

**INTERNATIONAL STANDARD ON AUDITING
(UK AND IRELAND) 700
THE AUDITOR’S REPORT ON FINANCIAL STATEMENTS
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International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) 700 “The Auditor’s Report on Financial Statements” should be read in the context of the Auditing Practices Board’s Statement “The Auditing Practices Board - Scope and Authority of Pronouncements (Revised)” which sets out the application and authority of ISAs (UK and Ireland).

Introduction

1. The purpose of this International Standard on Auditing (UK and Ireland) (ISA (UK and Ireland)) is to establish standards and provide guidance on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor of the financial statements of an entity. Much of the guidance provided can be adapted to auditor reports on financial information other than financial statements.
 - 1-1. This ISA (UK and Ireland) uses the terms 'those charged with governance' and 'management'. The term 'governance' describes the role of persons entrusted with the supervision, control and direction of an entity. Ordinarily, those charged with governance are accountable for ensuring that the entity achieves its objectives, and for the quality of its financial reporting and reporting to interested parties. Those charged with governance include management only when they perform such functions.
 - 1-2. In the UK and Ireland, those charged with governance include the directors (executive and non-executive) of a company or other body, the members of an audit committee where one exists, the partners, proprietors, committee of management or trustees of other forms of entity, or equivalent persons responsible for directing the entity's affairs and preparing its financial statements.
 - 1-3. 'Management' comprises those persons who perform senior managerial functions.
 - 1-4. In the UK and Ireland, depending on the nature and circumstances of the entity, management may include some or all of those charged with governance (e.g. executive directors). Management will not normally include non-executive directors.
2. **The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for the expression of an opinion on the financial statements.**
3. This review and assessment involves considering whether the financial statements have been prepared in accordance with an acceptable financial reporting framework¹ being either International Accounting Standards

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

(IASs) or relevant national standards or practices. It may also be necessary to consider whether the financial statements comply with statutory requirements.

4. **The auditor's report should contain a clear written expression of opinion on the financial statements taken as a whole.**

Basic Elements of the Auditor's Report

5. The auditor's report includes the following basic elements, ordinarily in the following layout:
 - (a) Title;
 - (b) Addressee;
 - (c) *Opening or introductory paragraph*
 - (i) Identification of the financial statements audited;
 - (ii) A statement of the responsibility of the entity's management² and the responsibility of the auditor;
 - (d) *Scope paragraph (describing the nature of an audit)*
 - (i) A reference to the ISAs or relevant national standards or practices;
 - (ii) A description of the work the auditor performed;
 - (e) *Opinion paragraph* containing
 - (i) A reference to the financial reporting framework used to prepare the financial statements (including identifying the country of origin³ of the financial reporting framework when the framework used is not International Accounting Standards); and
 - (ii) An expression of opinion on the financial statements;
 - (f) Date of the report;

² In the UK and Ireland, those charged with governance are responsible for the preparation of the financial statements.

³ In some circumstances it also may be necessary to refer to a particular jurisdiction within the country of origin to identify clearly the financial reporting framework used.

- (g) Auditor's address; and
- (h) Auditor's signature.

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

Title

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

Addressee

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

7-1 In the UK and Ireland, the Companies Act requires that the auditor's report on the financial statements of a company is addressed to its members because the audit is undertaken on their behalf. The auditor's report on financial statements of other types of reporting entity is addressed to the appropriate person or persons, as defined by statute or by the terms of the individual engagement.

Opening or Introductory Paragraph

- 8. **The auditor's report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.**
- 9. **The report should include a statement that the financial statements are the responsibility of the entity's management⁴ and a statement that the**

⁴ The level of management responsible for the financial statements will vary according to the legal situation in each country.

In the UK and Ireland, those charged with governance are responsible for the preparation of the financial statements. Thus it is the directors of a company who are required by law to prepare annual

responsibility of the auditor is to express an opinion on the financial statements based on the audit.

9-1. **In the UK and Ireland:**

- (a) **The auditor should distinguish between the auditor's responsibilities and the responsibilities of those charged with governance by including in the auditor's report a reference to a description of the relevant responsibilities of those charged with governance when that description is set out elsewhere in the financial statements or accompanying information; or**
- (b) **Where the financial statements or accompanying information do not include an adequate description of the relevant responsibilities of those charged with governance, the auditor's report should include a description of those responsibilities.**

9-2. An appreciation of the interrelationship between the responsibilities of those who prepare financial statements and those who audit them is also necessary to achieve an understanding of the nature and context of the opinion expressed by the auditor. Readers need to be aware that it is those charged with governance of the reporting entity and not the auditor who determines the accounting policies followed. In the UK and Ireland, the auditor's report therefore also sets out the respective responsibilities of those charged with governance and the auditor.

- 10. Financial statements are the representations of management². The preparation of such statements requires management² to make significant accounting estimates and judgments, as well as to determine the appropriate accounting principles and methods used in preparation of the financial statements. This determination will be made in the context of the financial reporting framework that management² chooses, or is required, to use. In contrast, the auditor's responsibility is to audit these financial statements in order to express an opinion thereon.
- 11. *An illustration of these matters in an opening (introductory) paragraph is:*

accounts which consist of a balance sheet and profit and loss account together with accompanying notes and which give a true and fair view of the state of affairs of the company (or group) at the end of the financial year and of the profit or loss of the company (or group) for that year.

“We have audited the accompanying⁵ balance sheet of the ABC Company as of December 31, 20X1, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.”

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

Scope Paragraph

12. **The auditor’s report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs (UK and Ireland) or in accordance with relevant national standards or practices as appropriate.** “Scope” refers to the auditor’s ability to perform audit procedures deemed necessary in the circumstances. The reader needs this as an assurance that the audit has been carried out in accordance with established standards or practices. Unless otherwise stated, the auditing standards or practices followed are presumed to be those of the country indicated by the auditor’s address.
13. **The report should include a statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement.**

13-1. In the UK and Ireland, the auditor’s statement that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement, includes reference to material misstatement caused by fraud or other irregularity or error.

14. **The auditor’s report should describe the audit as including:**
 - (a) **Examining, on a test basis, evidence to support the financial statement amounts and disclosures;**
 - (b) **Assessing the accounting principles used in the preparation of the financial statements;**

⁵ The reference can be by page numbers.

- (c) **Assessing the significant estimates made by management² in the preparation of the financial statements; and**
- (d) **Evaluating the overall financial statement presentation.**

14-1. In the UK and Ireland, the accounting principles used in the preparation of financial statements are established by legislation. The auditor should consider whether the accounting policies are appropriate to the reporting entity's circumstances, consistently applied and adequately disclosed.

15. The report should include a statement by the auditor that the audit provides a reasonable basis for the opinion.

16. *An illustration of these matters in a scope paragraph is:*

“We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.”

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

16-1. In the UK and Ireland:

- (a) In some circumstances, the auditor may be required to report whether the financial statements have been properly prepared in accordance with regulations or other requirements, but is not required to report on whether they give a true and fair view. Where the special circumstances of the reporting entity require or permit the adoption of policies or accounting bases which do not normally permit a true and fair view to be given, the auditor refers to those circumstances in the paragraphs dealing with the respective responsibilities of those

charged with governance and the auditor (unless the matter is included in a separate statement given by those charged with governance) and may draw attention to them in the basis of opinion section of the report.

- (b) The auditor may wish to include additional comment in this part of the auditor’s report to highlight matters which they regard as relevant to a proper understanding of the basis of their opinion.

Opinion Paragraph

17. **The opinion paragraph of the auditor’s report should clearly indicate the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards) and state the auditor’s opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with that financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.**

18. The terms used to express the auditor’s opinion are “give a true and fair view”⁶ or “present fairly, in all material respects,” and are equivalent. Both terms indicate, amongst other things, that the auditor considers only those matters that are material to the financial statements.

19. The financial reporting framework is determined by IASs, rules issued by recognized standard setting bodies, and the development of general practice within a country, with an appropriate consideration of fairness and with due regard to local legislation. To advise the reader of the context in which the auditor’s opinion is expressed, the auditor’s opinion indicates the framework upon which the financial statements are based. The auditor refers to the financial reporting framework in such terms as:

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

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the

⁶ In the UK and Ireland, the auditor ordinarily is required by law or regulations to evaluate whether the financial statements give a true and fair view.

most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

This designation will help the user to better understand which financial reporting framework was used in preparing the financial statements. When reporting on financial statements that are prepared specifically for use in another country, the auditor considers whether appropriate disclosure has been made in the financial statements about the financial reporting framework that has been used.

19-1. For accounting periods commencing on or after 1 January 2005, the consolidated financial statements of UK companies that are admitted to trading on a regulated market and Irish listed companies must be prepared under EU adopted IFRS. Other companies may choose to use EU adopted IFRS; those who do not will be able to continue to prepare their financial statements in accordance with UK and Irish standards.

20. In addition to an opinion on the true and fair view (or fair presentation, in all material respects,), the auditor’s report may need to include an opinion as to whether the financial statements comply with other requirements specified by relevant statutes or law.

21. *An illustration of these matters in an opinion paragraph is:*

“In our opinion, the financial statements give a true and fair view of (or ‘present fairly, in all material respects,’) the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin⁷]) (and comply with ...⁸).”

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

22. ⁹

⁷ See footnote 3.

⁸ Refer to relevant statutes or law.

⁹ Deleted by the IAASB.

Other requirements specified by relevant statutes and law in the UK and Ireland

- 22-1. Further opinions or information to be included in the auditor's report may be determined by specific statutory requirements applicable to the reporting entity, or, in some circumstances, by the terms of the auditor's engagement. Such matters may be required to be dealt with by a positive statement in the auditor's report or only by exception. For example, in the Republic of Ireland the auditor is required to state whether, in the auditor's opinion, proper books of account have been kept, whereas company legislation in the United Kingdom requires the auditor to report only when a company has not maintained proper accounting records.
- 22-2. Where further opinions are required by statute or other regulation, matters which result in qualification of such an opinion may also result in a qualification of the auditor's opinion on the financial statements: for example, if proper accounting records have not been maintained and as a result it proves impracticable for the auditor to obtain sufficient evidence concerning material matters in the financial statements, the auditor's report indicates that the scope of the examination was limited and includes a qualified opinion or disclaimer of opinion on the financial statements arising from that limitation, as required by paragraphs 37 and 38.

Date of Report

23. **The auditor should date the report as of the completion date of the audit.** This informs the reader that the auditor has considered the effect on the financial statements and on the report of events and transactions of which the auditor became aware and that occurred up to that date.
- 23-1. **In the UK and Ireland, the date of an auditor's report on a reporting entity's financial statements is the date on which the auditor signed the report expressing an opinion on those statements.**
24. **Since the auditor's responsibility is to report on the financial statements as prepared and presented by management², the auditor should not date the report earlier than the date on which the financial statements are signed or approved by management¹⁰.**
- 24-1. **In the UK and Ireland, the auditor should not date the report earlier than the date on which all other information contained in a report of**

¹⁰ In the UK and Ireland, the financial statements are signed or approved by those charged with governance.

which the audited financial statements form a part have been approved by those charged with governance and the auditor has considered all necessary available evidence.

- 24-2. The auditor is not in a position to form the opinion until the financial statements (and any other information contained in a report of which the audited financial statements form a part) have been approved by those charged with governance and the auditor has completed the assessment of all the evidence the auditor considers necessary for the opinion or opinions to be given in the auditor's report. This assessment includes events occurring up to the date the opinion is expressed. The auditor therefore plans the conduct of audits to take account of the need to ensure, before expressing an opinion on financial statements, that those charged with governance have approved the financial statements and any accompanying financial information and that the auditor has completed a sufficient review of post balance sheet events.
- 24-3. The date of the auditor's report is, therefore, the date on which, following:
- (a) receipt of the financial statements and accompanying documents in the form approved by those charged with governance for release;
 - (b) review of all documents which the auditor is required to consider in addition to the financial statements (for example the directors' report, chairman's statement or other review of an entity's affairs which will accompany the financial statements); and
 - (c) completion of all procedures necessary to form an opinion on the financial statements (and any other opinions required by law or regulation) including a review of post balance sheet events
- the auditor signs (in manuscript) the auditor's report expressing an opinion on the financial statements for distribution with those statements.
- 24-4. The form of the financial statements and other financial information approved by those charged with governance, and considered by the auditor when signing a report expressing the auditor's opinion, may be in the form of final drafts from which printed documents will be prepared. Subsequent production of printed copies of the financial statements and auditor's report does not constitute the creation of a new document. Copies of the report produced for circulation to shareholders or others may therefore reproduce a printed version of the auditor's signature showing the date of actual signature.

- 24-5. If the date on which the auditor signs the report is later than that on which those charged with governance approved the financial statements, the auditor takes such steps as are appropriate:
- (a) to obtain assurance that those charged with governance would have approved the financial statements on that later date (for example, by obtaining confirmation from specified individual members of the board to whom authority has been delegated for this purpose); and
 - (b) to ensure that their procedures for reviewing subsequent events cover the period up to that date.
- 24-6. The copy of the auditor's report that is delivered to the registrar of companies is required to state the name of the auditor and be signed by the auditor. Where the auditor signs the auditor's report in a form from which a final printed version is produced, the auditor may sign copies for identification purposes in order to provide the registrar with appropriately signed copies. No further active procedures need be followed at that later date.

Auditor's Address

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

Auditor's Signature

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

- 26-1. In the UK and Ireland, where required by relevant law and regulations, the report also states the auditor's status as a registered auditor.

The Auditor's Report

27. **An *unqualified opinion* should be expressed when the auditor concludes that the financial statements give a true and fair view (or are presented fairly, in all material respects,) in accordance with the identified financial reporting framework.** An unqualified opinion also indicates implicitly that any changes in accounting principles or in the method of

their application, and the effects thereof, have been properly determined and disclosed in the financial statements.

- 27-1. In the UK and Ireland, an unqualified opinion entails concluding whether inter alia:
- The financial statements have been prepared using appropriate accounting principles, which have been consistently applied;
 - Any departures from relevant legislation, regulations or the identified financial reporting framework are justified and adequately explained in the financial statements; and
 - There is adequate disclosure of all information relevant to the proper understanding of the financial statements.
28. *The following is an illustration of the entire auditor's report incorporating the basic elements set forth and illustrated above. This report illustrates the expression of an unqualified opinion.*

“AUDITOR'S REPORT

(APPROPRIATE ADDRESSEE)

We have audited the accompanying¹¹ balance sheet of the ABC Company as of December 31, 20X1, and the related statements of income, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing (or refer to relevant national standards or practices). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

¹¹ See footnote 5.

In our opinion, the financial statements give a true and fair view of (or ‘present fairly, in all material respects,’) the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin¹²]) (and comply with ...¹³).

AUDITOR

Date

Address”

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

Modified Reports

29. An auditor’s report is considered to be modified in the following situations:

Matters That Do Not Affect the Auditor’s Opinion

- (a) Emphasis of matter

Matters That Do Affect the Auditor’s Opinion

- (b) Qualified opinion,
(c) Disclaimer of opinion, or
(d) Adverse opinion.

Uniformity in the form and content of each type of modified report will further the user’s understanding of such reports. Accordingly, this ISA (UK and Ireland) includes suggested wording to express an unqualified opinion as well as examples of modifying phrases for use when issuing modified reports.

¹² See footnote 3.

¹³ See footnote 8.

Illustrative examples of auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, "Auditor's Reports on Financial Statements".

Matters That Do Not Affect the Auditor's Opinion

30. In certain circumstances, an auditor's report may be modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial statements which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included after the opinion paragraph and would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.
31. **The auditor should modify the auditor's report by adding a paragraph to highlight a material matter regarding a going concern problem.**
32. **The auditor should consider modifying the auditor's report by adding a paragraph if there is a significant uncertainty (other than a going concern problem), the resolution of which is dependent upon future events and which may affect the financial statements.** An uncertainty is a matter whose outcome depends on future actions or events not under the direct control of the entity but that may affect the financial statements.
- 32-1. The emphasis of matter paragraph describes the matter giving rise to the significant uncertainty and its possible effects on the financial statements, including (where practicable) quantification. Where it is not possible to quantify the potential effects of the resolution of the uncertainty, the auditor includes a statement to that effect. Reference may be made to notes in the financial statements but such a reference is not a substitute for sufficient description of the significant uncertainty so that a reader can appreciate the principal points at issue and their implications.
- 32-2. Communication with the reader is enhanced by the use of an appropriate sub-heading differentiating the emphasis of matter paragraph from other matters included in the section describing the basis of the auditor's opinion.
- 32-3. In determining whether an uncertainty is significant, the auditor considers:
- (a) the risk that the estimate included in financial statements may be subject to change;
 - (b) the range of possible outcomes; and

- (c) the consequences of those outcomes on the view shown in the financial statements.
- 32-4. Uncertainties are regarded as significant when they involve a significant level of concern about the validity of the going concern basis or other matters whose potential effect on the financial statements is unusually great. A common example of a significant uncertainty is the outcome of major litigation.
- 32-5. An unqualified opinion indicates that the auditor considers that appropriate estimates and disclosures relating to significant uncertainties are made in the financial statements. It remains unqualified notwithstanding the inclusion of an emphasis of matter paragraph describing a significant uncertainty.
- 32-6. When the auditor concludes that the estimate of the outcome of a significant uncertainty is materially misstated or that the disclosure relating to it is inadequate, the auditor issues a qualified opinion.

33. *An illustration of an emphasis of matter paragraph for a significant uncertainty in an auditor’s report follows:*

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

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

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

(An illustration of an emphasis of matter paragraph relating to going concern is set out in ISA (UK and Ireland) 570, “Going Concern.”)

34. The addition of a paragraph emphasizing a going concern problem or significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial statements, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.
35. In addition to the use of an emphasis of matter paragraph for matters that affect the financial statements, the auditor may also modify the auditor's report by using an emphasis of matter paragraph, preferably after the opinion paragraph, to report on matters other than those affecting the financial statements. For example, if an amendment to other information in a document containing audited financial statements is necessary and the entity refuses to make the amendment, the auditor would consider including in the auditor's report an emphasis of matter paragraph describing the material inconsistency. An emphasis of matter paragraph may also be used when there are additional statutory reporting responsibilities.

Matters That Do Affect the Auditor's Opinion

36. An auditor may not be able to express an unqualified opinion when either of the following circumstances exist and, in the auditor's judgment, the effect of the matter is or may be material to the financial statements:
- (a) There is a limitation on the scope of the auditor's work; or
 - (b) There is a disagreement with management² regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial statement disclosures.

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

- 36-1. In the UK and Ireland, when the auditor concludes that the financial statements of a company do not comply with accounting standards, the auditor assesses:
- (a) Whether there are sound reasons for the departure;
 - (b) Whether adequate disclosure has been made concerning the departure from accounting standards;

- (c) Whether the departure is such that the financial statements do not give a true and fair view of the state of affairs and profit or loss.

In normal cases, a departure from accounting standards will result in the issue of a qualified or adverse opinion on the view given by the financial statements.

- 36-2. In the UK and Ireland, where no explanation is given for a departure from accounting standards, its absence may of itself impair the ability of the financial statements to give a true and fair view of the company's state of affairs and profit or loss. When the auditor concludes that this is so, a qualified or adverse opinion on the view given by the financial statements is appropriate, in addition to a reference (where appropriate) to the departure from accounting standards and the reasons for the departure.

37. **A *qualified opinion* should be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with management², or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion should be expressed as being 'except for' the effects of the matter to which the qualification relates.**

38. **A *disclaimer of opinion* should be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements.**

39. **An *adverse opinion* should be expressed when the effect of a disagreement is so material and pervasive to the financial statements that the auditor concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.**

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

- 40-1. Whilst reference may be made to relevant notes in the financial statements, such reference is not a substitute for sufficient description of the circumstances in the auditor's report so that a reader can appreciate the

principal points at issue and their implications for an understanding of the financial statements.

Circumstances That May Result in Other Than an Unqualified Opinion

Limitation on Scope

41. A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists, the auditor would ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor would not accept such an audit engagement when the limitation infringes on the auditor's statutory duties.

Limitation of scope imposed by the entity before accepting an audit engagement in the UK and Ireland

- 41-1. **If the auditor is aware, before accepting an audit engagement, that those charged with governance of the entity, or those who appoint its auditor, will impose a limitation on the scope of the audit work which the auditor considers likely to result in the need to issue a disclaimer of opinion on the financial statements, the auditor should not accept that engagement, unless required to do so by statute¹⁴.**
- 41-2. Agreeing to such a restriction on the scope of the audit work would seriously threaten the auditor's independence and make it impossible for the auditor to meet with integrity and rigour the requirements of ISAs (UK and Ireland). The acceptance of such a limited engagement as an audit engagement would be incompatible with the auditor's obligations to:

¹⁴ There are certain circumstances in which (regardless of any limitation imposed on the scope of the audit work) the auditor is required by statute to accept an audit engagement, for example the majority of appointments of the national audit agencies to audit the accounts of certain public sector bodies. However, in general, there is no such requirement in the private sector; there may be a statutory requirement for the entity to appoint auditors, but this does not create an obligation for any auditors to accept appointment.

- Conduct any audit of financial statements in accordance with applicable legislation;
- Conduct any audit of financial statements in accordance with Auditing Standards contained in the ISAs (UK and Ireland); and
- Comply with the APB ethical standards.

Furthermore, the auditor, by accepting the engagement on such restricted terms, might be regarded as complicit in an arrangement to enable the entity to observe the form of any legal or regulatory audit requirements but to evade complying with the substance of those obligations.

Limitation on scope imposed by the entity after accepting an audit engagement in the UK and Ireland

- 41-3. **If the auditor becomes aware, after accepting an audit engagement, that those charged with governance of the entity, or those who appointed them as its auditor, have imposed a limitation on the scope of the audit work which they consider likely to result in the need to issue a disclaimer of opinion on the financial statements, the auditor should request the removal of the limitation. If the limitation is not removed, the auditor should consider resigning from the audit engagement.**
- 41-4. If the limitation is not removed, the auditor considers the factors discussed in paragraph 41-2 above and may often decide that resignation from the audit engagement is appropriate. If, after careful consideration of all the circumstances (for example, where third party interests are involved), the auditor concludes that it is appropriate to continue with the engagement, the auditor includes in the audit report a full description of the events which led to the disclaimer. On completion of the audit for that year, however, the auditor will follow the requirements of paragraph 41-1 when deciding whether to undertake the audit for the following period¹⁵.
- 41-5. In cases where the auditor resigns immediately, or continues with the audit for that year but does not seek reappointment, the auditor needs to comply with:

¹⁵ Auditors in the Republic of Ireland are required by the Companies Act 1963 (section 160, para 2(c)) to give the company notice in writing of their unwillingness to be re-appointed, where this is the case.

- (a) Any statutory or regulatory requirements for a statement of the circumstances of ceasing to hold office;¹⁶ and
- (b) The requirements of APB ethical standards concerning the response to enquiries from any proposed successor auditor seeking information which could affect the decision whether or not they may properly accept appointment.

The fact that such a limitation has been imposed on the scope of the auditor's work may be a matter to which the auditor refers in both cases.

- 41-6. **Where a significant limitation of scope has arisen during the course of the audit work the auditor should consider whether an obligation arises under statute, as discussed in ISA (UK and Ireland) 250, Part B, to make a report to the appropriate regulators.**

Limitation on scope imposed by circumstances

42. A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, the auditor would attempt to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion.
43. **When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report should describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.**
- 43-1. In the UK and Ireland, in considering whether a limitation of scope results in a lack of evidence necessary to form an opinion, the auditor assesses:

¹⁶ For example, in the case of a limited company incorporated in the United Kingdom, on ceasing to hold office for any reason, the auditor is required under section 394(1) Companies Act 1985 (or Article 58(1) Companies (No 2) (Northern Ireland) Order 1990) to make'... a statement of any circumstances connected with his ceasing to hold office which he considers should be brought to the attention of the members or creditors of the company or, if he considers that there are no such circumstances, a statement that there are none.' Similar requirements exist in the Republic of Ireland (section 185 Companies Act, 1990).

- (a) The quantity and type of evidence which may reasonably be expected to be available to support the particular figure or disclosure in the financial statements; and
- (b) The possible effect on the financial statements of the matter for which insufficient evidence is available. When the possible effect is, in the opinion of the auditor, material to the financial statements, there will be insufficient evidence to support an unqualified opinion.

44. *Illustrations of these matters are set out below.*

Limitation on Scope—Qualified Opinion

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

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

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

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

Illustrative examples of auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, “Auditor’s Reports on Financial Statements”.

Limitation on Scope—Disclaimer of Opinion

“We were engaged to audit the accompanying balance sheet of the ABC Company as of December 31, 20X1, and the related

statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. (Omit the sentence stating the responsibility of the auditor).

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

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

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

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

Illustrative examples of auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, "Auditor's Reports on Financial Statements".

Disagreement with Management²

45. The auditor may disagree with management² about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial statements. **If such disagreements are material to the financial statements, the auditor should express a qualified or an adverse opinion.**
46. *Illustrations of these matters are set out below.*

Disagreement on Accounting Policies-Inappropriate Accounting Method—Qualified Opinion

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

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

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

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

Illustrative examples of auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, "Auditor's Reports on Financial Statements".

Disagreement on Accounting Policies—Inadequate Disclosure—Qualified Opinion

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

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

On January 15, 20X2, the Company issued debentures in the amount of xxx for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after December 31, 19X1. In our opinion, disclosure of this information is required by ...¹⁷.

¹⁷ See footnote 8.

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

Illustrative examples of auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, "Auditor's Reports on Financial Statements".

Disagreement on Accounting Policies—Inadequate Disclosure—Adverse Opinion

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

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

(Paragraph(s) discussing the disagreement).

In our opinion, because of the effects of the matters discussed in the preceding paragraph(s), the financial statements do not give a true and fair view of (or do not 'present fairly') the financial position of the Company as of December 20, 19X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin¹⁸]) (and do not comply with ...¹⁹)."'

Illustrative examples of auditor's reports tailored for use with audits conducted in accordance with ISAs (UK and Ireland) are given in the most recent version of the APB Bulletin, "Auditor's Reports on Financial Statements".

¹⁸ See footnote 3.

¹⁹ See footnote 8.

Effective Date

47. This ISA (UK and Ireland) is effective for audits of financial statements for periods commencing on or after 15 December 2004.

Public Sector Perspective

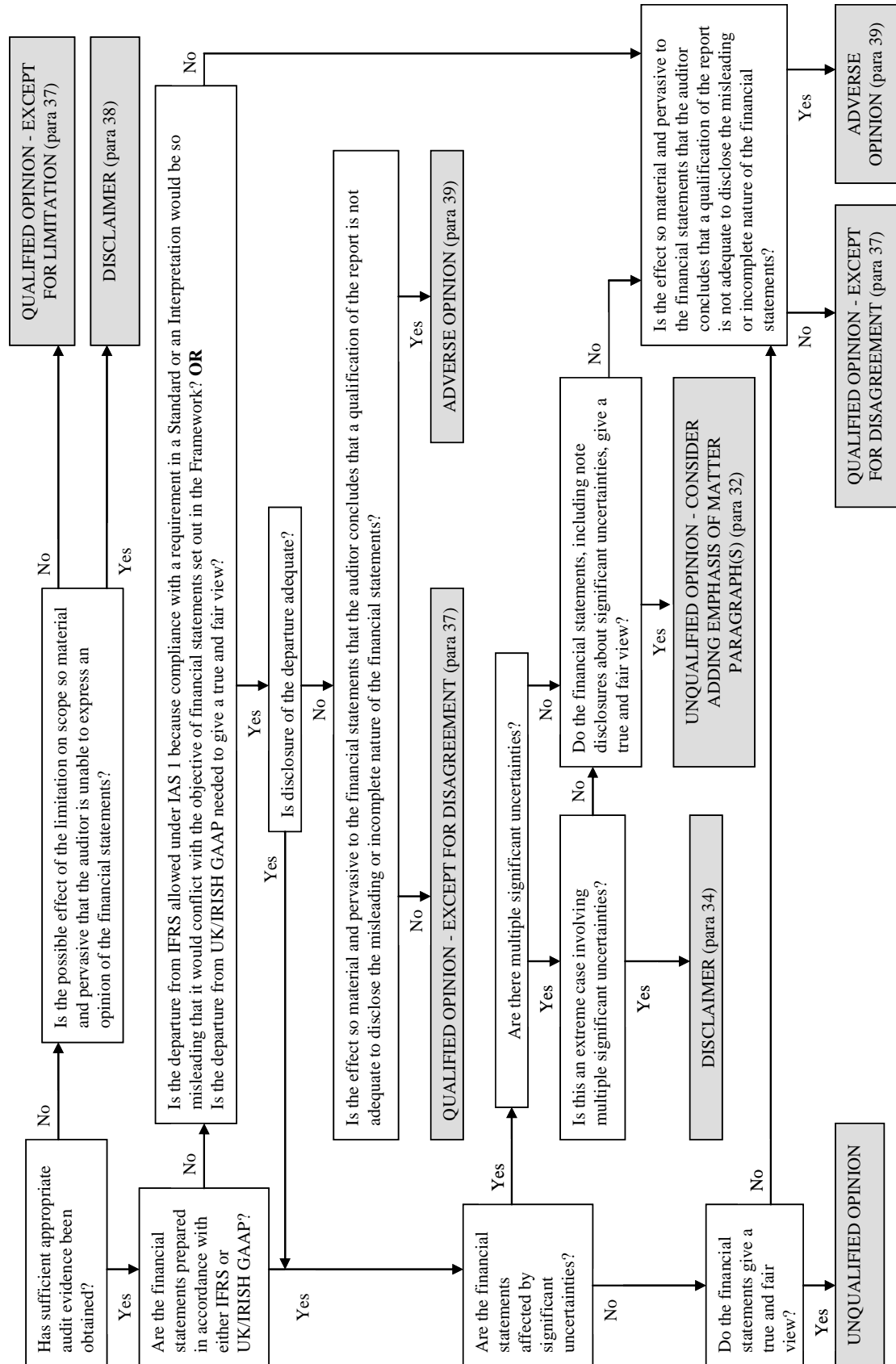
Additional guidance for auditors of public sector bodies in the UK and Ireland is given in:

- Practice Note 10 “Audit of Financial Statements of Public Sector Entities in the United Kingdom (Revised)”
- Practice Note 10(I) “The Audit of Central Government Financial Statements in Ireland”

1. *While the basic principles contained in this ISA (UK and Ireland) apply to the audit of financial statements in the public sector, the legislation giving rise to the audit mandate may specify the nature, content and form of the auditor’s report.*
2. *This ISA (UK and Ireland) does not address the form and content of the auditor’s report in circumstances where financial statements are prepared in conformity with a disclosed basis of accounting, whether mandated by legislation or ministerial (or other) directive, and that basis results in financial statements which are misleading.*
3. *Paragraph 17 of this standard requires the auditor to indicate clearly the financial reporting framework used to prepare the financial statements. Where a public sector entity has adopted International Public Sector Accounting Standards as the financial reporting framework, the auditor should clearly state that fact in the audit opinion. For example:*

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

Forming an Opinion on Financial Statements¹



¹ This flowchart does not cover modified reports involving going concern problems. Refer to the most recent version of the APB Bulletin, "Auditor's Reports on Financial Statements".

NOTICE TO READERS

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The ISAs (UK and Ireland) are based on International Standards on Auditing of the same titles, which have been issued by the International Auditing and Assurance Standards Board and published by the International Federation of Accountants.