



Reporting- The New Auditor's Report

Presentation by:

CPA Stephen Obock
Associate Director, KPMG

sobock@kpmg.co.ke

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Agenda



- Why the changes?
- Key Audit Matters (KAM) - (ISA 701)
- Going Concern (GC) – ISA 570
- Emphasis of Matter & Other Matter
- Other information accompanying financial statements (ISA 720)

Why the changes



- Strong drive from INVESTORS to enhance the auditor's report
 - To gain insight into the company through the lens of the auditor
 - Less boiler plate language – more entity specific information
 - Interested in key areas and outcomes – not detailed audit procedures performed
 - Greater transparency in auditor's report regarding name of engagement partner, ethics requirements
- Investor views strongly supported by regulators such as IOSCO and Basel

Why the changes



1

- The auditor's report is the auditor's key deliverable addressing the output of the audit process

2

- Users called for the auditor's report to be more informative and relevant

3

- Enhanced auditor reporting is viewed as critical to the perceived value of the financial statement audit

4

- New reports lay foundation for the future of global auditor reporting and auditor communications

5

- IAASB's deliberations were informed by international research, public consultation and stakeholder outreach

Which audit reports are affected?



All International Standards on Auditing (ISA) audit reports

- Opinion first;
- Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities;
- Enhanced description of the responsibilities of the auditor and key features of an audit;
- Enhanced description of the respective responsibilities of management and the auditor regarding going concern;
- Material going concern uncertainty reported in a separate section in the audit report; and
- Revised reporting requirements relating to “other information” included in an entity's annual report

listed entity financial statements will include “key audit matters” (KAMs) – a significant change

New and revised auditor reporting standards



Overarching Standard for Auditor Reporting – ISA 700 (Revised)

↕

**New Key Audit
Matters section**
ISA 701

↕

**Modifications
to auditor's
opinions**
ISA 705
(Revised)

↕

**Enhanced
reporting
related to going
concern**
ISA 570
(Revised)

↕

**New auditor
reporting on
other
Information**
ISA 720
(Revised)

Revisions to **ISAs 260 and 706** as a result of ISA 701, and related conforming amendments to **ISAs 210, 220, 230, 510, 540, 600, 710**

Key Audit Matters (KAMs): ISA 701



Key Audit Matters are those matters that the auditor judged were of the most significance to the audit of the current period financial statements, selected from matters communicated with those charged with governance.

Those matter that required significant auditor attention e.g.:

- Higher risk of material misstatement or significant risks
- Significant judgment & high estimation uncertainty
- Significant events and transactions during the period
- KAM are not management letter issues.
- KAMs are specific to the entity

Key Audit Matters: ISA 701



Description

- For each key audit matter, the auditor should explain:
 - why they consider that matter to be one of most significance; and
 - how the matter was addressed
- Cross reference to disclosures in financials
- The auditor should try to avoid providing original information about the company in the description of a KAM

Communicating Key audit matters

1. General purpose financial statements of listed entities- ISA 700.30
2. When we are otherwise required by law or regulation -ISA 700.31
3. When we otherwise decide to- ISA 700.31

Key audit matters – Identifying



Matters discussed with those charged with governance

Matters that required significant auditor attention in performing the audit

Key audit matters - matters of most significance

Document your rationale for determining whether or not each matter that required significant auditor attention is a key audit matter

Matters that required significant auditor attention - In accordance with ISA 701.9. For example, consider significant risks or financial statement level risks, accounting estimates with a high estimation uncertainty, and the audit impact of significant events or transactions during the period.

Unless required by law or regulation, when we **disclaim an opinion** on the financial statements, our report shall **not** include a Key Audit Matters section in accordance with this Chapter. [Source: ISA 705.29]

Determination of KAMs



1st KAM “filter”

- ☐ Areas of higher assessed risk of material misstatement, or significant risks identified during the audit
- ☐ Areas that involved significant management judgment, including accounting estimates with a high estimation uncertainty
- ☐ The effect on the audit of significant events or transactions that occurred during the period.

2nd KAM “filter”

- ☐ Matters that may have resulted in significant interaction with those charged with governance
- ☐ Importance of the matter to intended users' understanding of the FS
- ☐ Nature and extent of audit effort needed to address the matter (e.g. specialist skill/knowledge needed)

Types of matters likely to be reported as KAMs



Communicating Key Audit Matters



We shall describe each key audit matter, using an appropriate subheading, in a separate section of the report under the heading "Key Audit Matters,“. [ISA 701.11]

The introductory section of the report shall state that:

- a. Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements [of the current period]; and
- b. These matters were addressed in the context of the 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. [ISA 701.11(b)]

Describing Key Audit Matters



key audit matters are written such that they:

- i. are engagement specific and avoid generic or standardized language,
- ii. are informative, concise and understandable to a non-auditor,
- iii. do not inappropriately provide original information about the entity, and
- iv. do not contain or imply discrete opinions on separate elements of the financial statements.

The description of each KAM shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

- a. Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- b. How the matter was addressed in the audit.

Describing Key Audit Matters



Avoid	Because	Instead use
We reviewed...	The term "review" is associated with review engagements under ISRE 2410 rather than audits under ISAs.	We inspected... We observed... We considered...by... We assessed...by... We compared...by...
We audited...	We do not audit specific key audit matters; rather we audit the financial statements as a whole. We report <i>how</i> we have addressed the key audit matter in the audit.	We tested ... by ... We challenged ... by ... We considered ... by ... We assessed ... by ... We evaluated ... by ...
We verified... We ensured... We confirmed...	"Verified", "ensured" and "confirmed" imply an absolute (100%) level of assurance. Our audit is designed for us to be able to give reasonable (but not absolute) assurance over the financial statements.	We agreed... We assessed... We obtained external confirmation of...

Describing Key Audit Matters



Avoid	Because	Instead use
We challenged the group's assumptions.	We specify <i>how</i> and on what basis we challenged the client's assumptions.	We challenged the group's assumptions based on: <ul style="list-style-type: none"> ➤ our own expectations based on our knowledge of the client and experience in that industry; ➤ industry norms; ➤ specified external data sources.
We used an internal expert...	Not clear as to whether the individual is internal to the client or to us.	We used our own [valuation] specialist ... The group's in-house lawyers...
We relied on an external...	We remain responsible for our audit opinion	We used an external [metallurgist] to assist us in assessing...
Technical words -cut-off; we vouched ...; etc.	Our reporting should be written in plain English as far as possible	Inclusion in the appropriate period" rather than "cut-off"; "Agreed" instead of "vouched";

When not to include KAM



- ❑ There are some situations (for “sensitive matters”) in which the auditor would not be required to disclose a matter:
 - If law or regulation precludes it, or,
 - In extremely rare circumstances, where the adverse consequences of communicating a KAM would reasonably outweigh the public interest benefits
 - The IAASB has been very clear that the provisions should not be abused to avoid disclosing matters that do not firmly fit these circumstances
 - KAM is prohibited for a disclaimer of opinion, but required for a qualified or adverse opinion

How many KAMs will be reported?



- ❑ The auditing standards neither prescribe the number of KAMs that should be reported nor provide a suggested range of number of KAMs
 - The standards state that the greater the number of KAMs that are initially determined, the more auditor should reconsider which of those matters were of **most significance** to the audit

What happens if no KAM is identified?

- The audit report must still contain a “Key audit matters” section which must state that the auditor has determined that there are no key audit matters

Guiding principles on the language used in the report



Relate the matter directly to the specific circumstances of the entity, while avoiding generic or standardized language



Take into account how the matter is addressed in the related disclosure(s) in the financial statements, if any



Imply that the matter has not been appropriately resolved by the auditor in forming the opinion



Contain or imply discrete opinions on separate elements of the financial statements

Effect on the Audit process



The changes to the auditing reporting standards do not change the underlying work effort required in an ISA audit, but rather focus on increased transparency about the audit that was performed

Time commitment will be required from senior members on the audit team and the firm's internal quality assurance functions with regard to the identification of KAMs and the articulation thereof in the auditor's report

Changes about the auditors consideration of going concern



- Need for earlier warning of potential issues that may exist with respect of an entity's going concern
- The auditor's work effort on going concern in the following:-
 - guidance was added to support the auditor's evaluation of disclosures when **a material uncertainty exists**;
 - a new requirement has been added for the auditor to evaluate the **adequacy of disclosures in "close-call" situations**
- All auditor's reports will include descriptions of the responsibilities of the auditor and management in relation to going concern to provide an additional focus on going concern

Emphasis of Matter (EOM) and Other Matter (OM) Paragraphs



- Concepts of EOM and OM paragraphs are retained
- EOM and OM paragraphs cannot be used as a substitute for communicating a matter determined to be a KAM
- New requirement to use the term “Emphasis of Matter” in the heading in the auditor’s report when an EOM paragraph is included
- Modified opinion are KAM by their nature but are described in the Basis for Opinion section

Other information (ISA 720 Revised)



- This ISA provides for the auditor's work effort with respect to other information
- The auditor is required to read the other information and:-
 - consider whether there is a **material inconsistency** between the **other information** and the **financial statements**; and
 - consider whether there is a **material inconsistency** between the **other information** and the **auditor's knowledge** obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit

Other information (ISA 720 Revised)



Using the heading “Other Information” or other appropriate heading, the auditor’s report will include:

- A statement that **management is responsible** for the other information.
- **Identification** of the other information obtained prior to the date of the auditor’s report.
- A statement that the auditor’s opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon.
- A description of the auditor’s responsibilities relating to reading, considering and reporting on other information.

Other information (ISA 720 Revised)



- When other information has been obtained prior to the date of the auditor's report, either :
 - i. A statement that the auditor has nothing to report; or
 - ii. If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information

Application of changes in Kenya



- ❑ ICPAK adopted the new and revised standards, in April 2015, *as issued by the IAASB with a provision to extend the scope of KAMs...*
- ❑ Engagement with regulators
 - CBK to issue circular for mandatory inclusion of KAM for banks
 - Insurance Regulatory Authority – engagements
 - Capital Markets Authority – extend KAM to all issuers of securities to the public and its licensees
 - OAG – phased approach with large state corporations to be included in phase I
 - SASRA – engagements to disclose KAMs

QA





Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure

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 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 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 exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.
- The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.
- Key audit matters have been communicated in accordance with ISA 701.
- 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 Statements²²

Qualified 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.

²² 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.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, 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 Qualified Opinion

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.

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 qualified 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. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements²³

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).²⁴]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).²⁴]

²³ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

²⁴ Paragraphs 33 and 38 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

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]

Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements

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 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 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 exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the Company is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.
- 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 Statements²⁵**Adverse 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, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not 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).

²⁵ 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.

Basis for Adverse Opinion

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

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 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 adverse opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements²⁶

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).²⁷]

Auditor's Responsibilities for the Audit of the Financial Statements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).²⁷]

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ISA 700 (Revised) – see Illustration 1 in ISA 700 (Revised).]

[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]

²⁶ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

²⁷ Paragraphs 33 and 38 of ISA 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

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 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’ *Code of Ethics for Professional Accountants* 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.
- 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 Statements³⁷**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

³⁷ 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.

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' *Code of Ethics for Professional Accountants (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.]

Responsibilities of Management and Those Charged with Governance for the Financial Statements³⁸

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,³⁹ 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 40(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(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

³⁸ 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.

³⁹ 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 ..."

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.⁴⁰
- 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, 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 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

⁴⁰ 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.

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]

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 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.
- 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 Statements⁴¹**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 (or) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

⁴¹ 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.

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.]

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements⁴²

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs,⁴³ 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 40(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(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

⁴² Or other terms that are appropriate in the context of the legal framework of 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 ..."

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.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 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance 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

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 consolidated financial statements.

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]

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 this 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 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.
- 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁴⁵

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,⁴⁶ 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 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]

⁴⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

⁴⁶ 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 ..."