

Supplement 2 to Agenda Item 2

Audits of Less Complex Entities

[Draft] Supplemental Guidance – Auditor Reporting

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I. Introduction

This Supplement has been developed to provide additional guidance for auditors of less complex entities as they apply the [draft] International Standard on Auditing for Audits of Financial Statements of Less Complex Entities ([draft] ISA for LCE) and is to be read together with the [draft] ISA for LCE.

This Supplement:

- Provides guidance on various elements of the auditor's report (**Part II**).
- Provides guidance on modifications made to the auditor's report (**Part III**).
- Provides guidance on the content of the basis of opinion when modifications are made to the auditor's report (**Part IV**).
- Provides guidance on the use of emphasis of matter paragraphs within the auditor's report (**Part V**).
- Provides guidance on the use of other matter paragraphs within the auditor's report (**Part VI**).
- Provides guidance on reporting on other information (**Part VII**).

The Appendix to this Supplement includes five illustrative auditor's reports, which illustrate:

- A qualified opinion;
- An adverse opinion;
- A disclaimer of opinion;
- An unmodified opinion with other information; and
- An unmodified opinion with a material uncertainty related to going concern.

These illustrative reports are in addition to the specified format and content of the illustrative auditor's report and any other illustrative report wording contained in Part 9 of the [draft] ISA for LCE.

This Supplemental Guide does not amend or override the [draft] ISA for LCE, the text of which alone is authoritative. Reading this Auditor Reporting Supplemental Guide is not a substitute for reading the [draft] ISA for LCE. The Auditor Reporting Supplemental Guide is not meant to be exhaustive and reference to the [draft] ISA for LCE should always be made. This Auditor Reporting Supplemental Guide does not constitute an authoritative or official pronouncement of the IAASB.

II. The Auditor's Report

Reference to [draft] ISA for LCE: Part 9.4, Auditor's Report

Paragraph 9.4.1 of the [draft] standard sets out the specified format and content below to be included in the auditor's report issued in hard copy and those using an electronic medium.

1. Addressee

Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared. It is often addressed to the shareholders, to those charged with governance of the entity or to the board of directors of the entity whose financial statements are being audited.

2. Auditor's Opinion

The phrases "present fairly, in all material respects," and "give a true and fair view" used when expressing an opinion on financial statements prepared in accordance with a fair presentation framework are regarded as being equivalent phrases. Whether the phrase "present fairly, in all material respects," or the phrase

“give a true and fair view” 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.

3. Relevant Ethical Requirements

The identification of the jurisdiction of origin of relevant ethical requirements in the statement contained in the Basis for Opinion section of the auditor’s report increases transparency about those requirements relating to the particular audit engagement. Relevant ethical requirements ordinarily comprise the provisions of the International Ethics Standards Board for Accountants’ *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) related to an audit of financial statements together with national requirements that are more restrictive. When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.

In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

In determining the appropriate amount of information to include in the auditor’s report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor’s report.

4. Other Reporting Responsibilities

If the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibilities under the [draft] ISA for LCE, these other reporting responsibilities are addressed in a separate section in the auditor’s report. This would be appropriate unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the [draft] ISA for LCE in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the [draft] ISA for LCE, which are to be clearly differentiated.

If the auditor’s report contains a separate section that addresses other reporting responsibilities, the sections presented under the reporting responsibilities required by the [draft] ISA for LCE are to be included under a section with a heading “Report on the Audit of the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” are to follow the “Report on the Audit of the Financial Statements.”

5. Signature of the Auditor

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.

In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

6. Date of the Auditor's Report

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.

III. Modifications to the Opinion in the Auditor's Report

Reference to [draft] ISA for LCE: Part 9.5.

As described in Paragraph 9.5.1A of the [draft] standard, the auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Nature of Matter Giving Rise to the Modification	Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements	
	<i>Material but Not Pervasive</i>	<i>Material and Pervasive</i>
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

A material misstatement of the financial statements may arise in relation to:

- The appropriateness of the selected accounting policies;
- The application of the selected accounting policies; or
- The appropriateness or adequacy of disclosures in the financial statements.

The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

- Circumstances beyond the control of the entity;
- Circumstances relating to the nature or timing of the auditor's work; or
- Limitations imposed by management.

IV. Basis for Opinion

Reference to [draft] ISA for LCE: Part 9.5.

As described in Paragraph 9.5.1B of the draft standard, when the auditor modifies the audit opinion, the auditor shall, within the basis for opinion section, include a description of the matter giving rise to the modification. The Appendix to this supplement provides illustrative wording that may be used.

If the modification results from an inability to obtain sufficient appropriate audit evidence, it is appropriate to include in the Basis for Opinion section the reasons for that inability.

Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, it is appropriate to describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

V. Emphasis of Matter

Reference to [draft] ISA for LCE: Part 9.6.

As described in paragraph 9.6.1 of the [draft] ISA for LCE, the auditor may consider it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In these circumstances the auditor includes an Emphasis of Matter paragraph within a separate section of the auditor's report with an appropriate heading. The Appendix to this supplement provides illustrative wording that may be used.

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.

However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

VI. Other Matter

Reference to [draft] ISA for LCE: Paragraph 9.6.2

As described in paragraph 9.6.2 of the [draft] ISA for LCE, The auditor may consider it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to the users' understanding of the audit, the auditor's responsibilities

or the auditor's report the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.

If the auditor provides a new or amended auditor's report as a result of a subsequent event(s), the auditor may include in the new or amended auditor's report an Emphasis of Matter paragraph or Other Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier auditor's report provided by the auditor.

The appendix to this supplement provides an illustration of an Other Matter paragraph.

VII. Other Information

Reference to [draft] ISA for LCE: Part 9.8.

As described in Part 9.8 of the [draft] ISA for LCE, the auditor may determine that certain documents prepared by management or those charged with governance meet the definition of other information contained in an annual report. In these circumstances, when, at the date of the auditor's report, for an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information, the auditor's report includes a separate section with a heading "Other Information."

VIII. Appendix: Illustrative Auditor's Reports¹

1. Qualified Opinion, Emphasis of Matter and Other Matter Paragraphs

Qualified Opinion due to a Material Misstatement of the Financial Statements, Emphasis of Matter and Other Matter Paragraphs

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.
- Law or regulation requires the auditor to communicate about scoping and materiality matters in the auditor's report.
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

¹ As these illustrative auditor's reports pertain to the [draft] ISA for LCE, the reports as presented do not apply to listed entities and are not for group financial statements.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements²

Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Qualified Opinion

The Company’s inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from [applicable financial reporting framework]. The Company’s records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders’ equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with the [International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the [draft] ISA for LCE)]. Our responsibilities under the [draft] ISA for LCE are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company’s production facilities. Our opinion is not modified in respect of this matter.

Other Matter – Scoping and Materiality Matters

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. As in all our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that

² The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable

represented a risk of material misstatement due to fraud. The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Based on our professional judgement, we determined certain quantitative thresholds for materiality. This, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Responsibilities of Management and Those Charged with Governance for the Financial Statements³

Management is responsible for the preparation and fair presentation of the financial statements in accordance with [applicable financial reporting framework],⁴ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the [draft] ISA for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the [draft] ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Understand internal control relevant to the audit in order to design audit procedures that are

³ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁴ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the [draft] ISA for LCE as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the [draft] ISA for LCE may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the [draft] ISA for LCE where such a difference exists.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

2. Adverse Opinion

Adverse Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- The financial statements are materially misstated due to the building of the entity not being depreciated over its useful life. The building comprises over 85% of the entity's assets. (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- The prior period financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements.
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Adverse Opinion

[See Illustration 1 above.]

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Adverse Opinion

As explained in Note X, the company's practice is to use its building for its entire economic life, however, the company did not review the building's residual value and useful life at the reporting date in accordance with [applicable financial reporting framework]. The building is depreciated over a period of 18 years with the remaining useful life at December 31, 20X1 assessed as four years. An independent valuer has

assessed the remaining economic life of the building at 30 years, consequently, land and buildings, included in note X to the financial statements is understated by an amount of xxx (20X0: xxx), while income tax, net income and shareholders' equity is understated by an amount of xxx (20X0: xxx), xxx (20X0 xxx) and xxx (20X0 xxx) respectively. These required adjustments are considered material and pervasive to the financial statements as a whole.

We conducted our audit in accordance with the [International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the [draft] ISA for LCE). Our responsibilities under the [draft] ISA for LCE is further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Other Matter

The financial statements for the year ended [end of prior reporting period] were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

Responsibilities of Management for the Financial Statements⁵

[See Illustration 1 above.]

Auditor's Responsibilities for the Audit of the Financial Statements

[See Illustration 1 above.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁵ Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

3. Disclaimer of Opinion

Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- A more limited description of the auditor's responsibilities section is required.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁶

[See Illustration 1 above.]

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with the [applicable financial reporting framework] and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

4. Unmodified Opinion with Other Information

Unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the ISA for LCE.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the [Shareholders of ABC Company or Other Appropriate Addressee]

Opinion

[See Illustration 1 above.]

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Opinion

We conducted our audit in accordance with the [International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the [draft] ISA for LCE)]. Our responsibilities under the [draft] ISA for LCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical

responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management⁷ is responsible for the other information. The other information comprises the [information included in the X report,⁸ but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements⁹

[See Illustration 1 above.]

Auditor's Responsibilities for the Audit of the Financial Statements

[See Illustration 1 above.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁸ A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information

⁹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

5. Unmodified Opinion with a Material Uncertainty related to Going Concern

Unmodified Opinion When a Material Uncertainty Related to Going Concern Exists and Disclosure in the Financial Statements is Adequate

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate.
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

[See Illustration 4 above.]

Basis for Opinion

[See Illustration 4 above.]

Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of xxx during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by xxx. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements¹⁰

[See Illustration 1 above.]

Auditor's Responsibilities for the Audit of the Financial Statements

[See Illustration 1 above.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

¹⁰ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction