sufficient appropriate audit evidence has been obtained, in accordance with ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks," and

   (b) Whether uncorrected misstatements are material, individually or in aggregate, in accordance with [proposed] ISA 450 (Revised and Redrafted), "Evaluation of Misstatements Identified during the Audit."

9. The auditor shall evaluate whether the financial statements are prepared and presented in accordance with the specific requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. In particular, the auditor shall evaluate whether, in view of the specific requirements of the applicable financial reporting framework: (Ref: Para. A1-A2)

   (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;

   (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

   (c) The accounting estimates made by management are reasonable;

   (d) The information presented in the financial statements is relevant, reliable, comparable and understandable;

   (e) The financial statements provide 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 many general purpose frameworks, the entity's financial position, financial performance and cash flows; and

[2] 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.

(f) The terminology used in the financial statements, including their titles, is appropriate.

10. When the financial statements are prepared and presented in accordance with a fair presentation framework, the auditor shall evaluate whether the financial statements achieve fair presentation. The auditor's evaluation shall include consideration of:

    (a) The overall presentation, structure and content of the financial statements; and

    (b) Whether the financial statements, including the related explanatory notes, faithfully represent the underlying transactions and events in a manner that achieves fair presentation.

11. When the financial statements are prepared and presented in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation but may nevertheless, in extremely rare circumstance, conclude that financial statements prepared and presented in accordance with a compliance framework are misleading (see paragraph 17).

12. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A3-A11)

13. Based on the auditor's evaluations in paragraphs 8-12, the auditor shall conclude whether reasonable assurance has been obtained about whether the financial statements taken as a whole are free from material misstatement.

Form of Opinion

14. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework including, in the case of a fair presentation framework, that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework (see paragraph 32).

15. If the auditor concludes that, or is unable to conclude whether, the financial statements as a whole are materially misstated, the auditor shall consider the effect thereof on the opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised and Redrafted). (Ref: Para. A12)

16. When financial statements prepared and presented in accordance with the specific requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with [proposed] ISA 705 (Revised and Redrafted). (Ref: Para. A13)

17. When the auditor concludes that financial statements prepared and presented in accordance with a compliance framework are misleading (see paragraph 11), the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to deal with it in the auditor's report. (Ref: Para. A14)

Auditor's Report

18. The auditor's report shall be in writing. (Ref: Para. A15)

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Title

19. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A17)

Addressee

20. The auditor's report shall be addressed as required by the circumstances of the engagement. (Ref: Para. A18)

Introductory Paragraph

21. The introductory paragraph in the auditor's report shall:
    (a) Identify the entity whose financial statements have been audited;
    (b) State that the financial statements have been audited;
    (c) Identify the title of each statement that comprises the financial statements;
    (d) Refer to the summary of significant accounting policies and other explanatory notes; and
    (e) Specify the date or period covered by each financial statement comprising the financial statements. (Ref: Para. A19-A20)

Management's Responsibility for the Financial Statements

22. The auditor's report shall include a section with the heading "Management's Responsibility for the Financial Statements."

23. The Management's Responsibility for the Financial Statements section shall state that management is responsible for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:
    (a) Designing, implementing and maintaining internal control relevant to the preparation and presentation of 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. (Ref: Para. A21-A23)

24. Where the financial statements are prepared in accordance with a fair presentation framework, the statement of management's responsibility for the financial statements shall

refer to "the preparation and fair presentation of the financial statements" or the "preparation and presentation of financial statements that give a true and fair view," as appropriate in the circumstances, instead of "preparation and presentation."

Auditor's Responsibility

25. The auditor's report shall include a section with the heading "Auditor's Responsibility."

26. In the Auditor's Responsibility section, the auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: Para. A24)

27. The auditor's report shall state whether the audit was conducted in accordance with International Standards on Auditing. The auditor's report shall 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. (Ref: Para. A25-A26)

28. The auditor's report shall 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 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 shall 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 and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.

29. Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit shall refer to "the entity's preparation and fair presentation of the financial statements" or "the entity's preparation and presentation of financial statements that give a true and fair view," as appropriate in the circumstances, instead of "preparation and presentation."

30. The auditor's report shall state whether 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 (Ref: Para. A27-A35)

31. The auditor's report shall include a section with the heading "Opinion."

32. When expressing an unmodified opinion on financial statements prepared and presented in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

    (a) The financial statements "give a true and fair view" in accordance with the applicable financial reporting framework; or

    (b) The financial statements "present fairly, in all material respects," in accordance with the applicable financial reporting framework.

33. When expressing an unmodified opinion on financial statements prepared and presented in accordance with a compliance framework, the auditor's opinion shall be that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

34. When the reference to the applicable financial reporting framework in the auditor's opinion is not to unmodified[3] International Financial Reporting Standards or International Public Sector Accounting Standards, the auditor's opinion shall identify the jurisdiction or country of origin of the framework.

Other Matter(s)

35. When law, regulation or generally accepted practice in a jurisdiction requires or permits 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 shall be addressed in one or more paragraphs under one or more descriptive headings that follow the Opinion section. (Ref: Para. A36)

Other Reporting Responsibilities

36. When the auditor addresses other reporting responsibilities, which are supplementary to the auditor's responsibility to express an opinion on the financial statements, within the auditor's report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report following the Opinion section. This separate section shall be subtitled "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. (Ref: Para. A37-A39)

37. If the auditor's report contains a separate section on other reporting responsibilities, the headings and statements referred to in paragraphs 21-35 shall be under the subtitle "Report on the Financial Statements."

---

[3] That is, when management can make an explicit and unreserved statement of compliance with International Financial Reporting Standards (as opposed to the circumstances described in paragraph A9).

Signature of the Auditor

38. The auditor's report shall be signed. (Ref: Para. A40)

Date of the Auditor's Report

39. The auditor's report shall be dated 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 shall include evidence that:

    (a) All the statements that comprise the financial statements have been prepared; and

    (b) That those with the recognized authority have asserted that they have taken responsibility for them. (Ref: Para. A41-A44)

Auditor's Address

40. The auditor's report shall name the location in the country or jurisdiction where the auditor practices.

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

41. When the auditor has complied with both International Standards on Auditing and the auditing standards of a specific jurisdiction or country (for purposes of this ISA referred to as "national auditing standards") in the conduct of the audit, the auditor's report shall refer to International Standards on Auditing in addition to the national auditing standards only if: (Ref: Para. A45-A47)

    (a) There is no conflict between the reporting requirements regarding the auditor's report in International Standards on Auditing and those in the national auditing standards that affects the auditor's opinion or the need to include an Emphasis of Matter(s) paragraph in the particular circumstances; and

    (b) The auditor's report includes, at a minimum, each of the following elements when the auditor uses the layout or wording specified by the national auditing standards:

        (i) A title;

        (ii) An addressee, as required by the circumstances of the engagement;

        (iii) An introductory paragraph that identifies the financial statements audited;

        (iv) A description of management's responsibility for preparing and presenting the financial statements;

        (v) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, that includes:

            - A reference to International Standards on Auditing and the national auditing standards; and

            - A description of the work an auditor performs in an audit;

(vi) An opinion paragraph containing an expression of opinion on the financial statements 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 that is not International Financial Reporting Standards or International Public Sector Accounting Standards);

(vii) The auditor's signature;

(viii) The date of the auditor's report; and

(ix) The auditor's address.

42. When the auditor's report refers to both International Standards on Auditing and the national auditing standards, the auditor's report shall identify the jurisdiction or country of origin of the national auditing standards.

[Paragraph 35 of the February IAASB Draft was moved to the application material. See paragraph A47.]

Supplementary Information Presented with the Financial Statements (Ref: Para. A48-A54)

43. Supplementary information that, because of its nature and how it is presented, is an integral part of the audited financial statements and, accordingly, is covered by the auditor's opinion.

44. The auditor shall evaluate whether supplementary information that is presented together with the audited financial statements (but that is not an integral part thereof) and that is not intended to be covered by the auditor's opinion is clearly differentiated from the audited financial statements. If such supplementary information is not clearly differentiated from the audited financial statements, the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall explain in the auditor's report that that information has not been audited.

***

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 9)

A1. Management makes a number of judgments about the amounts and disclosures in the financial statements. In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, cause the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation whether the financial statements as a whole are materially misstated include the following:

- The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings,

but not correcting misstatements that have the effect of decreasing reported earnings).

- Possible management bias in the making of accounting estimates.

.A2. [Proposed] ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures" addresses possible management bias in making accounting estimates. Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

Description of the Applicable Financial Reporting Framework (Ref: Para. 12)

A3. As explained in [proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and the Conduct of an Audit in accordance with International Standards on Auditing," management is responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework and for adequately describing that framework in the financial statements. That description is important because it advises users of the financial statements of the framework on which the financial statements are based.

A4. A description that the financial statements are prepared and presented in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework effective at the date of the financial statements.

A5. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (for example, "the financial statements are in substantial compliance with International Financial Reporting Standards") is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

A6. In some cases, the financial statements may represent that they are prepared and presented in accordance with two financial reporting frameworks (for example, the national framework and International Financial Reporting Standards). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both financial reporting frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the country has adopted the other framework (for example, International Financial Reporting Standards) as its own national financial reporting framework, or has eliminated all barriers to compliance with it.

A7. Financial statements that are prepared and presented in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the

results to those that would be shown under another framework, are not prepared and presented in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

A8. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (for example, financial statements prepared and presented in accordance with the national framework that also describe the extent to which they comply with International Financial Reporting Standards). Such description is supplementary financial information and, as discussed in paragraph A49, is considered an integral part of the financial statements and, accordingly, is covered by the auditor's opinion.

Financial Reporting Framework Described by Reference to International Financial Reporting Standards

A9. An authorized or recognized standards setting organization, or relevant law or regulation may describe the applicable financial reporting framework by reference to International Financial Reporting Standards, even though the framework is such that management cannot make an explicit and unreserved statement of compliance with International Financial Reporting Standards. (Examples of such descriptions include "International Financial Reporting Standards as adopted for use in [country X]" and "International Financial Reporting Standards as modified by banking regulators for the use of banks in [country X].''). In such circumstances, [proposed] International Accounting Standard (IAS) 1, "Presentation of Financial Statements"[4] requires the entity to:

(a) Describe each difference between the basis on which its financial statements are prepared and International Financial Reporting Standards that are applicable to its financial statements; and

(b) Describe how the reported financial position and performance of the entity would have differed if it had complied with International Financial Reporting Standards.

If the framework is described by reference to International Financial Reporting Standards, but the framework does not require the entity to disclose the information in (a) and (b) above and the financial statements do not in fact disclose such information, the description is likely to be misleading if the effect on financial statements of the difference between the framework and International Financial Reporting Standards may be significant.

A10. If such a description is not required by an authorized or recognized standards setting organization, or relevant law or regulation, it is preferable that the financial reporting framework is described without reference to International Financial Reporting Standards.

---

[4] The proposed amendment to International Accounting Standard (IAS) 1, "Presentation of Financial Statements" will form part of the annual improvements process of the International Accounting Standards Board. The exposure draft of the IASB will be published in October 2007. The proposed amendment to IAS 1 is posted on the IASB website (http://www.iasb.org) as an Invitation to Comment.

A11. Where the applicable financial reporting framework is described by reference to an established financial reporting framework other than International Financial Reporting Standards, considerations similar to those in paragraphs A9-A10 would apply.

Form of Opinion (Ref: Para. 14-17)

A12. In accordance with [proposed] ISA 705 (Revised and Redrafted), the auditor expresses a modified opinion when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement.

A13. 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 [proposed] ISA 200 (Revised and Redrafted), "Overall Objective of the Independent Auditor, and Principal Concepts Relevant to an Audit of Financial Statements."

A14. When financial statements are prepared and presented in accordance with a compliance framework that the auditor has determined is acceptable, it will be extremely rare for the auditor to consider such financial statements to be misleading.

Auditor's Report (Ref: Para. 18)

A15. A written report encompasses both reports issued in hard copy format and those using an electronic medium.

A16. The Appendix contains illustrations of auditors' reports on general purpose financial statements, incorporating the elements set forth in paragraphs 19-40.

Auditor's Report for Audits conducted in Accordance with International Standards on Auditing

Title (Ref: Para. 19)

A17. 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 (Ref: Para. 20)

A18. National laws or regulations often specify to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally 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 (Ref: Para. 21)

A19. The introductory paragraph states, for example, that the auditor has audited the accompanying financial statements of the entity, which comprise [state the title 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 or period covered by each financial statement] 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 users to identify the financial statements to which the auditor's report relates.

A20. In the case of a complete set of financial statements, the 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 many general purpose frameworks, 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.

Management's Responsibility for the Financial Statements (Ref: Para. 23)

A21. [Proposed] ISA 200 (Revised and Redrafted) explains the premises, relating to management's responsibilities, on which an audit is conducted. Management is responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. For example, in the case of 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 those frameworks. To fulfill this responsibility, management designs and implements internal control[5] 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.

A22. There may be circumstances when it is appropriate for the auditor to add to the description

[5] 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 (Redrafted), "Identifying and Assessing the Risks of Material Misstatements Through Understanding the Entity and Its Environment"), no specific reference is made to them in paragraph 20 for the description of management's responsibilities.

of management's responsibilities in paragraph 23 to reflect additional responsibilities that are relevant to preparing and presenting the financial statements in the context of the particular jurisdiction or the nature of the entity

A23. The term management has been used in this ISA to describe those responsible for 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 (Ref: Para. 26-27)

A24. 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 preparing and presenting the financial statements.

A25. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

A26. In accordance with [proposed] ISA 200 (Revised and Redrafted), the auditor does not represent compliance with International Standards on Auditing unless the auditor has complied with all of International Standards on Auditing relevant to the audit.

Auditor's Opinion (Ref: Para. 32-34)

"Give a true and fair view" or "present fairly, in all material respects"

A27. Whether the phrase "give a true and fair view" or the phrase "present fairly, in all material respects," is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted 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. [Proposed] ISA 210 (Redrafted), "Terms of Audit Engagements" deals with circumstances where law or regulation prescribes wording for the auditor's opinion that differs significantly from the wording described in this ISA.

Description of information that the financial statements present

A28. In the case of financial statements prepared and presented in accordance with a fair presentation framework, the auditor's opinion states that the financial statements give a true and fair view of or present fairly, in all material respects, the information that the financial statements are designed to present (which is determined by the financial reporting framework). For example, in the case of a complete set of financial statements , the auditor's opinion states 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 [describe the applicable financial reporting framework, for example, International Financial Reporting Standards].

Description of the applicable financial reporting framework and how it may affect the auditor's opinion

A29. The auditor's opinion identifies the financial reporting framework on which the financial statements are based to advise users of the auditor's report of the context in which the auditor's opinion is expressed. The applicable financial reporting framework is identified in such terms as:

"… in accordance with International Financial Reporting Standards" or

"… in accordance with accounting principles generally accepted in Country X …"

A30. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "… in accordance with International Financial Reporting Standards and the requirements of Country X Corporations Act." ISA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.

A31. It is desirable that the auditor's opinion describes the applicable financial reporting framework in similar terms to those used by management to describe the framework in the financial statements (see paragraphs A3-A11).

A32. As indicated in paragraph A6, the financial statements may be prepared and presented in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. In such circumstances, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 32 and 33 refers to both frameworks as follows:

(a) If the auditor concludes that the financial statements comply with each of the frameworks individually, the auditor expresses two opinions: that is that the financial statements are prepared and presented in accordance with one of the applicable financial reporting frameworks (for example, the national framework) and a separate opinion that the financial statements are prepared and presented in accordance with the other applicable financial reporting framework (for example, International Financial Reporting Standards).

(b) If the financial statements comply with one of the frameworks but fails to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared and presented in accordance with the one framework (for example, the national framework) but a modified opinion given with regard to the other framework (for example, International Financial Reporting Standards) in accordance with [proposed] ISA 705 (Revised and Redrafted).

(c) If failure to comply with one of the frameworks causes the financial statements to fail to comply with the other framework, a modified opinion with regard to both of the frameworks is needed in accordance with [proposed] ISA 705 (Revised and Redrafted).

A33. As indicated in paragraph A8, the financial statements may represent compliance with the

applicable financial reporting framework and, in addition, disclose the extent to which they comply with a framework other than the applicable financial reporting framework.

(a) If the auditor concludes that the financial statements fail to comply with the applicable financial reporting framework because the disclosure as to the compliance with the other framework is misleading, a modified opinion would be expressed in accordance with [proposed] ISA 705 (Revised and Redrafted).

(b) If the auditor concludes that the disclosure is not misleading, the auditor may nevertheless decide to add an Emphasis of Matter paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted), drawing attention to the disclosure, if such disclosure is significant.

A34. As indicated in paragraph A9, an authorized or recognized standards setting organization or law or regulation may describe the applicable financial reporting framework by reference to International Financial Reporting Standards, even though the framework is such that management cannot make an explicit and unreserved statement that the applicable financial reporting framework complies with International Financial Reporting Standards. In such circumstances:

(a) If the financial statements do not provide sufficient disclosure of the differences and the auditor concludes that they are misleading (see paragraph A9), the opinion would be modified in accordance with [proposed] ISA 705 (Revised and Redrafted) as appropriate in the circumstances.

(b) If the financial statements do provide sufficient disclosure of the difference and are therefore not misleading (see paragraph A9), the auditor may nevertheless decide to add an Emphasis of Matter paragraph in accordance with [proposed] ISA 706 (Revised and Redrafted) if the auditor judges the differences between the applicable financial reporting framework and International Financial Reporting Standards to be of such importance to users' understanding of the financial statements as a whole that it would be appropriate to draw their attention to it.

(c) In some cases, financial statements prepared and presented in accordance with an applicable financial reporting framework described by reference to International Financial Reporting Standards may also comply with all the requirements of International Financial Reporting Standards applicable in the circumstances. If the financial statements represent, and the auditor concludes, that the financial statements comply with both the applicable financial reporting framework and International Financial Reporting Standards individually, the auditor may express two opinions, that is that the financial statements are prepared and presented in accordance with the applicable financial reporting framework and a separate opinion that the financial statements are prepared and presented in accordance with International Financial Reporting Standards.

A35. Where the applicable financial reporting framework is described by reference to an established financial reporting framework other than International Financial Reporting Standards, considerations similar to those in paragraph A34 would apply.

Other Matters (Ref: Para. 35)

A36. [Proposed] ISA 706 (Revised and Redrafted) deals with other circumstances in which the inclusion of an Other Matter(s) paragraph in the auditor's report may be appropriate.

Other Reporting Responsibilities (Ref: Para. 36)

A37. 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.

A38. In some cases, the relevant law or regulation 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.

A39. These other reporting responsibilities are addressed 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. Where relevant, this section may contain heading(s) that describe(s) the content of the other reporting responsibility paragraph(s).

Auditor's Signature (Ref: Para. 38)

A40. 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 in the auditor's report 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 (Ref: Para. 39)

A41. The date of the auditor's report informs the user of the auditor's report 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 [proposed] ISA 560 (Redrafted), "Subsequent Events."

A42. 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 evidence is obtained that all the statements that comprise the financial statements have been prepared and management has accepted responsibility for them.

A43. In some jurisdictions, the law or regulation identifies the individuals or bodies (for example, the directors) that are responsible for concluding that all the statements that comprise the financial statements have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements.[6] In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures is considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

A44. 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 International Standards on Auditing is the earlier date on which those with the recognized authority determine that all the statements that comprise the financial statements have been prepared.

Auditor's Report for Audits Conducted in Accordance with Both International Standards on Auditing and Auditing Standards of a Specific Jurisdiction or Country (Ref: Para. 41)

A45. [Proposed] ISA 200 (Revised and Redrafted) explains that the auditor may be required to comply with other professional, legal or regulatory requirements in addition to International Standards on Auditing. Where this is the case, the auditor may be obliged to use a layout or wording in the auditor's report that differs from that described in this ISA. As explained in paragraph 3, consistency in the auditor's report, when the audit has been conducted in accordance with International Standards on Auditing, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences relate only to the layout and wording of the auditor's report, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards provided that the auditor's report includes, at a minimum, each of the elements identified in paragraph 41(b). Accordingly, in such circumstances the auditor is considered to have complied with the reporting requirements of International Standards on Auditing, even when the layout and wording used in the auditor's report are specified by professional, legal or regulatory requirements. Where specific requirements in a particular jurisdiction do not conflict with International Standards on Auditing, the auditor is encouraged to adopt the layout and wording used in this ISA so that users of the auditor's report can more readily recognize the auditor's report as a report on an audit conducted in accordance with International Standards on Auditing.

A46. The auditor may refer to the audit having been conducted in accordance with both

[6] 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.

International Standards on Auditing as well as the national auditing standards when the auditor complies with each of the International Standards on Auditing relevant to the audit and performs any additional audit procedures necessary to comply with the relevant national auditing standards.

A47. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the reporting requirements regarding the auditor's report in International Standards on Auditing and those 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 [proposed] ISA 570 (Redrafted), "Going Concern" requires the auditor to add an Emphasis of Matter paragraph in such circumstances. If the case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor has complied with the reporting requirements.

Supplementary Information Presented with the Financial Statements (Ref: Para. 43-44)

A48. In some circumstances, the entity may be required by law, 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.

A49. 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. 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.

A50. Supplementary information that is covered by the auditor's opinion 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 statements that comprise the financial statements in the introductory paragraph is sufficient.

A51. 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.

A52. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."

A53. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:

(a) Removing 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.

(b) Placing the unaudited supplementary information outside of the 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. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

A54. 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 [proposed] ISA 720 (Redrafted), "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements."

Appendix

(Ref: Para. A16)

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., International Financial Reporting Standards).
- 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 AUDITORS' REPORT

[Appropriate Addressee]

Report on the Financial Statements[7]

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

[7] 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.[8] 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 at 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]

[8] 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]

[Blank Page]