

Proposed Conforming Amendments to Proposed ISA 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements”

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 user’s understanding and to identify unusual circumstances when they occur.
- 3a. The term management has been used in this ISA to describe those responsible for the preparation and presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors).

[No amendments are proposed to paragraphs 4-20 of proposed ISA 700 (Redrafted).]

Management’s Responsibility for the Financial Statements

21. The auditor’s report shall include a section with the heading “Management’s¹ Responsibility for the Financial Statements.”
22. In the Management’s Responsibility for the Financial Statements section, subject to paragraph 24, the auditor’s report 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 the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material

¹ Another term may be appropriate, depending on the legal framework. See paragraph 3a of this ISA.

misstatement, whether due to fraud or error; (Ref: Para. A21- A23)

~~(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.~~

23. 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."

23a. The auditor's report shall describe management's responsibility for the financial statements in the manner it is described in the terms of the audit engagement. (Ref: Para. A23)

[No amendments are proposed to paragraphs 24-44 and A1-A20 of proposed ISA 700 (Redrafted).]

Management's Responsibility for the Financial Statements (Ref: Para. 22, 24)

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 preparation and presentation of 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 the preparation and presentation of financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with those frameworks. To improve the reliability of the entity's financial reporting, ~~fulfill~~ this responsibility, ~~management designs and implements~~ includes the design, implementation and maintenance of internal control² 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.~~

² 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 22 for the description of management's responsibilities.

A22. There may be circumstances when it is appropriate for the auditor to add to the description of management's ~~responsibilities~~ responsibility in paragraph 22 to reflect additional responsibilities that are relevant to ~~preparing and presenting the preparation and presentation of~~ the financial statements in the context of the particular jurisdiction or the nature of the entity.

A23. In some jurisdictions, law or regulation may provide for management's responsibilities which are equivalent in effect to those set out in [proposed] ISA 210 (Redrafted); although they may be described differently.³ For those management's responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the terms of the audit engagement.

~~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).~~

[No amendments are proposed to paragraphs A24-A54 of proposed ISA 700 (Redrafted).]

[The illustrative auditors' reports in the Appendix will be amended to indicate that for those reports it is assumed that management's responsibility for the financial statements is described in the terms of the audit engagement using the wording of the premise. The description of Management's Responsibility for the Financial Statements will be amended as proposed in paragraph 22.]

³ [Proposed] ISA 210 (Redrafted), paragraphs [5].

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