

# **Draft International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)**

**(Part 9 – June 19, 2021)**

**Note to the Board:**

The following sections are marked from **Agenda Item 2-A** posted for the June 2021 IAASB meeting:

- Section 9.1 on Objectives
- Section 9.2 on Forming an Opinion on Financial Statements
- Section 9.3. on the Form of Opinion
- Paragraphs 9.5.2. to 9.5.5. in Section 9.5. on Modifications to the Opinion
- Section 9.6. on Other Paragraphs in the Auditor's Report
- Section 9.7. on Comparative Information
- Section 9.8. on Other Information

The following sections are not shown in marked (mapping documents showing relevant requirements will be sent shortly):

- Section 9.4. on the Auditor's Report (paragraphs 9.4.2. and 9.4.3. are unchanged).
- Section 9.5. on Modifications to the Opinion (except paragraphs 9.5.2. to 9.5.5.)

## **Forming an Opinion and Reporting**

### *Content of this Part*

Part 9 sets out the requirements for:

- Forming an opinion;
- The types of audit opinions; and
- The content of the auditor's report.
- Other Information and Comparative Information.

### *Scope of this Part*

~~Appendix 7 sets out an example unmodified auditor's report and Appendix 8 sets out an example unmodified auditor's report with a material uncertainty related to going concern. This Part explains the content of the auditor's report, and sets out the auditor's determination of modifications, as well as when other adjustments to the auditor's report are needed. It also sets out the auditor's required procedures in relation to corresponding figures and comparative financial statements, and other information (if applicable).~~

Examples of ~~other~~ modified opinions, material uncertainty related to going concern, emphasis of matter and other matter paragraphs can be found in [the supporting guide Auditor Reporting Supplemental Guide]. ~~Further detailed examples of auditor's reports can be found in the 700-series in the International Standards on Auditing.~~

## **9.1. Objectives**

9.1.1. 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 to express clearly that opinion through a written report; and
- (b) Consider whether there is a material inconsistency between the other information, if any, and the:
  - (i) Financial statements; and
  - (ii) Auditor's knowledge obtained in the audit.

## **9.2. Forming an Opinion on the Financial Statements**

9.2.1. 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.

9.2.2 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) Whether sufficient appropriate audit evidence has been obtained;
- (b) Whether uncorrected misstatements, individually or in aggregate are material; and
- (c) The evaluations required by paragraphs 9.2.3. to 9.2.6.

9.2.3. 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.

9.2.4. In performing the evaluation in paragraph 9.2.3., the auditor shall evaluate, in view of the applicable financial reporting framework, whether:

- (a) ~~Whether the~~ The financial statements appropriately disclose the entity's significant accounting policies, and whether they have been presented in an understandable way;
- (b) ~~Whether the~~ The entity's accounting policies ~~are selected and~~ applied are consistently with the applicable financial reporting framework and are appropriate;
- (c) The accounting estimates and related disclosures made by management are reasonable;
- (d) ~~Whether the~~ The identified related party relationships and transactions have been appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework;
- (e) The information presented in the financial statements is relevant, reliable, comparable and understandable including whether:
  - (i) The information that should have been included has been included;
  - (ii) Such information is appropriately classified, aggregated or disaggregated, and characterized; and
  - (iii) The overall presentation of the financial statements has ~~been~~ not undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed;
- (f) ~~Whether the~~ The financial statements provide adequate disclosures to enable intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and
- (g) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

9.2.5. When the financial statements are prepared in accordance with a fair presentation framework, the auditor shall also evaluate whether the financial statements achieve fair presentation. This evaluation shall include consideration of:

- (a) The overall presentation, structure and content of the financial statements; and
- (b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

*The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and the disclosures necessary to achieve it, is a matter of professional judgment.*

9.2.6. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

### 9.3. Form of Opinion

9.3.1. 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.

*Where the financial reporting framework is a fair presentation framework, as is generally the case for general purpose financial statements, the opinion required is on whether the financial statements are presented fairly, in all material respects, or give a true and fair view. Where the financial reporting framework is a compliance framework, the opinion required is on whether the financial statements are prepared, in all material respects, in accordance with the framework.*

9.3.2. If the auditor concludes that the financial statements, as a whole, are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence, the auditor shall modify the **auditor's** opinion.

9.3.3. If financial statements prepared in accordance with the 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, determine whether to modify the **auditor's** opinion.

9.3.4. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.

**9.4. Auditor's Report** (*this section is not shown in marked*)

9.4.1. The auditor shall report in accordance with the specified format and content below unless:

- (a) Amendment to the auditor's report is required for compliance with law or regulation, including when law or regulation prescribe the layout or wording of the auditor's report. When the layout or wording of the auditor's report is prescribed, the auditor's report shall refer to this [draft] ISA for LCE only if all significant elements of the template are retained; or
- (b) The auditor's report includes a modified opinion, emphasis of matter paragraph, other matter paragraph, material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information, in which case the auditor shall modify the auditor's opinion (according to Part 9.5.) or amend the auditor's report (according to Part 9.8.).

**INDEPENDENT AUDITOR'S REPORT**

To the [Shareholders of ABC Company or Other Appropriate Addressee]<sup>1</sup>

**Opinion**

We have audited<sup>2</sup> 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 (replace these report names with the appropriate titles)].

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 for Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE)]. Our responsibilities under the 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

<sup>1</sup> [Matters reflected in the specified format and content of the auditor's report in this way should be tailored accordingly]

<sup>2</sup> When disclaiming an opinion, the statement which indicates that the financial statements have been audited is amended to state that the auditor was engaged to audit the financial statements.

and appropriate to provide a basis for our opinion.<sup>3</sup>

### **Responsibilities of Management for the Financial Statements<sup>4</sup>**

*[(Amend this section to reflect management's responsibilities for the financial statements) Management is responsible for the preparation and fair presentation of the financial statements in accordance with [applicable financial reporting framework],<sup>5</sup> 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<sup>6</sup>**

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 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 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

<sup>3</sup> When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion to include the word "qualified" or "adverse", as appropriate. When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include this statement.

<sup>4</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

<sup>5</sup> 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 ..."

<sup>6</sup> When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the section on "Auditor's Responsibilities for the Audit of the Financial Statements."

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.

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

*[Auditor Address: name the location in the jurisdiction where the auditor practices]*

*[Date: No earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that (i) All the statements and disclosures that comprise the financial statements have been prepared; and (ii) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.]*

9.4.2. When the financial statements are prepared in accordance with a fair presentation framework, the auditor shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances, in the description of responsibilities for the financial statements in the auditor's report.

9.4.3. The auditor shall not refer to the work of an auditor's expert in an auditor's report containing an unmodified opinion unless required by law or regulation to do so. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

## 9.5 Modifications to the Opinion

*Tables A to C below set out the requirements for which modified opinion is to be used in different situations, and the form and content of a modified opinion.*

9.5.1.A. The auditor shall modify the opinion in the auditor's report according to Tables A to C below when:

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

9.5.1.B. When the auditor modifies the audit opinion, the auditor shall:

- (a) Amend the heading "Basis for Opinion" to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion" as set out in tables A–C.
- (b) Within the basis for opinion section, include a description of the matter giving rise to the modification.

*Table A below specifies how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.*

<b>TABLE A</b>  <i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	<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

*Table B below specifies the modification to be made to the opinion for each type opinion in Table A*

<b>TABLE B</b> <b>Form of opinion</b>	<b>Fair Presentation Framework</b>	<b>Compliance Framework</b>
<b><u>9.5.1.C. Qualified opinion</u></b>  Auditor's Report–Heading for opinion: "Qualified Opinion"  Auditor's Report–Heading for Basis for Opinion:	"...except for the [effects or possible effects] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements present fairly, in all material respects (or give a true and fair view of) [...] in	"...except for the [effects or possible effects] of the matter(s) described in the Basis for Qualified Opinion section, the accompanying financial statements have been prepared, in all material respects, in accordance with



"Basis for Qualified Opinion"	accordance with [the applicable financial reporting framework]"	[the applicable financial reporting framework]"
<b><u>9.5.1.D. Adverse opinion</u></b>  Auditor's Report–Heading for opinion: "Adverse Opinion"  Auditor's Report–Heading for Basis for Opinion:  "Basis for Adverse Opinion"	"...the accompanying financial statements do not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]"	"...the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework]"
<b><u>9.5.1.E. Disclaimer of opinion</u></b>  Auditor's Report–Heading for opinion:  "Disclaimer of Opinion"  Auditor's Report–Heading for Basis for Opinion:  "Basis for Disclaimer of Opinion"	"[The auditor] does not express an opinion on the accompanying financial statements.  Because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, [the auditor] has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements."	

Table C below sets out specific circumstances when the auditor's opinion is to be modified, and the types of opinions expressed in those circumstances based on the nature of the matter giving rise to the modification (see Table A).

<b>Table C</b>	<b>Para Ref</b>	<b>Qualified</b>	<b>Adverse</b>	<b>Disclaimer</b>
<b>Specific Circumstances When the Auditor's Opinion is to be Modified</b>				
<i>Opening Balances</i>				
9.5.1. F. The auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion	4.6.4.	✓		✓

<b>Table C</b> <b>Specific Circumstances When the Auditor's Opinion is to be Modified</b>	<b>Para Ref</b>	<b>Qualified</b>	<b>Adverse</b>	<b>Disclaimer</b>
<del>or disclaim an opinion on the financial statements, as appropriate.</del> <sup>7</sup>				
9.5.1.G. The auditor concludes, based on the audit evidence obtained, that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed, <del>the auditor shall express a qualified opinion or an adverse opinion, as appropriate.</del>	4.6.5.	✓	✓	
9.5.1. H. The auditor concludes, based on the audit evidence obtained, that the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework or a change in accounting policies is not appropriately accounted for or adequately presented or disclosed, in accordance with the financial reporting framework, <del>the auditor shall express a qualified opinion or an adverse opinion as appropriate.</del>	4.6.6.	✓	✓	
9.5.1. I. <del>The auditor shall modify the auditor's opinion, as appropriate, if predecessor auditor's opinion regarding the prior year's financial statements included a modification that remains relevant and material to the current year's financial statements.</del>	4.6.3.	✓	✓	✓
<i>Non-Compliance with Laws and Regulations</i>				
9.5.1. J. Sufficient information about suspected non-compliance cannot be obtained, <del>the auditor shall evaluate the effect of the lack of sufficient appropriate audit evidence on the auditor's opinion.</del>	7.4.24.	✓		✓

<sup>7</sup> Note for IAASB: these strike through's will be removed as the standard is finalized for exposure. They have been provided to facilitate review.

<b>Table C</b> <b>Specific Circumstances When the Auditor's Opinion is to be Modified</b>	<b>Para Ref</b>	<b>Qualified</b>	<b>Adverse</b>	<b>Disclaimer</b>
9.5.1. K. The auditor concludes that the identified or suspected non-compliance has a material effect on the financial statements, and has not been adequately reflected in the financial statements, <del>the auditor shall, in accordance with ISA 705 (Revised), express a qualified opinion or an adverse opinion on the financial statements.</del>	7.4.25	✓	✓	
9.5.1. L. The auditor is precluded by management or those charged with governance from obtaining sufficient appropriate audit evidence to evaluate whether non-compliance that may be material to the financial statements has, or is likely to have, occurred, <del>the auditor shall express a qualified opinion or disclaim an opinion on the financial statements on the basis of a limitation on the scope of the audit in accordance with ISA 705 (Revised).</del>	7.4.25.	✓		✓
9.5.1. M. The auditor is unable to determine whether non-compliance has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, <del>the auditor shall evaluate the effect on the auditor's opinion in accordance with ISA 705 (Revised).</del>	7.4.25.	✓		✓
<i>External Confirmations</i>				
9.5.1. N. The auditor concludes that management's refusal to allow the auditor to send a confirmation request is unreasonable, or the auditor is unable to obtain relevant and reliable audit evidence from alternative audit procedures, <del>the auditor shall communicate with those charged with governance. The auditor also shall determine the implications for the audit and the auditor's opinion.</del>	7.3.23.	✓		✓

<b>Table C</b> <b>Specific Circumstances When the Auditor's Opinion is to be Modified</b>	<b>Para Ref</b>	<b>Qualified</b>	<b>Adverse</b>	<b>Disclaimer</b>
9.5.1. O. <del>If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory cannot be performed it is not possible to do so, the auditor shall modify the opinion in the auditor's report.</del>	7.4.20.	✓		✓
<i>Going Concern</i>				
9.5.1. P. The financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, <del>the auditor shall express an adverse opinion.</del>	7.4.1. 8.5.7.		✓	
9.5.1. Q. Adequate disclosures are not made about a material uncertainty in the financial statements, <del>the auditor shall express a qualified or adverse opinion, as appropriate, and:</del> 9.5.1. R. In this circumstance, the basis for qualified (or adverse) opinion section shall state that "a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter."	7.4.5 8.5.8	✓	✓	
9.5.1. S. When evaluating management's assessment of the entity's ability to continue as a going concern, <del>the auditor shall cover the same period as used by management. If the period is less than twelve months from the date of the financial statements, the auditor shall ask management to extend the period. If and management does not make or extend its assessment,</del>	7.4.2.	✓		✓

<b>Table C</b> <b>Specific Circumstances When the Auditor's Opinion is to be Modified</b>	<b>Para Ref</b>	<b>Qualified</b>	<b>Adverse</b>	<b>Disclaimer</b>
leading to the auditor being unable to obtain sufficient appropriate audit evidence, <del>the auditor shall consider the implications for the auditor's report (e.g., a qualified opinion or disclaimer of opinion may be appropriate because the auditor is unable to obtain sufficient appropriate audit evidence).</del>				
<i>Written Representations</i>				
9.5.1. T. The auditor concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of management, such that the written representations required by this standard are not reliable.	8.6.5.	✓		✓
9.5.1. U. The auditor concludes that there is sufficient doubt about the integrity of management such that the written representations required by this standard are not reliable; or management does not provide the written representations required by paragraphs 8.6.1(a)–(c).	8.6.6.			✓
<i>Corresponding Figures</i>				
9.5.1. V. When corresponding figures are presented and the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, <del>the auditor shall modify the auditor's opinion on the current period's financial statements.</del>  9.5.1. W. The Basis for Modification paragraph shall include either: (a) refer to both the current period's figures and the corresponding figures in the description of the matter giving rise to the modification when the effects or possible effects of the matter on the current period's figures are material,; or (b) in other cases,	9.7.3.(a)	✓	✓	✓

<b>Table C</b> <b>Specific Circumstances When the Auditor's Opinion is to be Modified</b>	<b>Para Ref</b>	<b>Qualified</b>	<b>Adverse</b>	<b>Disclaimer</b>
explain that the audit opinion has been modified because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.				
<i>Other Items</i>				
9.5.1. X. <del>If the auditor has not obtained sufficient appropriate audit evidence related to relevant assertion about a class of transactions, account balance or disclosure, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements.</del>	8.5.6.	✓		✓
9.5.1. Y. The financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, <del>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.</del>	9.3.3.	✓	✓	
9.5.1. Z. The financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation and <del>However</del> , if in extremely rare circumstances the auditor concludes, based on the audit evidence obtained, that such financial statements are misleading, <del>the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.</del>	9.3.4	✓	✓	✓

*Other ~~Circumstances Where a Modification is Required~~ Matters Relating to Modifications*

*Opening Balances (moved into table)*

~~If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor shall express a qualified opinion or disclaim an opinion on the financial statements, as appropriate.~~

~~If the auditor concludes, based on the audit evidence obtained, that the opening balances contain a misstatement that materially affects the current period's financial statements, and the effect of the misstatement is not appropriately accounted for or not adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion, as appropriate.~~

~~If the auditor concludes, based on the audit evidence obtained, that the current period's accounting policies are not consistently applied in relation to opening balances in accordance with the applicable financial reporting framework or a change in accounting policies is not appropriately accounted for or adequately presented or disclosed, the auditor shall express a qualified opinion or an adverse opinion as appropriate.~~

~~The auditor shall modify the auditor's opinion, as appropriate, if a predecessor auditor's opinion regarding the prior year's financial statements included a modification that remains relevant and material to the current year's financial statements.~~

*Other (moved non-compliance with law or regulation into table)*

~~If the auditor identifies or suspects non-compliance with law or regulation that have a material effect on the financial statements:~~

- ~~(a) If the auditor concludes, based on the audit evidence obtained, that the non-compliance with law or regulation has not been adequately reflected in the financial statements, the auditor shall express a qualified or adverse opinion;~~
- ~~(b) If the auditor is precluded from obtaining sufficient appropriate audit evidence about whether the non-compliance has, or is likely to have occurred, the auditor shall express a qualified opinion or disclaim an opinion on the basis of a limitation on the scope of the audit; or~~
- ~~(c) If the auditor is unable to determine whether non-compliance with law or regulation has occurred because of limitations imposed by the circumstances rather than by management or those charged with governance, the auditor shall evaluate the effect on the auditor's opinion.~~

9.5.2 If the auditor makes reference to the work of an auditor's expert in the auditor's report because such reference is relevant to an understanding of a modification to the auditor's opinion, the auditor shall indicate in the auditor's report that such reference does not reduce the auditor's responsibility for that opinion.

9.5.3. If there is a material misstatement of the financial statements that relates to:

- (a) Specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial

effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section.

(b) Qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

(c) The non-disclosure in the financial statements of information required to be disclosed, the auditor shall:

(i) Discuss the non-disclosure with those charged with governance;

(ii) Describe in the Basis for Opinion section the nature of the omitted information; and

(iii) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information.

9.5.4. When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities in the template in paragraph 9.4.1 to include only the following:

(a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with the [draft] ISA for LCE and to issue an auditor's report; and

(b) A statement that because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements.

## **9.6. Other Paragraphs in the Auditor's Report**

*Emphasis of Matter paragraphs and Other Matter paragraphs in the auditor's report are used when the auditor considers it necessary to:*

*(a) Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or*

*(b) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.*

### *Emphasis of Matter Paragraphs*

9.6.1. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to the users' understanding of the financial statements, and the auditor would not be required to modify the opinion, the auditor shall include an Emphasis of Matter paragraph in the auditor's report indicating that the auditor's report is not modified in respect of the matter emphasized



*Examples of where Emphasis of Matter paragraphs may be needed include:*

(a) *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.*

~~(a) *To alert users that the financial statements are prepared in accordance with a special purpose framework.*~~

~~(b) *When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).*~~

*The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:*

(a) *A modified opinion when required by the circumstances of a specific audit engagement;*

(b) *Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or*

(c) *Reporting when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.*

#### *Other Matter Paragraphs*

*The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented or disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards for the confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.*

9.6.2. If the auditor considers 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.

~~*The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented or disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards for the confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.*~~

9.6.3. If the financial statements of the prior period were audited by a predecessor auditor, in addition to expressing an opinion on the current period's financial statements, the auditor shall state in an Other Matter paragraph:

- (a) That the financial statements of the prior period were audited by a predecessor auditor;
- (b) The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- (c) The date of that report, unless the predecessor auditor's report on the prior period's financial statements is reissued with the financial statements.

*Material Uncertainty Related to Going Concern* (Will either move to Part 8 (where it describes procedures) or has moved to the Table D)

~~9.6.4. If the auditor concludes, based on the audit evidence obtained, that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether adequate disclosure about a material uncertainty related to going concern has been made in the financial statements, including:~~

- ~~(a) That there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business; and~~
- ~~(b) Management's plans to deal with the events and conditions~~

~~In such cases, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Relating to Going Concern (see Appendix 8).~~

~~6.3.10. If a "Material Uncertainty Relating to Going Concern" section is required in the auditor's report, the auditor shall:~~

- ~~(a) Draw attention to the note in the financial statements that discloses the matters related to the material uncertainty; and~~
- ~~(b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.~~

~~6.3.11. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions.~~

~~6.3.12. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion.~~

~~6.3.13. If adequate disclosures are not made about a material uncertainty in the financial statements, the auditor shall express a qualified or adverse opinion, as appropriate, and state in the basis for qualified (or adverse) opinion section that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.~~

*Content of the Auditor's Report When Including Additional Paragraphs or Sections (this section is new)*

9.6.4. When the auditor includes an Emphasis of Matter, Other Matter paragraph, a material uncertainty relating to going concern in the auditor's report, or a section dealing with other information, the auditor shall include the paragraph or section according to Table D below:

<b>Table D: Paragraph or Section</b>	<b>Location</b>	<b>Heading shall include</b>	<b>Content shall include</b>
9.6.5. Emphasis of Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Emphasis of Matter"	A clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.  A reference only to information presented or disclosed in the financial statements.  An indication that the auditor's opinion is not modified in respect of the matter emphasized.
9.6.6. Other Matter paragraph	A separate section of the auditor's report	Appropriate heading that includes "Other Matter"	As appropriate in the circumstances.
9.6.7. Material Uncertainty Related to Going Concern paragraph	A separate section of the auditor's report	"Material Uncertainty Relating to Going Concern"	Draw attention to the note in the financial statements that discloses the matters related to the material uncertainty.  State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

**9.7. Comparative Information—Corresponding Figures and Comparative Financial Statements**

9.7.1. The auditor shall determine whether the financial statements include the comparative information required by the applicable financial reporting framework and whether such information is appropriately classified. In doing so, the auditor shall evaluate whether:

- (a) The amounts and disclosures in the prior period agree with comparative information or have been restated; and
- (b) The accounting policies reflected in the comparative information are consistent with those applied in the current period or, where changes occurred, have been properly accounted for and adequately presented or disclosed.

9.7.2. If the auditor becomes aware of a possible material misstatement in the comparative information while performing the current period audit, the auditor shall perform such additional audit procedures as are necessary in the circumstances to obtain sufficient appropriate audit evidence to determine whether a material misstatement exists. If the prior period financial statements are amended, the auditor shall determine that the comparative information agrees with the amended financial statements.

9.7.3. When corresponding figures are presented, the auditor's opinion shall not refer to the corresponding figures except in the following circumstances:

- (a) If the auditor's report on the prior period, as previously issued, included a qualified opinion, a disclaimer of opinion, or an adverse opinion and the matter which gave rise to the modification is unresolved, the auditor shall modify the auditor's opinion on the current period's financial statements.
- (b) If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements on which an unmodified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.
- (c) If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements.

9.7.4. When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited.

9.7.5 When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph.

## 9.8. Other Information

*"Other information" is financial or non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report.*

9.8.1. The auditor shall determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s).

9.8.2. The auditor shall read the other information, and:

- (a) Consider whether there is a material inconsistency between the other information and the financial statements;
- (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit; and
- (c) ~~Respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and~~
- ~~(d) Report in accordance with this standard.~~
- (d) If the auditor obtained some or all of the other information at the date of the auditor's report, report in accordance with Table E below.

9.8.3. As the basis for the considerations in paragraph 9.8.2.(a), the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements. ~~The auditor shall also remain alert for indicators of apparent material misstatement in the remainder of the other information.~~

9.8.4 The auditor shall also remain alert for indications that the remainder of the other information, which is unrelated to the financial statements or the auditor's knowledge obtained in the audit, appears to be materially misstated.

*In evaluating the consistency of selected amounts or other items, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, or summarize, or to provide greater details about, the amounts or other items within the financial statements, with such amounts or other items in the financial statements.*

9.8.5. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether:

- (a) A material misstatement of the other information exists;
- (b) A material misstatement of the financial statements exists; or
- (c) The auditor's understanding of the entity and its environment needs to be updated.

9.8.6. If the auditor concludes, based on the audit evidence obtained, that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

- (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or
- (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made. ~~If the correction is still not made, the auditor shall consider the implications for the auditor's report or withdraw from the engagement where this is possible.~~

9.8.7 Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include an Other Information section.

9.8.8. The auditor shall document the procedures performed in relation to other information and the final version of the other information.

(the following table is new)

Table E: Paragraph or Section	Location	Heading shall include	Content shall include
9.8.9. Other Information Section	A separate section of the auditor's report	"Other Information" or other appropriate title	<ul style="list-style-type: none"> <li>(a) A statement that management is responsible for the other information;</li> <li>(b) An identification of the other information, if any, obtained by the auditor prior to the date of the auditor's report; and</li> <li>(c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express an audit opinion or any form of assurance conclusion thereon;</li> <li>(d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA for LCE; and</li> <li>(e) When other information has been obtained prior to the date of the auditor's report, either:</li> </ul>

			<p>(i) A statement that the auditor has nothing to report; or</p> <p>(ii) If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.</p>
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