

*Proposed Pronouncements on the Auditor's Report*

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ISA 700 (Revised), “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”

ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”

Amendment to ISA 210, “Terms of Audit Engagements”

Conforming Amendments



## CONTENTS

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	Page
Request for Comments .....	3
Explanatory Memorandum .....	5
Proposed Revised to ISA 700, “The Independent Auditor’s report on Financial Statements ....	7
Proposed Amendment to ISA 200, “Objective and General Principles Governing An Audit of Financial Statements” .....	21
Proposed Amendment to ISA 210, “Terms of Audit Engagements” .....	30
Proposed Conforming Amendments	
ISA 701, “Modifications to the Independent Auditor’s Report” .....	36
ISA 560, “Subsequent Events” .....	38
ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements” .....	43

## REQUEST FOR COMMENTS

This exposure draft of the International Auditing and Assurance Standards Board (IAASB) was approved for publication in December 2003. The proposed revised International Standard on Auditing (ISA) and related amendments to proposed to the other ISAs may be modified in the light of comments received before being issued final form.

Comments should be submitted so as to be received by **March 31, 2004**, preferably by e-mail or on a computer disk, or in writing. All comments will be considered a matter of public record. Comments should be addressed to:

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA

E-mail responses should be sent to: [Edcomments@ifac.org](mailto:Edcomments@ifac.org)

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## EXPLANATORY MEMORANDUM

This memorandum provides some background to, and an explanation of, the proposed revised International Standard on Auditing (ISA) 700, under a new title of “The Independent Auditor’s Report on General Purpose Financial Statements,” and related amendments to other ISAs approved for exposure by the International Auditing and Assurance Standards Board (IAASB).

### **Background**

Extant ISA 700, “The Auditor’s Report on Financial Statements,” was revised in 2001 to require identification in the auditor’s report of the country of origin of the financial reporting framework used to prepare the financial statements when the framework used is not International Financial Reporting Standards (IFRS). This revision, limited in its scope, nevertheless generated a number of responses during the exposure period dealing with other aspects of ISA 700 that commentators believed should be addressed. This valuable input, together with requests from key stakeholders – including practitioners, firms and regulators – for clearer guidance on the form and content of the auditor’s report, resulted in IAASB approving a project proposal in June 2002 for a comprehensive review of ISA 700.

### **Scope of the Exposure Draft**

The IAASB has taken a two-stage approach to the revision of ISA 700. This exposure draft proposes to split extant ISA 700 into two ISAs:

- Restricting the scope of the proposed revised ISA 700 to the auditor’s report when the auditor is able to express an unqualified opinion and no modification of the auditor’s report is necessary. The proposed revised ISA 700 is included in this exposure draft.
- Relocating the standards and guidance in extant ISA 700 on modified reports (paragraphs 29 to 46) to a new ISA 701, “Modifications to the Independent Auditor’s Report.” A project to comprehensively review this guidance is currently underway with an exposure draft expected early in 2005.

The proposed revised ISA 700 focuses on auditor’s reports on a complete set of general purpose financial statements. Auditor’s reports on a complete set of financial statements prepared for a special purpose are addressed in ISA 800, “The Auditor’s Report on Special Purpose Audit Engagements.” The exposure draft clarifies that auditor’s reports on a component of a complete set of either special purpose or general purpose financial statements are also addressed in ISA 800. ISA 800 provides guidance on any additional considerations related to engagement acceptance, conduct of the audit or reporting in such engagements. A project to review the standards and guidance in ISA 800 is currently under development.

The amendments proposed to ISA 701 and ISA 800 in this exposure draft are restricted only to conforming amendments that are necessary to relocate the paragraphs on modified reports to ISA 701, to make ISA 701 consistent with the proposed revised in ISA 700, and to clarify the scope of ISA 800.

As explained further in the summary of Significant Proposals below, this exposure draft also proposes amendments to ISA 200, “Objective and General Principles of an Audit of Financial Statements” and ISA 210, “Terms of Engagement,” and conforming amendments to ISA 560, “Subsequent Events.”

## **Significant Proposals**

### *Guidance on Forming the Auditor's Opinion at the Conclusion of the Audit*

The proposed revised ISA 700 introduces new guidance on the matters the auditor considers when forming the auditor's opinion on the financial statements as a whole at the conclusion of the audit. At present, the guidance in the ISAs focuses on circumstances when a modification to the auditor's report may be needed and is found in various ISAs. A new section in the proposed revised ISA 700 deals with matters the auditor needs to consider when reflecting, at the end of the audit process, on the fair presentation of the financial statements as a whole. The guidance recognizes the rare circumstances when specific requirements in the financial reporting framework may result in misleading information or additional disclosures are required. While the auditor's response to such circumstances will depend on how management has addressed the matter in the financial statements and how the financial reporting framework deals with these rare circumstances, ultimately, the auditor is guided by the auditor's ethical responsibilities and needs to be satisfied that the information conveyed in the financial statements together with the auditor's report is not misleading.

### *The Applicable Financial Reporting Framework*

Paragraph 3 in extant ISA 700 refers to the need for the auditor to consider whether the financial statements have been prepared in accordance with an "acceptable" financial reporting framework, but does not provide any guidance on how the auditor assesses the "acceptability" of the framework. ISA 315, "Obtaining an Understanding of the Entity and Its Environment and Assessing the Risks of Material Misstatement" recently approved by the IAASB also introduced the concept of the "applicable" financial reporting framework. This exposure draft proposes amendments to ISA 200 and ISA 210 that clarify the auditor's responsibilities with respect to management's identification of an applicable financial reporting framework and fills the gap in the ISAs on how the auditor assesses whether those frameworks are "acceptable." This guidance recognizes that applicable financial reporting frameworks differ depending on the nature of the entity (for example, profit-oriented, not-for-profit, governments) and the objective of the financial statements (general purpose or designed for a special purpose). The revisions propose to introduce the principle that the auditor should not accept an engagement for an audit of financial statements when the auditor concludes that the financial reporting framework identified by management is not acceptable.

### *Supplementary Information Included With the Financial Statements*

Proposed revised ISA 700 also introduces new guidance on the auditor's responsibilities with respect to supplementary information included with the financial statements that is not required by the financial reporting framework. Such supplementary information may or may not be an integral part of the financial statements covered by the auditor's opinion. One of the circumstances addressed in International Auditing Practice Statement (IAPS) 1014, "Reporting by Auditors on Compliance With International Financial Reporting Standards" is when, in the notes to the financial statements, an entity discloses the extent to which financial statements that have been prepared in accordance with a national financial reporting framework also comply with IFRS. Such supplementary information, by its nature, is so interrelated to the financial statements that the exposure draft proposes it is covered by the auditor's opinion. If, however, supplementary information is not intended to be covered by the auditor's opinion, the exposure

## EXPLANATORY MEMORANDUM

draft proposes that the auditor needs to be satisfied that the supplementary information is clearly differentiated from the financial statements.

### *Date of the Auditor's Report*

The proposed revised ISA 700 and conforming amendments to ISA 560 clarify the date of the auditor's report. It is proposed that this date be based on the date when the auditor has sufficient appropriate audit evidence to support the audit opinion. Frequently, this is the same date as the date of approval of the financial statements, but it could be later. The exposure draft also proposes definitions of the date of the financial statements and the dates when the financial statements are considered to be approved and issued.

### *Conducting the Audit in Accordance With ISAs and National Standards*

The proposed amendments to ISA 200 and the revised ISA 700 clarify the auditor's performance and reporting responsibilities when the auditor has conducted the audit in accordance with both ISAs and relevant national auditing standards. Whenever possible, it is useful to have consistent content, layout and wording in the auditor's reports of audits conducted in accordance with ISAs so that the reports are readily identifiable. The proposals recognize, however, that the auditor might be required to follow national reporting requirements and flexibility is allowed for these circumstances. However, if the auditor refers in the auditor's report to the audit having been conducted in accordance with ISAs, the auditor needs to ensure that:

- The auditor's report includes all of the elements that proposed revised ISA 700 requires to be included.
- The opinion expressed in the auditor's report is the opinion that the auditor would have had if reporting in compliance with the ISAs alone.

### *Other Reporting Responsibilities*

If the auditor has reporting responsibilities in addition to the obligation to express an opinion on the financial statements and is required or permitted to report on them in the auditor's report, new guidance in the proposed revised ISA 700 clarifies that those responsibilities need to be clearly identified and distinguished, preferably in a separate section of the auditor's report.

### *Wording of the Auditor's Report*

In addition to new and revised guidance on the matters above, the exposure draft proposes changes to the wording of the auditor's report. While the IAASB's consideration of the auditor's report did not entail a fundamental reconsideration of the role and approach to reporting, the IAASB did review existing auditor's report wording in other jurisdictions, as well as the new Audit Risk Standards recently approved by the IAASB, with a view to expanding and updating the wording of the auditor's report to enhance understanding of the auditor's role and the auditor's report. The proposed new wording for the auditor's report includes:

- Better explanations of the respective responsibilities of management and the auditor.
- An updated description of the audit process to reflect the new Audit Risk Standards.
- Clarification of the scope of the auditor's responsibilities with respect to internal control.

## **Presentation of Proposed Revised ISA 700 and Related Amendments to Other ISAs in the Exposure Draft**

Since the proposed revised ISA 700 are extensive, ISA 700 has been presented as a proposed new ISA. However, the conforming amendments to ISA 701, ISA 560 and ISA 800, as well as the proposed amendments to ISA 200 and ISA 210, have been presented in mark-up format to show the proposed revisions to them.

The IAASB intends to conform the wording of other illustrative reports in the ISAs (for example, the illustrative auditor's reports in ISA 710, "Comparatives") to the proposed new auditor's report wording once the proposed revised ISA 700 have been finalized.

## **Special Considerations in the Audit of Small Entities**

Based on the IAASB's decision to include special considerations in the audit of small entities in the body of ISAs, paragraph 102 to 104 of IAPS 1005, "The Special Considerations in the Audit of Small Entities," which deal with modified auditor's reports, will be considered in the revision of ISA 701.

Paragraph 105 of IAPS 1005, which deals with the date and signature of the auditor's report will be withdrawn when ISA 700 and the related amendments to other ISAs become effective.

## **Commentators Guide and Consideration of Specific Issues**

The IAASB welcomes comments on the proposed revised ISA 700 and the related amendments to other ISAs. In responding to the proposed pronouncements, commentators are requested to refer to the specific pronouncement and the relevant paragraphs within the pronouncements. The responses should include the reasons for the comments, including specific suggestions for any proposed changes to wording.

The IAASB is seeking comments on all matters addressed in the exposure drafts. In addition, the IAASB is interested in comments on matters discussed in the Explanatory Memorandum.

**PROPOSED REVISED INTERNATIONAL STANDARD ON AUDITING 700**  
**THE INDEPENDENT AUDITOR’S**  
**REPORT ON FINANCIAL STATEMENTS**  
**CONTENTS**

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	Paragraphs
Introduction .....	1-4
Auditor’s Opinion on Financial Statements .....	5-6
Applicable Financial Reporting Framework .....	7
Forming the Opinion on the Financial Statements .....	8-12
Elements of the Auditor’s Report in an Audit Conducted in Accordance With ISAs .....	13-14
Title .....	15-16
Addressee .....	17-18
Introductory Paragraph .....	19-24
Management’s Responsibility for the Financial Statements .....	25-27
Auditor’s Responsibility .....	28-34
Auditor’s Opinion .....	35-39
Other Reporting Responsibilities .....	40-43
Date of Report .....	44-47
Auditor’s Address .....	48
Auditor’s Signature .....	49-50
Auditor’s Report .....	51
Auditor’s Report for Audits Conducted in Accordance With Both ISAs and National Auditing Standards .....	52-57
Unaudited Supplementary Information Presented With Audited Financial Statements .....	58-62
Effective Date	

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International Standards on Auditing (ISAs) 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.



## **Introduction**

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the independent auditor's report issued as a result of an audit of a complete set of general purpose financial statements prepared in accordance with an applicable financial reporting framework (as described in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements"). It also provides guidance on the matters the auditor considers in forming an opinion on those financial statements.
2. ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" establishes standards and guidance on the form and content of the auditor's report issued as a result of an audit of:
  - (a) A complete set of financial statements prepared in accordance with a financial reporting framework that is designed for a special purpose, referred to as an other comprehensive basis of accounting;
  - (b) A component of a complete set of financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
  - (c) Compliance with contractual agreements; and
  - (d) Summarized financial statements.
3. This ISA addresses circumstances when the auditor is able to express an unqualified opinion and no modification to the auditor's report is necessary. ISA 701, "Modifications to the Independent Auditor's Report" establishes standards and guidance on the modifications to this report for an emphasis of matter, a qualified opinion, a disclaimer of opinion, or an adverse opinion.
4. **The auditor should evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial statements.**

## **The Auditor's Opinion on Financial Statements**

5. As stated in ISA 200, the objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with a financial reporting framework.
6. The terms used to express the auditor's opinion on an audit of a complete set of general purpose financial statements (for purposes of this ISA referred to as financial statements) are "give a true and fair view" or "presents fairly, in all material respects" and are equivalent. Which of these phrases the auditor uses will be determined by the law or regulations governing the audit of financial statements in that jurisdiction, or by established practice in that jurisdiction as reflected, for example, in national auditing standards.

### *Applicable Financial Reporting Framework*

7. The auditor's judgment regarding whether the financial statements give a true and fair view of (or are presented fairly, in all material respects) is made in the context of the applicable financial reporting framework. As discussed in ISA 210, "Terms of Audit Engagements," without an acceptable framework, the auditor does not have suitable criteria for evaluating

the entity's financial statements. ISA 200 describes what constitutes an applicable financial reporting framework for general purpose financial statements.

*Forming the Opinion on the Financial Statements*

8. In forming the opinion, the auditor considers all audit evidence obtained and evaluates whether, based on that evidence, the auditor has obtained reasonable assurance that the financial statements taken as a whole are free from material misstatement. The auditor considers the sufficiency and appropriateness of audit evidence obtained, and evaluates the effects of misstatements identified.
9. The auditor considers whether, in the auditor's judgment:
  - (a) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate in the circumstances;
  - (b) The information presented in the financial statements, including accounting policies, is relevant, reliable, comparable and understandable;
  - (c) The financial statements reflect the underlying transactions and events in a manner that fairly presents the financial information in accordance with the applicable financial reporting framework; and
  - (d) The financial statements provide sufficient disclosures to enable users to understand the impact of particular transactions or events that have a material effect on, in the case of financial statements prepared in accordance with IFRS, for example, the entity's financial position, financial performance and cash flows.
10. The auditor makes these judgments by considering the entity's compliance with specific requirements of the financial reporting framework and the fair presentation of the financial statements as a whole. In some circumstances, failure to disclose relevant information not specifically contemplated by the financial reporting framework, or in extremely rare circumstances, compliance with a specific requirement in the framework itself, may result in financial statements that are so misleading that they fail to give a true and fair view of (or present fairly, in all material respects) for example, in the case of financial statements prepared in accordance with International Financial Reporting Standards (IFRS), the financial position, financial performance or cash flows of the entity. In these circumstances, the auditor discusses with management its responsibilities under the financial reporting framework. Some financial reporting frameworks acknowledge that there may be circumstances when it is necessary for the financial statements to disclose information not specifically contemplated by the financial reporting framework, or extremely rare circumstances when it is necessary for the financial statements to depart from a specific requirement in the framework in order to achieve the objective of fair presentation of the financial statements. Those financial reporting frameworks often provide guidance on the disclosures required in such circumstances. Other financial reporting frameworks, however, may not provide any guidance on these circumstances.
11. The auditor considers the need to modify the auditor's report, which will depend on how management has addressed the matter in the financial statements and how the financial reporting framework deals with these rare circumstances. Ultimately, the auditor is guided by the ethical responsibility to avoid being associated with information where the auditor

believes that the information contains a materially false or misleading statement, or omits or obscures information required to be included where such omission or obscurity would be misleading.<sup>1</sup> Accordingly, in making a final judgment on the matter, the auditor needs to be satisfied that the information conveyed to readers in the financial statements together with the auditor's report is not misleading.

12. **The auditor's report should be in writing and should contain a clear expression of the auditor's opinion on the financial statements.**

**Elements of the Auditor's Report in an Audit Conducted in Accordance With ISAs<sup>2</sup>**

13. The auditor's report when the audit has been conducted in accordance with the ISAs includes the following elements:
- (a) Title;
  - (b) Addressee;
  - (c) Introductory paragraph that identifies the financial statements audited;
  - (d) A description of management's responsibility for the preparation and the fair presentation of the financial statements;
  - (e) A description of the auditor's responsibility to express an opinion on the financial statements and the scope of the audit, which includes:
    - (i) A reference to the ISAs, and
    - (ii) A description of the work an auditor performs in an audit.
  - (f) An opinion paragraph containing an expression of opinion on the financial statements<sup>3</sup> and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin<sup>4</sup> of the financial reporting framework when IFRS or International Public Sector Accounting Standards (IPSAS) are not used);
  - (g) Where relevant, reporting on any other reporting responsibilities in addition to the responsibility to report on the financial statements;
  - (h) Date of the report;
  - (i) Auditor's signature; and
  - (j) Auditor's address.

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<sup>1</sup> See paragraph 2.2 in Section 2 of the "Proposed Revised Code of Ethics for Professional Accountants" July 2003 Exposure Draft.

<sup>2</sup> Paragraphs 52-57 address the auditor's report when the audit has been conducted in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction.

<sup>3</sup> Circumstances when the auditor needs to modify the auditor's opinion are addressed in ISA 701, "Modifications to the Independent Auditor's Report." In some circumstances, the auditor may not be able to express an opinion on the financial statements because the effect of a limitation on the scope of the audit is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence. In such circumstances, the auditor expresses a disclaimer of opinion.

<sup>4</sup> In some circumstances it also may be necessary to refer to a particular jurisdiction within the country of origin to identify clearly the financial reporting framework used.

14. Consistency in the content (*i.e.*, the elements), the layout and the wording of the auditor’s report when the audit has been conducted in accordance with the ISAs promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the reader’s understanding and to identify unusual circumstances when they occur. It is important, therefore, that the auditor’s report contain all of the elements identified in paragraph 13 and described more fully in the remainder of this ISA.

*Title*

15. **The auditor’s report should have a title that clearly indicates that it is the report of an independent auditor.**
16. A title indicating the report is the report of an independent auditor, for example, “Independent Auditor’s Report,” affirms that the auditor has met all of the ethical requirements, including that of independence and, therefore, distinguishes the auditor’s report from reports issued by others.

*Addressee*

17. **The auditor’s report should be addressed as required by the circumstances of the engagement.**
18. The auditor’s report is addressed to those for whom the report is prepared. National laws or regulations often specify to whom the auditor’s report on general purpose financial statements should be addressed in that particular jurisdiction. Ordinarily, the auditor’s report on general purpose financial statements is addressed either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

*Introductory Paragraph*

19. **The introductory paragraph in the auditor’s report should identify the entity whose financial statements have been audited and should state that the financial statements have been audited. The report should specifically identify the title of each of the financial statements that comprise the complete set of general purpose financial statements, the date and period covered by those financial statements, and refer to the related notes.**
20. This requirement is ordinarily met by stating that the auditor has audited the accompanying financial statements of the entity, which comprise [state the titles of the financial statements required by the applicable financial reporting framework] and the related notes. When the auditor is aware that the financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider identifying the page numbers on which the financial statements are presented, as this helps readers to distinguish the financial statements to which the auditor’s report relate from unaudited information contained in the document.
21. The auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. In the case of financial statements prepared in accordance with IFRS, this includes: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies

and related notes. In some jurisdictions additional information might also be considered to be an integral part of the financial statements.

22. In some circumstances, the entity may be required by law or regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes. The auditor's opinion may or may not cover the supplementary information and it is therefore important for the auditor to be satisfied that any supplementary information that is not covered by the auditor's opinion is clearly differentiated, as discussed in paragraphs 58-62.
23. Certain supplementary information, by its nature or how it is presented, would be considered by a reasonable user to be an integral part of the entity's financial statements and, therefore, if presented by the entity, that information is considered to be covered by the auditor's opinion. For example, notes or supplementary schedules that are cross-referenced from the financial statements are portrayed as being an integral part of the financial statements and are covered by the auditor's opinion. Equally, the nature of the subject matter may be such that it is so interrelated to the entity's financial statement presentation that it is covered by the auditor's opinion because it is not possible to differentiate it sufficiently from the audited financial statements. This would be the case, for example, when the notes to the financial statements include an explanation of the extent to which the financial statements comply with another financial reporting framework.
24. Supplementary information that is presented as an integral part of the financial statements does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the components of the financial statements in the introductory paragraph is sufficient.

*Management's Responsibility for the Financial Statements*

25. **The auditor's report should state that management is responsible for the preparation and the fair presentation of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes:**
  - (a) **Maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;**
  - (b) **Selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework; and**
  - (c) **Making accounting estimates that are reasonable in the circumstances.**
26. Financial statements are the representations of management. Management is responsible for the preparation and the presentation of the financial statements in accordance with the applicable financial reporting framework. For example, in the case of financial statements prepared in accordance with IFRS, management is responsible for preparing financial statements that fairly present the financial position, financial performance and cash flows of the entity in accordance with IFRS. In order to fulfill this responsibility, management

designs and implements internal control to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity's financial reporting. The preparation of the financial statements requires management to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgments will be made in the context of the applicable financial reporting framework.

27. The term management has been used in this ISA to describe those responsible for the preparation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction. For example, in some jurisdictions, the appropriate reference may be to those charged with governance (for example, the directors), rather than to management.

*Auditor's Responsibility*

28. **The auditor's report should include a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.**
29. The auditor's report states that the auditor's responsibility is to express an opinion on the financial statements based on the audit in order to contrast it to management's responsibility for the preparation and the fair presentation of the financial statements.
30. **The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs and explain that those standards require that the auditor plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement, whether due to fraud or error.**
31. The term "scope of an audit" refers to the audit procedures deemed appropriate in the circumstances, in the auditor's judgment, to achieve the objective of an audit. The reference to the standards used conveys to the reader that the audit has been conducted in accordance with established standards.
32. ISA 200 specifies what is required in order to conduct an audit in accordance with the ISAs. Paragraph 14 in that ISA explains that the auditor cannot describe the audit as being conducted in accordance with the ISAs unless the auditor has complied fully with all of the ISAs relevant to the audit.
33. **The auditor's report should describe an audit by stating that:**
- (a) **An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;**
  - (b) **The audit procedures selected depend on the auditor's assessment of the risks of material misstatement in the financial statements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements as a basis for designing audit procedures**

**that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control,<sup>5</sup> and**

**(c) An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of significant accounting estimates made by management, as well as the overall financial statement presentation and disclosures.**

**34. The auditor's report should include a statement that the auditor believes that the audit evidence that the auditor has obtained is sufficient and appropriate to provide a reasonable basis for the auditor's opinion on the financial statements.**

*Auditor's Opinion*

**35. An unqualified opinion should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with the applicable financial reporting framework.**

36. An unqualified opinion indicates implicitly that any changes in accounting policies or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

**37. The opinion paragraph of the auditor's report, when an unqualified opinion is appropriate in the circumstances, should state the auditor's opinion that the financial statements give a true and fair view (or present fairly, in all material respects) in accordance with the applicable financial reporting framework. The opinion should identify the country of origin of the financial reporting framework when International Financial Reporting Standards or International Public Sector Accounting Standards are not used.**

38. The wording of the auditor's opinion depends on the financial reporting framework. For example, in the case of financial statements prepared in accordance with IFRS, the auditor expresses an opinion that the financial statements give a true and fair view of (or are presented fairly, in all material respects) the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended. To advise the reader of the context in which the auditor's opinion is expressed, the auditor's opinion identifies the applicable financial reporting framework upon which the financial statements are based. When the applicable financial reporting framework is not IFRS or IPSAS, the auditor's opinion also identifies the country of origin for the applicable financial reporting framework. The auditor identifies the applicable financial reporting framework in such terms as:

- "... in accordance with International Financial Reporting Standards" or
- "... in accordance with accounting principles generally accepted in Country X ..."

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<sup>5</sup> In some jurisdictions, the auditor may have a responsibility to perform both an audit of the financial statements and an audit of the effectiveness of the entity's internal control. In such circumstances, the auditor reports on the responsibility to report on internal control as required in that jurisdiction. The reference in the auditor's report on the financial statements to the fact that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control may not be appropriate in such circumstances.

39. When the applicable financial reporting framework encompasses legal and regulatory requirements, the auditor identifies the applicable financial reporting framework in such terms as:

“... in accordance with International Financial Reporting Standards and the requirements of Country X Corporations Act.”

*Other Reporting Responsibilities*

40. The auditor may also have a responsibility to report on other matters in addition to the auditor’s responsibility to express an opinion on the financial statements. For example, the auditor may be asked to report certain matters if they come to the auditor’s attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified auditing procedures, or to express an opinion on specific matters. National auditing standards often provide guidance on the auditor’s responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.
41. In some cases, the relevant standards or laws may require or permit the auditor to report on these other responsibilities within the auditor’s report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.
42. **When the auditor addresses other reporting responsibilities within the auditor’s report on the financial statements, these other reporting responsibilities should be clearly identified and distinguished from the auditor’s responsibilities for, and opinion on, the financial statements.**
43. This is ordinarily achieved by addressing the other reporting responsibilities in a separate section of the report that follows the opinion paragraph, and when applicable, any emphasis of matter paragraph on the financial statements.

*Date of Report*

44. **The auditor should date the report as of the date on which the auditor has obtained sufficient appropriate audit evidence to support the auditor’s opinion.**
45. The date of the auditor’s report indicates the date of the completion of the audit, which is the date on which the auditor has obtained sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion. The auditor may not yet have fulfilled all responsibilities related to the audit, for example, the auditor may not yet have had an opportunity to communicate the audit matters of governance interest that arose from the audit to those charged with governance. However, the auditor has completed the work necessary to support the auditor’s opinion on the financial statements. It is important that the auditor’s report include this date because it informs the reader that the auditor has considered the effect on the financial statements and on the report of events and transactions of which the auditor became aware and that occurred up to that date. In some jurisdictions, law or regulation may prescribe when the audit is considered to be completed. In such circumstances, the auditor uses this date as the date of the auditor’s report.
46. **Since the auditor’s responsibility is to report on the financial statements as prepared and presented by management, the auditor should not date the report earlier than the date of approval of the financial statements.**



## THE INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

47. ISA 560, "Subsequent Events" defines the date of approval of the financial statements and how it relates to other important dates that influence the auditor's responsibilities regarding subsequent events.

### *Auditor's Signature*

48. **The auditor's report should be signed.**

49. 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 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.

### *Auditor's Address*

50. **The report should name a specific location, ordinarily a city, in the jurisdiction where the auditor practices.**

### **Auditor's Report**

51. The following is an illustration of the auditor's report incorporating the elements set forth above for an audit of financial statements prepared in accordance with IFRS expressing an unqualified opinion. In addition to the audit of the financial statements, the illustration assumes that the auditor has other reporting responsibilities required under local law.

## INDEPENDENT AUDITOR'S REPORT

*[Appropriate Addressee]*

### **Report on the Financial Statements<sup>6</sup>**

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and the related notes.

### *Management's Responsibility*

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies that are consistent with IFRS; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on

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<sup>6</sup> The subheading "Report on the Financial Statements" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

Auditing. Those standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance whether the financial statements are free from material misstatement, whether due to fraud or error.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of material misstatement of the financial statements. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion on the financial statements.

#### *Opinion*

In our opinion, the financial statements give a true and fair view of (*or "present fairly, in all material respects"*) the financial position of ABC Company as of December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### **Report on Other Legal and Regulatory Requirements**

*[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]*

*[Date of the auditor's report]*

*[Auditor's signature]*

*[Auditor's address]*

#### **Auditor's Report for Audits Conducted in Accordance With Both ISAs and National Auditing Standards**

52. The auditor may conduct the audit in accordance with both the ISAs and national auditing standards applicable in a particular jurisdiction. In such circumstances, the auditor complies with each of the ISAs relevant to the audit and performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction.
53. **The auditor's report should only refer to the audit having been conducted in accordance with ISAs when the auditor has complied fully with all of the ISAs relevant to the audit.**
54. A reference to both the ISAs and national auditing standards is not appropriate if there is a conflict between the reporting requirements of the ISAs and national auditing standards that affects the auditor's opinion or the need to include an emphasis of matter paragraph in the particular circumstances. For example, some national auditing standards prohibit the auditor

from including an emphasis of matter paragraph to highlight a going concern problem, whereas ISA 701, requires the auditor to modify the auditor's report by adding an emphasis of matter paragraph in such circumstances. In case of such conflicts, the auditor's report refers only to the auditing standards (either ISAs or the relevant national auditing standards) in accordance with which the auditor has complied with the reporting requirements.

55. **When the auditor's report refers to both ISAs and national auditing standards, the auditor's report should identify the country of origin of the national auditing standards.**
56. **When the auditor prepares the auditor's report using the layout or wording specified by the law, regulation or national auditing standards, the auditor's report should refer to the audit being conducted in accordance with both ISAs and the national auditing standards only if the auditor's report includes, as a minimum, each of the elements identified in paragraph 13.**
57. The auditor may be obliged by national law or regulation to use a layout or wording in the auditor's report that differs from that described in this ISA. When the differences relate to the layout and wording of the auditor's report only, the auditor will be considered to have complied with the reporting requirements of the ISAs provided that the auditor's report includes, at a minimum, each of the elements identified in paragraph 13 – even if using the layout and wording specified by national laws or regulations. In the absence of specific requirements in a particular jurisdiction that conflict with ISAs, the auditor adopts the layout and wording used in this ISA so that users can more readily recognize the auditor's report as a report on an audit conducted in accordance with ISAs.

#### **Unaudited Supplementary Information Presented With Audited Financial Statements**

58. **The auditor should be satisfied that any supplementary information presented together with the financial statements that is not covered by the auditor's opinion is clearly differentiated from the audited financial statements.**
59. As noted in paragraph 22, the entity may be required to, or management may choose to, include supplementary information that is not covered by the auditor's opinion together with the financial statements. In such circumstances, the auditor considers whether that unaudited information is presented in a manner that could be construed as being covered by the auditor's opinion and, if so, asks management to change how the information is presented. The auditor considers, for example, where the unaudited information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited." The auditor asks management to remove any cross references from the financial statements to unaudited supplementary schedules or related notes because the demarcation between the audited and unaudited information would not be sufficiently clear. Unaudited notes that are intermingled with the audited notes can also be misinterpreted as being audited. Therefore, the auditor asks the entity to place the unaudited information outside of the set of financial statements, or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial statements and clearly label them as unaudited.

60. As noted in paragraph 20, identifying the page numbers on which the audited financial statements are presented in the auditor's report may help to differentiate the financial statements from other information not covered by the auditor's opinion.
61. **If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial statements, the auditor should include a disclaimer of opinion in the auditor's report with respect to that information.**
62. The fact that supplementary information is unaudited does not relieve the auditor of the responsibility to read that information to identify material inconsistencies with the audited financial statements. The auditor's responsibilities with respect to unaudited supplementary information are consistent with those described in ISA 720, "Other Information in Documents Containing Audited Financial Statements."

#### **Effective Date**

63. This ISA is effective for auditor's reports dated on or after December 31, 2005. Early application of this ISA is permissible.

#### **Public Sector Perspective**

*[A revised Public Sector Perspective will be prepared by the IFAC Public Sector Committee.]*

**PROPOSED AMENDMENT TO INTERNATIONAL STANDARD ON AUDITING 200**  
**OBJECTIVE AND GENERAL PRINCIPLES**  
**GOVERNING AN AUDIT OF FINANCIAL STATEMENTS**  
**CONTENTS**

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	Paragraph
Introduction .....	1
Objective of an Audit .....	2-3
General Principles of an Audit .....	4-9
Ethical Requirements .....	4-5
Conduct of an Audit .....	6-9
Scope of an Audit .....	10-14
Professional Skepticism .....	15-16
Reasonable Assurance .....	17-21
Audit Risk and Materiality .....	22-32
Responsibility for the Financial Statements .....	33-35
Applicable Financial Reporting Framework .....	36-46
Expressing an Opinion on the Financial Statements .....	47-49
Effective Date .....	50

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International Standards on Auditing (ISAs) 200, “Objective and General Principles Governing an Audit of Financial Statements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

## Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the objective and general principles governing an audit of financial statements. It also describes management’s responsibility for the preparation and the fair presentation of the financial statements and for identifying the financial reporting framework to be used in preparing the financial statements, referred to in the ISAs as the “applicable financial reporting framework.” This ISA is to be read in conjunction with ISA 120, “Framework of International Standards on Auditing.”

## Objective of an Audit

2. **The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.** The phrases used to express the auditor’s opinion are “give a true and fair view” or “present fairly, in all material respects,” which are equivalent terms.
3. An audit of financial statements is an assurance engagement, as defined in the International Framework for Assurance Engagements. An “assurance engagement” means an engagement in which a practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the evaluation or measurement of a subject matter against criteria. As discussed in the Framework, a condition for acceptance of an assurance engagement is that the criteria referred to in the definition be “suitable criteria.” This is further discussed in this ISA under Applicable Financial Reporting Framework in paragraphs 36-46.
- ~~3. Although the auditor’s opinion enhances the credibility of the financial statements, the user cannot assume that the audit opinion is an assurance as to the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.~~

## General Principles of an Audit

### *Ethical Requirements*

4. **The auditor should comply with the relevant ethical requirements relating to audit engagements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants issued by the International Federation of Accountants together with applicable national requirements where these are more restrictive.** Ethical principles governing the auditor’s professional responsibilities are:
  - (a) Independence;
  - (b) Integrity;
  - (c) Objectivity;
  - (d) Professional competence and due care;
  - (e) Confidentiality;
  - (f) Professional behavior; and
  - (g) Technical standards.

5. ISA 220, “Quality Control for Audit Engagements”<sup>1</sup> identifies the fundamental principles of professional ethics established by Parts A and B of the IFAC Code and sets out the engagement partner’s responsibilities with respect to ethical requirements. Although ISA 220 is directed towards the engagement partner and the engagement team, it recognizes that the engagement team relies on a firm’s systems in meeting its responsibilities with respect to quality control procedures applicable to the individual audit engagement. Accordingly, International Standard on Quality Control 1, “Quality Control for Audit, Assurance and Related Services Practices”, requires the firm to establish policies and procedures designed to provide it with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

Conduct of an Audit

- ~~56. The auditor should conduct an audit in accordance with ISAs. These contain basic principles and essential procedures together with related guidance in the form of explanatory and other material.~~
- ~~6. The auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. An attitude of professional skepticism means the auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents or management representations. For example, an attitude of professional skepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances, of overgeneralizing when drawing conclusions from audit observations, and of using faulty assumptions in determining the nature, timing, and extent of the audit procedures and evaluating the results thereof. In planning and performing an audit, the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.~~
7. ISAs contain basic principles and essential procedures together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of explanatory and other material that provide guidance for their application. The text of a whole Standard is considered in order to understand and apply the basic principles and essential procedures.
8. In conducting an audit in accordance with ISAs, the auditor is also aware of and considers IAPSs applicable to the audit engagement. IAPSs provide interpretive guidance and practical assistance to auditors in implementing ISAs. An auditor who does not apply the guidance included in a relevant IAPS needs to be prepared to explain how the basic principles and essential procedures in the Standard addressed by the IAPS have been complied with.

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<sup>1</sup> The IAASB is currently analyzing responses received to the Exposure Draft, “Quality Control,” which includes proposed revisions to ISA 220, “Quality Control for Audit Engagements” and new International Standard on Quality Control (ISQC) 1, “Quality Control for Audit, Assurance and Related Services Practices.” This wording will be conformed to the final ISA and ISQC when approved by the IAASB.

9. The auditor may also conduct the audit in accordance with both ISAs and national auditing standards applicable in a particular jurisdiction.

### Scope of an Audit

710. The term “scope of an audit” refers to the audit procedures deemed appropriate necessary in the circumstances, in the auditor’s judgment, to achieve the objective of the audit. ~~The audit procedures required to conduct an audit in accordance with ISAs should be determined by the auditor having regard to the requirements of ISAs, relevant professional bodies, legislation, regulations and, where appropriate, the terms of the audit engagement and reporting requirements.~~

11. In determining the audit procedures to be performed in conducting an audit in accordance with ISAs, the auditor should comply with each of the ISAs relevant to the audit.
12. Auditors may have a number of professional and legal requirements with which they must comply, in addition to the ISAs. The ISAs do not override the local laws and regulations that govern an audit of financial statements. In the event that those laws and regulations differ from the ISAs, an audit conducted in accordance with the local laws and regulations will not automatically comply with ISAs.
13. When the auditor is conducting the audit in accordance with auditing standards of a particular jurisdiction as well as ISAs, in addition to complying with ISAs the auditor also performs any additional audit procedures necessary to comply with the relevant standards of that jurisdiction.
14. The auditor should not represent compliance with ISAs unless the auditor has complied fully with all of the ISAs relevant to the audit.

### Professional Skepticism

15. The auditor should plan and perform an audit with an attitude of professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated.
16. An attitude of professional skepticism means the auditor makes a critical assessment, with a questioning mind, of the validity of audit evidence obtained and is alert to audit evidence that contradicts or brings into question the reliability of documents or management representations. For example, an attitude of professional skepticism is necessary throughout the audit process for the auditor to reduce the risk of overlooking suspicious circumstances, of over generalizing when drawing conclusions from audit observations, and of using faulty assumptions in determining the nature, timing and extent of the audit procedures and evaluating the results thereof. In planning and performing an audit, the auditor neither assumes that management is dishonest nor assumes unquestioned honesty. Accordingly, representations from management are not a substitute for obtaining sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the opinion on the financial statements.



### Reasonable Assurance

§17. An audit in accordance with ISAs is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement. Reasonable assurance is a concept relating to the accumulation of the audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole. Reasonable assurance relates to the whole audit process.

918. An auditor ~~cannot~~ obtains reasonable but not absolute assurance because there are inherent limitations in an audit that affect the auditor's ability to detect material misstatements. These limitations result from factors such as the following:

- The use of testing.
- The inherent limitations of internal control (for example, the possibility of management override or collusion).
- The fact that most audit evidence is persuasive rather than conclusive.

19. Also, the work undertaken by the auditor to form an audit opinion is permeated by judgment, in particular regarding:

- (a) The gathering of audit evidence, for example, in deciding the nature, timing, and extent of audit procedures; and
- (b) The drawing of conclusions based on the audit evidence gathered, for example, assessing the reasonableness of the estimates made by management in preparing the financial statements.

20. Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions<sup>2</sup> (for example, transactions between related parties). In these cases certain ISAs identify specified audit procedures which will, because of the nature of the particular assertions, provide sufficient appropriate audit evidence in the absence of:

- (a) Unusual circumstances which increase the risk of material misstatement beyond that which would ordinarily be expected; or
- (b) Any indication that a material misstatement has occurred.

21. Accordingly, because of the factors described above, an audit is not a guarantee that the financial statements are free ~~from~~ of material misstatement, because absolute assurance is not attainable. Further, an audit opinion does not assure the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity.

### Audit Risk and Materiality

*[Wording of paragraphs 13-23 unchanged from extant ISA 200, however, these paragraphs will be renumbered as paragraphs 22-32.]*

### Responsibility for the Financial Statements

233. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for the preparation and the fair presentation of ~~preparing and~~

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<sup>2</sup> Paragraphs 15-18 of ISA 500, "Audit Evidence," discuss the use of assertions in obtaining audit evidence.

~~presenting~~ the financial statements in accordance with the applicable financial reporting framework is that of the management<sup>3</sup> of the entity, with oversight from those charged with governance.<sup>4</sup> The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

34. The term “financial statements” refers to a presentation of financial data, including accompanying notes, derived from accounting records and intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can refer to a complete set of financial statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes.
35. Management’s responsibility with respect to the financial statements includes identifying the “applicable financial reporting framework.” It also includes, among other matters:
- Maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
  - Selecting and applying appropriate accounting policies that are consistent with the applicable financial reporting framework; and
  - Making accounting estimates that are reasonable in the circumstances.

### **Applicable Financial Reporting Framework**

36. An applicable financial reporting framework is a framework identified by management that is acceptable in view of the nature of the entity (for example, whether it is a business enterprise or a not-for-profit organization) and the objective of the financial statements.
37. **The auditor should determine whether the financial reporting framework identified by management is acceptable.**
38. In some cases, the objective of the financial statements will be to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in these circumstances. Examples of financial reporting frameworks that address the needs of specific users are: a tax basis of accounting for a set of financial statements that accompany an entity’s tax return; the financial reporting provisions of a government regulatory agency for a set of financial statements to meet the information needs of that agency; or a financial reporting framework established by the provisions of an agreement specifying the financial statements to be prepared.
39. Many users of financial statements are not in a position to demand financial statements tailored to meet their specific information needs. While all the information needs of specific users cannot be met, there are financial information needs that are common to a wide range

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<sup>3</sup> The term “management” has been used in this ISA to describe those responsible for the preparation and presentation of the financial statements. Other terms may be appropriate depending on the legal framework in the particular jurisdiction.

<sup>4</sup> The structures of governance vary from country to country reflecting cultural and legal backgrounds. Therefore, the respective responsibilities of management and those charged with governance vary depending on the legal responsibilities in the particular jurisdiction.

## OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENT

of users. Financial statements prepared in accordance with financial reporting frameworks that are designed to meet the common information needs of a wide range of users are referred to as “general purpose financial statements.”

40. Management may prepare more than one set of financial statements to meet the needs of different users.
41. Financial reporting frameworks established by international or national standards setting organizations that are authorized or recognized to promulgate standards to be used by certain types of entities are presumed to be acceptable for general purpose financial statements prepared by such entities provided the standards setting organizations follow an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders. Examples of such financial reporting frameworks include:
- International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board;
  - International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants – Public Sector Committee;
  - Generally accepted accounting principles promulgated by a recognized standards setter in a particular jurisdiction.

These financial reporting frameworks are often identified as the applicable financial reporting framework in legislative and regulatory requirements governing the preparation of financial statements.

42. In some jurisdictions, legislative and regulatory requirements also supplement the identified applicable financial reporting framework with additional requirements relating to the preparation and presentation of financial statements. In these jurisdictions, the applicable financial reporting framework encompasses both the identified financial reporting framework and such additional requirements.
43. The requirements of the financial reporting framework determine the form and content of the financial statements and what constitutes a complete set of financial statements. For certain financial reporting frameworks, a single financial statement such as a cash flow statement and the related explanatory notes constitutes a complete set of financial statements. For example, IPSAS state that the primary financial statement is the cash flow statement when the cash basis of accounting underlies the preparation of the financial statements.<sup>5</sup> Financial statements prepared by reference to IFRS, on the other hand, are intended to provide information about the financial position, performance and cash flows of an entity. A complete set of financial statements under IFRS includes a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes.
44. When an entity is registered or operating in a jurisdiction that does not have an authorized or recognized national standards setting organization, the entity identifies a financial reporting framework. The entity’s choice is governed by local practice, industry practice, user needs,

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<sup>5</sup> See paragraph 9, of the “Preface to International Public Sector Accounting Standards.”

or other factors. Practice in such jurisdictions is often to use a financial reporting framework established by one of the international or national standards setting organizations described in paragraph 41. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the applicable financial reporting framework for the general purpose financial statements prepared by certain specified entities operating in that jurisdiction. When such a financial reporting framework is chosen by the entity, the auditor considers whether the financial reporting framework is in fact acceptable by considering whether it is clearly described in the financial statements and whether it exhibits the following characteristics of suitable criteria:

- (a) Relevant to the nature of the entity and the objective of the financial statements. (For example, in the case of a business enterprise that prepares general purpose financial statements, relevance is assessed in terms of the information necessary to meet the common information needs of a wide range of users in making economic decisions. These needs are ordinarily met by presenting fairly the financial position, financial performance and cash flows of the business enterprise.)
- (b) Complete in that transactions and events, account balances and disclosures that could affect the fair presentation of the financial statements are not omitted.
- (c) Reliable in that it:
  - (i) Reflects the economic substance of events and transactions and not merely their legal form; and
  - (ii) Results in reasonably consistent evaluation, measurement, presentation and disclosure, when used in similar circumstances;
- (e) Neutral in that it is free from bias; and
- (f) Understandable in that it is clear and comprehensive and not subject to significantly different interpretation.

45. A conglomeration of accounting conventions devised to suit individual preferences is not a suitable financial reporting framework for financial statements intended to address the common information needs of a wide range of users.

46. The description of the financial reporting framework in the financial statements includes information about the basis of presentation of the financial statements and the accounting policies selected and applied for significant transactions and other significant events.

### **Expressing an Opinion on the Financial Statements**

47. When the auditor is expressing an opinion on a complete set of general purpose financial statements, as defined by the applicable financial reporting framework, the auditor refers to ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements,” for guidance on the matters the auditor considers in forming an opinion on such financial statements and on the form and content of the auditor’s report.

48. The auditor refers to ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements,” when expressing an opinion on:

OBJECTIVE AND GENERAL PRINCIPLES GOVERNING AN AUDIT OF FINANCIAL STATEMENT

- (a) A complete set of financial statements prepared in accordance with a financial reporting framework that is designed for a special purpose, referred to as an other comprehensive basis of accounting;
- (b) A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
- (c) Compliance with contractual agreements; and
- (d) Summarized financial statements.

49. In addition to addressing reporting considerations, ISA 800 also addresses other matters the auditor considers in such engagements related to, for example, engagement acceptance and the conduct of the audit.

**Effective Date**

2550. This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2004.

**PROPOSED AMENDMENT TO INTERNATIONAL STANDARD ON AUDITING 210**  
**TERMS OF AUDIT ENGAGEMENTS**  
**CONTENTS**

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	Paragraph
Introduction .....	1-4
Audit Engagement Letters .....	5-9
Principal Contents .....	6-8
Audits of Components .....	9
Agreement on the Applicable Financial Reporting Framework .....	10-18
Recurring Audits .....	19-20
Acceptance of a Change in Engagement .....	21-28
Effective Date.....	29
Appendix: Example of an Audit Engagement Letter	

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International Standards on Auditing (ISAs) 210, “Terms of Audit Engagements” should be read in the context of the “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” which sets out the application and authority of ISAs.

## Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on:
  - (a) Agreeing the terms of the engagement with the client; and
  - (b) The auditor's response to a request by a client to change the terms of an engagement to one that provides a lower level of assurance.
2. **The auditor and the client should agree on the terms of the engagement.** The agreed terms would need to be recorded in an audit engagement letter or other suitable form of contract.
3. This ISA is intended to assist the auditor in the preparation of engagement letters relating to audits of financial statements. ~~The guidance is also applicable to related services. When other services such as tax, accounting, or management advisory services are to be provided, separate letters may be appropriate.~~
4. In some countries, the objective and scope of an audit and the auditor's obligations are established by law. Even in those situations the auditor may still find audit engagement letters informative for their clients.

## Audit Engagement Letters

5. It is in the interest of both client and auditor that the auditor sends an engagement letter, preferably before the commencement of the engagement, to help in avoiding misunderstandings with respect to the engagement. The engagement letter documents and confirms the auditor's acceptance of the appointment, the objective and scope of the audit, the extent of the auditor's responsibilities to the client and the form of any reports.

## Principal Contents

6. The form and content of audit engagement letters may vary for each client, but they would generally include reference to:
  - The objective of the audit of financial statements.
  - Management's responsibility for the financial statements as described in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements."
  - The applicable financial reporting framework.
  - The scope of the audit, including reference to applicable legislation, regulations, or pronouncements of professional bodies to which the auditor adheres.
  - The form of any reports or other communication of results of the engagement.
  - The fact that because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatement may remain undiscovered.
  - Unrestricted access to whatever records, documentation and other information requested in connection with the audit.

7. The auditor may also wish to include in the letter:
  - Arrangements regarding the planning of the audit.
  - Expectation of receiving from management written confirmation concerning representations made in connection with the audit.
  - Request for the client to confirm the terms of the engagement by acknowledging receipt of the engagement letter.
  - Description of any other letters or reports the auditor expects to issue to the client.
  - Basis on which fees are computed and any billing arrangements.
8. When relevant, the following points could also be made:
  - Arrangements concerning the involvement of other auditors and experts in some aspects of the audit.
  - Arrangements concerning the involvement of internal auditors and other client staff.
  - Arrangements to be made with the predecessor auditor, if any, in the case of an initial audit.
  - Any restriction of the auditor's liability when such possibility exists.
  - A reference to any further agreements between the auditor and the client.
  - An example of an audit engagement letter is set out in the Appendix.

#### *Audits of Components*

9. When the auditor of a parent entity is also the auditor of its subsidiary, branch or division (component), the factors that influence the decision whether to send a separate engagement letter to the component include:
  - Who appoints the auditor of the component.
  - Whether a separate auditor's report is to be issued on the component.
  - Legal requirements.
  - The extent of any work performed by other auditors.
  - Degree of ownership by parent.
  - Degree of independence of the component's management.

#### **Agreement on the Applicable Financial Reporting Framework**

- 10. The terms of the engagement should identify the applicable financial reporting framework.**
11. As stated in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," the applicable financial reporting framework will depend on the nature of the entity and on the objective of the financial statements. In some cases, the objective of the financial statements will be to meet the common information needs of a wide range of users; in others, to meet the needs of specific users.



12. **The auditor should not accept an engagement for an audit of financial statements when the auditor concludes that the financial reporting framework identified by management is not acceptable.**
13. Without an acceptable financial reporting framework the auditor does not have suitable criteria for evaluating the entity's financial statements. In these circumstances, the auditor encourages management to address the deficiencies in the financial reporting framework or to identify another financial reporting framework that is acceptable.
14. ISA 200 describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements. Legislative and regulatory requirements often identify the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be established by a national standards setting organization that is authorized or recognized to promulgate standards in the jurisdiction in which the entity is registered or operates. In such cases, the auditor and the entity will have a common understanding of the applicable financial reporting framework.
15. When the reporting entity is registered or operating in a jurisdiction that does not have an authorized or recognized national standards setting organization, the entity identifies a financial reporting framework that is acceptable for the nature of the entity and the objective of the financial statements. The entity's choice is governed by local practice, industry practice, user needs, or other factors. For example, the entity's competitors may apply International Financial Reporting Standards (IFRS) and the entity may determine that IFRS are also appropriate for its financial reporting requirements. In these cases, the auditor obtains an understanding of the matters considered by the entity in identifying an applicable financial reporting framework.
16. When the financial reporting framework identified by the entity is not established by an authorized or recognized international or national standards setting organization, the auditor considers whether the financial reporting framework is acceptable by considering whether it is clearly described in the financial statements and whether it exhibits the characteristics of suitable criteria as described in ISA 200.
17. The auditor may also decide to compare the framework to the requirements of frameworks established by authorized or recognized international or national standards setting organizations such as, for example, IFRS promulgated by the International Accounting Standards Board. When the auditor makes such a comparison and significant differences are identified, the decision as to whether the financial reporting framework is suitable includes consideration of the reasons for the differences and whether application of the framework will likely result in financial statements that are misleading.
18. When the auditor accepts an engagement involving an applicable financial reporting framework that is not established by an authorized international or national standards setting organization, the auditor may encounter deficiencies in that framework that were not anticipated when the engagement was initially accepted and that indicate that the framework is not acceptable for general purpose financial statements. In these circumstances, the auditor discusses the deficiencies with management and the need for management to adopt another financial reporting framework that is suitable. As discussed in paragraph 20, the

auditor also refers to the change in the financial reporting framework in a new engagement letter.

### **Recurring Audits**

~~40~~19. On recurring audits, the auditor should consider whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the client of the existing terms of the engagement.

~~44~~20. The auditor may decide not to send a new engagement letter each period. However, the following factors may make it appropriate to send a new letter:

- Any indication that the client misunderstands the objective and scope of the audit.
- Any revised or special terms of the engagement.
- A recent change of senior management, board of directors or ownership.
- A significant change in nature or size of the client's business.
- Legal requirements.

### **Acceptance of a Change in Engagement**

~~42~~21. **An auditor who, before the completion of the engagement, is requested to change the engagement to one which provides a lower level of assurance, should consider the appropriateness of doing so.**

~~43~~22. A request from the client for the auditor to change the engagement may result from a change in circumstances affecting the need for the service, a misunderstanding as to the nature of an audit or related service originally requested or a restriction on the scope of the engagement, whether imposed by management or caused by circumstances. The auditor would consider carefully the reason given for the request, particularly the implications of a restriction on the scope of the engagement.

~~44~~23. A change in circumstances that affects the entity's requirements or a misunderstanding concerning the nature of service originally requested would ordinarily be considered a reasonable basis for requesting a change in the engagement. In contrast a change would not be considered reasonable if it appeared that the change relates to information that is incorrect, incomplete or otherwise unsatisfactory.

~~45~~24. Before agreeing to change an audit engagement to a related service, an auditor who was engaged to perform an audit in accordance with International Standards on Auditing ISAs would consider, in addition to the above matters, any legal or contractual implications of the change.

~~46~~25. If the auditor concludes, that there is reasonable justification to change the engagement and if the audit work performed complies with the ISAs applicable to the changed engagement, the report issued would be that appropriate for the revised terms of engagement. In order to avoid confusing the reader, the report would not include reference to:

- (a) The original engagement; or
- (b) Any procedures that may have been performed in the original engagement, except where the engagement is changed to an engagement to undertake agreed-upon

## TERMS OF AUDIT ENGAGEMENTS

procedures and thus reference to the procedures performed is a normal part of the report.

~~17~~**26. Where the terms of the engagement are changed the auditor and the client should agree on the new terms.**

~~18~~**27. The auditor should not agree to a change of engagement where there is no reasonable justification for doing so.** An example might be an audit engagement where the auditor is unable to obtain sufficient appropriate audit evidence regarding receivables and the client asks for the engagement to be changed to a review engagement to avoid a qualified audit opinion or a disclaimer of opinion.

~~19~~**28. If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to report to other parties, such as the board of directors or shareholders, the circumstances necessitating the withdrawal.**

### **Effective Date**<sup>1</sup>

~~20~~**29. The revisions to this ISA are effective for audits of financial statements for periods beginning on or after December 15, 2004.**

### **Public Sector Perspective**

*[The Public Sector Perspective to the extant ISA 210 will be reviewed by the IFAC Public Sector Committee in the light of the proposed amendments.]*

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<sup>1</sup> The original ISA did not include an effective date.

**Example of an Audit Engagement Letter**

The following is an example of an engagement letter for an audit of general purpose financial statements prepared in accordance with International Financial Reporting Standards. This letter is to be used ~~The following letter is for use as a guide in conjunction with the considerations outlined in this ISA and will need to be varied according to individual requirements and circumstances.~~

To the Board of Directors or the appropriate representative of senior management:

You have requested that we audit the financial statements of ....., which comprise the balance sheet of ..... as at of ....., and the related income statement, statement of changes in equity statements of income and cash flow statements for the year then ending, and the related notes. We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted ~~made~~ with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with International Standards on Auditing ~~(or refer to relevant national standards or practices)~~. Those Standards require that we plan and perform the audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free from of material misstatements, whether due to fraud or error. An audit ~~includes~~ involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of material misstatement of the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. ~~An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and disclosures.~~

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. ~~However, In addition to our report on the financial statements,~~ we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of internal control over financial reporting that come to our attention during the audit of

TERMS OF AUDIT ENGAGEMENTS

the financial statements.<sup>1</sup> ~~accounting and internal control systems which come to our notice.~~

We remind you that the responsibility for the preparation of financial statements that present fairly the financial position, financial performance and cash flows of the company in accordance with International Financial Reporting Standards including adequate disclosure is that of the management of the company. Our auditors' report will explain that management's responsibility for the preparation of the financial statements also includes: This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the company. As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

- Maintaining internal control relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error;
- Selecting and applying appropriate accounting policies that are consistent with International Financial Reporting Standards; and
- Making accounting estimates that are appropriate in the circumstances.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation ~~with~~ from your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit. ~~Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.~~

[Insert additional information here regarding fee arrangements and billings, as appropriate.]

~~This letter will be effective for future years unless it is terminated, amended or superseded.~~

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our audit of the financial statements.

XYZ & Co.

Acknowledged on behalf of  
ABC Company by

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<sup>1</sup> In some jurisdictions, the auditor may have responsibilities to report separately on the entity's internal control. In such circumstances, the auditor reports on that responsibility as required in that jurisdiction. The reference in the auditor's report on the financial statements to the fact that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control may not be appropriate in such circumstances.

(signed)

.....

Name and Title

Date

**PROPOSED CONFORMING AMENDMENT TO  
INTERNATIONAL STANDARD ON AUDITING 701  
MODIFICATIONS TO THE INDEPENDENT AUDITOR’S REPORT**

**(Based on paragraphs 29 to 46 of extant ISA 700)**

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the circumstances when the independent auditor’s report should be modified and the form and the content of the modifications to the auditor’s report in those circumstances.
2. ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” establishes standards and provides guidance on the form and content of the independent auditor’s report on a complete set of general purpose financial statements when the auditor is able to express an unqualified opinion and no modification to the auditor’s report is necessary.<sup>1</sup> ISA 800, “The Independent Auditor’s Report on Special Purpose Audit Engagements” establishes standards and provides guidance on the form and content of the independent auditor’s report in special purpose audit engagements. This ISA describes how the auditor’s report wording is modified in the following situations:
  - ~~29. An auditor’s report is considered to be modified in the following situations:~~
    - Matters That Do Not Affect the Auditor’s Opinion*
    - (a) Emphasis of matter
    - Matters That Do Affect the Auditor’s Opinion*
    - (a) Qualified opinion,
    - (b) Disclaimer of opinion, or
    - (c) Adverse opinion.
3. Uniformity in the form and content of each type of modified report will further the user’s understanding of such reports. Accordingly, this ISA includes suggested wording ~~to express an unqualified opinion as well as examples~~ of modifying phrases for use when issuing modified reports.
4. The illustrative reports in this ISA are based on the auditor’s report on general purpose financial statements for a business enterprise. The principles relating to the circumstances when the auditor’s report needs to be modified are, however, also applicable to reports on other engagements related to the audit of historical financial information, such as general purpose financial statements for entities of a different nature (for example, a not-for-profit organization) and the special purpose audit engagements described in ISA 800, “The

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<sup>1</sup> IAASB revised ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements” in [XXXX]. ISA 701 is currently under revision. The only conforming amendments made to this ISA when the revised ISA 700 was issued have been to conform the wording of the auditor’s report in the illustrative examples as necessary to ensure consistency with the illustrative report wording in revised ISA 700 and to specify how modifications to the auditor’s report would be positioned in relation to the auditor’s description of and reporting on any other responsibilities in addition to the auditor’s report on the financial statements.

Independent Auditor's Report on Special Purpose Audit Engagements." The illustrative reports would be adapted as appropriate in the circumstances.

*Matters That Do Not Affect the Auditor's Opinion*

305. In certain circumstances, an auditor's report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included after the ~~opinion~~ paragraph containing the auditor's opinion but before the section on any other reporting responsibilities, if any. ~~and~~ The emphasis of matter paragraph would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.

*[Paragraphs 31-34 of ISA 700 would remain unchanged pending IAASB's current project to review the guidance on modifications to the auditor's report and would be renumbered as paragraphs 6-9 in ISA 701.]*

3510. In addition to the use of an emphasis of matter paragraph for matters that affect the financial statements, the auditor may also modify the auditor's report by using an emphasis of matter paragraph, preferably after the ~~opinion~~ paragraph containing the auditor's opinion but before the section on any other reporting responsibilities, if any, to report on matters other than those affecting the financial statements. For example, if an amendment to other information in a document containing audited financial statements is necessary and the entity refuses to make the amendment, the auditor would consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency. An emphasis of matter paragraph may also be used when there are additional statutory reporting responsibilities.

*Matters That Do Affect the Auditor's Opinion*

*[Paragraphs 36-39 of ISA 700 would remain unchanged pending IAASB's current project to review the guidance on modifications to the auditor's report and would be renumbered as paragraphs 11-14 in ISA 701.]*

4015. Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons should be included in the report and, unless impracticable, a quantification of the possible effect(s) on the financial statements. Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion on the financial statements and may include a reference to a more extensive discussion, if any, in a note to the financial statements.

*[Paragraphs 41-47 of ISA 700 would remain unchanged pending IAASB's current project to review the guidance on modifications to the auditor's report and would be renumbered as paragraphs 16-21 in ISA 701.]*

**Effective Date**

472. ~~This revised standard~~ The standards and guidance in this ISA are taken from paragraphs 29-46 in the extant ISA 700 that was in effect beginning September 30, 2002 until the revision to ISA 700 that became effective for auditor's reports dated on or after December 31, 2005.



MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT

~~This revised standard is~~ Revisions to the extant ISA 700<sup>1</sup> that were released in 2002 were effective for audits of financial statements for periods ending on or after September 30, 2002. Earlier application ~~is~~ was encouraged.

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<sup>1</sup> The original ISA 700 before the September 2002 revision did not include an effective date.

**PROPOSED CONFORMING AMENDMENT TO  
INTERNATIONAL STANDARD ON AUDITING 560  
SUBSEQUENT EVENTS**

**Introduction**

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the auditor's responsibility regarding subsequent events. In this ISA, the term "subsequent events" is used to refer to both events occurring between ~~period-end~~ the date of the financial statements and the date of the auditor's report, and facts discovered after the date of the auditor's report.
2. **The auditor should consider the effect of subsequent events on the financial statements and on the auditor's report.**
3. International Accounting Standard (IAS) 10, ~~Contingencies and Events Occurring After the Balance Sheet Date~~, deals with the treatment in financial statements of events, both favorable and unfavorable, ~~occurring after period-end~~ that occur between the date of the financial statements (referred to as the "balance sheet date" in the IAS) and the date when the financial statements are authorized for issue and identifies two types of events:
  - (a) those that provide ~~further~~ evidence of conditions that existed at ~~period-end~~ the date of the financial statements; and
  - (b) those that are indicative of conditions that arose ~~subsequent after to period-end~~ the date of the financial statements.

**Definitions**

4. In this ISA, the following terms have the meanings attributed below:
  - (a) "Date of the financial statements" is the date of the end of the latest period covered by the financial statements, which is normally the date of the most recent balance sheet in the financial statements subject to audit.
  - (b) "Date of approval of the financial statements" is the date that the entity's management or those charged with governance determines that a complete set of financial statements, including the related notes, has been prepared and approves such statements. The specific approval process followed by the entity depends on legal or regulatory requirements in the jurisdiction, or would be determined by the entity in the absence of such requirements. In some circumstances, the entity may be required to observe additional governance processes required by custom or regulation after the financial statements have been approved by management that may need to occur before the financial statements are considered "final." For example, in some jurisdictions, the entity may be required to submit its financial statements to its shareholders for approval. However, this will usually occur at a date substantially later than the date management or those charged with governance approve the financial statements and does not affect the date which is considered to be the date of approval of the financial statements.

## SUBSEQUENT EVENTS

- (c) “Date of the auditor’s report” is the date of the completion of the audit.<sup>1</sup> This is considered to be the date on which the auditor has obtained sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor’s opinion. The auditor may not yet have fulfilled all responsibilities related to the audit, for example, the auditor may not yet have had an opportunity to communicate the audit matters of governance interest that arose from the audit to those charged with governance. However, the auditor has completed the work necessary to support the auditor’s opinion on the financial statements. Frequently, this date will be the same as the “date of approval of the financial statements” but it could be later, such as when the auditor has not yet obtained all of the audit evidence necessary to support management’s assertions regarding significant estimates, transactions or events at the time that management approves the financial statements.
- (d) “Date the financial statements are issued” is the date that the auditor’s report and financial statements are made available to third parties, which may be, in many circumstances, the date that they are filed with a regulatory authority.

### Events Occurring up to the Date of the Auditor’s Report

45. **The auditor should perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified.** These procedures are in addition to routine procedures which may be applied to specific transactions occurring after ~~period-end~~ the date of the financial statements to obtain audit evidence as to account balances as at ~~period-end~~ the date of the financial statements, for example, the testing of inventory cutoff and payments to creditors. The auditor is not, however, expected to conduct a continuing review of all matters to which previously applied procedures have provided satisfactory conclusions.
56. The procedures to identify events that may require adjustment of, or disclosure in, the financial statements would be performed as near as practicable to the date of the auditor’s report and ordinarily include the following:
- Reviewing procedures management has established to ensure that subsequent events are identified.
  - Reading minutes of the meetings of shareholders, the board of directors and audit and executive committees held after ~~period-end~~ the date of the financial statements and inquiring about matters discussed at meetings for which minutes are not yet available.
  - Reading the entity’s latest available interim financial statements and, as considered necessary and appropriate, budgets, cash flow forecasts and other related management reports.
  - Inquiring, or extending previous oral or written inquiries, of the entity’s lawyers concerning litigation and claims.

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<sup>1</sup> In some jurisdictions, law or regulation may prescribe when the audit is considered to be completed. In such circumstances, the auditor uses this date as the date of the auditor’s report.

- Inquiring of management as to whether any subsequent events have occurred which might affect the financial statements. Examples of inquiries of management on specific matters are:
  - The current status of items that were accounted for on the basis of preliminary or inconclusive data.
  - Whether new commitments, borrowings or guarantees have been entered into.
  - Whether sales of assets have occurred or are planned.
  - Whether the issue of new shares or debentures or an agreement to merge or liquidate has been made or is planned.
  - Whether any assets have been appropriated by government or destroyed, for example, by fire or flood.
  - Whether there have been any developments regarding risk areas and contingencies.
  - Whether any unusual accounting adjustments have been made or are contemplated.
  - Whether any events have occurred or are likely to occur which will bring into question the appropriateness of accounting policies used in the financial statements as would be the case, for example, if such events call into question the validity of the going concern assumption.

~~67.~~ When a component, such as a division, branch or subsidiary, is audited by another auditor, the auditor would consider the other auditor's procedures regarding events after ~~period-end~~ the date of the financial statements and the need to inform the other auditor of the planned date of the auditor's report.

~~78.~~ **When the auditor becomes aware of events which materially affect the financial statements, the auditor should consider whether such events are properly accounted for and adequately disclosed in the financial statements.**

**Facts Discovered After the Date of the Auditor's Report but Before the Date the Financial Statements are Issued**

~~89.~~ The auditor does not have any responsibility to perform procedures or make any inquiry regarding the financial statements after the date of the auditor's report. During the period from the date of the auditor's report to the date the financial statements are issued, the responsibility to inform the auditor of facts which may affect the financial statements rests with management.

~~910.~~ **When, after the date of the auditor's report but before the date the financial statements are issued, the auditor becomes aware of a fact which may materially affect the financial statements, the auditor should consider whether the financial statements need amendment, should discuss the matter with management, and should take the action appropriate in the circumstances.**

~~1011.~~ When management amends the financial statements, the auditor would carry out the procedures necessary in the circumstances and would provide management with a new

## SUBSEQUENT EVENTS

report on the amended financial statements. The new auditor's report would be dated not earlier than the date of approval of the amended financial statements ~~are signed or approved~~ and, accordingly, the procedures referred to in paragraphs 45 and 56 would be extended to the date of the new auditor's report.

**112. When management does not amend the financial statements in circumstances where the auditor believes they need to be amended and the auditor's report has not been released to the entity, the auditor should express a qualified opinion or an adverse opinion, as described in ISA 701, "Modifications to the Independent Auditor's Report."**

~~1213.~~ When the auditor's report has been released to the entity, the auditor would notify those persons ultimately responsible for the overall direction of the entity not to issue financial statements and the auditor's report thereon to third parties. If the financial statements are subsequently released, the auditor needs to take action to prevent reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyer.

### Facts Discovered After the Financial Statements Have Been Issued

~~1314.~~ After the financial statements have been issued, the auditor has no obligation to make any inquiry regarding such financial statements.

**1415. When, after the financial statements have been issued, the auditor becomes aware of a fact which existed at the date of the auditor's report and which, if known at that date, may have caused the auditor to modify the auditor's report, the auditor should consider whether the financial statements need revision, should discuss the matter with management, and should take the action appropriate in the circumstances.**

~~1516.~~ When management revises the financial statements, the auditor would carry out the audit procedures necessary in the circumstances, would review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation, and would issue a new report on the revised financial statements.

~~1617.~~ **The new auditor's report should include an emphasis of a matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial statements and to the earlier report issued by the auditor.** The new auditor's report would be dated not earlier than the date of approval of the revised financial statements ~~are approved~~ and, accordingly, the procedures referred to in paragraphs 45 and 56 would ordinarily be extended to the date of the new auditor's report. Local regulations of some countries permit the auditor to restrict the audit procedures regarding the revised financial statements to the effects of the subsequent event that necessitated the revision. In such cases, the new auditor's report would contain a statement to that effect.

~~1718.~~ When management does not take the necessary steps to ensure that anyone in receipt of the previously issued financial statements together with the auditor's report thereon is informed of the situation and does not revise the financial statements in circumstances where the auditor believes they need to be revised, the auditor would notify those persons ultimately responsible for the overall direction of the entity that action will be taken by the auditor to

prevent future reliance on the auditor's report. The action taken will depend on the auditor's legal rights and obligations and the recommendations of the auditor's lawyers.

~~18~~19. It may not be necessary to revise the financial statements and issue a new auditor's report when issue of the financial statements for the following period is imminent, provided appropriate disclosures are to be made in such statements.

### **Offering of Securities to the Public**

~~19~~20. **In cases involving the offering of securities to the public, the auditor should consider any legal and related requirements applicable to the auditor in all jurisdictions in which the securities are being offered.** For example, the auditor may be required to carry out additional audit procedures to the date of the final offering document. These procedures would ordinarily include carrying out the procedures referred to in paragraphs ~~4~~5 and ~~5~~6 up to a date at or near the effective date of the final offering document and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated.

### **Effective Date**<sup>2</sup>

21. The conforming amendments to this ISA arising from the revision to ISA 700 are effective for auditor's reports dated on or after December 31, 2005. Early application of the conforming amendments are permissible.

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<sup>2</sup> The original ISA did not include an effective date.

**PROPOSED CONFORMING AMENDMENT TO  
INTERNATIONAL STANDARD ON AUDITING 800  
THE INDEPENDENT AUDITOR'S REPORT ON SPECIAL  
PURPOSE AUDIT ENGAGEMENTS**

**Introduction**

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance in connection with special purpose audit engagements including:
  - ~~Financial~~ A complete set of financial statements prepared in accordance with a financial reporting framework that is designed for a special purpose, referred to as an other comprehensive basis of accounting other than International Accounting Standards or national standards;
  - ~~Specified~~ A component of a complete set of general purpose or special purpose financial statements, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement (hereafter referred to as reports on a component of financial statements);
  - Compliance with contractual agreements; and
  - Summarized financial statements.

This ISA does not apply to review, agreed-upon procedures or compilation engagements.

*[Paragraphs 2-8 of ISA 800 would remain unchanged.]*

**Reports on Financial Statements Prepared in Accordance with an Other Comprehensive Basis of Accounting ~~other than International Accounting Standards or National Standards~~**

9. A comprehensive basis of accounting comprises a set of criteria used in preparing financial statements which applies to all material items and which has substantial support. As discussed in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements," ~~Financial~~ financial statements that are not prepared to meet the common information needs of a wide range of users may be prepared for a special purpose in accordance with a comprehensive basis of accounting other than International Accounting Standards or relevant national standards (referred to herein as an "other comprehensive basis of accounting"). A conglomeration of accounting conventions devised to suit individual preference is not a comprehensive basis of accounting. Other comprehensive financial reporting frameworks may to meet the financial information needs of specific users. The information needs of such users will determine the applicable financial reporting framework in such circumstances (which is referred to in this ISA as an other comprehensive basis of accounting). Examples of financial reporting frameworks that are designed to address the needs of specific users include:
  - That used by an entity to prepare its ~~The~~ tax basis of accounting for a set of financial statements that accompany an entity's ~~income~~ tax return.
  - The cash receipts and disbursements basis of accounting for cash flow information that a business enterprise may be requested to prepare by creditors.

- The financial reporting provisions of a government regulatory agency for a set of financial statements prepared for regulatory purposes.
10. **The auditor’s report on financial statements prepared in accordance with another comprehensive basis of accounting should include a statement that indicates the basis of accounting used or should refer to the note to the financial statements giving that information. The opinion should state whether the financial statements are prepared, in all material respects, in accordance with the identified basis of accounting.** The terms used to express the auditor’s opinion are “give a true and fair view” or “present fairly, in all material respects,” which are equivalent terms. Appendix 1 to this ISA gives examples of auditor’s reports on financial statements prepared in accordance with another comprehensive basis of accounting.
  11. The auditor would consider whether the title of, or a note to, the financial statements makes it clear to the reader that such statements are not prepared in accordance with International Accounting Financial Reporting Standards or ~~national~~ generally accepted accounting principles promulgated by a recognized standards setter. For example, a tax basis financial statement might be entitled “Statement of Income and Expenses—Income Tax Basis.” **If the financial statements prepared on another comprehensive basis are not suitably titled or the basis of accounting is not adequately disclosed, the auditor should issue an appropriately modified report.**

#### **Reports on a Component of Financial Statements**

12. The auditor may be requested to express an opinion on one or more components of financial statements, for example, a single financial statement such as a balance sheet, accounts receivable, inventory, an employee’s bonus calculation or a provision for income taxes. The component might be prepared to meet the financial information needs of specific users and have limited distribution, or may be intended to meet the information needs of a wide range of users and, therefore, prepared in accordance with the relevant requirements of an applicable financial reporting framework. This type of engagement may be undertaken as a separate engagement or in conjunction with an audit of the entity’s financial statements (see Other Reporting Responsibilities in ISA 700, “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”). However, this type of engagement does not result in a report on the financial statements taken as a whole and, accordingly, the auditor would express an opinion only as to whether the component audited is prepared, in all material respects, in accordance with the identified basis of accounting.
13. Many financial statement items are interrelated, for example, sales and receivables, and inventory and payables. Accordingly, when reporting on a component of financial statements, the auditor will sometimes be unable to consider the subject of the audit in isolation and will need to examine certain other financial information. **In determining the scope of the engagement, the auditor should consider those financial statement items that are interrelated and which could materially affect the information on which the audit opinion is to be expressed.**
14. The auditor should consider the concept of materiality in relation to the component of financial statements being reported upon. For example, a particular account balance provides a smaller base against which to measure materiality compared with the financial statements



taken as a whole. Consequently, the auditor's examination will ordinarily be more extensive than if the same component were to be audited in connection with a report on the entire financial statements.

~~15. To avoid giving the user the impression that the report relates to the entire financial statements, the auditor would advise the client that the auditor's report on a component of financial statements is not to accompany the financial statements of the entity.~~

~~15.~~**15. The auditor's report on a component of financial statements should include a statement that indicates the basis of accounting applicable financial reporting framework in accordance with which the component is presented or refers to an agreement that specifies the basis of accounting used. The opinion should state whether the component is prepared, in all material respects, in accordance with the applicable financial reporting framework or identified basis of accounting. Appendix 2 to this ISA gives examples of auditor's reports on components of financial statements.**

~~16.~~**16. When an adverse opinion or disclaimer of opinion on the entire financial statements has been expressed, the auditor should report on components of the financial statements only if those components are not so extensive as to constitute a major portion of the financial statements. To do otherwise may overshadow the report on the entire financial statements.**

*[Paragraphs 18-25 of ISA 800 would remain unchanged but would be renumbered paragraphs 17-24.]*

### **Effective Date**<sup>1</sup>

25. The conforming amendments to this ISA arising from the revision to ISA 700 are effective for auditor's reports dated on or after December 31, 2005. Early application of the conforming amendments are permissible.

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<sup>1</sup> The original ISA did not include an effective date.



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