

## Forming an Opinion and Reporting on Financial Statements— International Standard on Auditing 700

### [Proposed Consequential Amendments to ISA 700]

(Effective for audits of financial statements for periods beginning on or after December 15, 2009)

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International Standard on Auditing (ISA) 700, "Forming an Opinion and Reporting on Financial Statements," should be read in conjunction with ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

[Extracts from ISA 700]

## Requirements

### **Supplementary Information Presented with the Financial Statements** (Ref: Para. A44-A50)

46. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether such supplementary information 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 such supplementary information has not been audited.
47. Supplementary information that is not required by the applicable financial reporting framework but is nevertheless an integral part of the financial statements because it cannot be clearly differentiated from the audited financial statements due to its nature and how it is presented shall be covered by the auditor's opinion.

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## Application and Other Explanatory Material

### **Supplementary Information Presented with the Financial Statements** (Ref: Para. 46-47)

- A45. 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.
- A46. The auditor's opinion covers supplementary information that cannot be clearly differentiated from the financial statements because of its nature and how it is presented. For example, this would 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. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- A47. 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.

- A48. Law or regulation may not require that the supplementary information be audited, and management may decide not to ask the auditor to include the supplementary information within the scope of the audit of the financial statements.
- A49. The auditor's evaluation of 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."
- A50. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:
- Removing any cross references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
  - 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.
- A51. Unaudited supplementary information falls within the definition of other information contained in [proposed] ISA 720 (Revised).<sup>1</sup> As such, ~~The~~ the fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read and consider that information, and to evaluate and respond appropriately to matters identified that may materially affect to identify material inconsistencies with the audited financial statements and the auditor's report thereon, or the unaudited supplement information, in accordance with [proposed] ISA 720 (Revised).<sup>2</sup> ~~The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720.~~<sup>3</sup>

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<sup>1</sup> Paragraph 8(a) of [proposed] ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*, defines the term "other information" for purposes of the ISAs.

<sup>2</sup> [Proposed] ISA 720 (Revised), paragraphs 9–21, A9–A30

<sup>3</sup> ~~ISA 720, "The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements."~~