

ISA 700, *Forming an Opinion and Reporting on Financial Statements (Revised)*

(Extracts of extant standard with mark-up for Disclosures changes highlighted in yellow)¹

Requirements

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{2,3}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
 - (a) The auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained;⁴
 - (b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;⁵ and
 - (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the 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. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework: **[NO CHANGE PROPOSED TO THE REQUIREMENT FOR DISCLOSURES]**
 - (a) The financial statements adequately disclose the significant accounting policies selected and applied; **(Ref: Para. A3a)**
 - (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; **(Ref: Para. A3b)**

¹ Other mark-ups shown in this document that have not been highlighted relate to the Auditor Reporting Exposure Draft.

² ISA 200, paragraph 11

³ Paragraphs 24–25 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

⁴ ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

⁵ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

- (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; and (Ref: Para. A4)
- (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of: (Ref: Para. A4a–A4c) [NO CHANGE PROPOSED TO THE REQUIREMENT FOR DISCLOSURES]
- (a) The overall presentation, structure and content of the financial statements; and
- (b) Whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.
15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5–A10)

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

- A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.
- A2. Proposed ISA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.⁶ 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, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of 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 (for example, 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.
- A3. ISA 540 addresses possible management bias in making accounting estimates.⁷ 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.

⁶ Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

⁷ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21

Accounting Policies Adequately Disclosed in the Financial Statements (Ref: Para. 13(a))

A3a. The relevance of the accounting policies to the entity, and the clarity with which they have been presented, are important considerations in the auditor's evaluation of whether the financial statements adequately disclose the significant accounting policies selected and applied.

Information Presented in the Financial Statements is Relevant, Reliable, Comparable and Understandable (Ref: Para. 13(d))

A3b. Classifying, characterizing and presenting information clearly and concisely assist in making it understandable to users of the financial statements. Matters the auditor may consider in evaluating the understandability of the financial statements include whether:

- The financial statements, including the related notes, are presented in a transparent and succinct way but do not omit important information; and
- The notes overburden the overall presentation of the financial statements with information that is not relevant or that may obscure a proper understanding of the matters disclosed.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

A4. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. In such circumstances, the auditor evaluates whether the financial statements provide adequate disclosures, given the entity's facts and circumstances, to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows. Matters the auditor may consider in evaluating the adequacy of disclosures includes the extent to which the information included in the financial statements is useful and entity-specific in order to enable the intended users to understand, for example:

- Significant transactions and events that occurred during the period under audit.
- The nature and extent of the entity's assets and liabilities that do not meet the criteria for recognition established by the applicable financial reporting framework.
- The nature and extent of risks arising from the entity's assets and liabilities, such as the risks arising from the entity's financial instruments.
- The methods, assumptions and judgments, and changes to them, that affect amounts presented or otherwise disclosed.

In addition, the auditor may consider whether the financial statements are comparable to the entity's financial statements of previous periods.

Evaluating Whether the Financial Statements Achieves Fair Presentation (Ref: Para. 14)

A4a. Some financial reporting frameworks explicitly address the concept of fair presentation. For example, International Financial Reporting Standards (IFRS) note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with

the definitions and recognition criteria for assets, liabilities, income and expenses. As noted in paragraph 7(b), fair presentation⁸ involves not only compliance with the requirements of the applicable financial reporting framework, but also the possibility that additional disclosures may be necessary, regardless of whether there is specific requirement for that information in the framework.

A4b. The auditor's evaluation about whether the financial statements achieve fair presentation. Both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation ordinarily takes into account the facts and circumstances of the entity based on the auditor's knowledge of the entity, and the audit evidence obtained during the audit.

A4c. As part of the auditor's evaluation about whether the financial statements achieve fair presentation, the auditor may discuss with management and those charged with governance, as appropriate, their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
- Consistency with accepted industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

- A5. As explained in ISA 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.⁹ That description is important because it advises users of the financial statements of the framework on which the financial statements are based.
- A6. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- A7. 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.

⁸ IFRS notes the term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and: (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

⁹ ISA 200, paragraphs A2–A3

Reference to More than One Financial Reporting Framework

- A8. In some cases, the financial statements may represent that they are prepared 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 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 jurisdiction has adopted the other framework (for example, International Financial Reporting Standards) as its own national framework, or has eliminated all barriers to compliance with it.
- A9. Financial statements that are prepared 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 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.
- A10. 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 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 49, is considered an integral part of the financial statements and, accordingly, is covered by the auditor's opinion.