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International Standards on Auditing (ISAs) are to be applied in the audit of financial statements. ISAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

ISAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the ISA including explanatory and other material contained in the ISA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an ISA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

ISAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued by the Public Sector Committee of the International Federation of Accountants is set out at the end of an ISA. Where no PSP is added, the ISA is applicable in all material respects to the public sector.

Introduction

1. The purpose of this International Standard on Auditing (ISA) is to establish standards and provide guidance on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity. Much of the guidance provided can be adapted to auditor reports on financial information other than financial statements.
2. **The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.**
3. This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework¹ being either International Accounting Standards (IASs) or relevant national standards or practices. It may also be necessary to consider whether the financial statements comply with statutory requirements.
4. **The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole.**

Basic Elements of the Auditor's Report

5. The auditor's report includes the following basic elements, ordinarily in the following layout:
 - (a) title;
 - (b) addressee;
 - (c) *opening or introductory paragraph*
 - (i) identification of the financial statements audited;
 - (ii) a statement of the responsibility of the entity's management and the responsibility of the auditor;
 - (d) *scope paragraph (describing the nature of an audit)*
 - (i) a reference to the ISAs or relevant national standards or practices;
 - (ii) a description of the work the auditor performed;
 - (e) *opinion paragraph* containing
 - (i) a reference to the financial reporting framework used to prepare the financial statements (including identifying the country of

¹ The Framework of International Standards on Auditing also identifies another authoritative and comprehensive financial reporting framework. Reporting in accordance with this third type of framework is covered in ISA 800, "The Auditor's Report on Special Purpose Audit Engagements."

origin² of the financial reporting framework when the framework used is not International Accounting Standards); and

- (ii) an expression of opinion on the financial statements;
- (f) date of the report;
- (g) auditor's address; and
- (h) auditor's signature.

A measure of uniformity in the form and content of the auditor's report is desirable because it helps to promote the reader's understanding and to identify unusual circumstances when they occur.

Title

6. **The auditor's report should have an appropriate title.** It may be appropriate to use the term "Independent Auditor" in the title to distinguish the auditor's report from reports that might be issued by others, such as by officers of the entity, the board of directors, or from the reports of other auditors who may not have to abide by the same ethical requirements as the independent auditor.

Addressee

7. **The auditor's report should be appropriately addressed as required by the circumstances of the engagement and local regulations.** The report is ordinarily addressed either to the shareholders or the board of directors of the entity whose financial statements are being audited.

Opening or Introductory Paragraph

8. **The auditor's report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.**
9. **The report should include a statement that the financial statements are the responsibility of the entity's management³ and a statement that the responsibility of the auditor is to express an opinion on the financial statements based on the audit.**
10. Financial statements are the representations of management. The preparation of such statements requires management to make significant accounting estimates and judgments, as well as to determine the appropriate accounting principles and methods used in preparation of the financial statements. This determination will be made in the context of the financial reporting framework that management chooses, or is required, to use. In

² 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.

³ The level of management responsible for the financial statements will vary according to the legal situation in each country.

contrast, the auditor's responsibility is to audit these financial statements in order to express an opinion thereon.

11. An illustration of these matters in an opening (introductory) paragraph is:

“We have audited the accompanying⁴ balance sheet of the ABC Company as of December 31, 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.”

Scope Paragraph

12. **The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs or in accordance with relevant national standards or practices as appropriate.** “Scope” refers to the auditor's ability to perform audit procedures deemed necessary in the circumstances. The reader needs this as an assurance that the audit has been carried out in accordance with established standards or practices. Unless otherwise stated, the auditing standards or practices followed are presumed to be those of the country indicated by the auditor's address.
13. **The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement.**
14. **The auditor's report should describe the audit as including:**
- (a) **examining, on a test basis, evidence to support the financial statement amounts and disclosures;**
 - (b) **assessing the accounting principles used in the preparation of the financial statements;**
 - (c) **assessing the significant estimates made by management in the preparation of the financial statements; and**
 - (d) **evaluating the overall financial statement presentation.**
15. **The report should include a statement by the auditor that the audit provides a reasonable basis for the opinion.**
16. An illustration of these matters in a scope paragraph is:

“We conducted 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 assurance about whether the financial statements are free of material misstatement. An audit includes 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

⁴ The reference can be by page numbers.

evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.”

Opinion Paragraph

17. **The opinion paragraph of the auditor’s report should clearly indicate the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards) and state the auditor’s opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with that financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.**
18. The terms used to express the auditor’s opinion are “give a true and fair view” or “present fairly, in all material respects,” and are equivalent. Both terms indicate, amongst other things, that the auditor considers only those matters that are material to the financial statements.
19. The financial reporting framework is determined by IASs, rules issued by recognized standard setting bodies, and the development of general practice within a country, with an appropriate consideration of fairness and with due regard to local legislation. To advise the reader of the context in which the auditor’s opinion is expressed, the auditor’s opinion indicates the framework upon which the financial statements are based. The auditor refers to the financial reporting framework in such terms as:

“...in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin])...”

This designation will help the user to better understand which financial reporting framework was used in preparing the financial statements. When reporting on financial statements that are prepared specifically for use in another country, the auditor considers whether appropriate disclosure has been made in the financial statements about the financial reporting framework that has been used.
20. In addition to an opinion on the true and fair view (or fair presentation, in all material respects,), the auditor’s report may need to include an opinion as to whether the financial statements comply with other requirements specified by relevant statutes or law.
21. An illustration of these matters in an opinion paragraph is:

“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 the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting

framework with reference to the country of origin⁵) (and comply with ...⁶.”

22. [Paragraph deleted by revision to ISA 700 effective for audits of financial statements for periods ending on or after September 30 2002.]

Date of Report

23. **The auditor should date the report as of the completion date of the audit.** This 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.
24. **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 on which the financial statements are signed or approved by management.**

Auditor's Address

25. **The report should name a specific location, which is ordinarily the city where the auditor maintains the office that has responsibility for the audit.**

Auditor's Signature

26. **The report should be signed in the name of the audit firm, the personal name of the auditor or both, as appropriate.** The auditor's report is ordinarily signed in the name of the firm because the firm assumes responsibility for the audit.

The Auditor's Report

27. **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 identified financial reporting framework.** An unqualified opinion also indicates implicitly that any changes in accounting principles or in the method of their application, and the effects thereof, have been properly determined and disclosed in the financial statements.
28. The following is an illustration of the entire auditor's report incorporating the basic elements set forth and illustrated above. This report illustrates the expression of an unqualified opinion.

“AUDITOR'S REPORT

(APPROPRIATE ADDRESSEE)

⁵ See footnote 2.

⁶ Refer to relevant statutes or law.

THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying⁷ balance sheet of the ABC Company as of December 31, 20X1, and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audit provides a reasonable basis for our 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 the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin⁸]) (and comply with ...⁹).

AUDITOR

Date
Address"

Modified Reports

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.

Uniformity in the form and content of each type of modified report will further the user's understanding of such reports. Accordingly, this ISA

⁷ See footnote 4.

⁸ See footnote 2.

⁹ See footnote 6

includes suggested wording to express an unqualified opinion as well as examples of modifying phrases for use when issuing modified reports.

Matters That Do Not Affect the Auditor's Opinion

30. 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 and would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.
31. **The auditor should modify the auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem.**
32. **The auditor should consider modifying the auditor's report by adding a paragraph if there is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements.** An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.
33. An illustration of an emphasis of matter paragraph for a significant uncertainty in an auditor's report follows:

“In our opinion ... (remaining words are the same as illustrated in the opinion paragraph—paragraph 28 above).

Without qualifying our opinion we draw attention to Note X to the financial statements. The Company is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The Company has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial statements.”

(An illustration of an emphasis of matter paragraph relating to going concern is set out in ISA 570, “Going Concern.”)
34. The addition of a paragraph emphasizing a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.
35. 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, 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

36. An auditor may not be able to express an unqualified opinion when either of the following circumstances exist and, in the auditor's judgment, the effect of the matter is or may be material to the financial statements:
- (a) there is a limitation on the scope of the auditor's work; or
 - (b) there is a disagreement with management regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosures.

The circumstances described in (a) could lead to a qualified opinion or a disclaimer of opinion. The circumstances described in (b) could lead to a qualified opinion or an adverse opinion. These circumstances are discussed more fully in paragraphs 41–46.

37. **A qualified opinion should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management, or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.**
38. **A disclaimer of opinion should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.**
39. **An adverse opinion should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.**
40. **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 and may include a reference to a more extensive discussion, if any, in a note to the financial statements.

Circumstances That May Result in Other Than an Unqualified Opinion

Limitation on Scope

41. A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that

the auditor will not carry out an audit procedure that the auditor believes is necessary). However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists, the auditor would ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor would not accept such an audit engagement when the limitation infringes on the auditor's statutory duties.

42. A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion.
43. **When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.**
44. Illustrations of these matters are set out below.

Limitation on Scope—Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph—paragraph 28 above).

Except as discussed in the following paragraph, we conducted our audit in accordance with ... (remaining words are the same as illustrated in the scope paragraph—paragraph 28 above).

We did not observe the counting of the physical inventories as of December 31, 20X1, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the financial statements give a true and ... (remaining words are the same as illustrated in the opinion paragraph—paragraph 28 above)."

Limitation on Scope—Disclaimer of Opinion

"We were engaged to audit the accompanying balance sheet of the ABC Company as of December 31, 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. (Omit the sentence stating the responsibility of the auditor).

(The paragraph discussing the scope of the audit would either be omitted or amended according to the circumstances.)

(Add a paragraph discussing the scope limitation as follows:)

We were not able to observe all physical inventories and confirm accounts receivable due to limitations placed on the scope of our work by the Company.

Because of the significance of the matters discussed in the preceding paragraph, we do not express an opinion on the financial statements."

Disagreement with Management

45. The auditor may disagree with management about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. **If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion.**
46. Illustrations of these matters are set out below.

Disagreement on Accounting Policies-Inappropriate Accounting Method—Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph—paragraph 28 above).

We conducted our audit in accordance with ... (remaining words are the same as illustrated in the scope paragraph—paragraph 28 above).

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements which practice, in our opinion, is not in accordance with International Accounting Standards. The provision for the year ended December 31, 20X1, should be xxx based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the fixed assets should be reduced by accumulated depreciation of xxx and the loss for the year and accumulated deficit should be increased by xxx and xxx, respectively.

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and ... (remaining words are the same as illustrated in the opinion paragraph—paragraph 28 above)."

Disagreement on Accounting Policies—Inadequate Disclosure—Qualified Opinion

"We have audited ... (remaining words are the same as illustrated in the introductory paragraph—paragraph 28 above).

We conducted our audit in accordance with ... (remaining words are the same as illustrated in the scope paragraph—paragraph 28 above).

On January 15, 20X2, the Company issued debentures in the amount of xxx for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after December 31, 19X1. In our opinion, disclosure of this information is required by ...¹⁰.

In our opinion, except for the omission of the information included in the preceding paragraph, the financial statements give a true and ... (remaining words are the same as illustrated in the opinion paragraph—paragraph 28 above).”

Disagreement on Accounting Policies—Inadequate Disclosure—Adverse Opinion

“We have audited ... (remaining words are the same as illustrated in the introductory paragraph—paragraph 28 above).

We conducted our audit in accordance with ... (remaining words are the same as illustrated in the scope paragraph—paragraph 28 above).

(Paragraph(s) discussing the disagreement).

In our opinion, because of the effects of the matters discussed in the preceding paragraph(s), the financial statements do not give a true and fair view of (or do not ‘present fairly’) the financial position of the Company as of December 20, 19X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin¹¹]) (and do not comply with ...¹²).”

Effective Date

47. This revised standard is effective for audits of financial statements for periods ending on or after September 30, 2002. Earlier application is encouraged.

Public Sector Perspective

1. While the basic principles contained in this ISA apply to the audit of financial statements in the public sector, the legislation giving rise to the audit mandate may specify the nature, content and form of the auditor’s report.
2. This ISA does not address the form and content of the auditor’s report in circumstances where financial statements are prepared in conformity with a

¹⁰ See footnote 6.

¹¹ See footnote 2.

¹² See footnote 6.

disclosed basis of accounting, whether mandated by legislation or ministerial (or other) directive, and that basis results in financial statements which are misleading.

3. Paragraph 17 of this standard requires the auditor to indicate clearly the financial reporting framework used to prepare the financial statements. Where a public sector entity has adopted International Public Sector Accounting Standards as the financial reporting framework, the auditor should clearly state that fact in the audit opinion. For example:

“In our opinion, the financial statements present fairly, in all material respects, the financial position of the [public sector entity] as of December 31, 20X1 and of its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.”