

[Date approved]
Exposure Draft

Response Due Date xxxxx, 2004

Independent Auditor's Report

**Proposed Revised International
Standard on Auditing 700,
"The Independent Auditor's Report on
General Purpose Financial Statements"**

**Amendment to International
Standard on Auditing 200,
"Objective and General Principles
Governing an Audit"**

**Amendment to International
Standard on Auditing 210,
"Terms of Audit Engagements"**

ISA 700, THE INDEPENDENT AUDITOR'S REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

REQUEST FOR COMMENT

The following exposure drafts and accompanying explanatory memorandum of the International Auditing and Assurance Standards Board (IAASB) were approved for publication in December 2003. The exposure drafts may be modified in the light of comments received before being issued in the form of International Standards on Auditing (ISAs).

- (a) Proposed Revisions to ISA 700, The Independent Auditor's Report on General Purpose Financial Statements;
- (b) Amendment to ISA 200, "Objective and Principles Governing an Audit of Financial Statements;"
- (c) Amendment to ISA 210, Terms of Audit Engagements.

Further, conforming amendments as result of the revisions to ISA 700 involved creation of a new ISA 701 "Modifications to the Independent Auditor's Report" as well as conforming amendments to the following ISAs:

- ISA 560, Subsequent Events
- ISA 800, The Auditor's Report on Special Purpose Audit Engagements

Commentators Guide and Consideration of Specific Issues

The IAASB welcomes comments on the exposure drafts. In responding to the exposure drafts, commentators are requested to refer to the specific proposed ISA and relevant paragraphs within the ISA. 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 the issues identified in the explanatory memorandum.

Comments should be submitted so as to be received by **XXX, 2004**, preferably by e-mail, or on a computer disk or in writing. All comments will be considered a matter of public record and will be posted on IFAC's website by **XXX, 2004**.

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**

The approved text of these exposure drafts of the IAASB is published in the English language. In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

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THE INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

EXPLANATORY MEMORANDUM TO EXPOSURE DRAFTS

[Note to IAASB – The Task Force is continuing to develop this Explanatory Memorandum and will send it to you as soon as completed and in advance of the 8-12 December meeting]

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

Background

- Reasons why the project was started
- Process followed (including review of audit reports around the world)
- The two stage approach to revising ISA 700, with the separation of the guidance that is now in ISA 700 on modified reports into a new ISA 701
- Overarching principles
 - To increase consistency in reporting between jurisdictions
 - To increase understandability of the auditor’s role and auditor’s report
- Proposals do not introduce radical new approaches to audit reporting, rather focus on expanding and improving ISA guidance on reporting and on improving existing wording of the auditor’s report

Significant Changes

- Introduced guidance on the matters the auditor considers when forming an opinion on the financial statements
- Significantly enhanced guidance on the definition of a financial reporting framework and clarification of the auditor’s responsibility with respect to management’s identification of the financial reporting framework
- Clarified guidance on the implications when the financial statements include supplementary information not required by the financial reporting framework
- Greater clarification on the date of the auditor’s report
- Proposed new wording for the auditor’s report:
 - Better explanation of the respective responsibilities of management and the auditor
 - Updated description of the audit process to reflect the new Audit Risk standards
 - Clarified the scope of the auditor’s responsibilities with respect to internal control
- Addressed the reporting implications when the auditor has other reporting responsibilities in addition to the responsibility to express an opinion on the financial statements
- New guidance on the implications for the auditor’s report when the audit has been performed in accordance with both ISAs and relevant national standards

Conforming Changes

- ISA 560, 701 and 800

REVISIONS TO ISA 700, "THE INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS"

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International Standards on Auditing (ISAs) are to be applied, as appropriate, in the audit or review of historical financial information.

ISAs contain basic principles and essential procedures (identified in bold lettering) 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 the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of an ISA to understand and apply the basic principles and essential procedures.

The nature of ISAs requires auditors to exercise professional judgment in applying them. In exceptional circumstances, an auditor may judge it necessary to depart from a basic principle or essential procedure of an ISA to achieve more effectively the objective of the audit. When such a situation arises, the auditor should be prepared to justify the departure.

Any limitation on the applicability of a specific ISA is made clear in the ISA.

In circumstances where specific basic principles, essential procedures or guidance contained in an ISA are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, the Public Sector Committee of the International Federation of Accountants so states in a Public Sector Perspective (PSP) at the end of the ISA. When no PSP is added, the ISA is to be applied as written to engagements in the public sector.

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 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;
 - 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;
 - compliance with contractual agreements; and
 - summarized financial statements.
3. This ISA addresses circumstances when the auditor is able to express an unqualified opinion and no modification to the audit 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 (hereinafter referred to as financial statements in this ISA) 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 present fairly, in all material respects, the financial position, financial performance and

cash flows 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 that evidence provides 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, in the case of financial statements prepared in accordance with IFRS, for example, the financial position, financial performance, and cash flows of the entity; 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 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 misleading¹. Accordingly, in making a final judgment on the matter, the auditor needs to be satisfied that the information conveyed to readers in 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 ISAs²

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 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 International Standards on Auditing (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 statements³ and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the country of origin⁴ of the financial

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

² 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.

³ Circumstances when the auditor needs to qualify 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.

⁴ 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.

- reporting framework when International Financial Reporting Standards or International Public Sector Accounting Standards 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 address; and
 - (j) auditor's signature.
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 financial statements that have been audited, the entity, and the date of and period covered by the financial statements. The report should specifically identify the title of each of the financial statements that comprise the complete set of financial statements on which the auditor is expressing an opinion, 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 another document, such as an annual report, the auditor may consider identifying the page numbers on which the financial statements are presented, as this helps readers 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. If the entity has not included a financial statement or related note that is required by the applicable financial reporting framework, the auditor expresses either a qualified opinion or an adverse opinion, as appropriate in the circumstances, as discussed in ISA 701, "Modifications to the Independent Auditor's Report."
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 to 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 presentation of its financial position, financial performance and cash flows 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 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 of material misstatement, whether due to fraud and 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 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 due to fraud and 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 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 caused by fraud and 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 13 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 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 misstatement in the financial statements;**
 - (c) **an audit includes considering internal control relevant to the entity’s preparation of the financial statements as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control⁵; and**
 - (d) **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 has provided a reasonable basis for the auditor to express an opinion on the financial statements.**

THE 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**

⁵ 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. This sentence may not be appropriate in such circumstances.

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 financial statements give a true and fair view of, or present 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 also identifies the applicable financial reporting framework upon which the financial statements are based. When the applicable financial reporting framework is not International Financial Reporting Standards or International Public Sector Accounting Standards, 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..."

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 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. 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.**
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 ADDRESS

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

AUDITOR'S SIGNATURE

49. **The report should be signed in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction.**
50. In addition to the auditor's signature, in certain jurisdictions, the auditor may also 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.

The 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 International Financial Reporting Standards expressing an unqualified opinion. In addition to the audit of the financial statements, the illustration assumes that the auditor has a number of additional reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

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 flows statement for the year then ended, and the related notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS). This responsibility includes maintaining internal control relevant to the preparation of financial statements that are free of 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 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 caused by fraud or error.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of misstatement in the financial statements. An audit includes considering internal control relevant to the entity's preparation of the financial statements as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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 our audit provides 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 the 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.

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.]

[Auditors' signature]

[Date of the auditor's report]

[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, "Modifications to the Independent Auditor's Report" 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 is obliged by law or regulations to prepare 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, as 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 audit 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

Public Sector Perspective

[To be developed.]

**AMENDMENT TO ISA 200, “OBJECTIVE AND GENERAL PRINCIPLES
GOVERNING AN AUDIT OF FINANCIAL STATEMENTS”**

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International Standards on Auditing (ISAs) are to be applied, as appropriate, in the audit or review of historical financial information.

ISAs contain basic principles and essential procedures (identified in bold lettering) 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 the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of an ISA to understand and apply the basic principles and essential procedures.

The nature of ISAs requires auditors to exercise professional judgment in applying them. In exceptional circumstances, an auditor may judge it necessary to depart from a basic principle or essential procedure of an ISA to achieve more effectively the objective of the audit. When such a situation arises, the auditor should be prepared to justify the departure.

Any limitation on the applicability of a specific ISA is made clear in the ISA.

In circumstances where specific basic principles, essential procedures or guidance contained in an ISA are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, the Public Sector Committee of the International Federation of Accountants so states in a Public Sector Perspective (PSP) at the end of the ISA. When no PSP is added, the ISA is to be applied as written to engagements in the public sector.

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 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. ~~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

43. The auditor should comply with the relevant ethical requirements relating to audit engagements, which ordinarily comprise Parts A and B of the "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.~~

4. ISA 220, "Quality Control for Audit and Reviews of Historical Financial Information" describes 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 Firms that Perform Audits and Reviews of Historical Financial Information, Other Assurance and Related Services Engagements", 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

5. ~~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.~~
6. 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.
7. 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.
8. 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

79. 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.~~
10. 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.
11. 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.
12. 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.
13. 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

14. 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.
15. 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

816. 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.

917. An auditor cannot obtain 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 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.

108. 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.

149. Further, other limitations may affect the persuasiveness of audit evidence available to draw conclusions on particular assertions⁶ (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.

1220. Accordingly, because of the factors described above, an audit is not a guarantee that the financial statements are free 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 to 23 unchanged from existing ISA 200, however, these paragraphs will be renumbered as paragraphs 21 to 31.]

⁶ Paragraphs 15 to 18 of ISA 500, "Audit Evidence," discuss the use of assertions in obtaining audit evidence.

Responsibility for the Financial Statements

2432. While the auditor is responsible for forming and expressing an opinion on the financial statements, the responsibility for the preparation and fair presentation of preparing and presenting the financial statements in accordance with the applicable financial reporting framework is that of the management⁷ of the entity, with oversight from those charged with governance⁸. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

33. 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 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.

34. Management’s responsibility with respect to the financial statements includes identifying the “applicable financial reporting framework”. It also, includes:

- (a) Maintaining internal control relevant to the preparation of financial statements that are free of material misstatement, whether due to fraud and 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.

Applicable Financial Reporting Framework

35. The financial reporting framework used by management to prepare the financial statements will depend on the nature of the entity, for example, whether it is a business enterprise or a not-for-profit organization. It will also depend on the objective of the financial statements.

36. In some cases, the objective of the financial statements will be to meet the financial information needs of specifically identified users. Examples of financial reporting frameworks that address the needs of specifically identified 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 prepared for regulatory purposes; or a financial reporting framework established by the provisions of an agreement specifying the financial statements to be prepared.

37. 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

⁷ 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.

⁸ 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.

users cannot be met, there are financial information needs that are common to a wide range of users. Financial statements prepared to meet the common information needs of that wide range of users are referred to as “general purpose financial statements”.

38. Management may prepare more than one set of financial statements using different financial reporting frameworks in order to meet the information needs of different users.
39. Legislative and regulatory requirements in a particular jurisdiction often identify the applicable financial reporting framework to be used for general purpose financial statements in that jurisdiction. Financial reporting frameworks established by international or national standards setting organizations are often specified in such legislative and regulatory requirements. Such financial reporting frameworks are presumed to be acceptable for general purpose financial statements provided the organizations that establish these frameworks are authorized to promulgate standards using an established process involving deliberation and exposure of proposals for comment to a wide range of stakeholders. Examples of such financial reporting frameworks include:
- (a) International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board;
 - (b) International Public Sector Accounting Standards (IPSAS) promulgated by the International Federation of Accountants – Public Sector Committee;
 - (c) Generally accepted accounting principles promulgated by a recognized standards setter in a particular jurisdiction.
40. 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.
41. 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.⁹ 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.

⁹ See paragraph 9, Preface to International Public Sector Accounting Standards

42. When an entity is registered or operating in a jurisdiction where there are no legislative and regulatory requirements that identify an applicable financial reporting framework for general purpose financial statements, the entity identifies an applicable financial reporting framework that is suitable for the nature of the entity and the objective of the financial statements and that is clearly described in the financial statements. The entity's choice is governed by local practice, industry practice, user needs, or other factors. Practice in such jurisdictions is often to use a financial reporting framework that is recognized as suitable in another jurisdiction because it is established by an organization that meets the criteria described in paragraph 39. Alternatively, there may be established accounting conventions in a particular jurisdiction that are generally recognized as the applicable financial reporting framework for entities operating in that jurisdiction. When such a financial reporting framework is used, it is important for the auditor to consider whether the financial reporting framework is in fact suitable and whether it is clearly described in the financial statements. Such a financial reporting framework is considered to be suitable when it is:
- (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 all 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.
43. 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.
44. The description of the financial reporting framework in the financial statements includes information about the basis of presentation of the financial statements and the specific accounting policies selected and applied for significant transactions and other significant events.

Expressing an Opinion on the Financial Statements

45. 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 Auditor's Report on 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.
46. The auditor refers to ISA 800, "The Independent Auditor's Report on Special Purpose Audit Engagements", when expressing an opinion on:
- 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;
 - 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;
 - Compliance with contractual agreements; and
 - Summarized financial statements.
47. 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

2548. This ISA is effective for audits of financial statements for periods.....

AMENDMENT TO ISA 210, "TERMS OF AUDIT ENGAGEMENTS"

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International Standards on Auditing (ISAs) are to be applied, as appropriate, in the audit or review of historical financial information.

ISAs contain basic principles and essential procedures (identified in bold lettering) 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 the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of an ISA to understand and apply the basic principles and essential procedures.

The nature of ISAs requires auditors to exercise professional judgment in applying them. In exceptional circumstances, an auditor may judge it necessary to depart from a basic principle or essential procedure of an ISA to achieve more effectively the objective of the audit. When such a situation arises, the auditor should be prepared to justify the departure.

Any limitation on the applicability of a specific ISA is made clear in the ISA.

In circumstances where specific basic principles, essential procedures or guidance contained in an ISA are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, the Public Sector Committee of the International Federation of Accountants so states in a Public Sector Perspective (PSP) at the end of the ISA. When no PSP is added, the ISA is to be applied as written to engagements in the public sector.

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", paragraphs 32 to 34.
 - 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.

[Paragraphs 7 to 19 remain unchanged.]

Agreement on the Applicable Financial Reporting Framework

20. The terms of the engagement should identify the applicable financial reporting framework.

21. As stated in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements", the financial reporting framework identified by management to prepare the financial statements 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 specifically identified users.

22. 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.

23. 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.

24. ISA 200 describes the financial reporting frameworks that are presumed to be acceptable for general purpose financial statements. Legislative and regulatory requirements often determine the applicable financial reporting framework for general purpose financial statements. In most cases, the applicable financial reporting framework will be that of the jurisdiction in which the entity is registered or operates and the auditor is based. In such cases, the auditor and the entity will have a common understanding of the applicable financial reporting framework.

25. When the reporting entity is registered or operating in a jurisdiction where there are no legislative and regulatory requirements with respect to the applicable financial reporting framework, the entity identifies an applicable financial reporting framework. The entity's choice will be governed by local practice, industry practice, user needs, or other factors. For example, the entity's competitors may apply International Financial Reporting Standards and the entity may determine that International Financial Reporting Standards 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.

26. When the applicable financial reporting framework identified by the entity is not established by an authorized international or national standards setting organization, the auditor considers whether the financial reporting framework is suitable and is clearly described in

the financial statements. The auditor uses the criteria provided in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements", paragraphs 42-44 in making this judgment.

27. The auditor may also decide to compare the framework to the requirements of frameworks established by authorized international or national standards setting organizations such as, for example, International Financial Reporting Standards 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.
28. 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.

Effective Date

29. This ISA is effective for audits of financial statements for periods.....

Public Sector Perspective

1. *The purpose of the engagement letter is to inform the auditee of the nature of the engagement and to clarify the responsibilities of the parties involved. The legislation and regulations governing the operations of public sector audits generally mandate the appointment of a public sector auditor and the use of audit engagement letters may not be a widespread practice. Nevertheless, a letter setting out the nature of the engagement or recognizing an engagement not indicated in the legislative mandate may be useful to both parties. Public sector auditors have to give serious consideration to issuing audit engagements letters when undertaking an audit.*
7. *Paragraphs 12 to 19 of this ISA deal with the action a private sector auditor may take when there are attempts to change an audit engagement to one which provides a lower level of assurance. In the public sector specific requirements may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to a minister, the legislature or the public if management (including the department head) attempts to limit the scope of the audit.*

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 flows 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 caused by fraud or error. An audit ~~includes~~ involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on the auditor's assessment of the risks of misstatement in 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.

An audit includes considering internal control relevant to the entity's preparation of the financial statements as a basis for designing procedures that are appropriate in the circumstances. Our understanding of internal control will not, however, be a sufficient basis for expressing an opinion on the design or effective operation of some or all of the company'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 the financial statements.¹ ~~accounting and internal control systems which come to our notice.~~

¹ 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. This paragraph may not be appropriate in such circumstances.

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 also 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 of misstatement, whether due to fraud and 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 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

(signed)

.....
Name and Title
Date

CONFORMING AMENDMENT

ISA 701, "MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT"

(Based on paragraphs 29 to 46 of existing 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 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 audit report is necessary¹. 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.

¹ IAASB revised ISA 700, "The Independent Auditor's Report on 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.

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 profit-oriented 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 (such as a not-for-profit organization) and the special purpose audit engagements described in ISA 800, "The 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.]

~~40~~15. 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.]

CONFORMING AMENDMENTS TO ISA 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 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.

- (c) “Date of the auditor’s report” is the date of the completion of the audit¹. 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:

¹ 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.

- 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.
 - 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 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.

~~45~~16. 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.

~~46~~17. **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.

~~47~~18. 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.

~~48~~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

~~49~~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 ~~45~~ and ~~56~~ 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.

CONFORMING AMENDMENT

ISA 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 another comprehensive basis of accounting other than International Accounting Standards or national standards;
 - ~~Specified~~ 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 (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 a Another 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 specifically identified users. The needs of such users will determine the applicable financial reporting framework in such circumstances (which is referred to in this ISA as another comprehensive basis of

accounting). Examples of financial reporting frameworks that are designed to address the needs of specifically identified 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 profit-oriented 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 specifically identified 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 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.~~ **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 audit reports on components of financial statements.**
- ~~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.]

* Note -- The illustrative report in ISA 800 for a schedule of accounts receivable uses a "true and fair view/presents fairly" opinion. Thus, ISA 800 allows the same wording of the audit opinion on a component as is used in ISA 700.