- The auditor's external expert's responsibility to communicate circumstances that may create threats to that expert's objectivity, and any relevant safeguards that may eliminate or reduce such threats to an acceptable level.

Confidentiality

- The need for the auditor's expert to observe confidentiality requirements, including:
  - The confidentiality provisions of relevant ethical requirements that apply to the auditor.
  - Additional requirements that may be imposed by law or regulation, if any.
  - Specific confidentiality provisions requested by the entity, if any.

Copyright

KAEG-I [INTL VERSION 2024]: ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements

Contents

KAEG-I [INTL VERSION]: ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements [ISA | KAEGISA700]

Form of Opinion

International Standards on Auditing: ISA 700.16-20

ISA Application and Other Explanatory Material: ISA 700.A16-A19

How do we comply with the standards?

[The remaining content in this section is Content Under Development. In the meantime, refer to the International Standards Reports Manual (ISRM) https://alex.kpmg.com/AROWeb/bridge/17966/17966?d=UK,INTL,US]

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

International Standards on Auditing: ISA 700.21-49

ISA Application and Other Explanatory Material: ISA 700.A20-A69

How do we comply with the standards?

[Content Under Development. In the meantime, refer to the International Standards Reports Manual (ISRM) https://alex.kpmg.com/AROWeb/bridge/17966/17966?d=UK,INTL,US]

Auditor's Report Prescribed by Law or Regulation

International Standards on Auditing: ISA 700.50

ISA Application and Other Explanatory Material: ISA 700.A70-A75

How do we comply with the standards?

[Content Under Development. In the meantime, refer to the International Standards Reports Manual (ISRM) https://alex.kpmg.com/AROWeb/bridge/17966/17966?d=UK,INTL,US]

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing

International Standards on Auditing: ISA 700.51-52

ISA Application and Other Explanatory Material: ISA 700.A76-A77

How do we comply with the standards?

[Content Under Development. In the meantime, refer to the International Standards Reports Manual (ISRM) https://alex.kpmg.com/AROWeb/bridge/17966/17966?d=UK,INTL,US]

Supplementary Information Presented with the Financial Statements

International Standards on Auditing: ISA 700.53-54

ISA Application and Other Explanatory Material: ISA 700.A78-A84

How do we comply with the standards?

1 Evaluate whether supplementary information is integral to the financial statements

[The remaining content in this section is Content Under Development. In the meantime, refer to the International Standards Reports Manual (ISRM) https://alex.kpmg.com/AROWeb/bridge/17966/17966?d=UK,INTL,US]

Appendix - Illustrations of Independent Auditor's Reports on Financial Statements

International Standards on Auditing: ISA 700.Appendix

Subsequent to the issuance of our auditor's report - Inappropriate use of the auditor's report on the entity's website

International Standards on Auditing: ISA 700.KPMG

What additional activities do we perform?

1 Consult when financial statements are altered or the auditor's report is used inappropriately on a website

ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements

View the Full Chapter for this Standard

ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*

(Effective for audits of financial statements for periods ending on or after December 15, 2016)

International Standard on Auditing (ISA) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* , should be read in conjunction with ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.*

Introduction, Objectives, Definitions

International Standards on Auditing: ISA 700.01-09

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

2. ISA 701[1] deals with the auditor's responsibility to communicate key audit matters in the auditor's report. ISA 705[2] (Revised) and ISA 706 (Revised)[3] deal with how the form and content of the auditor's

report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other ISAs also contain reporting requirements that are applicable when issuing an auditor's report.

---

1 ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

2 ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

3 ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

3. This ISA applies to an audit of a complete set of general purpose financial statements and is written in that context. ISA 800 (Revised) [4] deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805 (Revised) [5] deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This ISA also applies to audits for which ISA 800 (Revised) or ISA 805 (Revised) apply.

---

4 ISA 800 (Revised), *Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

5 ISA 805 (Revised), *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

4. The requirements of this ISA are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This ISA promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with 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 user's understanding and to identify unusual circumstances when they occur.

Effective Date

5. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016.

Objectives

6. The objectives of the auditor are:

> (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
>
> (b) To express clearly that opinion through a written report.

Definitions

7. For purposes of the ISAs, the following terms have the meanings attributed below:

> (a) General purpose financial statements - Financial statements prepared in accordance with a general purpose framework.

(b) General purpose framework - A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

- Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
- Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.[6]

(c) Unmodified opinion - The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.[7]

---

6 ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* , paragraph 13(a)

7 Paragraphs 25 - 26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

8. Reference to "financial statements" in this ISA means "a complete set of general purpose financial statements."[8] The requirements of the applicable financial reporting framework determine the presentation, structure and content of the financial statements, and what constitutes a complete set of financial statements.

---

8 ISA 200, paragraph 13(f) sets out the content of financial statements.

9. Reference to "International Financial Reporting Standards" in this ISA means the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, and reference to "International Public Sector Accounting Standards" means the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board.

Forming an Opinion on the Financial Statements

International Standards on Auditing: ISA 700.10-15

Requirements

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.[9],[10]

9 ISA 200, paragraph 11

10 Paragraphs 25 - 26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

(a) The auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained;[11]

(b) The auditor's conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;[12] and

(c) The evaluations required by paragraphs 12 - 15.

11 ISA 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

12 ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1 - A3)

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

(a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4)

(b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

(c) The accounting estimates and related disclosures made by management are reasonable;

(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:

- The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.
- The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)

(e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A6)

(f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12 - 13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of: (Ref: Para A7 - A9)

(a) The overall presentation, structure and content of the financial statements; and

(b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A10 - A15)

ISA Application and Other Explanatory Material: ISA 700.A1-A15

Application and Other Explanatory Material

Qualitative Aspects of the Entity's Accounting Practices (Ref: Para. 12)

A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.

A2. ISA 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.[20] In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

- The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

---

20 ISA 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

A3. ISA 540 addresses possible management bias in making accounting estimates.[21] Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

---

21 ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21

Accounting Policies Appropriately Disclosed in the Financial Statements (Ref: Para. 13(a))

A4. In evaluating whether the financial statements appropriately disclose the significant accounting policies selected and applied, the auditor's consideration includes matters such as:

- Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;
- Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances and disclosures in the financial statements in the particular circumstances of the entity's operations and its environment; and
- The clarity with which the significant accounting policies have been presented.

Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable (Ref: Para. 13(d))

A5. Evaluating the understandability of the financial statements includes consideration of such matters as whether:

- The information in the financial statements is presented in a clear and concise manner.
- The placement of significant disclosures gives appropriate prominence to them (e.g., when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information.

Disclosures of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

A6. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. Evaluating whether, in view of the applicable financial reporting framework, the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows includes consideration of such matters as:

- The extent to which the information in the financial statements is relevant and specific to the circumstances of the entity; and
- Whether the disclosures are adequate to assist the intended users to understand:
  - The nature and extent of the entity's potential assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework.
  - The nature and extent of risks of material misstatement arising from transactions and events.
  - The methods used and the assumptions and judgments made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analyses.

Evaluating Whether the Financial Statements Achieve Fair Presentation (Ref: Para. 14)

A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.[22] As noted in paragraph 7(b) of this ISA, a fair presentation[23] financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.[24]

---

22 For example, International Financial Reporting Standards (IFRSs) note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

23 See ISA 200, paragraph 13(a)

24 For example, IFRSs require an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (International Accounting Standard 1, *Presentation of Financial Statements*, paragraph 17(c)).

A8. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.

A9. Evaluating whether the financial statements achieve fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

A10. As explained in ISA 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.[25] That description advises users of the financial statements of the framework on which the financial statements are based.

---

25 ISA 200, paragraphs A4 - A5

A11. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

A12. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., "the financial statements are in substantial compliance with International Financial Reporting Standards") is not an adequate description of that framework as it may mislead users of the financial statements.

Reference to More than One Financial Reporting Framework

A13. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., the national framework and IFRSs). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (e.g., IFRSs) as its own national framework, or has eliminated all barriers to compliance with it.

A14. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

A15. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (e.g., financial statements prepared in accordance with the national framework that also describe the extent to which they comply with IFRSs). Such description may constitute supplementary financial information as discussed in paragraph 54 and is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements.

How do we comply with the Standards?

[ISA | KAEGHDWC]

1 Evaluate the audit results and form an opinion [ISA | 4424]

What do we do?

Evaluate the audit results and form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

Why do we do this?

Regardless of how much focus we place on designing and performing audit procedures for each risk of material misstatement, if we fail to evaluate our audit results properly at the end of the audit, we could undermine all our hard work and risk forming and expressing the wrong opinion.

Execute the Audit

What do we do toward the end of the audit of financial statements? [ISA | 4424.1300]

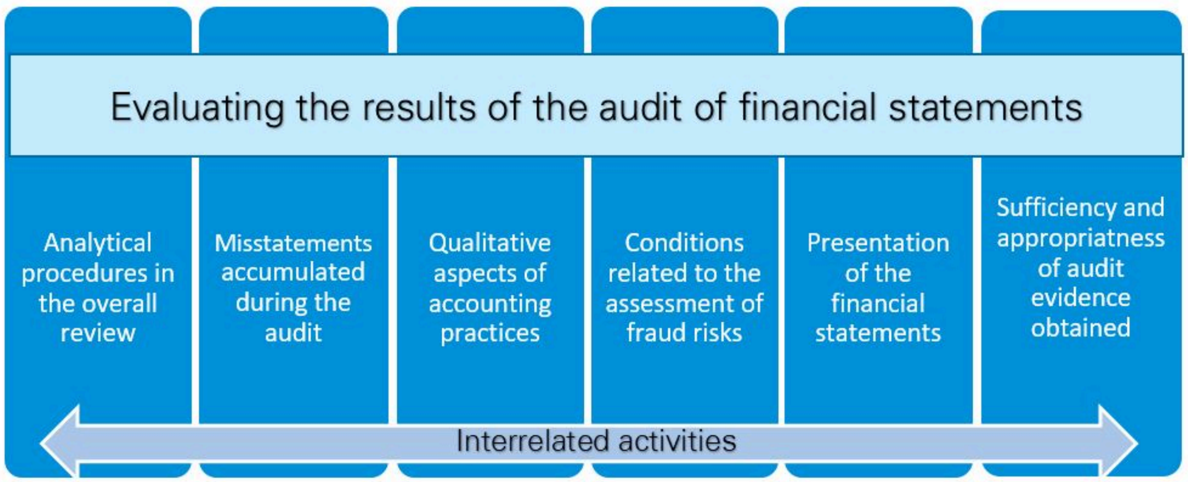
Toward the end of the audit, we form an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

In order to form an opinion, we evaluate the results of the audit of financial statements with the ultimate goal of determining whether we have obtained sufficient appropriate audit evidence. In particular, we:

- perform final analytical procedures and evaluate the results ;
- accumulate, communicate and evaluate misstatements ;
- evaluate qualitative aspects of accounting practices and respond to the evaluation ;
- evaluate conditions related to the assessment of fraud risks ;
- evaluate the presentation of the financial statements ; and
- evaluate the sufficiency and appropriateness of audit evidence .

These activities:

- complement the detailed procedures we performed to address the risks of material misstatement in the audit.
- are all interrelated and have the ultimate goal of determining whether we have obtained sufficient appropriate audit evidence to support our audit opinion. This is our opportunity to evaluate whether we have the right audit evidence and enough of it to form our opinion.



When we perform these activities toward the end of the audit, we step back and think comprehensively about everything we learned and all of the audit evidence we obtained.

Why do we think comprehensively about everything we learned and all of the audit evidence we obtained?

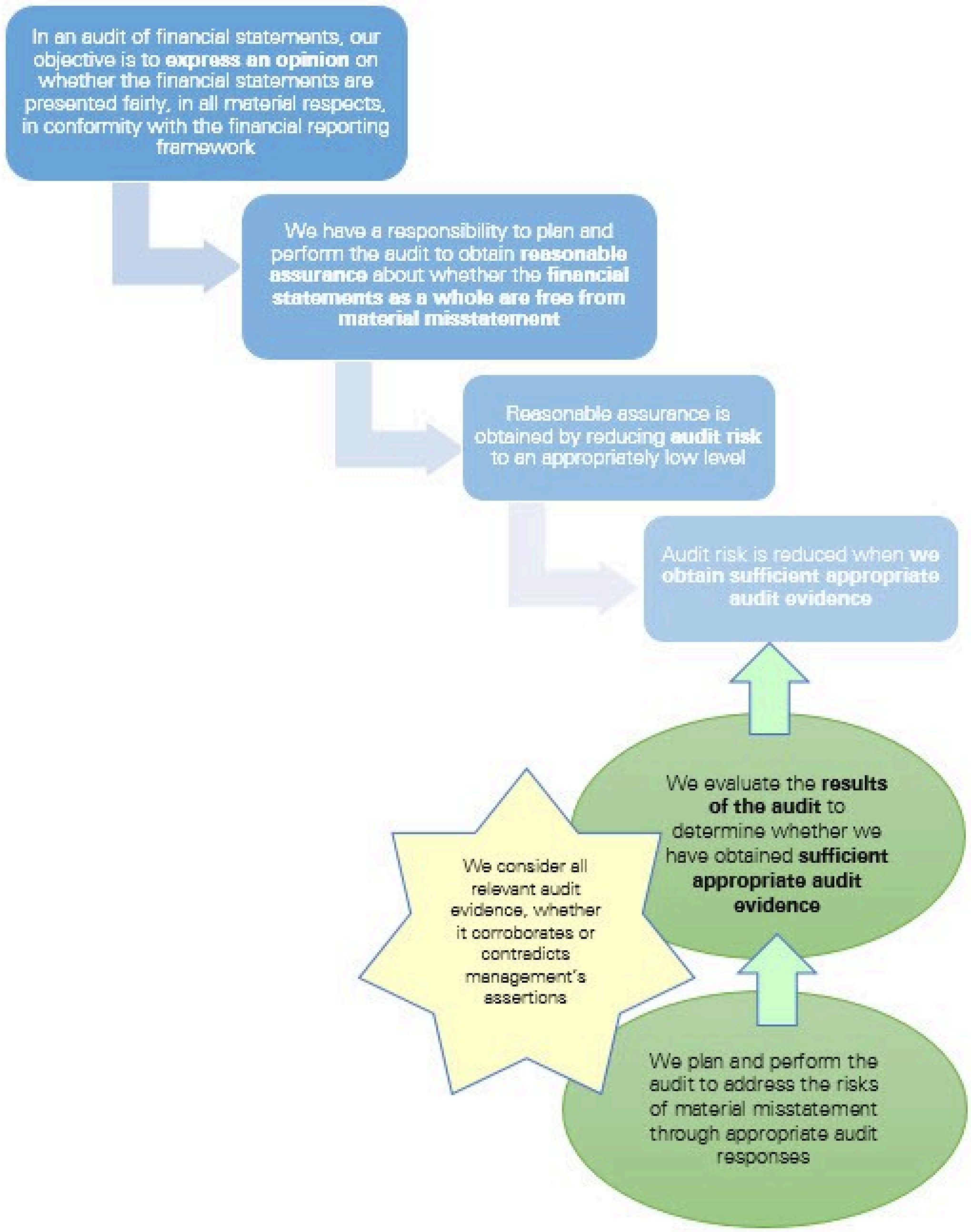
We may believe that not finding anything major while performing procedures during the audit means we are not missing significant issues. However, this type of thinking ignores other considerations, for example:

- smaller issues may aggregate to a bigger issue - e.g. a potential material misstatement;
- trends/patterns we failed to see may exist and suggest management bias;
- evidence may exist that is inconsistent with or contradicts a conclusion we reached for a specific procedure or group of procedures; and/or
- the risk of undetected misstatements may be higher than we thought during planning as a result of misstatements that are identified.

These issues may be difficult to identify unless we step back to analyze all of the work that we performed and evaluate the results of the audit comprehensively.

How does evaluating the audit results to determine whether we have obtained sufficient appropriate audit evidence help us express the audit opinion? [ISA | 4424.1500]

The diagram below shows how evaluating the results of the audit to determine whether we have obtained sufficient appropriate audit evidence helps us achieve our objective - to form and express the right audit opinion on the financial statements. The blue shapes represent our professional responsibilities. The green shapes represent what we do to execute those professional responsibilities.



1.1 Evaluate qualitative aspects of accounting practices and respond to the evaluation [ISA | 4458]

What do we do?

Evaluate qualitative aspects of the entity's accounting practices and respond to the evaluation.

Why do we do this?

As we evaluate the results of our audit, we evaluate the qualitative aspects of the entity's accounting practices because:

- issues related to the qualitative aspects of the entity's accounting practices may result in a material misstatement of the financial statements and
- we communicate the results of this evaluation and the alternative accounting treatments to those charged with governance.

Execute the Audit

How do we evaluate the qualitative aspects of an entity's accounting practices and respond accordingly? [ISA | 4458.1300]

We evaluate the qualitative aspects of an entity's accounting practices and respond accordingly by performing the following activities:

- Evaluate qualitative aspects of accounting practices, including management bias ;
- Regarding management bias specifically:
  - Evaluate management bias in the selective correction of misstatements ;
  - Evaluate management bias in the identification of offsetting adjustments ;
  - Evaluate management bias in significant accounting policies in aggregate ;
  - Evaluate management bias in the preparation of accounting estimates ;
  - Evaluate management bias in the preparation of disclosures individually and in aggregate ;
  - If we identify indicators of bias and/or actual bias in management's judgments:
    - Evaluate whether the bias is material to the financial statements and/or is the result of fraud ;
    - Evaluate whether our risk assessments and the related audit responses remain appropriate .

1.1.1 Evaluate qualitative aspects of accounting practices, including management bias [ISA | 4459]

What do we do?

Evaluate qualitative aspects of the entity's accounting practices, including potential bias in management's judgments about the amounts and disclosures in the financial statements.

Why do we do this?

As we evaluate the results of our audit, we evaluate the qualitative aspects of the entity's accounting practices because:

- issues related to the qualitative aspects of the entity's accounting practices may result in a material misstatement of the financial statements; and
- we communicate the results of this evaluation and the alternative accounting treatments to those charged with governance.

Execute the Audit

What does 'qualitative aspects of the accounting practices' mean? [ISA | 4459.1300]

The qualitative aspects of the entity's accounting practices relate to how management operates and makes decisions within the confines of the financial reporting framework - i.e. how management choose between acceptable alternatives.

> Consider a situation in which we are walking to the supermarket and reach a fork in the road where we can choose between walking along a street through a construction site or a path through a park. Both routes take us to the supermarket in roughly the same amount of time. Although going through the construction site may be an acceptable way to reach the supermarket, qualitatively, we may believe the path through the park is a better route because the view and atmosphere are more pleasant.
>
> Similarly, in a financial statement audit, we may identify more than one accounting practice that is acceptable under the applicable financial reporting framework. However, depending on the circumstances, there may be certain practices or alternatives that we consider are the best or most appropriate.

What is management bias in judgments about the amounts and disclosures in the financial statements?

[ISA | 4459.1400]

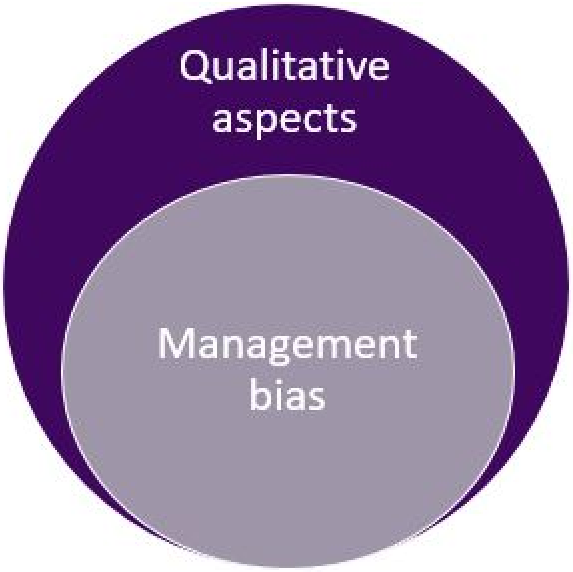
Bias is an inclination in favor of or against one thing, person, or group compared with another.

> For example, in a basketball game, there may be times when a referee has to quickly decide whether there was a foul during a play. When it is not clear, the referee may be unconsciously biased if one of those teams is his favorite team.

Given management's position, there is a possibility that they might lack neutrality when preparing the financial statements and may be biased in choosing or applying their accounting practices. In other words, management may choose an accounting practice that is acceptable under the financial reporting framework but beneficial to management or the entity.

> Consider a situation in which a tour company advertises a walking tour that includes walking through a nice park on the way to a well-known tourist site. The tour guide has the option of entering the park at the first entrance, maximizing the time in the park, or at the second entrance, which means more time walking along an ordinary street. There is a kiosk that sells snacks and souvenirs at both entrances and the tour company owns the kiosk at the second entrance. Both routes meet the description in the advertisement and they take people to the tourist site in roughly the same amount of time. We may believe that the first route is preferable because it is more in line with what the tourists are expecting. Nevertheless, the tour guide picks the second gate, which benefits the tour guide but not the paying customers. In this situation, the tour guide chose an option that was acceptable but that was to his benefit.

The potential for bias in management's judgments about the amounts and disclosures in the financial statements is one aspect we are particularly concerned about when we evaluate the qualitative aspects of an entity's accounting practices.



Does management bias always indicate fraud?

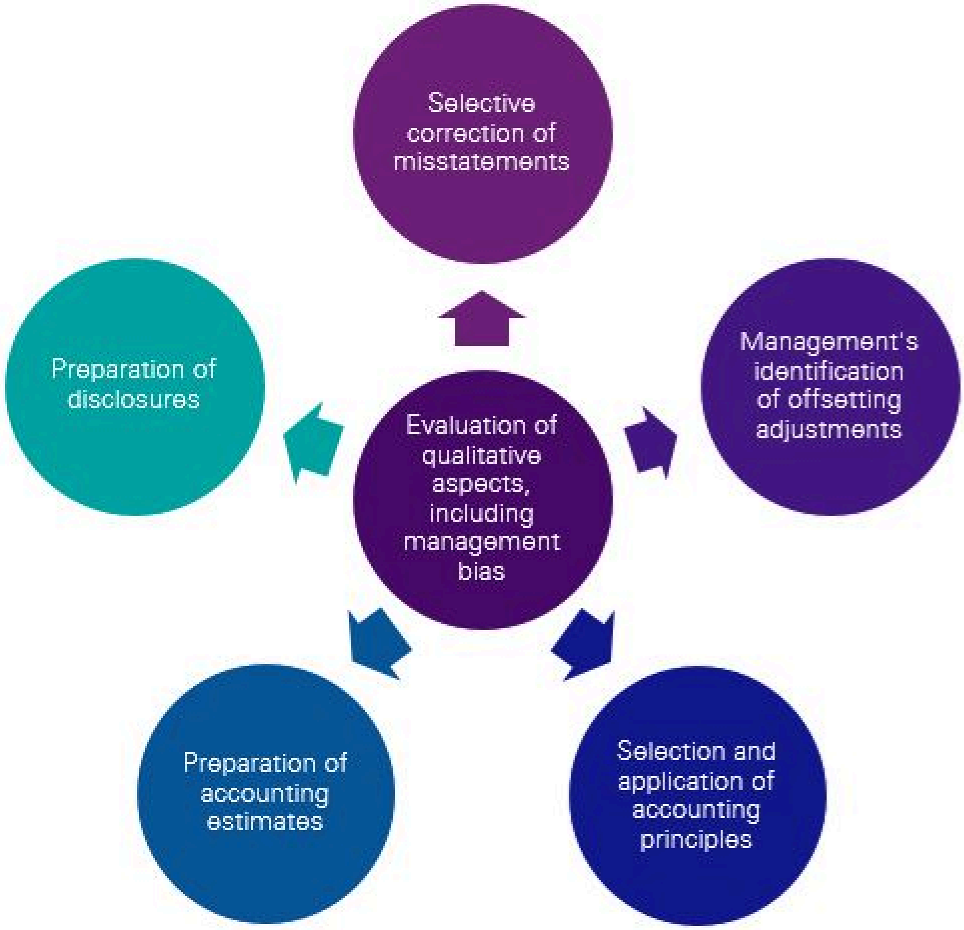
No. Some form of management bias is inherent in subjective decisions. However, when making judgments, management may have no intention to mislead the financial statements' users. Fraud exists only if there is intention to mislead, e.g. manipulation of earnings.

> In the example of the basketball game, fraudulent behavior would exist if the referee favored his favorite team on purpose with the conscious intention to give that team an unfair advantage.

What areas in the financial statements do we focus on during our evaluation of the qualitative aspects of accounting practices, including potential management bias? [ISA | 4459.1600]

Our evaluation focuses on the areas where management is allowed to make a number of judgments about the amounts and disclosures in the financial statements, such as management's:

- responses to misstatements identified;
- selection and application of accounting principles/policies;
- preparation of accounting estimates; and
- preparation of disclosures in the financial statements.

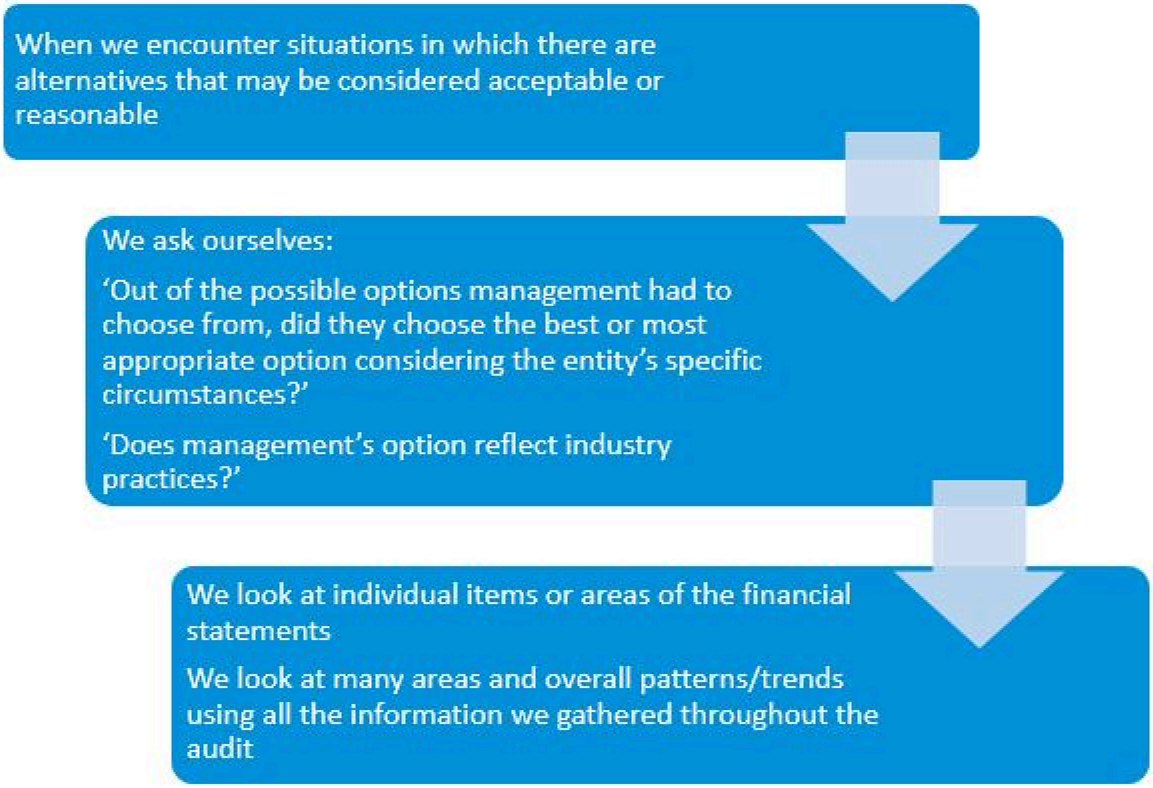


When do we evaluate the qualitative aspects of accounting practices, including potential management bias? [ISA | 4459.1700]

We evaluate the qualitative aspects of an entity's accounting practices:

- throughout the audit on individual items or areas of the financial statements; and
- toward the end of the audit, looking at many areas and overall patterns/trends.

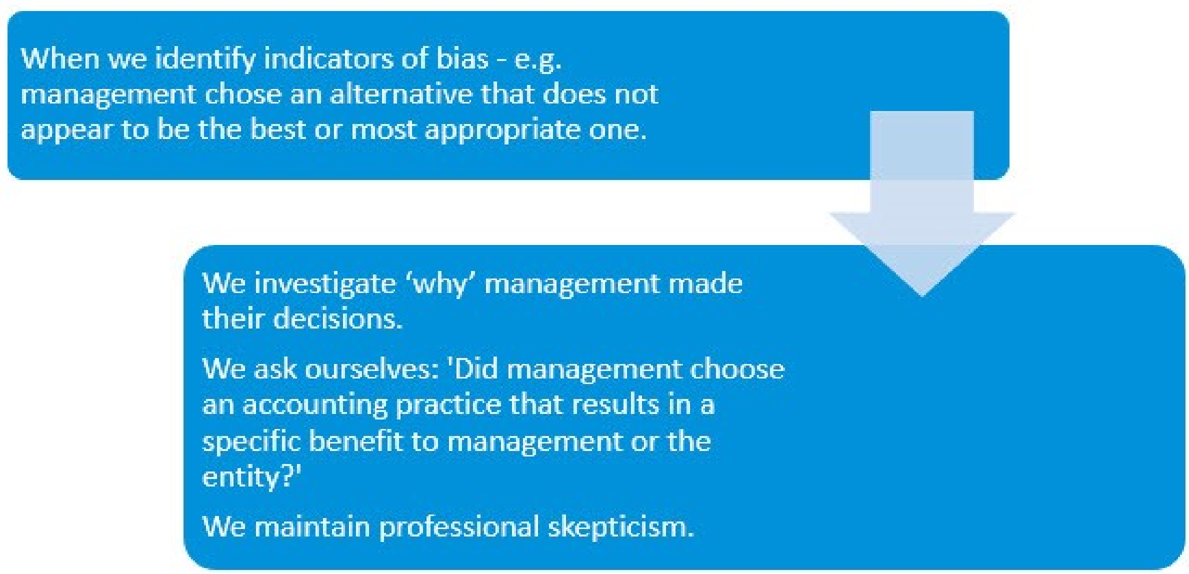
How do we identify concerns regarding the qualitative aspects of accounting practices, including management bias? [ISA | 4459.15902]



As a practical matter, when we encounter situations in which there are alternatives that may be considered acceptable or reasonable, we often ask ourselves: 'Out of the possible options management had to choose from, did they choose the best or most appropriate option considering the entity's specific circumstances?' 'Does management's option reflect industry practice?' Asking ourselves these questions can help us identify areas in which we may have concerns about the qualitative aspects of an entity's accounting practices.

We do this throughout the audit, looking at individual items or areas of the financial statements. However, issues related to qualitative aspects may not always be apparent by looking at only one or two individual items or areas. As a result, evaluating the qualitative aspects at the end of the audit is often more effective because we can step back and look at many areas and overall patterns/trends using all the information we gathered throughout the audit. Taking a holistic approach is often more effective.

In particular, how do we identify management bias?



Identifying management bias is not easy. Sometimes we will identify only certain indicators of possible bias. In that case, we follow up on them to determine whether there is management bias, how widespread this bias is, and whether we believe there is a fraud risk or actual fraud. We usually achieve this by investigating 'why' management made their decisions and asking ourselves: 'Did management choose an accounting practice that results in a specific benefit to management or the entity?'. Once we understand the 'why', it is easier to determine whether those decisions were biased.

Maintaining professional skepticism is an essential part of our evaluation of whether there is management bias.

1.1.2 Evaluate management bias in the selective correction of misstatements [ISA | 4460]

What do we do?

IF there are misstatements that management did not correct, THEN obtain an understanding of why management did not correct them.

Why do we do this?

Management's selective correction of misstatements may be an indicator of management bias. This concern increases when it appears there is a specific motive behind it, e.g. increasing revenue or income. However, the fact that management does not correct every misstatement does not necessarily mean there is bias. Obtaining an understanding of the reasons for which management did not correct a misstatement can help us to determine whether management bias actually exists.

Execute the Audit

How may management be biased in selectively correcting misstatements? [ISA | 4460.1300]

There are many ways management may be biased in selectively correcting misstatements, including by:

- correcting misstatements that have the effect of increasing reported earnings but not misstatements that have the effect of decreasing reported earnings - it may appear that management is biased to increase profitability;
- correcting only selected misstatements that have an offsetting effect or immaterial effect;
- correcting misstatements up to a certain date and refusing to make negative adjustments after that date - it may appear that management is biased for the profits not to go lower than a certain targeted level;
- correcting only those misstatements that do not affect metrics that are used by analysts and investors, for example revenues, EBITDA or other key operating ratios; and/or
- not correcting certain misstatements, including omissions, in prominent disclosures, for example revenue recognition, going concern, subsequent events or commitments and contingencies - it may appear that management is biased in how they present information particularly in sensitive financial statement disclosures.

What do we do if, after obtaining an understanding of why management did not correct misstatements, we determine that there is management bias in the selective correction of misstatements? [ISA | 4460.1400]

If, after obtaining an understanding of why management did not correct misstatements, we determine that there is management bias in the selective correction of misstatements, we:

- take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. See activity 'Evaluate whether the bias is material to the financial statements and/or is the result of fraud ' for information about how we make this evaluation.
- evaluate the implications on our risk assessments, including fraud risk assessments. See activity 'Evaluate whether our risk assessments and the related audit responses remain appropriate ' for information about this evaluation.

Examples

How does an engagement team evaluate the selective correction of misstatements? [ISA | 4460.1500]

Scenario 1 **: Indication of management bias**

Fact pattern

In the audit of entity XYZ, the engagement team identifies several misstatements and communicates them to management. Management immediately corrects the misstatements that increase earnings but is unwilling to record the misstatements that decrease earnings.

Analysis

The engagement team inquires of management about why they refuse to record the identified misstatements. Management does not provide a rational explanation other than 'the misstatements are not material'. In the absence of any other reasons, this is likely an indication of management bias. As a result, the engagement team will then determine what additional procedures or responses are necessary as part of the audit.

Scenario 2: **No management bias**

Fact pattern

In the audit of entity ABC, the engagement team identifies several misstatements and communicates them to management. The engagement team realizes that management does not record certain misstatements that were communicated to them within 3 days of their proposed filing date.

Analysis

The engagement team investigates this and management explains that:

- they do not record adjustments that are immaterial within 3 days of their proposed filing date because of the administrative burden of changing all the information in the financial statements and the possibility of additional human error.
- if there is a potential material effect, they record all the misstatements identified, favorable and unfavorable, regardless of size.

The engagement team also:

- inspects management's evaluation of the misstatements where management considers whether the misstatements are material, individually or in combination with others; and
- concludes that their evaluation is reasonable.

Based on these circumstances, the engagement team concludes that there is not an indication of management bias in the selective correction of misstatements.

1.1.3 Evaluate management bias in the identification of offsetting adjustments [ISA | 4461]

What do we do?

IF management identifies adjusting entries that offset misstatements accumulated by us, **THEN** perform additional procedures.

Why do we do this?

We may encounter situations in which we communicate a misstatement to management during the audit and they identify an offsetting adjustment to neutralize its effect. Such circumstances may indicate management bias. Management may be trying to avoid recording certain misstatements to manipulate the financial statements. Furthermore, these situations may raise doubts about management's integrity and may indicate the existence of other undetected misstatements. Management may have identified other misstatements that they are not telling us about. They could be 'holding onto those adjustments' to offset further misstatements that we may identify during the remaining of the audit.

Execute the Audit

What procedures do we perform when management identifies offsetting misstatements? [ISA | 4461.1300]

We may encounter situations in which we communicate a misstatement to management during the audit and they identify an offsetting adjustment to neutralize its effect; such circumstances may indicate management bias. To help us evaluate the potential management bias and determine the effect on our audit, we perform additional procedures:

Procedures	Additional information
Perform procedures to determine why the underlying misstatements were not identified previously	The fact that management brings up offsetting misstatements does not necessarily mean there is bias. For example, management may be finalizing their analysis of the tax provision near the end of the audit. If we are aware of this fact and later management identifies a misstatement in the tax provision that offsets another misstatement that we identified, this may not represent management bias. We perform procedures to understand the reasons for which we were not aware of the offsetting misstatements. We may begin by inquiring of management. Based on management's responses, further audit procedures may be necessary to corroborate management's explanations or obtain further evidence. We then use this understanding to consider whether there is management bias.
Evaluate the implications on the integrity of management	If we believe management identified misstatements that were not disclosed to us timely, this might call into question management's integrity and the reliability of audit evidence previously obtained. We may have doubts about the completeness and truthfulness of representations made to us and about the genuineness of accounting records and documentation. If this is the case, we perform additional audit procedures necessary to resolve the matter and determine the effect, if any, on other aspects of the audit. See activity 'IF there are inconsistencies or doubts, THEN evaluate the effect on our audit ' for further information on this subject. For example, it may be necessary to: • re-examine the audit evidence previously obtained and consider whether it is truly relevant and reliable; • re-evaluate our client continuance decisions - i.e. withdraw from the engagement, if the matter cannot be resolved; or • disclaim our opinion.
Evaluate the implications on our risk assessments, including	If we believe management may have identified misstatements that they are not telling us about, we may consider that there are: • new risks of material misstatement, especially fraud risks, or

fraud risk assessments	• higher risks of material misstatement than we originally thought during planning. For example: • we may determine that there is a risk of material misstatement at the financial statement level, for which additional overall responses may be necessary (e.g. assign areas prone to bias to more senior level team members and/or increase the persuasiveness of audit evidence obtained from our substantive procedures); or • we may determine that there are fraud risk factors that we may not have previously identified, e.g. opportunity to commit fraud and an attitude/rationalization for fraud. If this is the case, we consider whether these new fraud risk factors indicate the existence of new fraud risks, for which it may be necessary to modify our procedures to address them.
Perform additional procedures as necessary to address the risk of further undetected misstatement.	If we believe that management may have identified misstatements that they are not telling us about and that, in combination with accumulated misstatements, could be material, we may consider modifying our audit strategy and audit plan by: • decreasing performance materiality, when the issue is pervasive (when we do this, additional audit procedures may be necessary), and/or • modifying the nature, timing and extent of audit procedures on a specific area, when the issue relates to a specific area of the audit. See activity 'Consider the possibility of undetected misstatements and its implications for further information on this subject.

In addition, exercising professional skepticism is essential in these situations.

When do we perform additional procedures if management identifies offsetting misstatements? [ISA | 4461.1400]

Although we evaluate the implications of management's offsetting misstatements while we evaluate the results of the audit, we also address these issues as they appear in the audit and do not necessarily wait until the end of the audit.

Example

How does an engagement team evaluate the implications of management's offsetting misstatements? [ISA | 4461.1500]

Fact pattern

During the audit of entity NRS, the engagement team identifies three misstatements, all of which overstate net income. They communicate the misstatements to management. Management records all of them. However, they also notify the engagement team that they have identified two other misstatements to reverse some expenses that have been recorded during the period but should have been recorded in the following period. These two misstatements significantly offset the effect of the three misstatements the engagement team identified.

Analysis

This is an indication of potential management bias. As a result, the engagement team performs procedures, e.g. inquiring of management, to understand why they were not previously made aware of the two additional adjustments.

The engagement team finds out that management was in the process of finishing some reconciliations and the timing of the two additional misstatements happened to coincide with the timing of the engagement team's communications. If there is evidence that supports management's explanation, further procedures are not necessary and the engagement team concludes that this situation is not the result of management bias.

However, if the engagement team determines that there is management bias and there may be additional misstatements that management is not disclosing to them, they may:

- identify additional risks of material misstatement in the audit and modify their audit procedures to address them;
- decrease performance materiality to address the risk of undetected misstatements; and/or
- determine whether their evaluation of management's integrity affect the reliability of audit evidence in general or their initial decisions related to client acceptance and continuance.

1.1.4 Evaluate management bias in significant accounting policies in aggregate [ISA | 4462]

What do we do?

Evaluate whether the judgments and decisions made by management in the selection and application of significant accounting principles/policies in aggregate, indicates possible management bias.

Why do we do this?

Accounting principles are generally not written as a set of concrete rules to follow; there are often several acceptable ways to interpret and apply them. Because of this optionality, there is a potential opportunity for management bias. Sometimes, it may be difficult to identify management bias when we look at the selection and application of accounting principles/policies on an individual basis. Stepping back to look at them in aggregate may allow us to identify overall patterns that indicate whether management is aggressive or conservative and determine whether management bias exists.

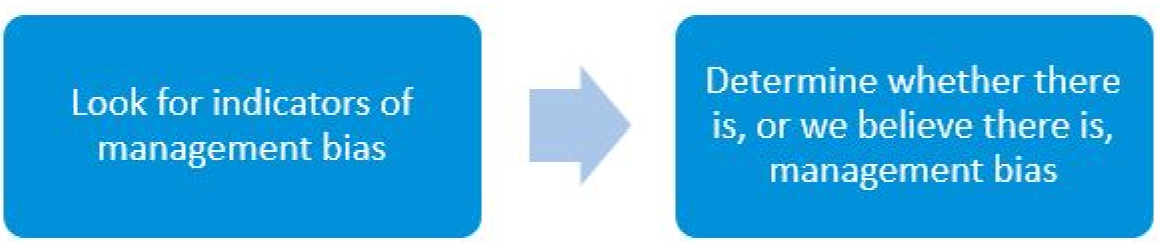
Execute the Audit

When do we evaluate the selection and application of accounting principles/policies and how do those evaluations differ? [ISA | 4462.1300]

Toward the end of the audit is not the first time that we evaluate the entity's selection and application of accounting principles/policies, including considering potential management bias.

Point in the audit	Evaluation of the selection and application of accounting principles/ policies
When we perform audit planning and risk assessment	As part of obtaining an understanding of the entity and its environment, we evaluate whether the entity's selection and application of accounting principles/policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting principles/policies used in the industry. See activity 'Understand the entity's selection and application of accounting policies or principles ' for further information on this subject.
When we perform audit procedures in response to risks	As part of implementing our overall responses to risks of material misstatement, we evaluate whether the entity's selection and application of significant accounting principles/policies, particularly those related to subjective measurements and complex transactions, indicate bias that could lead to material misstatement of the financial statements. See activity 'Evaluate significant accounting principles and policies ' for further information on this subject.
Toward the end of the audit	Toward the end of the audit, as part of evaluating the audit results, we evaluate management bias in the selection and application of significant accounting principles/policies 'in aggregate'. We analyze all the information gathered during the audit in aggregate and look for overall patterns that could suggest the existence of management bias.

How do we evaluate management bias in the selection and application of significant accounting principles/policies in aggregate? [ISA | 4462.1400]



The fact that there is an indicator of management bias does not necessarily mean that there is management bias in the selection and application of significant accounting principles/policies in aggregate. There are different types of indicators - some indicators may point out the fact that there may be management bias, whereas others may point out the contrary.

We collectively consider all types of indicators and other information we may have about the entity's selection and application of significant accounting principles/policies to help us determine whether there is management bias.

Applying professional skepticism is key in determining whether there is, or we believe there is, management bias.

What indicators of management bias may we identify in the selection and application of significant accounting principles/policies in aggregate and what do we do to identify them? [ISA | 4462.1500]

A primary indicator of management bias in the selection and application of significant accounting principles/policies in aggregate is:

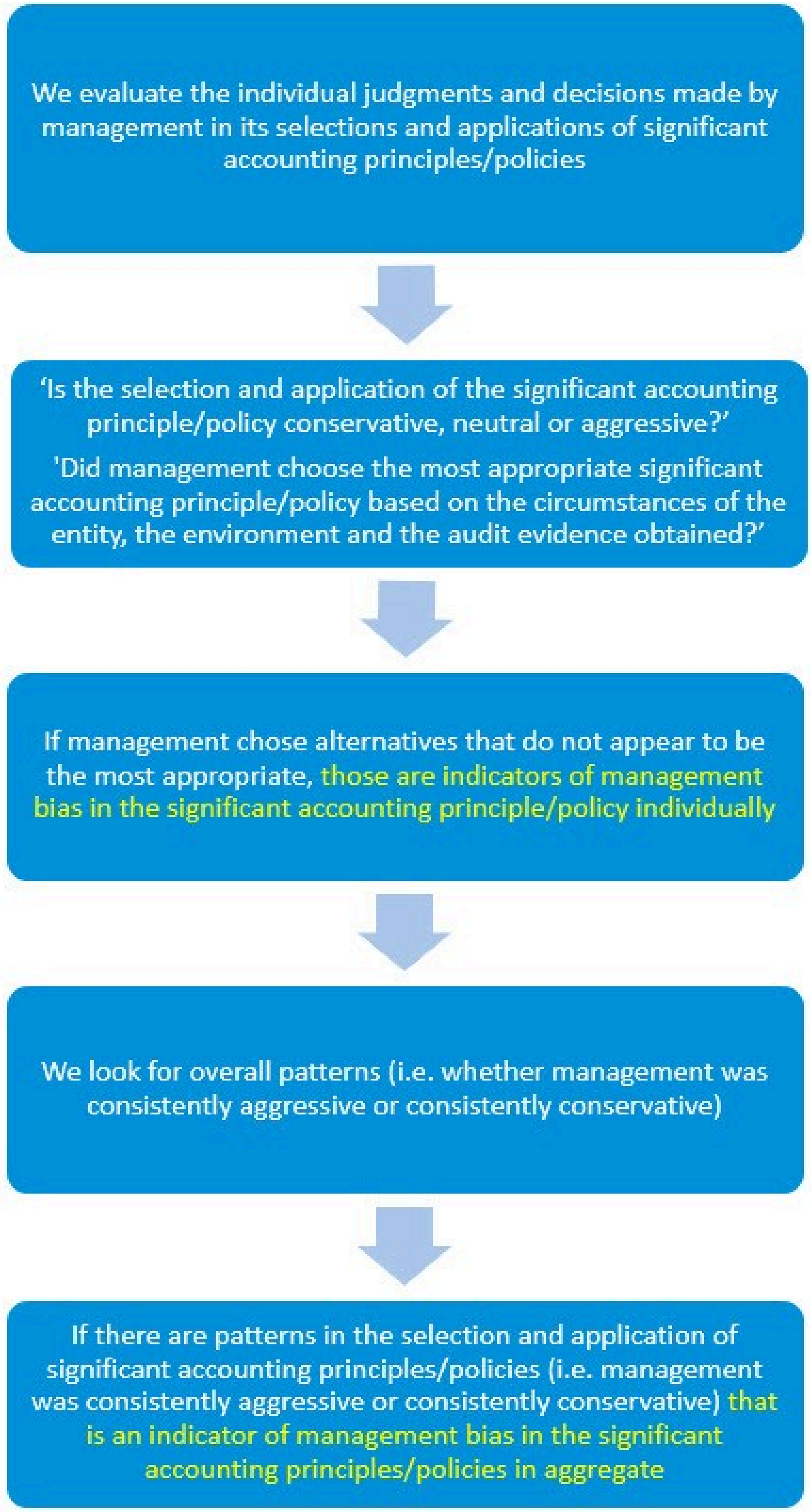
> Patterns in the selection and application of significant accounting principles/policies - i.e. management consistently chose alternatives that do not appear to be the most appropriate, consistently being aggressive or consistently being conservative.

How do we identify patterns in the selection of significant accounting policies?

We identify patterns in the selection of the entity's significant accounting principles/policies collectively, but we focus particularly on those accounting principles/policies that relate to subjective measurements or complex transactions. This includes areas such as revenue recognition, accounting for estimates, fair value measurements and accounting for contingencies. These areas can be more prone to management bias because:

- they often involve more judgment;
- their correct application may be difficult to corroborate; and/or
- they allow for a selection among multiple acceptable alternatives.

When we evaluate whether there was management bias in the selection and application of significant accounting principles/policies individually (as part of implementing overall responses to risks of material misstatement), we evaluate the individual judgments and decisions made by management. See activity 'Evaluate significant accounting principles and policies ' for further information on this subject. This information will now help us determine whether there are patterns in those judgments and decisions, resulting in a specific effect to the financial statements (e.g. increasing income or loss).



How do we evaluate individual judgements in the selection of significant accounting policies?

To evaluate the individual judgments and decision made by management, it is useful to ask ourselves:

- 'Is the selection and application of the significant accounting principle/policy conservative, neutral or aggressive?'
- Did management choose the most appropriate significant accounting principle/policy based on the circumstances of the entity, the environment and the audit evidence obtained?

If management chose alternatives that do not appear to be the most appropriate, those are indicators of management bias in the significant accounting principle/policy individually.

There are many ways management may, consciously or unconsciously, influence the financial statements, for example by:

- changing an accounting policy to another that is inconsistent with historical practice - for example, changing the method used to value inventory from average cost to FIFO in the current period to reduce COGS/increase earnings;
- using a policy that is not in line with the relevant financial reporting framework - for example, instituting a threshold for capitalizing fixed assets to reduce the amounts capitalized and decrease the amount of depreciation expense recognized in future periods while increasing expense in the current period;
- interpreting an accounting standard - for example, interpreting what costs are allowed to be included in a restructuring charge to manipulate the amount of expense recorded in a specific reporting period;
- managing the timing of adoption of a new accounting standard - for example, delaying the implementation of a new revenue recognition standard to manipulate the timing of future revenue recognition or recording a cumulative effect adjustment.

Therefore, those situations are indicators of management bias in the individual selections or applications of significant accounting principles/policies.

If there is an indicator of management bias in an individual selection or application of significant accounting principles/policies, such fact probably means that management was aggressive or conservative.

	What does it mean?
Aggressive	Position that has the largest effect on financial metrics (e.g. more net income or equity)
Conservative	Position that has the least effect on financial metrics (e.g. less net income or equity)

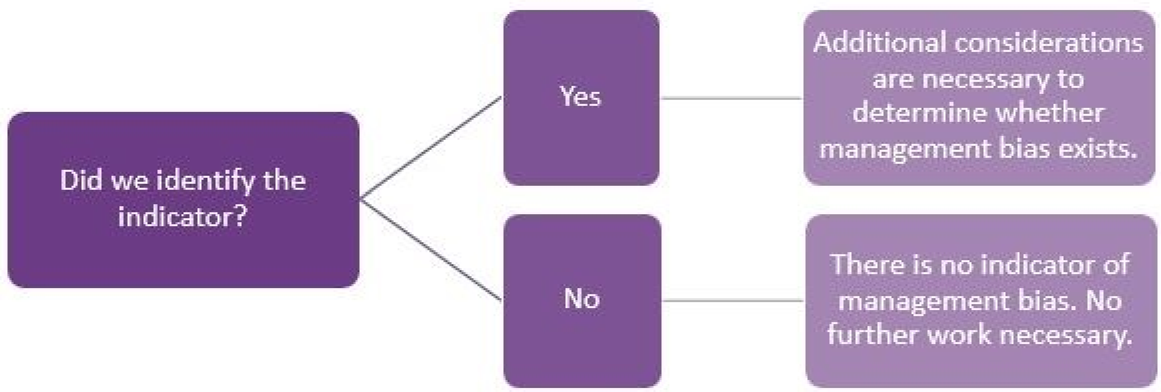
Once we have this information for each individual indicator of bias, we look for overall patterns - i.e. whether management was consistently aggressive or conservative.

It may be difficult to identify management bias when we evaluate the selection and application of accounting principles/policies on an individual basis. However, when we look at the selection and application of accounting principles/policies in aggregate, we may identify that management is always or most of the time aggressive or always or most of the time conservative. This behavioral pattern may indicate that management is biased in its decisions and judgments favoring always a more aggressive or conservative position, respectively.

In summary, if there are patterns in the selection and application of significant accounting principles/ policies (i.e. management was consistently aggressive or consistently conservative), that is an indicator of management bias in the significant accounting principles/policies in aggregate.

This information, together with other indicators, will help us determine whether there is, or we believe there is, management bias in the selection of significant accounting principles/policies in aggregate. The fact that management is consistently aggressive or conservative does not necessarily mean there is bias. There may be other indicators that point out the contrary.

When management is not consistently aggressive or conservative (i.e. the indicator does not exist), it means that there is no indicator of management bias in the selection and application of accounting principles/policies in aggregate and no further work is necessary in this respect.



What are other indicators that could help us determine whether there is management bias in the selection and application of accounting principles/policies in aggregate? [ISA | 4462.15844]

Management's responses when we investigate why management made those selections or decisions exhibiting the same behavioral pattern.

This type of indicator may further point out that there may be management bias or may point out the contrary.

If we identify patterns in management's selection and application of significant accounting principles/ policies (i.e. management consistently chose aggressive or conservative alternatives), it does not automatically mean that there is management bias. Investigating why management made those selections or decisions may provide further information.

We may begin our investigation by inquiring of management. Based on management's responses, further audit procedures may be necessary to corroborate management's explanations or obtain further evidence.

Management may have made its decisions and judgments considering variables such as:

- the level of complexity in the application of the principle/policy;

- the type of processes management will have to implement to apply the principle/policy (manual vs automated); or
- the results the application of the principle/policy will yield.

> For example, management may have chosen more aggressive or conservative accounting principles because they are simpler to apply and not because they yield more or less income, respectively.

The reasonableness, or lack of reasonableness, in management's responses, considering everything we know about the entity, provides another indicator.

> Answer to the question:
>
> 'Did management consistently select and apply significant accounting principles/policies in a way that results in a specific benefit to management or the entity - e.g. it may affect bonuses, analyst expectations or debt covenants?'

Asking ourselves this question provides another indicator.

This type of indicator may further point out that there may be management bias or may point out the contrary.

1.1.5 Evaluate management bias in the preparation of accounting estimates [ISA | 4463]

What do we do?

Evaluate management bias in the preparation of accounting estimates.

Why do we do this?

Financial statements often contain accounting estimates that impact a number of elements of the financial statements (e.g. assets, liabilities or disclosures). Estimates introduce the potential for management bias (both intentional and unintentional) because:

- estimates are an approximation and generally have a degree of uncertainty associated with them,
- estimates can involve complex processes and methods; and
- management's judgment is involved in their preparation.

The more subjectivity there is in an estimate, the greater the potential for management bias. Given this potential, we specifically evaluate management bias related to accounting estimates.

Execute the Audit

How do we evaluate management bias in accounting estimates at various points of the audit? [ISA | 4463.1300]

We evaluate bias in the preparation of accounting estimates in the following ways:

When?	Procedures	How?
During our risk assessment	Perform and evaluate a retrospective review of accounting estimates	• comparing the prior period's estimates to actual results, if any, individually and in aggregate.
During the audit while we perform the substantive procedures over the estimates.	Evaluate management bias in accounting estimates 'individually'	• evaluating whether the estimate was prepared in a cautious or optimistic manner, and • evaluating whether management is trying to achieve an expected or desired outcome (e.g. increase income, loss, or other key financial statement metrics).
During our concluding procedures, while we evaluate the results of the audit.	Evaluate management bias in accounting estimates 'in aggregate' Evaluate management bias in the effect of changes in estimates from the prior period to the current period	• evaluating whether many or all of the estimates were recorded toward the same end of the range (i.e. they were all prepared in a cautious manner or they were all prepared in an optimistic manner), • evaluating whether the estimates in the financial statements are grouped at one end of the range of reasonable estimates in the prior period and are grouped at the other

		end of the range of reasonable estimates in the current period (i.e. they were all prepared in a cautious manner in the prior period and in an optimistic manner in the current period, or vice versa), and • evaluating whether management is trying to achieve an expected or desired outcome (e.g. increase income, loss, or other key financial statement metrics).

What do we do if we identify management bias in accounting estimates? [ISA | 4463.15831]

If we identify indicators of bias and/or actual bias in management's judgments when we evaluate the accounting estimates individually, in aggregate or with respect to the effect of changes from the prior period to the current period, we:

- Evaluate whether the bias is material to the financial statements and/or is the result of fraud ;
- Evaluate whether our risk assessments and the related audit responses remain appropriate .

1.1.5.1 Evaluate management bias in accounting estimates 'individually' [ISA | 4464]

What do we do?

Evaluate whether the judgments and decisions made by management in the making of an accounting estimate, which is individually reasonable, indicate a possible management bias.

Why do we do this?

Accounting estimates that we conclude are individually reasonable can still be affected by management bias that result in a material effect to the financial statements.

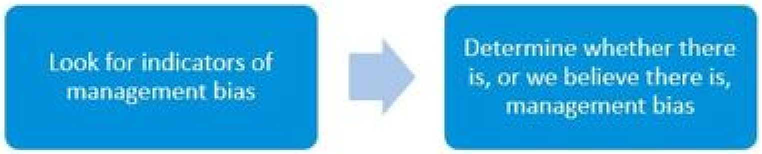
Execute the Audit

When might management bias exist in an accounting estimate that is individually reasonable? [ISA | 4464.15821]

Management bias may exist in an accounting estimate that is individually reasonable when a range of reasonable estimates exists.

When there are alternatives that may be considered acceptable or reasonable, management's judgments and decisions in the preparation of the accounting estimate may be biased.

How do we determine whether there is management bias in an accounting estimate? [ISA | 4464.1400]



The fact that there is an indicator of management bias does not necessarily mean that there was management bias in the preparation of an accounting estimate. An indicator that shows that there may be management bias may be alleviated by another indicator that shows there is no management bias.

There are different types of indicators. Some indicators may point out the fact that there may be management bias and some others may point out the contrary.

We collectively consider all types of indicators and other information we may have about the preparation of the estimate to determine whether there is management bias.

The use of judgment and professional skepticism is key in determining whether there is, or we believe there is, management bias.

When do we look for indicators of management bias in an accounting estimate? [ISA | 4464.1600]

We look for indicators of management bias in an accounting estimate while we perform audit procedures over the estimate.

Examples of the audit procedures that we perform over the estimates that could help us identify indicators of management bias are:

- Evaluation of whether the method used is appropriate.
- Determination of the reasons for a change in the method from prior period and the appropriateness of the change.
- Evaluation of whether:
  - the data used is internally consistent with its use by the entity in other estimates tested
  - the source of the data used has changed from the prior period and, if so, whether the change is appropriate.
- Evaluation of whether:
  - the entity has a reasonable basis for the significant assumptions used and, when applicable, for its selection of assumptions from a range of potential assumptions
  - the significant assumptions are consistent with 1) relevant industry, regulatory, and other external factors, including economic conditions, 2) existing market information, 3) historical or recent experience, taking into account changes in conditions and events affecting the entity and 4) other significant assumptions used by the entity.
- Evaluation of management's sensitivity analysis for critical accounting estimates.

What indicators of management bias may we identify in an accounting estimate and what do we do to identify them? [ISA | 4464.1700]

Indicators of management bias in the method, data and significant assumptions chosen by management to prepare the estimate - i.e. management chose alternatives that do not appear to be the most appropriate. These are indicators at the element level.

Indicator at the estimate level – management prepared the estimate as a whole in a cautious or optimistic manner.

The indicators of management bias are usually present in the areas of the estimate where management has to use judgment (e.g. selecting specific methods, data and assumptions).

These indicators point out the fact that there may be management bias.

See sub-question 'What do we do to identify indicators of management bias at the element level and at the estimate level? ' for further information on these indicators and how we identify them.

Management's responses when we investigate why management:

- chose the methods, data and assumptions used
- prepared the estimate in a cautious or optimistic manner - e.g. why many or all elements are cautious or optimistic making the estimate as a whole cautious or optimistic.

This type of indicator may further point out that there may be management bias or may point out the contrary.

If we identify indicators of management bias in the methods, data and assumptions used, it does not automatically mean that there is management bias. Investigating why management made its decisions may provide further information.

We may begin our investigation by inquiring of management. Based on management's responses, further audit procedures may be necessary to corroborate management's explanations or obtain further evidence.

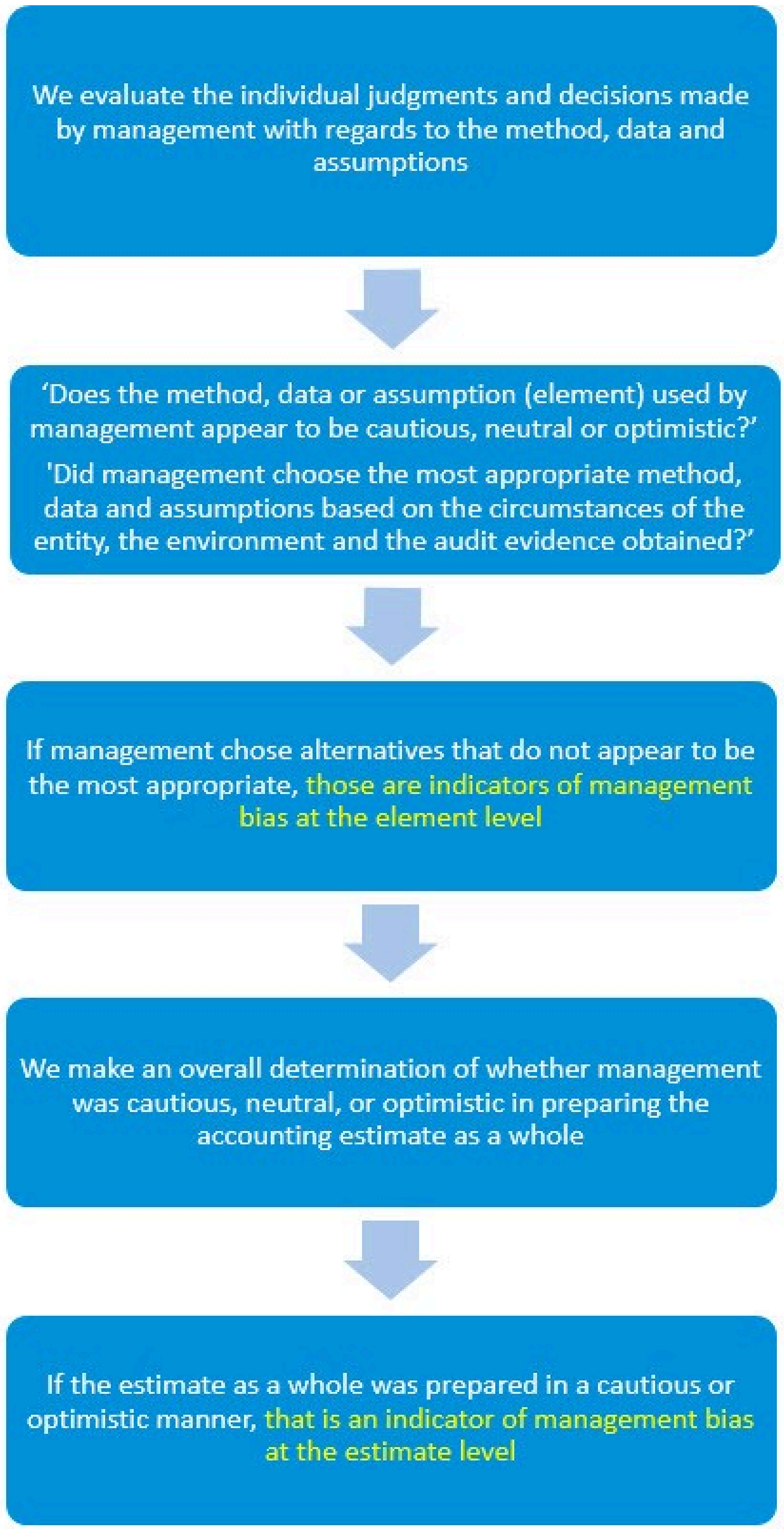
The reasonableness, or lack of reasonableness, in management's responses, considering everything we know about the entity, provides another indicator.

> Answer to the question:
>
> 'Does the estimate appear to be prepared in a way that results in a specific benefit to management or the entity - e.g. it may affect bonuses, analyst expectations or debt covenants?'

Asking ourselves this question provides another indicator.

This type of indicator may further point out that there may be management bias or may point out the contrary.

What do we do to identify indicators of management bias at the element level and at the estimate level? [ISA | 4464.15824]



To evaluate the judgments and decisions made by management in preparing the accounting estimate, it is useful to ask ourselves:

- 'Does the method, data or assumption (element) used by management appear to be cautious, neutral or optimistic?' or 'Are the elements at the higher or lower end of the range of reasonable elements?'; and
- 'Did management choose the most appropriate method, data and assumptions based on the circumstances of the entity, the environment and the audit evidence obtained?'

If management chose alternatives that do not appear to be the most appropriate, those are indicators of management bias at the element level.

Examples of indicators of management bias in methods, data and assumptions include:

- use of a method that yields a more favorable result over other methods
- changes in an accounting estimate, or the method for making it, and management has made a subjective assessment that there has been a change in circumstances
- use of an entity's own assumptions for fair value accounting estimates and those assumptions are inconsistent with observable marketplace assumptions
- selection or construction of significant assumptions that yield a point estimate favorable for management objectives (e.g. all the assumptions are 'leaning' the same way)
- use of assumptions that are inconsistent with industry and current economic conditions.

If there is an indicator of management bias in the method, assumptions or data, such fact probably makes the estimate cautious or optimistic.

	Estimate that is a liability	Estimate that is an asset
Cautious estimate	The estimate is in the higher end of the range of reasonable estimated amounts.	The estimate is in the lower end of the range of reasonable estimated amounts.
Optimistic estimate	The estimate is in the lower end of the range of reasonable estimated amounts.	The estimate is in the higher end of the range of reasonable estimated amounts.

Once we have this information for each indicator of bias, we make an overall determination of whether, based on our judgment, we believe management was cautious, neutral, or optimistic in preparing the accounting estimate as a whole.

We make this overall determination by considering:

- the total amount of methods, data and assumptions used in the preparation of the estimate;
- the total amount of methods, data and assumptions used that indicate management bias;
- whether the indicators of bias make the estimate cautious or optimistic and their relative significance in the calculation of the amount of the estimate.

If we determine that the estimate as a whole was prepared in a cautious or optimistic manner, instead of in a neutral manner, this is an indicator of management bias at the estimate level.

This information, together with other indicators, will help us determine whether there is, or we believe there is, management bias. The fact that management prepared an accounting estimate in a cautious or optimistic manner does not necessarily mean there is bias. There may be other indicators that point out the contrary.

Example

How does an engagement team evaluate management bias in an estimate? [ISA | 4464.1900]

Fact pattern

Entity ABC is a manufacturing company 'with stable operations and revenues over the past six years. However, the economy has recently declined.

Historically, the entity has determined the allowance for doubtful accounts using its own historical collection ratios over the past three years.

When the engagement team performs audit procedures, they notice that the entity did not adjust its method and/or the collectability assumptions to take into account the declining economic conditions when determining the allowance for doubtful accounts. Consequently, the allowance remained stable, even though the engagement team expected it to increase during the current period because of the recent economic downturn.

Analysis

The engagement team inquires of management about this. Management acknowledges the economic downturn but do not believe it will affect the entity's customers. However, there is no rationale or justification for their explanation.

Since there is no valid reason for management to exclude this from their collectability assumptions, it could indicate that management is trying to avoid increasing the allowance. As such, the engagement team concludes that there is an indicator of possible management bias in the preparation of the allowance for doubtful accounts.

1.1.5.2 Evaluate management bias in accounting estimates 'in aggregate' [ISA | 4465]

What do we do?

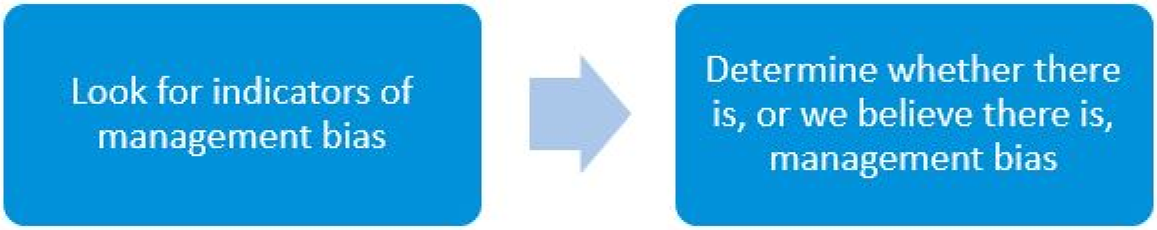
IF accounting estimates are individually reasonable but recorded towards the same end of the range,
THEN evaluate whether it indicates potential management bias.

Why do we do this?

We evaluate management bias in accounting estimates 'in aggregate' to help us identify indications of management bias that we might miss by only evaluating estimates individually. Sometimes, management bias may be more evident through the evaluation of the cumulative effect in the financial statements of multiple estimates.

Execute the Audit

How do we determine whether there is management bias in the accounting estimates in aggregate? [ISA | 4465.1400]



The fact that there is an indicator of management bias does not necessarily mean that there was management bias in the preparation of the accounting estimates. An indicator that shows that there may be management bias may be alleviated by another indicator that shows there is no management bias.

There are different types of indicators. Some indicators may point out the fact that there may be management bias and some others may point out the contrary.

We collectively consider all types of indicators and other information we may have about the preparation of the estimates to determine whether there is management bias.

The use of judgment and professional skepticism is key in determining whether there is, or we believe there is, management bias.

When do we look for indicators of management bias in the accounting estimates in aggregate? [ISA | 4465.1500]

We look for indicators of management bias in the accounting estimates in aggregate towards the end of the audit when we have already performed audit procedures on all estimates and evaluated management bias on all estimates individually.

What indicators of management bias in the accounting estimates in aggregate may we identify and what do we do to identify them? [ISA | 4465.1600]

The main indicator of management bias in the accounting estimates in aggregate is:

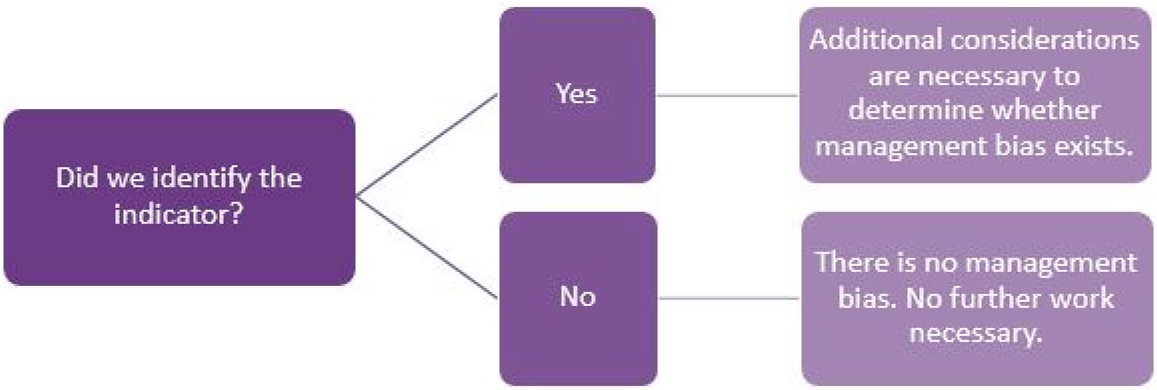
> Many or all of the estimates were recorded toward the same end of the range (i.e. prepared consistently in a cautious or optimistic manner), resulting in a specific effect to the financial statements (e.g. increasing income, loss, or other key financial statement metrics)

When we evaluated whether there was management bias in the accounting estimates individually, we determined whether the estimates were prepared in a cautious, neutral or optimistic manner.

This information will now help us determine whether many or all of the estimates were recorded toward the same end of the range (i.e. prepared consistently in a cautious or optimistic manner), resulting in a specific effect to the financial statements (e.g. increasing income, loss, or other key financial statement metrics).

When this indicator does not exist, it means that there is no management bias in the accounting estimates in aggregate and no further work is necessary in this respect.

If we identify this indicator of management bias, it does not automatically mean that there is management bias. We evaluate further indicators to determine whether there is, or we believe there is, management bias.



What are the other indicators that could help us determine whether there is management bias in the accounting estimates in aggregate? [ISA | 4465.15891]

Management's responses when we investigate the reasons for which management prepared the estimates that way

This type of indicator may further point out that there may be management bias or may point out the contrary.

If we determine that many or all of the estimates were recorded toward the same end of the range (i.e. prepared consistently in a cautious or optimistic manner), it does not automatically mean that there is management bias. Investigating why management prepared the estimates that way may provide further information.

We may begin our investigation by inquiring of management. Based on management's responses, further audit procedures may be necessary to corroborate management's explanations or obtain further evidence.

The reasonableness, or lack of reasonableness, in management's responses, considering everything we know about the entity, provides another indicator.

Answer to the question:

'Is the effect caused by those estimates recorded toward the same end of the range favorable to management or the entity - e.g. they may affect bonuses, analyst expectations or debt covenants?'

Asking ourselves these questions provides another indicator.

This type of indicator may further point out that there may be management bias or may point out the contrary.

The fact that many or all of the estimates were recorded toward the same end of the range (i.e. prepared consistently in a cautious or optimistic manner) does not necessarily mean that there is management bias if there is no clear benefit to management or the entity.

Example

1.1.5.3 Evaluate management bias in the effect of changes in estimates from the prior period to the current period [ISA | 4466]

What do we do?

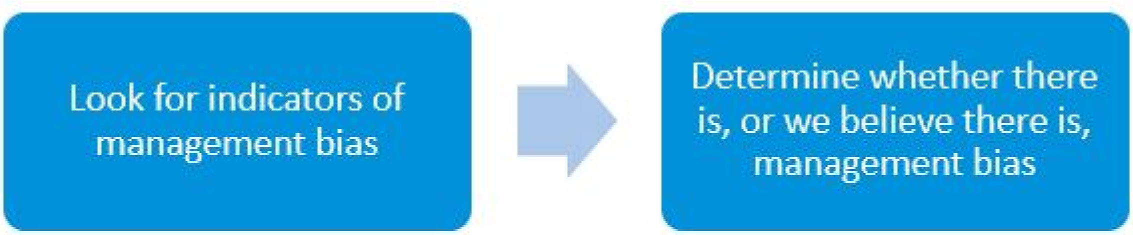
IF the recorded estimates are grouped at one end of the range in the prior year and are grouped at the other end of the range in the current year, **THEN** evaluate whether management is using swings in estimates to achieve a desired outcome.

Why do we do this?

Management bias may not be evident to us when we only focus on accounting estimates in the current period, because management bias can also arise from the cumulative effect of changes in accounting estimates from period to period.

Execute the Audit

How do we determine whether there is management bias in the effect of changes in accounting estimates from one period to the next? [ISA | 4466.15808]



The fact that there is an indicator of management bias does not necessarily mean that there was management bias in the preparation of accounting estimates. An indicator that shows that there may be management bias may be alleviated by another indicator that shows there is no management bias.

There are different types of indicators. Some indicators may point out the fact that there may be management bias and some others may point out the contrary.

We collectively consider all types of indicators and other information we may have about the preparation of the estimates to determine whether there is management bias.

The use of judgment and professional skepticism is key in determining whether there is, or we believe there is, management bias.

When do we look for indicators of management bias in the effect of changes in accounting estimates from one period to the next? [ISA | 4466.15809]

We look for indicators of management bias in the effect of changes in accounting estimates from one period to the next towards the end of the audit when we have already performed audit procedures on all estimates and evaluated management bias on all estimates individually and in aggregate.

What indicators of management bias may we identify in the changes in accounting estimates from one period to the next and what do we do to identify them? [ISA | 4466.15810]

The main indicator of management bias in the changes in accounting estimates from one period to the next is:

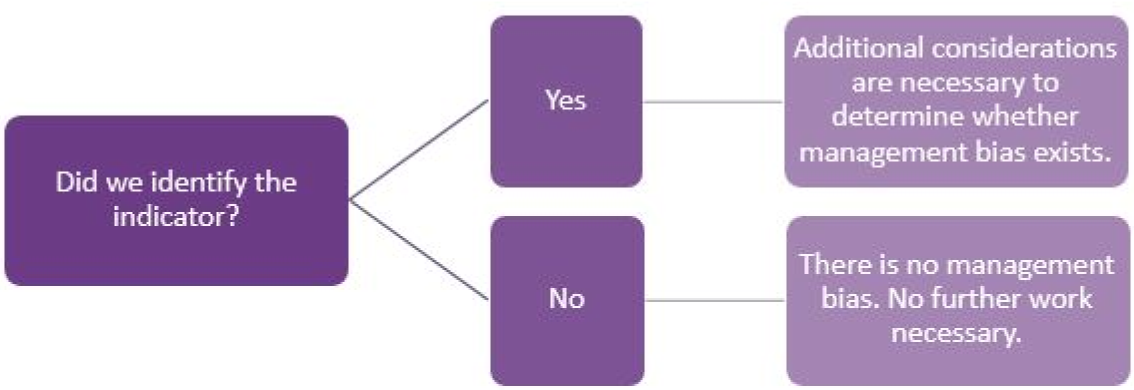
> Many or all of the estimates were recorded toward one end of the range in the prior period and the other end of the range in the current period (i.e. they are prepared in a cautious manner in the prior period and in an optimistic manner in the current period, or vice versa)

When we evaluated whether there was management bias in the accounting estimates individually, we determined whether the estimate was prepared in a cautious, neutral or optimistic manner.

This information, together with the equivalent information from the prior period, will now help us determine whether many or all of the estimates were recorded toward one end of the range in the prior period and the other end of the range in the current period (i.e. they are prepared in a cautious manner in the prior period and in an optimistic manner in the current period or vice versa).

When this indicator does not exist, it means that there is no management bias in the changes in accounting estimates from one period to the next and no further work is necessary in this respect.

If we identify this indicator of management bias, it does not automatically mean that there is management bias. We evaluate further indicators to determine whether there is, or we believe there is, management bias.



What are the other indicators that could help us determine whether there is management bias in the changes in accounting estimates from one period to the next? [ISA | 4466.15811]

Management's responses when we investigate the reasons for which management prepared the estimates that way

This type of indicator may further point out that there may be management bias or may point out the contrary.

If we determine many or all of the estimates were recorded toward one end of the range in the prior period and the other end of the range in the current period (i.e. they are prepared in a cautious manner in the prior period and in an optimistic manner in the current period, or vice versa), it does not automatically mean that there is management bias. Investigating why management prepared the estimates that way may provide further information.

We may begin our investigation by inquiring of management. Based on management's responses, further audit procedures may be necessary to corroborate management's explanations or obtain further evidence.

The reasonableness, or lack of reasonableness, in management's responses, considering everything we know about the entity, provides another indicator.

Answer to the question:

'Is the effect caused by those estimates recorded toward the same end of the range in the prior period and the other end in the current period favorable to management or the entity - e.g. they may affect bonuses, analyst expectations or debt covenants?'

Asking ourselves this question provides another indicator.

This type of indicator may further point out that there may be management bias or may point out the contrary.

Example

1.1.6 Evaluate management bias in the preparation of disclosures individually and in aggregate [ISA | 4467]

What do we do?

Evaluate whether the judgments and decisions made by management in the preparation of financial statement disclosures individually and in aggregate indicate a possible management bias.

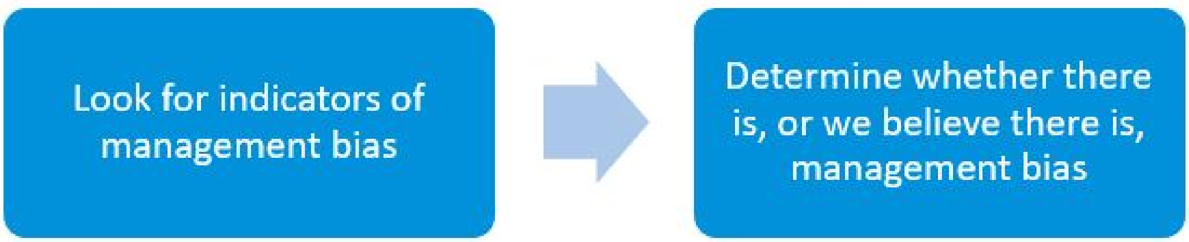
Why do we do this?

We evaluate management bias in the preparation of financial statements disclosures because management may:

- make judgments about how much information to include in a disclosure;
- omit information from the disclosure; or
- draft the disclosures in a manner that is unclear or confusing to a reader.

Execute the Audit

How do we evaluate management bias in the preparation of financial statement disclosures? [ISA | 4467.1300]



The fact that there is an indicator of management bias does not necessarily mean that there was management bias in the preparation of financial statement disclosures. An indicator that shows that there may be management bias may be alleviated by another indicator that shows there is no management bias.

There are different types of indicators. Some indicators may point out the fact that there may be management bias and some others may point out the contrary.

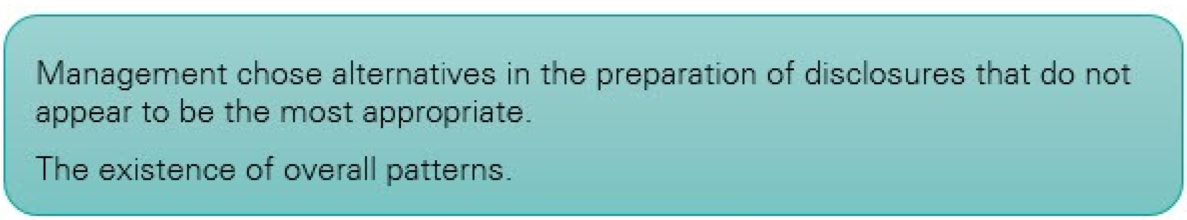
We collectively consider all types of indicators and other information we may have about the preparation of financial statement disclosures to determine whether there is management bias.

The use of judgment and professional skepticism is key in determining whether there is, or we believe there is, management bias.

When do we look for indicators of management bias in the preparation of financial statement disclosures? [ISA | 4467.1400]

We look for indicators of management bias in the preparation of financial statement disclosures towards the end of the audit, after management has prepared the disclosures.

What indicators of management bias may we identify in the preparation of financial statement disclosures and what do we do to identify them? [ISA | 4467.1500]



This type of indicators point out the fact that there may be management bias.

To identify these indicators, we evaluate all financial statement disclosures, but we focus on sensitive disclosures because those can be more prone to management bias. For example, disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingencies.

We pay close attention to the overall neutrality, consistency and/or clarity of the disclosures in the financial statements. It may be useful to ask ourselves: did management choose the most appropriate alternative based on the circumstances of the entity and the audit evidence obtained?

Examples of indicators of management bias in the preparation of disclosures include the existence of:

- disclosures that are not neutral, consistent and/or clear;
- disclosures that are not appropriately placed and/or appropriately cross-referenced in a manner in which it would be easy for users to find sensitive or necessary information;
- significant modifications to disclosures proposed by us that management does not make;
- uncorrected misstatements, including omissions, in sensitive disclosures; and
- disclosures presented in a manner that obscures useful information or results in misleading information, e.g. extensive duplicative or uninformative disclosures that may be intended to obscure a proper understanding of matters in the financial statements.

It may be difficult to identify management bias when we evaluate the preparation of disclosures on an individual basis. However, when we look at the preparation of disclosures in aggregate, we may identify overall patterns. This patterns may indicate that management is biased in the preparation of estimates.

This information, together with other indicators, will help us determine whether there is, or we believe there is, management bias. The fact that management appears to be biased in the preparation of disclosures does not necessarily mean there is bias. There may be other indicators that point out the contrary.

Management’s responses when we investigate why management prepared the disclosures that way.

This type of indicator may further point out that there may be management bias or may point out the contrary.

If we identify indicators of management bias in the preparation of financial statement disclosures, it does not automatically mean that there is management bias. Investigating why management prepared the financial statement disclosures in the way they did may provide further information.

We may begin our investigation by inquiring of management. Based on management's responses, further audit procedures may be necessary to corroborate management's explanations or obtain further evidence.

The reasonableness, or lack of reasonableness, in management's responses, considering everything we know about the entity, provides another indicator.

> Answer to the question:
> 'Do the disclosures appear to be prepared in a way that results in a specific benefit to management or the entity?'

Asking ourselves these questions provides another indicator.

This type of indicator may further point out that there may be management bias or may point out the contrary.

1.1.7 Evaluate whether the bias is material to the financial statements and/or is the result of fraud [ISA | 4468]

What do we do?

IF we identify - or we believe that there is - management bias, **THEN** evaluate whether the effect of management bias is material to the financial statements as a whole AND evaluate whether the bias is the result of fraud.

Why do we do this?

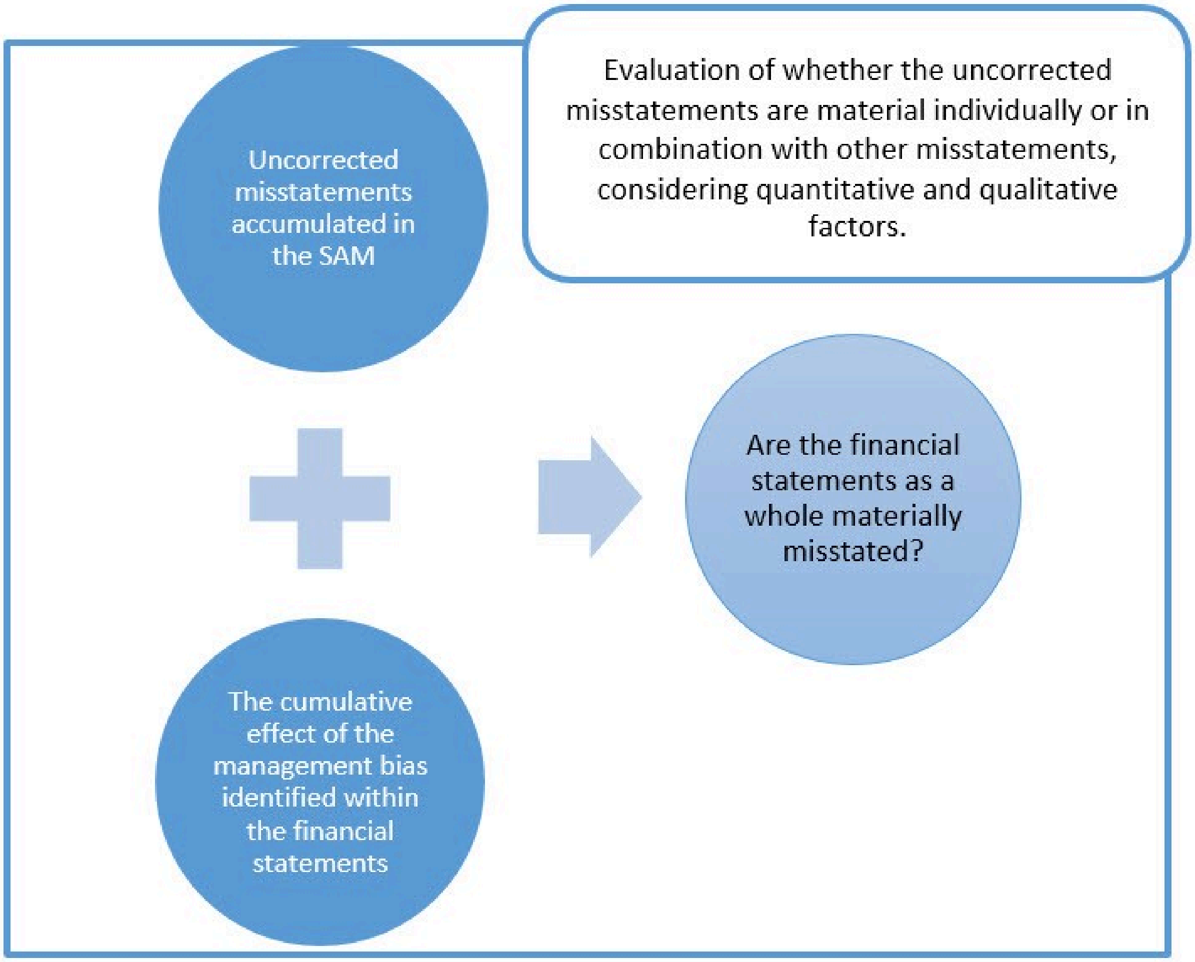
If we identify management bias, the effect of that bias may cause the financial statements to be materially misstated. In addition, if the bias represents fraud, there are additional implications for the audit.

Execute the Audit

How do we evaluate whether the effect of management bias is material to the financial statements as a whole and whether it is the result of fraud? [ISA | 4468.1400]

To evaluate whether the effect of the bias is material to the financial statements as a whole, we consider the uncorrected misstatements accumulated, including the cumulative effect of the management bias identified within the financial statements.

This evaluation can be different depending on whether the amount of the misstatement can be more easily determined. When we are unable to determine the amount of the misstatement generated from management bias, we estimate the cumulative effect of management bias identified in the financial statements.



To evaluate whether the bias is the result of fraud, we look for indicators of fraud. Activity 'Evaluate whether misstatements are the result of fraud and the implications ' includes useful information that may also apply to a situation in which the amount of the misstatement is not known.

This consideration becomes more relevant when there are many misstatements that are close to being material to the financial statements as a whole and when adding the effect of the bias in our evaluation, we realize that in combination with the other misstatements, it makes the financial statements materially misstated.

See activity 'Evaluate whether uncorrected misstatements are material and the implications ' for additional information on our evaluation of whether the uncorrected misstatements are material individually or in combination with other misstatements, considering quantitative and qualitative factors.

What amount does management record if they decide to correct the misstatement? [ISA | 4468.1600]

Management may choose to correct misstatements that result from bias that we identified. However, if bias exists in accounting estimates, additional analysis may be necessary for management to determine the appropriate amount to record and support their adjustment (see activity 'Evaluate management's examination of an account or disclosure in response to misstatements detected by us ' for further information about what we do when management further examines an account or disclosure in response to misstatements detected by us).

It is not appropriate for management to use our work papers or analysis as support for their estimates or adjustments recorded.

1.1.8 Evaluate whether our risk assessments and the related audit responses remain appropriate [ISA | 4469]

What do we do?

IF we identify indicators of bias or actual bias in management's judgments, **THEN** evaluate whether our risk assessments, including, in particular, the assessment of fraud risks, and the related audit responses remain appropriate.

Why do we do this?

If we identify indicators of bias or actual bias, there could be a risk of other biases, other issues in the financial statements or additional risks that we did not identify when we were planning the audit. This is particularly relevant when considering our fraud risk assessments, as the bias may be intentional and represent fraud.

Execute the Audit

How do we re-evaluate our risk assessments? [ISA | 4469.1300]

When we identify indicators of bias or actual bias, we re-evaluate our risk assessments. This includes not only the specific area (e.g. a specific account or disclosure) where the bias exists, but also other areas where similar biases could exist.

> For example, if we identify management bias in the warranty estimate, we re-evaluate our risk assessments not only for the warranty estimate, but also in other estimates and areas prone to bias.

See this activity for additional information about revising our risk assessment: 'Continue to assess RMMs, and revise audit approach as necessary '.

What is a common indicator of a higher risk of management bias in other areas of the financial statements?

The fact that management is aggressive with the selection and application of accounting principles/ policies is an indicator that the risk of management bias in other areas may be higher.

1.2 Evaluate the presentation of the financial statements [ISA | 4473]

What do we do?

Evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework.

Why do we do this?

Our objective in an audit is to express an opinion on the financial statements. When management fails to disclose required information in the financial statements, there is a misstatement that could affect our opinion. If we fail to perform procedures to evaluate the presentation of the financial statements, we may issue an unqualified opinion when it is not appropriate.

Execute the Audit

What procedures do we perform to evaluate the overall presentation of the financial statements? [ISA | 4473.1300]

To evaluate the overall presentation of the financial statements, we:

- evaluate whether the financial statements are presented fairly ;
- complete the Accounting Disclosure Checklist ;
- evaluate the description of the applicable financial reporting framework .

What do we do when management fails to disclose required information in the financial statements? [ISA | 4473.1500]

When management fails to disclose required information in the financial statements, there is a misstatement. If the uncorrected misstatement is material to the financial statements, we express a qualified or adverse opinion, depending on the pervasiveness of the matter.

1.2.1 Evaluate whether the financial statements are presented fairly [ISA | 4474]

What do we do?

Evaluate whether the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

Why do we do this?

Because investors and other stakeholders rely on the financial statements, our audit work is directed toward the primary objective of determining whether the financial statements are fairly presented. Consequently, we perform procedures to evaluate whether the financial statements are fairly presented. Otherwise, we may not identify that the financial statements are not fairly presented and our reputation and the entity's could be damaged and the credibility of our audit could be undermined.

Execute the Audit

What does 'fair presentation' of the financial statements mean? [ISA | 4474.1300]

The financial statements are fairly presented when they are presented, in all material respects, in conformity with the applicable financial reporting framework. However, there may be cases where the financial statements are not fairly presented, even when they are prepared in accordance with the requirements of the financial reporting framework.

In these situations, it may be necessary for the entity to:

- include additional disclosures beyond those specifically required by the framework; or

> For example, we may identify that the entity we audit entered into a debt agreement (credit line) that stipulates that the entity will not have access to the credit line if they do not meet the working capital ratio covenant. Even though the entity met the covenant in the current period, it is possible that the financial statements would not be fairly presented unless the entity discloses that there is a condition to be able to access the credit line. This would be true even if the applicable financial reporting framework did not require specific disclosure of the covenant.

- depart from a requirement of the framework to achieve fair presentation; however, this is expected to be rare.

What is a 'financial reporting framework'?

All financial statements are prepared in accordance with a financial reporting framework.

A 'financial reporting framework' is a set of criteria used to determine measurement, recognition, presentation, and disclosure of all material items appearing in the financial statements. For example, US GAAP and IFRS are commonly used financial reporting frameworks.

When do we evaluate the fair presentation of the financial statements? [ISA | 4474.1400]

We evaluate the fair presentation of the financial statement toward the end of the audit.

How do we evaluate the fair presentation of the financial statements? [ISA | 4474.1500]

Our evaluation of the fair presentation of the financial statements comprises four aspects, which include:

- Evaluate the accounting principles/policies
- Evaluate the accounting estimates
- Evaluate the information presented in the financial statements
- Evaluate the underlying transactions and events

We evaluate these four aspects taking into account the applicable financial reporting framework and the facts and circumstances of the entity.

In addition, we consult when a departure from the financial reporting framework is necessary .

1.2.1.1 Evaluate the accounting principles/policies

[ISA | 4475]

What do we do?

Evaluate whether the accounting policies/principles selected and applied are consistent with the financial reporting framework, are appropriate in the circumstances and are appropriately disclosed, to determine whether the financial statements are presented fairly.

Why do we do this?

Investors and other stakeholders rely on the financial statements, including the disclosures. Consequently, we perform procedures to evaluate whether the financial statements are presented fairly. The evaluation of the accounting principles/policies is one of the aspects of this evaluation.

Execute the Audit

What do we evaluate regarding the accounting principles/policies when determining whether the financial statements are fairly presented? [ISA | 4475.1300]

As part of our evaluation about whether the financial statements are presented fairly in accordance with the applicable financial reporting framework, we evaluate the accounting principles/policies. In particular, we evaluate whether:

- the accounting policies/principles selected and applied are consistent with the applicable financial reporting framework;
- the accounting policies/principles selected and applied are appropriate in the circumstances of the entity; and
- the financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, we consider whether:
  - all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;
  - the information about the significant accounting policies that has been disclosed is relevant to the entity;
  - the information about the significant accounting policies that has been disclosed reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to significant accounts and disclosures; and
  - the significant accounting policies have been presented in an understandable manner - i.e. with clarity.

How do we evaluate the accounting principles/policies when determining whether the financial statements are fairly presented? [ISA | 4475.1400]

When we evaluate the accounting principles/policies to determine whether the financial statements are fairly presented, we take into account:

We take into account:	
The financial reporting framework.	We apply our professional judgment concerning the "fairness" of the presentation of the financial statements within the context of the financial reporting framework. Without the financial reporting framework, we would

	have no measure against which to assess the fair presentation of the financial statements. Note that, in some situations, the accounting requirements adopted by regulatory agencies for reports filed with them may differ from the financial reporting framework in certain respects.
The facts and circumstances of the entity, based on our understanding of the entity and the audit evidence obtained during the audit.	Considering the facts and circumstances of the entity (not only the financial reporting framework) is essential to evaluate fair presentation. This is because we will also think about whether: • additional disclosures beyond those specifically required by the framework are necessary to achieve fair presentation, or • a departure from a requirement of the framework is necessary to achieve fair presentation; however, this is expected to be rare.

At this point in the audit, most of our work has been performed. This serves as a final step to determine that the financial statements are fairly presented and that we are not missing anything.

1.2.1.2 Evaluate the accounting estimates [ISA | 4476]

What do we do?

Evaluate the reasonableness of the accounting estimates to determine whether the financial statements are presented fairly.

Why do we do this?

Investors and other stakeholders rely on the financial statements, including the disclosures. Consequently, we perform procedures to evaluate whether the financial statements are presented fairly. The evaluation of the accounting estimates is one of the aspects of this evaluation.

Execute the Audit

What do we evaluate regarding the accounting estimates when determining whether the financial statements are fairly presented? [ISA | 4476.1300]

As part of our evaluation about whether the financial statements are presented fairly in accordance with the applicable financial reporting framework, we evaluate whether the accounting estimates and related disclosures made by management are reasonable.

How do we evaluate the accounting estimates when determining whether the financial statements are fairly presented? [ISA | 4476.1400]

When we evaluate the accounting estimates and related disclosures to determine whether the financial statements are fairly presented, we take into account:

We take into account:	
The financial reporting framework.	We apply our professional judgment concerning the "fairness" of the presentation of the financial statements within the context of the financial reporting framework. Without the financial reporting framework, we would have no measure against which to assess the fair presentation of the financial statements. Note that, in some situations, the accounting requirements adopted by regulatory agencies for reports filed with them may differ from the financial reporting framework in certain respects.
The facts and circumstances of the entity, based on our understanding of the entity and the audit evidence obtained during the audit.	Considering the facts and circumstances of the entity (not only the financial reporting framework) is essential to evaluate fair presentation. This is because we will also think about whether: • additional disclosures beyond those specifically required by the framework are necessary to achieve fair presentation, or • a departure from a requirement of the framework is necessary to achieve fair presentation; however, this is expected to be rare.

At this point in the audit, most of our work has been performed. This serves as a final step to determine that the financial statements are fairly presented and that we are not missing anything.

1.2.1.3 Evaluate the information presented in the financial statements [ISA | 4477]

What do we do?

Evaluate whether the financial statements contain the information essential for a fair presentation by considering their form, arrangement, and content, to determine whether the financial statements are presented fairly.

Why do we do this?

Investors and other stakeholders rely on the financial statements, including the disclosures. Consequently, we perform procedures to evaluate whether the financial statements are presented fairly. The evaluation of the information presented in the financial statements is one of the aspects of this evaluation.

Execute the Audit

What do we evaluate regarding the information presented in the financial statements when determining whether the financial statements are fairly presented? [ISA | 4477.1300]

As part of our evaluation about whether the financial statements are presented fairly in accordance with the applicable financial reporting framework, we evaluate the information presented in the financial statements. In particular, we evaluate whether the form, arrangement and content of the financial statements are appropriate.

What we evaluate	What we consider
Form: **the format and overall structure of the information presented**	Examples of matters we consider when evaluating the form of the financial statements are: • whether the entity used the appropriate form required by the financial reporting framework; and For example, a US SEC registrant is required to use Form 10K, Form 10Q, Form 20-F, etc. • whether the entity's use of headings, subtotals and tables is appropriate and helps convey the appropriate information.
Arrangement: **the way the information is organized, ordered and presented**	Matters we consider when evaluating the arrangement of the financial statements are: • the classification of financial information and the underlying transactions, events and conditions; and • the aggregation and disaggregation of amounts. • whether the placement of significant disclosures is appropriately prominent; • whether the disclosures are appropriately labeled and cross-referenced in a manner that would facilitate users to identify the necessary information; and

	• whether the information is organized in a manner that is clear and easy to understand.
Content: **the information that is contained in the financial statements or the topics that are covered**	Matters we consider when evaluating the content of the financial statements are: • the description of financial information and the underlying transactions, events and conditions; • the terminology used (including the title of each financial statement) compared with what is required by the applicable financial reporting framework; • the level of detail provided - i.e. the information is summarized in a reasonable manner, that is, neither too detailed nor too condensed; • the accuracy of amounts presented; • the relevance, reliability, comparability and understandability of information presented in the financial statements; - whether all the information that should have been included has been included; - whether the information presented obscures a reader's ability to understand the matters disclosed; • the consistency of the presentation with appropriate industry practice, or whether departures are warranted due to the entity's circumstances; and • the extent to which the information in the financial statements is entity-specific and not just standard or 'boiler-plate' language. See question 'How do we determine whether the financial statement disclosures are appropriately entity-specific? ' for information on how we perform this evaluation. • whether the financial statements, including the related notes, are informative and include relevant information about matters that may affect their use, understanding and interpretation.

How do we evaluate the information presented in the financial statements when determining whether the financial statements are fairly presented? [ISA | 4477.1400]

When we evaluate the information presented in the financial statements to determine whether the financial statements are fairly presented, we take into account:

We take into account:	
The financial reporting framework.	We apply our professional judgment concerning the "fairness" of the presentation of the financial statements within the context of the financial reporting framework. Without the financial reporting framework, we would

	have no measure against which to assess the fair presentation of the financial statements. Note that, in some situations, the accounting requirements adopted by regulatory agencies for reports filed with them may differ from the financial reporting framework in certain respects.
The facts and circumstances of the entity, based on our understanding of the entity and the audit evidence obtained during the audit.	Considering the facts and circumstances of the entity (not only the financial reporting framework) is essential to evaluate fair presentation. This is because we will also think about whether: • additional disclosures beyond those specifically required by the framework are necessary to achieve fair presentation, or • a departure from a requirement of the framework is necessary to achieve fair presentation; however, this is expected to be rare.

How do we determine whether the financial statement disclosures are appropriately entity-specific? [ISA | 4477.1500]

The use of more standard or 'boiler-plate' language in disclosures can often be insufficient and may convey the wrong message by not properly communicating the specific circumstances of the entity. Examples of steps we may take to help us consider whether the financial statement disclosures are appropriately entity-specific are:

- use checklists, illustrative examples and other tools as a guide, not just as a checklist;
- encourage management to critically assess which information is relevant to the entity's circumstances and which information may be omitted to avoid having unnecessary information obscure necessary information;
- use our knowledge of the entity's transactions and circumstances together with professional skepticism to assess:
  - whether the disclosures of significant accounting policies are sufficiently entity-specific;

> For example, does the revenue recognition policy merely repeat what the applicable financial reporting framework indicates or does it explain how it has been applied to the entity's specific transactions?

  - whether the disclosures appropriately describe management's significant judgments and estimates, especially in sensitive areas;

> For example, revenue recognition, remuneration, impairment, going concern, subsequent events, and contingencies.

- consider whether additional disclosures, other than those required by the financial reporting framework, are necessary for the financial statements to achieve fair presentation.

1.2.1.4 Evaluate the underlying transactions and events [ISA | 4478]

What do we do?

Evaluate the underlying transactions and events to determine whether the financial statements are presented fairly.

Why do we do this?

Investors and other stakeholders rely on the financial statements, including the disclosures. Consequently, we perform procedures to evaluate whether the financial statements are presented fairly. The evaluation of the underlying transactions and events is one of the aspects of this evaluation.

Execute the Audit

What do we evaluate regarding the underlying transactions and events when determining whether the financial statements are fairly presented? [ISA | 4478.1300]

As part of our evaluation about whether the financial statements are presented fairly in accordance with the applicable financial reporting framework, we evaluate the underlying transactions and events. In particular, we:

- consider whether the substance of transactions or events differ materially from their form ('substance over form');
- evaluate whether the financial statements reflect the underlying transactions and events in a manner that presents the balance sheet, income statement, and cash flows, without being materially misstated;
- evaluate whether the financial statements provide adequate disclosures to enable the users to understand the effect of material transactions and events on the entity's balance sheet, income statement and cash flows.

What is the concept of 'substance over form'?

The concept of 'substance over form' is that the economic substance of transactions and events are recorded in the financial statements rather than just their legal form. This concept is intended to help achieve fair presentation.

Financial reporting frameworks usually recognize the importance of reporting transactions and events in accordance with their substance. The concept is usually embedded in the accounting principles.

When we consider 'substance over form', we determine whether a transaction is recorded to hide its true intent, which may mislead the readers of the financial statements.

	Examples
Example 1	If two entities swap their inventories, this event is not accounted as a sale - i.e. in revenue - because the *substance* is a mere in-kind exchange, despite the possible *form* of valid sales and deliveries.
Example 2	An entity transferring inventory to be used internally does not account for this event as a sale - i.e. in revenue - but it does it in a separate account.

How do we evaluate the underlying transactions and events when determining whether the financial statements are fairly presented? [ISA | 4478.1400]

When we evaluate the underlying transactions and events to determine whether the financial statements are fairly presented, we take into account:

We take into account:	
The financial reporting framework.	We apply our professional judgment concerning the "fairness" of the presentation of the financial statements within the context of the financial reporting framework. Without the financial reporting framework, we would have no measure against which to assess the fair presentation of the financial statements. Note that, in some situations, the accounting requirements adopted by regulatory agencies for reports filed with them may differ from the financial reporting framework in certain respects.
The facts and circumstances of the entity, based on our understanding of the entity and the audit evidence obtained during the audit.	Considering the facts and circumstances of the entity (not only the financial reporting framework) is essential to evaluate fair presentation. This is because we will also think about whether: • additional disclosures beyond those specifically required by the framework are necessary to achieve fair presentation, or • a departure from a requirement of the framework is necessary to achieve fair

	presentation; however, this is expected to be rare.

At this point in the audit, most of our work has been performed. This serves as a final step to determine that the financial statements are fairly presented and that we are not missing anything.

1.2.1.5 Consult when a departure from the financial reporting framework is necessary [ISA | 7658]

What do we do?

Consult when a departure from the applicable financial reporting framework is necessary.

Why do we do this?

We consult when a departure from the applicable financial reporting framework is necessary to achieve fair presentation because this is supposed to be a rare situation. The party consulted may help us determine the appropriate course of action.

Execute the audit

What do we do if the entity is in the rare circumstance in which a departure from the applicable financial reporting framework is necessary to achieve fair presentation (also referred as a true and fair override)? [ISA | 7658.14096]

We consult with DPP if the entity is in the rare circumstance in which a departure from the applicable financial reporting framework is necessary to achieve fair presentation (sometimes referred as a true and fair override). We also consult with the ISG if the financial reporting framework is IFRS or another framework that is generally recognized as being based on IFRSs.

1.2.2 Complete the Accounting Disclosure Checklist [ISA | 4479]

What do we do?

Complete the Accounting Disclosure Checklist for the applicable financial reporting framework.

Why do we do this?

The Accounting Disclosure Checklist is a useful tool in our evaluation of whether the financial statements contain the information essential for a fair presentation in conformity with the applicable financial reporting framework.

Execute the Audit

What is the Accounting Disclosure Checklist? [ISA | 4479.1300]

The Accounting Disclosure Checklist (ADC) is a useful tool that is used as a guide or 'memory jogger' to help highlight the disclosures required by the applicable financial reporting framework. There may be more than one ADC to complete, depending on the industry and the client's business.

Note that we audit the significant disclosures throughout the audit, the same way we audit the significant accounts. However, at the end of the audit, we use the ADC to help us determine that all the disclosures required by the applicable financial reporting framework are included in the financial statements and we are not missing anything.

Do we always complete the Accounting Disclosure Checklist? [ISA | 4479.13946]

It depends. When US GAAP is the applicable financial reporting framework, the US Accounting Disclosure Checklist is completed. For all other applicable financial reporting frameworks, an Accounting Disclosure Checklist is completed when required by local policy.

Is completing the Accounting Disclosure Checklist sufficient to evaluate fairness of presentation? [ISA | 4479.13945]

No. Completing the Accounting Disclosure Checklist is not sufficient for evaluating fairness of presentation. While the work paper may help serve as a completeness check to evaluate whether the required disclosures are present, it does not replace professional judgment in determining necessary disclosures (see activity 'Evaluate whether the financial statements are presented fairly' for further information).

1.2.3 Evaluate the description of the applicable financial reporting framework [ISA | 4483]

What do we do?

Evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.

Why do we do this?

Financial statements that are fairly presented refer to or describe the applicable financial reporting framework. This helps the users to identify the framework on which the financial statements are based.

Execute the Audit

How do we evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework? [ISA | 4483.1300]

There are two things we think about to determine whether the description of the applicable financial reporting framework is adequate:

	Explanation

Precise language	A description of the applicable financial reporting framework that contains imprecise, qualifying or limiting language is not an adequate description of that framework as it may mislead users of the financial statements. Examples of imprecise, qualifying or limiting language are "the financial statements are in substantial compliance with IFRS" or "the financial statements are in compliance with the accounting requirements of IFRS".
Financial statements comply with all requirements of the framework	A description that the financial statements are prepared in accordance with a particular financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

Is a reference to more than one financial reporting framework possible and likely? [ISA | 4483.1400]

It is possible but not likely. The financial statements may represent that they are prepared in accordance with *two* financial reporting frameworks. However, in practice, this is unlikely because a reference to more than one financial reporting framework is appropriate only if the financial statements comply with each of the frameworks individually and no reconciling statements are necessary.

Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework, are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

The financial statements may instead, represent that they are prepared in accordance with *one* applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework.

What do we do when the note to the financial statements describing the extent to which they comply with another framework is misleading? [ISA | 4483.1500]

When reporting on financial statements prepared in accordance with a national financial reporting framework that also disclose the extent to which the financial statements comply with IFRS, we consult with DPP and the risk management partner if such disclosure is misleading.

Form of Opinion

International Standards on Auditing: ISA 700.16-20

Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. If the auditor:

(a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,

the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised).

18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with ISA 705 (Revised). (Ref: Para. A16)

19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A17)

Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A18 - A19)

ISA Application and Other Explanatory Material: ISA 700.A16-A19

Form of Opinion

A16. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements. (Ref: Para. 18)

A17. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA 210, the auditor determined that the framework is acceptable.[26] (Ref: Para. 19)

26 ISA 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

Auditor's Report (Ref: Para. 20)

A18. A written report encompasses reports issued in hard copy and those using an electronic medium.

A19. The Appendix to this ISA contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 21 - 49. With the exception of the Opinion and Basis for Opinion sections, this ISA does not establish requirements for ordering the elements of the auditor's report. However, this ISA requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ISAs more recognizable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the Appendix to this ISA.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Modify the opinion if the financial statements do not achieve fair presentation [ISA | 3866]

What do we do?

IF the financial statements do not achieve fair presentation, THEN discuss the matter with management. IF the matter is not resolved, THEN determine whether to modify the opinion.

Why do we do this?

If the financial statements do not achieve fair presentation, they may be misleading. As a consequence, we may modify our opinion to inform the user of the financial statements of this fact.

Execute the Audit

What do we do if we conclude that the financial statements do not achieve fair presentation? [ISA | 3866.1300]

If we conclude that the financial statements do not achieve fair presentation, we discuss the matter with management. This discussion may include management's views on why a particular presentation was chosen, as well as alternatives that may have been considered.

What do we do if we cannot resolve the matter with management? [ISA | 3866.13948]

If, after our discussion with management, the matter is not resolved and is material to the financial statements, we express a qualified or adverse opinion, depending on the pervasiveness of the matter.

However, there may be cases in which the financial statements, although prepared in accordance with the requirements of the financial reporting framework, do not achieve fair presentation. When this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements.

2 IF the compliance framework financial statements are misleading, THEN determine

whether, and how to communicate in the auditor's report [ISA | 3755]

3 Express an unmodified opinion in a written report [ISA | 847]

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

International Standards on Auditing: ISA 700.21-49

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A20)

Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A21)

Auditor's Opinion

23. The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."

24. The Opinion section of the auditor's report shall also:

(a) Identify the entity whose financial statements have been audited;

(b) State that the financial statements have been audited;

(c) Identify the title of each statement comprising the financial statements;

(d) Refer to the notes, including the summary of significant accounting policies; and

(e) Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A22 - A23)

25. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

(a) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or

(b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A24 - A31)

26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26 - A31)

27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

(a) States that the audit was conducted in accordance with International Standards on Auditing; (Ref: Para. A33)

(b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs;

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and (Ref: Para. A34-A39)

(d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

29. Where applicable, the auditor shall report in accordance with ISA 570 (Revised).[13]

13 ISA 570 (Revised), *Going Concern*, paragraphs 21 - 23

Key Audit Matters

30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.

31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA 701. (Ref: Para. A40 - A42)

Other Information

32. Where applicable, the auditor shall report in accordance with ISA 720 (Revised).[14]

14 ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Responsibilities for the Financial Statements

33. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions, the appropriate reference may be to those charged with governance. (Ref: Para. A44)

34. This section of the auditor's report shall describe management's responsibility for: (Ref: Para. A45 - A48)

(a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

(b) Assessing the entity's ability to continue as a going concern[15] and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A48)

15 ISA 570 (Revised), paragraph 2

35. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph 34 above. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A49)

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

Auditor's Responsibilities for the Audit of the Financial Statements

37. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

38. This section of the auditor's report shall: (Ref: Para. A50)

(a) State that the objectives of the auditor are to:

(i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

(ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A51)

(b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists; and

(c) State that misstatements can arise from fraud or error, and either:

(i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements;[16] or

(ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A53)

---

16 ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 2

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)

(a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and

(b) Describe an audit by stating that the auditor's responsibilities are:

(i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

(iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

(v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(c) When ISA 600 (Revised)[17] applies, further describe the auditor's responsibilities in a group audit engagement by stating that:

(i) The auditor's responsibilities are to plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements;

(ii) The auditor is responsible for the direction, supervision and review of the audit work performed for purposes of the group audit; and

(iii) The auditor remains solely responsible for the auditor's opinion.[18]

17 ISA 600 (Revised), *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)*

18 ISA 600 (Revised), paragraph 53

40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A50)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;

(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied; and

(c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

Location of the description of the auditor's responsibilities for the audit of the financial statements

41. The description of the auditor's responsibilities for the audit of the financial statements required by paragraphs 39 - 40 shall be included: (Ref: Para. A54)

(a) Within the body of the auditor's report;

(b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or (Ref: Para. A55 - A57)

(c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so. (Ref: Para. A54, A56 - A57)

42. When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements in paragraphs 39 - 40 of this ISA. (Ref: Para. A56)

Other Reporting Responsibilities

43. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the ISAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISAs. (Ref: Para. A58 - A60)

44. If other reporting responsibilities are presented in the same section as the related report elements required by the ISAs, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs. (Ref: Para. A60)

45. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 21 - 40 of this ISA shall be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements." (Ref: Para. A60)

Name of the Engagement Partner

46. The name of the engagement partner shall be included in the auditor's report on financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the name of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61 - A63)

Signature of the Auditor

47. The auditor's report shall be signed. (Ref: Para. A64 - A65)

Auditor's Address

48. The auditor's report shall name the location in the jurisdiction where the auditor practices.

Date of the Auditor's Report

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A66 - A69)

(a) All the statements and disclosures that comprise the financial statements have been prepared; and

(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

ISA Application and Other Explanatory Material: ISA 700.A20-A69

Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing

Title (Ref: Para. 21)

A20. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

Addressee (Ref: Para. 22)

A21. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

Auditor's Opinion (Ref. Para. 24 - 26)

Reference to the financial statements that have been audited

A22. The auditor's report states, for example, that the auditor has audited the financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and notes to the financial statements, including a summary of significant accounting policies.

A23. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

"Present fairly, in all material respects" or "give a true and fair view"

A24. The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this ISA for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

A25. When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

Description of the financial statements and the matters they present

A26. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements may include: a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information may also be considered to be an integral part of the financial statements.

A27. In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of, the matters that the financial statements are designed to present. For example, in the case of financial statements prepared in accordance with IFRSs, these matters are *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*. Consequently, the [...] in paragraph 25 and elsewhere in this ISA is intended to be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is IFRSs or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial statements are designed to present.

Description of the applicable financial reporting framework and how it may affect the auditor's opinion

A28. The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:

"... in accordance with International Financial Reporting Standards" or

"... in accordance with accounting principles generally accepted in Jurisdiction X ..."

A29. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act." ISA 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.[27]

27 ISA 210, paragraph 18

A30. As indicated in paragraph A13, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 25 - 27 refers to both frameworks as follows:

(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., IFRSs). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects [...], in accordance with accounting principles generally accepted in Jurisdiction X and with IFRSs).

(b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., the national framework) but a modified opinion given with regard to the other framework (e.g., IFRSs) in accordance with ISA 705 (Revised).

A31. As indicated in paragraph A15, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 53 - 54 and related application material in paragraphs A78 - A84). Accordingly,

(a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ISA 705 (Revised).

(b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with ISA 706 (Revised), drawing attention to the disclosure.

Basis for Opinion (Ref: Para. 28)

A32. The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this ISA requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.

A33. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

Relevant ethical requirements (Ref: Para. 28(c))

A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA 200 explains that relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to an audit of financial statements, together with national requirements that are more restrictive. When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.

A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those related to independence, that applied to the audit of the financial statements.

A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

Considerations specific to group audits

A38. In group audits for which there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group auditor. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.[28]

28 ISA 600 (Revised), paragraph A56-A57, A66-A68

A39. The ISAs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group auditor is subject, nor do the ISAs require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group auditor. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA 600 (Revised)[29] provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

29 ISA 600 (Revised), paragraphs 25, 27

Key Audit Matters (Ref: Para. 31)

A40. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterized in such law or regulation as public interest entities.

A41. The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

A42. ISA 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.[30] ISA 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.[31] When the auditor is not otherwise required to communicate key audit matters, ISA 210[32] explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

30 ISA 210, paragraphs 9 and A22

31 ISA 210, paragraph 10

32 ISA 210, paragraph A25

Considerations specific to public sector entities

A43. Listed entities are not common in the public sector. However, public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

Responsibilities for the Financial Statements (Ref: Para. 33 - 34)

A44. ISA 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with ISAs is conducted.[33] Management and, where appropriate, those charged with governance, accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. ISA 260 (Revised) uses the term those charged with governance to describe the person(s) or organization(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.

33 ISA 200, paragraph 13(j)

A45. There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraphs 34 - 35 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.

A46. ISA 210 requires the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.[34] ISA 210 provides some flexibility in doing so, by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance, in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in ISA 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 34(a) of this ISA. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording in paragraph 34(a) of this ISA is used. In addition to including the description of management's responsibilities in the auditor's report as required by paragraph 34, the auditor may refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (e.g., in the annual report of the entity or a website of an appropriate authority).

34 ISA 210, paragraph 6(b)(i) - (ii)

A47. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA 315 (Revised)[35]), the descriptions in ISA 210 and in paragraph 34 do not make specific reference to them.

---

35 ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c)

A48. The Appendix to this ISA provides illustrations of how the requirement in paragraph 34(b) would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements featured in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

Oversight of the financial reporting process (Ref: Para. 35)

A49. When some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial statements, the description as required by paragraph 35 of this ISA may need to be modified to appropriately reflect the particular circumstances of the entity. When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

Auditor's Responsibilities for the Audit of the Financial Statements (Ref: Para. 37 - 40)

A50. The description of the auditor's responsibilities as required by paragraphs 37 - 40 of this ISA may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements. Illustration 2 in the Appendix to this ISA includes an example of how this may be done.

Objectives of the auditor (Ref: Para. 38(a))

A51. The auditor's report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion. These are in contrast to management's responsibilities for the preparation for the financial statements.

Description of materiality (Ref: Para. 38(c))

A52. The Appendix to this ISA provides illustrations of how the requirement in paragraph 38(c), to provide a description of materiality, would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

Auditor's responsibilities relating to ISA 701 (Ref: Para. 40(c))

A53. The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph 40(c). For example, the auditor may make reference to the requirement in paragraph 9 of ISA 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risk of material misstatement or significant risks identified in accordance with ISA 315 (Revised); significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and the effects on the audit of significant events or transactions that occurred during the period.

Location of the description of the auditor's responsibilities for the audit of the financial statements (Ref: Para. 41, 50(j))

A54. Including the information required by paragraphs 39 - 40 of this ISA in an appendix to the auditor's report or, when law, regulation or national auditing standards expressly permit, referring to a website of an appropriate authority containing such information may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with ISAs, a reference is required to be included in the auditor's report indicating where such information can be accessed.

Location in an appendix (Ref: Para. 41(b), 50(j))

A55. Paragraph 41 permits the auditor to include the statements required by paragraphs 39 - 40 describing the auditor's responsibilities for the audit of the financial statements in an appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the appendix. The following is an illustration of how such a reference to an appendix could be made in the auditor's report:

> **Auditor's Responsibilities for the Audit of the Financial Statements**
>
> Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
>
> A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

Reference to a website of an appropriate authority (Ref: Para. 41(c), 42)

A56. Paragraph 41 explains that the auditor may refer to a description of the auditor's responsibilities located on a website of an appropriate authority, only if expressly permitted by law, regulation or national auditing standards. The information on the website that is incorporated in the auditor's report by way of a specific reference to the website location where such information can be found may describe the auditor's work, or the audit in accordance with ISAs more broadly, but it cannot be inconsistent with the description required in paragraphs 39 - 40 of this ISA. This means that the wording of the description of the auditor's responsibilities on the website may be more detailed, or may address other matters relating to an audit of financial statements, provided that such wording reflects and does not contradict the matters addressed in paragraphs 39 - 40.

A57. An appropriate authority could be a national auditing standard setter, regulator, or an audit oversight body. Such organizations are well-placed to ensure the accuracy, completeness and continued availability of the standardized information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor's report:

> **Auditor's Responsibilities for the Audit of the Financial Statements**

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

A further description of our responsibilities for the audit of the financial statements is located at [*Organization's*] website at: [*website address*]. This description forms part of our auditor's report.

Other Reporting Responsibilities (Ref: Para. 43 - 45)

A58. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities under the ISAs. 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 procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Auditing standards in the specific jurisdiction often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A59. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their 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.

A60. Paragraphs 43 - 45 of this ISA permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the ISAs only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the ISAs. Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under the ISAs. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, paragraph 44 requires the auditor to include reporting responsibilities under the ISAs under a heading titled "Report on the Audit of the Financial Statements."

Name of the Engagement Partner (Ref: Para. 46)

A61. The objective of the firm in ISQM 1[36] is to design, implement and operate a system of quality management that provides the firm with reasonable assurance that:

- The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Notwithstanding the objective of ISQM 1, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

36 ISQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, paragraph 14

A62. Law, regulation or national auditing standards may require that the auditor's report include the name of the engagement partner responsible for audits other than those of financial statements of listed entities. The auditor may also be required by law, regulation or national auditing standards, or may decide to include additional information beyond the engagement partner's name in the auditor's report to further identify the engagement partner, for example, the engagement partner's professional license number that is relevant to the jurisdiction where the auditor practices.

A63. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or national auditing standards may establish further requirements that are relevant to determining whether the disclosure of the name of the engagement partner may be omitted.

Signature of the Auditor (Ref: Para. 47)

A64. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

A65. In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

Date of the Auditor's Report (Ref: Para. 49)

A66. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ISA 560.[37]

37 ISA 560, *Subsequent Events*, paragraphs 10 - 17

A67. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements and disclosures that comprise the financial statements have been prepared and management has accepted responsibility for them.

A68. In some jurisdictions, law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements and disclosures that comprise the financial statements have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.

A69. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of ISAs is the earlier date on which those with the recognized authority determine that all the statements and disclosures that comprise the financial statements have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Issue a Written Report [ISA | 846]

1.1 Title of the report [ISA | 850]

1.10 Location of the description of our responsibilities [ISA | 867]

1.10 Title of the Other Reporting Responsibilities section [ISA | 874]

1.11 Listed Entity | Include the name of the engagement partner in our report [ISA | 909]

1.12 Elements of our signature and location [ISA | 875]

1.13 Communicate identified KAMs in our audit report [ISA | 885]

1.14 Report in accordance with ISA 570, Going Concern [ISA | 915]

1.15 Report in accordance with ISA 720 [ISA | 916]

1.16 Date the audit report [ISA | 3777]

1.16.1 Date the audit report after obtaining sufficient appropriate audit evidence [ISA | 3778]

1.16.2 Date the audit report when concluding there is a scope limitation [ISA | 3780]

1.16.3 Include certain audit report items in our audit documentation [ISA | 3781]

1.2 Addressee of the audit report [ISA | 851]

1.3 Opinion Section [ISA | 853]

1.4 Financial Reporting Framework [ISA | 855]

1.5 Compliance Framework [ISA | 856]

1.6.1 Basis for Opinion [ISA | 859]

1.6.2 Management's Responsibilities for the Financial Statements [ISA | 862]

1.6.3 Auditor's Responsibilities and required sections [ISA | 865]

Auditor's Report Prescribed by Law or Regulation

International Standards on Auditing: ISA 700.50

Auditor's Report Prescribed by Law or Regulation

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70 - A71)

(a) A title.

(b) An addressee, as required by the circumstances of the engagement.

(c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 27).

(d) An identification of the entity's financial statements that have been audited.

(e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.

(f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of ISA 570 (Revised).

(g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of ISA 570 (Revised).

(h) Where applicable, a section that includes the information required by ISA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ISA.[19] (Ref: Para. A72 - A75)

(i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ISA 720 (Revised).

(j) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs 33 - 36.

(k) A reference to International Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 37 - 40. (Ref: Para. A50 - A53)

(l) For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

(m) The auditor's signature.

(n) The auditor's address.

(o) The date of the auditor's report.

19 ISA 701, paragraphs 11 - 16

ISA Application and Other Explanatory Material: ISA 700.A70-A75

Auditor's Report Prescribed by Law or Regulation (Ref: Para. 50)

A70. ISA 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs.[38]When the differences between the legal or regulatory requirements and ISAs relate only to the layout and wording of the auditor's report, the requirements in paragraph 50(a) - (o) set out the minimum elements to be included in the auditor's report to enable a reference to the International Standards on Auditing. In those circumstances, the requirements in paragraphs 21 - 49 that are not included in paragraph 50(a) - (o) do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.

38 ISA 200, paragraph A57

A71. Where specific requirements in a particular jurisdiction do not conflict with ISAs, the layout and wording required by paragraphs 21 - 49 of this ISA assist users of the auditor's report in more readily recognizing the auditor's report as a report of an audit conducted in accordance with ISAs.

Information Required by ISA 701 (Ref: Para. 50(h))

A72. Law or regulation may require the auditor to provide additional information about the audit that was performed, which may include information that is consistent with the objectives of ISA 701, or may prescribe the nature and extent of communication about such matters.

A73. The ISAs do not override law or regulation that governs an audit of financial statements. When ISA 701 is applicable, reference can only be made to ISAs in the auditor's report if, in applying the law or regulation, the section required by paragraph 50(h) of this ISA is not inconsistent with the reporting requirements in ISA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ISA 701, for example by:

- Modifying the heading "Key Audit Matters", if law or regulation prescribes a specific heading;
- Explaining why the information required by law or regulation is being provided in the auditor's report, for example by making a reference to the relevant law or regulation and describing how that information relates to the key audit matters;
- Where law or regulation prescribes the nature and extent of the description, supplementing the prescribed information to achieve an overall description of each key audit matter that is consistent with the requirement in paragraph 13 of ISA 701.

A74. ISA 210 deals with circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in terms that are significantly different from the requirements of ISAs, which in particular includes the auditor's opinion. In these circumstances, ISA 210 requires the auditor to evaluate:

(a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,

(b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, ISA 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ISA 210, an audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with International Standards on Auditing.[39]

39 ISA 210, paragraph 21

Considerations specific to public sector entities

A75. Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of ISA 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by ISA 701 or include a reference in the auditor's report to a description of the matter in the supplementary report.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Report Prescribed by Law or Regulation [ISA | 917]

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing

International Standards on Auditing: ISA 700.51-52

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing

51. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the "national auditing standards"), and has additionally complied with the ISAs in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A76 - A77)

> (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by ISAs; and

(b) The auditor's report includes, at a minimum, each of the elements set out in paragraphs 50(a) - (o) when the auditor uses the layout or wording specified by the national auditing standards. However, reference to "law or regulation" in paragraph 50(k) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards.

52. When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the jurisdiction of origin of the national auditing standards.

ISA Application and Other Explanatory Material: ISA 700.A76-A77

Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing (Ref: Para. 51)

A76. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards when, in addition to complying with the relevant national auditing standards, the auditor complies with each of the ISAs relevant to the audit.[40]

40 ISA 200, paragraph A58

A77. A reference to both International Standards on Auditing and the national auditing standards is not appropriate if there is a conflict between the requirements in ISAs and those in the national auditing standards that would lead the auditor to form a different opinion or not to include an Emphasis of Matter or Other Matter paragraph that, in the particular circumstances, is required by ISAs. In such a case, the auditor's report refers only to the auditing standards (either International Standards on Auditing or the national auditing standards) in accordance with which the auditor's report has been prepared.

How do we comply with the Standards? [ISA | KAEGHDWC]

1 National Auditing Standards [ISA | 860]

Supplementary Information Presented with the Financial Statements

International Standards on Auditing: ISA 700.53-54

Supplementary Information Presented with the Financial Statements (Ref: Para. A78 - A84)

53. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's

professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

54. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

ISA Application and Other Explanatory Material: ISA 700.A78-A84

Supplementary Information Presented with the Financial Statements (Ref: Para. 53 - 54)

A78. In some circumstances, the entity may be required by law, regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable 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.

A79. Paragraph 53 of this ISA explains that the auditor's opinion covers supplementary information that is an integral part of the financial statements because of its nature or how it is presented. This evaluation is a matter of professional judgment. To illustrate:

- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

A80. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor's report is sufficient.

A81. Law or regulation may not require that the supplementary information be audited, and management may decide to ask the auditor not to include the supplementary information within the scope of the audit of the financial statements.

A82. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."

A83. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:

- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labeling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

A84. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in ISA 720 (Revised).

How do we comply with the Standards? [ISA | KAEGHDWC]

1 Evaluate whether supplementary information is integral to the financial statements [ISA | 7700]

What do we do?

IF supplementary information that is not required by the applicable financial reporting framework is presented, **THEN** evaluate whether it is an integral part of the financial statements.

Why do we do this?

As auditors, we want users to understand the information that our opinion covers. If the supplemental information is integral to the financial statements, and cannot be distinguished from the financial statements, then our opinion also covers the supplemental information because users will not understand which information our opinion covers.

If the supplemental information is not integral to the financial statements, our opinion would not cover the supplemental information. To make it clear what our opinion covers, we evaluate whether the supplemental information is properly presented, make clear to users that the information is unaudited.

Execute the Audit

What is supplementary information? [ISA | 7700.15304]

Supplementary information is information that is presented together with the financial statements that is not required by the applicable financial reporting framework used to prepare the financial statements.

What are example circumstances where an entity may present supplementary information with the financial statements? [ISA | 7700.15308]

An entity may present supplementary information in circumstances required by law, regulation, standards, or voluntarily. For example, an entity may present supplementary information to enhance the user's understanding of the applicable 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.

How do we evaluate if supplementary information is an integral part of the financial statements? [ISA | 7700.15313]

Our evaluation to determine if supplementary information is an integral part of the financial statements is a matter of professional judgement. For example:

- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, we may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. Our opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial statements, we may consider this to be supplementary information that can be clearly differentiated from the financial statements.

We also consider where the supplementary information is presented in relation to the financial statements. If, for example, the information is presented next to other information that is labeled 'unaudited' we may determine that this information is not an integral part of the financial statements and therefore is not covered in our opinion.

What do we do if supplementary information is an integral part of the financial statements? [ISA | 7700.15319]

If we conclude, after our evaluation of the supplementary information, that the supplementary information is an integral part of the financial statements, we perform the appropriate audit procedures over the supplementary information and cover it in our audit opinion

Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor's report is sufficient.

The engagement letter records the fact that we will cover the supplementary information in our audit opinion. Refer to the chapter on terms of engagement for further information (ISA 210).

What do we do if supplemental information is not an integral part of the financial statements? [ISA | 7700.15326]

We evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. This can be done by management labelling the information as 'unaudited'. Management can also change the presentation of unaudited supplementary information so that it is not construed as being covered by our opinion, for example, by:

- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.

- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labeling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

What do we do if unaudited supplementary information is not clearly differentiated?

If we determine that supplementary information can be misinterpreted by users of the financial statements as being audited or is not clearly differentiated from the financial statements, then we would ask management to change how the unaudited supplementary information is presented.

If management refuses to change the presentation of unaudited supplementary information that is not clearly differentiated, then we identify the unaudited supplementary information and explain in our report that such supplementary information has not been audited. Our explanation is normally included in an Other Matter paragraph in our report. The paragraph may, for example, include the following wording:

We draw attention to the fact that the supplementary information included in Schedule 1 does not form part of the audited financial statements. We have not audited this supplementary information and, accordingly, we do not express an opinion on this supplementary information.

The fact that supplementary information is unaudited does not relieve us of our responsibilities described in the chapter on other information (ISA 720).

What do we do if we are asked to opine on supplementary information that is not required? [ISA | 7700.15332]

There may be circumstances when supplementary information that is not required by the applicable financial reporting framework is voluntarily presented with, and clearly differentiated from, the audited financial statements, and we are requested to express an opinion on the supplementary information. When we choose to modify or redirect certain of the procedures to be applied in the audit of the financial statements so that we may express an opinion on the supplementary information, we may include an Other Matter paragraph (see activity 'Determine if an other matter paragraph is necessary ' for further information) in our report as follows:

Other Matter

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Where do we find additional guidance and examples? [ISA | 7700.15336]

See section 3.1100 - 3.1145 of the International Standards Reports Manual https://alex.kpmg.com/AROWeb/document/lfc/UN_IISRM_ISRM2018_1/toc/UN_IISRM_ISRM2018_3?tocref=UN_IISRM_ISRM2018_1 for further information about supplementary information presented with the financial statements.

Appendix - Illustrations of Independent Auditor's Reports on Financial Statements

International Standards on Auditing: ISA 700.Appendix

Appendix Illustrations of Independent Auditor's Reports on Financial Statements

(Ref: Para. A19)

- Illustration 1: An auditor's report on financial statements of a listed entity prepared in accordance with a fair presentation framework
- Illustration 2: An auditor's report on consolidated financial statements of a listed entity prepared in accordance with a fair presentation framework
- Illustration 3: An auditor's report on financial statements of an entity other than a listed entity prepared in accordance with a fair presentation framework (where reference is made to material that is located on a website of an appropriate authority)
- Illustration 4: An auditor's report on financial statements of an entity other than a listed entity prepared in accordance with a general purpose compliance framework

Illustration 1 - Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

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

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements relating to the audit in the jurisdiction, and the auditor refers to both.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**

- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements [41]

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with ISA 701.*]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 1 in Appendix* 2 *of ISA 720 (Revised)*.]

Responsibilities of Management and Those Charged with Governance for the Financial Statements [42]

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,[43] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit 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.[44]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

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

[*Auditor Address*]

[*Date*]

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

42 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

43 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

44 This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

Illustration 2 - Auditor's Report on Consolidated Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework

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

- **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., ISA 600 (Revised) applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The International Ethics Standards Board for Accountants'** ***Code of Ethics for Professional Accountants*** **comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **Key audit matters have been communicated in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**

In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Consolidated Financial Statements [45]

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with ISA 701.*]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 1 in Appendix 2 of ISA 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements [46]

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs,[47] and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.[48]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

The engagement partner on the audit resulting in this independent auditor's report is [*name*].

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

[*Auditor Address*]

[*Date*]

---

45 The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

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

47 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

48 This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements.

Illustration 3 - Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a Fair Presentation Framework

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

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant**

doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).

- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **The auditor has no other reporting responsibilities required under local law.**
- **The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.**

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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

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

Basis for Opinion

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

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 1 in Appendix* 2 *of ISA 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements [49]

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,[50] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

A further description of the auditor's responsibilities for the audit of the financial statements is located at [*Organization's*] website at: [*website link*].This description forms part of our auditor's report.

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

[*Auditor Address*]

[*Date*]

---

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

50 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

Illustration 4 - Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework

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

- **Audit of a complete set of financial statements of an entity other than a listed entity required by law or regulation. The audit is not a group audit (i.e., ISA 600 (Revised) does not apply).**
- **The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **The auditor has no other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Opinion

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

In our opinion, the accompanying financial statements of the Company are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

Basis for Opinion

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

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in ISA 720 (Revised) - see Illustration 1 in Appendix 2 of ISA 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements [51]

Management is responsible for the preparation of the financial statements in accordance with XYZ Law of Jurisdiction X,[52] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Paragraph 41(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit 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.[53]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

[*Auditor Address*]

[*Date*]

---

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

52 Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ..."

53 This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

Subsequent to the issuance of our auditor's report – Inappropriate use of the auditor’s report on the entity's website

What additional activities do we perform?

What additional activities do we perform?

[ISA | KAEGWAAP]

1 Consult when financial statements are altered or the auditor's report is used inappropriately on a website [ISA | 4493]

What do we do?

IF we become aware that the audited financial statements have been altered or the auditor's report is used inappropriately on the entity's website, **THEN** request management to correct the situation. **IF** management does not correct, **THEN** consult with the appropriate parties AND consider whether to resign.

Why do we do this?

The entity may include the financial statements and the auditor's report on the entity's website. If we become aware that the financial statements on the website have been altered or the auditor's report is being used inappropriately, this is a serious concern. Given the serious nature of the concern, we may ultimately resign from the engagement if the issue is not resolved appropriately.

Execute the Audit

Do we reconcile the information on the website with the information we audited? [ISA | 4493.1300]

No. We are not required to reconcile the information on the website with the information we audited. Nonetheless, we may become aware that the audited financial statements have been altered on the entity's website.

What do we do if we become aware that the audited financial statements have been altered or the auditor's report is otherwise used inappropriately on the entity's website? [ISA | 4493.1500]

If we become aware that the audited financial statements have been altered or the auditor's report is otherwise used inappropriately on the entity's website, we request management to correct the information on the website.

If management does not correct the inappropriate use of the auditor's report on the website, including the alteration of the audited financial statements, we:

- consult with the risk management partner,
- consider seeking legal advice, and
- consider whether to resign as the entity's auditors.

Copyright