

June 2016

---

# International Standard on Auditing (UK) 700 (Revised June 2016)

## Forming an Opinion and Reporting on Financial Statements

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2016

The Financial Reporting Council Limited is a company limited by guarantee.

Registered in England number 2486368. Registered Office:

8th Floor, 125 London Wall, London EC2Y 5AS

**INTERNATIONAL STANDARD ON AUDITING (UK) 700  
(REVISED JUNE 2016)**

**FORMING AN OPINION AND REPORTING ON FINANCIAL  
STATEMENTS**

(Effective for audits of financial statements for periods commencing on or after 17 June 2016)

**CONTENTS**

---

	Paragraph
<b>Introduction</b>	
Scope of this ISA (UK) .....	1–4
Effective Date .....	5
<b>Objectives</b> .....	6
<b>Definitions</b> .....	7–9
<b>Requirements</b>	
Forming an Opinion on the Financial Statements .....	10–15
Form of Opinion .....	16–19
Auditor's Report .....	20–52
Supplementary Information Presented with the Financial Statements .....	53–54
<b>Application and Other Explanatory Material</b>	
Qualitative Aspects of the Entity's Accounting Practices .....	A1–A3
Accounting Policies Appropriately Disclosed in the Financial Statements .....	A4
Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable .....	A5
Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements .....	A6
Evaluating Whether the Financial Statements Achieve Fair Presentation .....	A7–A9
Description of the Applicable Financial Reporting Framework .....	A10–A15
Form of Opinion .....	A15-1–A17
Auditor's Report .....	A18–A77-1
Supplementary Information Presented with the Financial Statements .....	A78–A84
Appendix: Illustrations of Independent Auditor's Reports on Financial Statements	

---

International Standard on Auditing (ISA) (UK) 700 (Revised June 2016), *Forming an Opinion and Reporting on Financial Statements*, should be read in conjunction with ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*.

## Introduction

### Scope of this ISA (UK)

1. This International Standard on Auditing (UK) (ISA (UK)) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.
2. ISA (UK) 701<sup>1</sup> deals with the auditor's responsibility to communicate key audit matters in the auditor's report. ISA (UK) 705<sup>2</sup> (Revised June 2016) and ISA (UK) 706<sup>3</sup> (Revised June 2016) deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other ISAs (UK) also contain reporting requirements that are applicable when issuing an auditor's report.
3. This ISA (UK) applies to an audit of a complete set of general purpose financial statements and is written in that context. ISA 800<sup>4</sup> deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805<sup>5</sup> deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This ISA (UK) also applies to audits for which ISA 800 or ISA 805 apply.
4. The requirements of this ISA (UK) are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This ISA (UK) promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs (UK), promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

### Effective Date

5. This ISA (UK) is effective for audits of financial statements for periods commencing on or after 17 June 2016. Earlier adoption is permitted.

### Objectives

6. The objectives of the auditor are:
  - (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

---

<sup>1</sup> ISA (UK) 701, *Communicating Key Audit Matters in the Independent Auditor's Report*.

<sup>2</sup> ISA (UK) 705 (Revised June 2016), *Modifications to the Opinion in the Independent Auditor's Report*.

<sup>3</sup> ISA (UK) 706 (Revised June 2016), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*.

<sup>4</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*.  
ISA 800 has not been promulgated by the FRC for application in the UK.

<sup>5</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

ISA 805 has not been promulgated by the FRC for application in the UK.

- (b) To express clearly that opinion through a written report.

## Definitions

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

- (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.
- (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

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

- (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework;<sup>5a</sup> or
- (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements.<sup>5b</sup> Such departures are expected to be necessary only in extremely rare circumstances.

The term “compliance framework” is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.<sup>6</sup>

- (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>7</sup>
8. Reference to “financial statements” in this ISA (UK) means “a complete set of general purpose financial statements.”<sup>8</sup> The requirements of the applicable financial reporting framework determine the presentation, structure and content of the financial statements, and what constitutes a complete set of financial statements.
9. Reference to “International Financial Reporting Standards” in this ISA (UK) means the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board, and reference to “International Public Sector Accounting

<sup>5a</sup> In the IFRS Framework this is acknowledged in paragraph 17(c) of IAS 1. In UK GAAP this is acknowledged in Sections 396(4) and 404(4) of the Companies Act 2006.

<sup>5b</sup> This is sometimes referred to as the “true and fair override”. In the IFRS Framework this is acknowledged in paragraph 19 of IAS 1. In UK GAAP this is acknowledged in Sections 396(5) and 404(5) of the Companies Act 2006.

<sup>6</sup> ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*, paragraph 13(a).

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

<sup>8</sup> ISA (UK) 200 (Revised June 2016), *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)*, paragraph 13(f) sets out the content of financial statements.

Standards” means the International Public Sector Accounting Standards (IPSASs) issued by the International Public Sector Accounting Standards Board.

## Requirements

### Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.<sup>9,10</sup>
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
  - (a) The auditor's conclusion, in accordance with ISA (UK) 330 (Revised June 2016), whether sufficient appropriate audit evidence has been obtained;<sup>11</sup>
  - (b) The auditor's conclusion, in accordance with ISA (UK) 450 (Revised June 2016), whether uncorrected misstatements are material, individually or in aggregate;<sup>12</sup> and
  - (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
  - (a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4)
  - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
  - (c) The accounting estimates made by management are reasonable;
  - (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:
    - The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.

<sup>9</sup> ISA (UK) 200 (Revised June 2016), paragraph 11.

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

<sup>11</sup> ISA (UK) 330 (Revised June 2016), *The Auditor's Responses to Assessed Risks*, paragraph 26.

<sup>12</sup> ISA (UK) 450 (Revised June 2016), *Evaluation of Misstatements Identified during the Audit*, paragraph 11.

- The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)
- (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A6)
- (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor’s evaluation as to whether the financial statements achieve fair presentation shall include consideration of: (Ref: Para A7–A9)
- (a) The overall presentation, structure and content of the financial statements; and
- (b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A10–A15)

### Form of Opinion

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

In the UK, when expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework it is not sufficient for the auditor to conclude that the financial statements give a true and fair view solely on the basis that the financial statements were prepared in accordance with accounting standards and any other applicable legal requirements. (Ref: Para. A15-1–A15-2)

17. If the auditor:
- (a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,
- the auditor shall modify the opinion in the auditor’s report in accordance with ISA (UK) 705 (Revised June 2016).
18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor’s report in accordance with ISA (UK) 705 (Revised June 2016). (Ref: Para. A16)
19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the

matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A17)

## Auditor's Report

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

20-1. The auditor's report shall be in clear and unambiguous language.

*Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (UK)*

### Title

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

### Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A21–A21-1)

### Auditor's Opinion

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

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

- (a) Identify the entity whose financial statements have been audited;
- (b) State that the financial statements have been audited;
- (c) Identify the title of each statement comprising the financial statements;
- (d) Refer to the notes, including the summary of significant accounting policies; and
- (e) Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A22–A23)

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

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

In the UK, when expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework the opinion paragraph shall clearly state that the financial statements give a true and fair view. (Ref: Para. A24-1–A24-3)

26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26–A31-1)

27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs

issued by the International Public Sector Accounting Standards Board, the auditor's opinion shall identify the jurisdiction of origin of the framework.

#### Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)
- (a) States that the audit was conducted in accordance with International Standards on Auditing (UK) and applicable law; (Ref: Para. A33)
  - (b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs (UK);
  - (c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code); and (Ref: Para. A34–A39)
- In the UK, auditors are subject to ethical requirements from two sources: the FRC's Ethical Standard concerning the integrity, objectivity and independence of the auditor, and the ethical pronouncements established by the auditor's relevant professional body. When identifying the relevant ethical requirements in the auditor's report, the auditor indicates that these include the FRC's Ethical Standard, applied as required for the types of entity determined to be appropriate in the circumstances.
- (d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

#### Going Concern

29. Where applicable, the auditor shall report in accordance with ISA (UK) 570 (Revised June 2016).<sup>13</sup>

#### Key Audit Matters

30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA (UK) 701.
- 30-1. For audits of complete sets of general purpose financial statements of public interest entities and other entities that are required, and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code, the auditor shall communicate in the auditor's report in accordance with ISA (UK) 701.
31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA (UK) 701. (Ref: Para. A40–A42)

#### Other Information

32. Where applicable, the auditor shall report in accordance with ISA (UK) 720 (Revised June 2016).

---

<sup>13</sup> ISA (UK) 570 (Revised June 2016), *Going Concern*, paragraphs 21–23.

## Responsibilities for the Financial Statements

33. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions, the appropriate reference may be to those charged with governance.<sup>13a</sup> (Ref: Para. A44–A44-1)
34. This section of the auditor's report shall describe management's responsibility for: (Ref: Para. A45–A48)
- (a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
  - (b) Assessing the entity's ability to continue as a going concern<sup>14</sup> and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A48)
35. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph 33 above. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A49)
36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view" as appropriate in the circumstances.

In the UK, the auditor's report shall include a statement that [those charged with governance] are responsible for the preparation of financial statements [that give a true and fair view].

## Auditor's Responsibilities for the Audit of the Financial Statements

37. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."
38. This section of the auditor's report shall: (Ref: Para. A50)
- (a) State that the objectives of the auditor are to:
    - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
    - (ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A51)

<sup>13a</sup> In the UK, those charged with governance are responsible for the preparation of the financial statements.

<sup>14</sup> ISA (UK) 570 (Revised June 2016), paragraph 2.

- (b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists; and
  - (c) State that misstatements can arise from fraud or error, and either:
    - (i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements; or<sup>15</sup>
    - (ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A52)
39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)
- (a) State that, as part of an audit in accordance with ISAs (UK), the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and
  - (b) Describe an audit by stating that the auditor's responsibilities are:
    - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
    - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
    - (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
    - (iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However,

---

<sup>15</sup> ISA (UK) 320 (Revised June 2016), *Materiality in Planning and Performing an Audit*, paragraph 2.

future events or conditions may cause an entity to cease to continue as a going concern. (Ref: Para A50-1–A50-2)

- (v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - (c) When ISA (UK) 600 (Revised June 2016)<sup>16</sup> applies, further describe the auditor’s responsibilities in a group audit engagement by stating that:
    - (i) The auditor’s responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;
    - (ii) The auditor is responsible for the direction, supervision and performance of the group audit; and
    - (iii) The auditor remains solely responsible for the auditor’s opinion.
40. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also shall: (Ref: Para. A50)
- (a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;
  - (b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, related safeguards; and
  - (c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA (UK) 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

---

<sup>16</sup> ISA (UK) 600 (Revised June 2016), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*.

## Location of the Description of the Auditor’s Responsibilities for the Audit of the Financial Statements

41. The description of the auditor’s responsibilities for the audit of the financial statements required by paragraphs 39–40 shall be included: (Ref: Para. A54)
- (a) Within the body of the auditor’s report;
  - (b) Within an appendix to the auditor’s report, in which case the auditor’s report shall include a reference to the location of the appendix; or (Ref: Para. A54–A55)
  - (c) By a specific reference within the auditor’s report to the location of such a description on a website of an appropriate authority, where law, regulation or national auditing standards expressly permit the auditor to do so. (Ref: Para. A54, A56–A57-1)

In the UK, the auditor is permitted to cross-refer to the applicable version of a “Description of the Auditor’s Responsibilities for the Audit of the Financial Statements” that is maintained on the website of an appropriate authority.

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

## Other Reporting Responsibilities

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

43-1. If the auditor is required to report on certain matters by exception, the auditor shall describe in the auditor’s report the auditor’s responsibilities for such matters and incorporate a suitable conclusion in respect of such matters. (Ref: Para. A58-1–A58-3)

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

45. If the auditor’s report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 20–40 of this ISA (UK) shall be included under a section with a heading “Report on the Audit of the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” shall follow the “Report on the Audit of the Financial Statements.” (Ref: Para. A60–A60-14)

45R-1. For audits of financial statements of public interest entities, the auditor’s report shall:

- (a) State by whom or which body the auditor(s) was appointed;
- (b) Indicate the date of the appointment and the period of total uninterrupted engagement including previous renewals and reappointments of the firm;

- (c) Explain to what extent the audit was considered capable of detecting irregularities, including fraud;
- (d) Confirm that the audit opinion is consistent with the additional report to the audit committee.<sup>16a</sup> Except as required by paragraph 45R-1(d), the auditor's report shall not contain any cross-references to the additional report to the audit committee;
- (e) Declare that the non-audit services prohibited by the FRC's Ethical Standard were not provided and that the firm remained independent of the entity in conducting the audit; and
- (f) Indicate any services, in addition to the audit, which were provided by the firm to the entity and its controlled undertaking(s), and which have not been disclosed in the annual report or financial statements.

#### Name of the Engagement Partner

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

#### Signature of the Auditor

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

#### Auditor's Address

48. The auditor's report shall name the location in the jurisdiction where the auditor practices. (Ref: Para. A65-1)

#### Date of the Auditor's Report

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A66–A69)
- (a) All the statements and disclosures that comprise the financial statements have been prepared; and
  - (b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

49-1. The date of an auditor's report on an entity's financial statements shall be the date on which the auditor signed the report expressing an opinion on those financial statements. (Ref: Para. A66)

49-2. The auditor shall not sign, and hence date, the auditor's report earlier than the date on which all the other information contained in the annual report has been approved by those charged with governance and the auditor has considered all necessary available evidence. (Ref: Para. A67-1–A67-4)

<sup>16a</sup> ISA (UK) 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16R-2.

*Auditor's Report Prescribed by Law or Regulation*

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)
- (a) A title.
  - (b) An addressee, as required by the circumstances of the engagement.
  - (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 26).
  - (d) An identification of the entity's financial statements that have been audited.
  - (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the IESBA Code.
  - (f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of ISA 570 (Revised).
  - (g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of ISA 570 (Revised).
  - (h) Where applicable, a section that includes the information required by ISA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ISA.<sup>17</sup> (Ref: Para. A72–A75)
  - (i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of ISA 720 (Revised).
  - (j) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs 33–36.
  - (k) A reference to International Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 37–40. (Ref: Para. A50–A53)
  - (l) For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
  - (m) The auditor's signature.

---

<sup>17</sup> ISA 701, paragraphs 11–16.

- (n) The auditor’s address.
- (o) The date of the auditor’s report.

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

51. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the “national auditing standards”), and has additionally complied with the ISAs in the conduct of the audit. If this is the case, the auditor’s report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A76–A77-1)
- (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by ISAs; and
  - (b) The auditor’s report includes, at a minimum, each of the elements set out in paragraphs 50(a)–(o) in ISA 700 (Revised) when the auditor uses the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph 50(k) shall be read as reference to the national auditing standards. The auditor’s report shall thereby identify such national auditing standards.
52. When the auditor’s report refers to both the national auditing standards and International Standards on Auditing, the auditor’s report shall identify the jurisdiction of origin of the national auditing standards.

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

53. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor’s professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor’s opinion.
54. If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor’s report that such supplementary information has not been audited.

\*\*\*

## **Application and Other Explanatory Material**

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

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

- A2. ISA (UK) 260 (Revised June 2016) contains a discussion of the qualitative aspects of accounting practices.<sup>18</sup> In considering the qualitative aspects of the entity’s accounting practices, the auditor may become aware of possible bias in management’s judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor’s evaluation of whether the financial statements as a whole are materially misstated include the following:
- The selective correction of misstatements brought to management’s attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
  - Possible management bias in the making of accounting estimates.
- A3. ISA (UK) 540 (Revised June 2016) addresses possible management bias in making accounting estimates.<sup>19</sup> Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor’s evaluation of whether the financial statements as a whole are free from material misstatement.

### **Accounting Policies Appropriately Disclosed in the Financial Statements**

(Ref: Para. 13(a))

- A4. In evaluating whether the financial statements appropriately disclose the significant accounting policies selected and applied, the auditor’s consideration includes matters such as:
- Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;
  - Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances and disclosures in the financial statements in the particular circumstances of the entity’s operations and its environment; and
  - The clarity with which the significant accounting policies have been presented.

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

- A5. Evaluating the understandability of the financial statements includes consideration of such matters as whether:
- The information in the financial statements is presented in a clear and concise manner.

---

<sup>18</sup> ISA (UK) 260 (Revised June 2016), *Communication with Those Charged with Governance*, Appendix 2.

<sup>19</sup> ISA (UK) 540 (Revised June 2016), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21.

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

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

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

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

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

A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.<sup>20</sup> As noted in paragraph 7(b) of this ISA (UK), a fair presentation<sup>21</sup> financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.<sup>22</sup>

A8. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The

---

<sup>20</sup> For example, International Financial Reporting Standards (IFRSs) note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

<sup>21</sup> See ISA (UK) 200 (Revised June 2016), paragraph 13(a).

<sup>22</sup> For example, IFRSs require an entity to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (International Accounting Standard 1, *Presentation of Financial Statements*, paragraph 17(c)).

evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.

- A9. Evaluating whether the financial statements achieve fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:
- The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
  - Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

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

- A10. As explained in ISA (UK) 200 (Revised June 2016), the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.<sup>23</sup> That description advises users of the financial statements of the framework on which the financial statements are based.
- A11. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.
- A12. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., “the financial statements are in substantial compliance with International Financial Reporting Standards”) is not an adequate description of that framework as it may mislead users of the financial statements.

*Reference to More than One Financial Reporting Framework*

- A13. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., the national framework and IFRSs). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (e.g., IFRSs) as its own national framework, or has eliminated all barriers to compliance with it.
- A14. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under another framework are not prepared in accordance

---

<sup>23</sup> ISA (UK) 200 (Revised June 2016), paragraphs A2–A3.

with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

- A15. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (e.g., financial statements prepared in accordance with the national framework that also describe the extent to which they comply with IFRSs). Such description may constitute supplementary financial information as discussed in paragraph 53 and is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements.

**Form of Opinion** (Ref: Para. 16, 18–19)

A15-1. The "true and fair" concept has been part of legislation and central to accounting and auditing practice in the UK for many years. However, there is no statutory definition of "true and fair". In 2008, the FRC published a legal opinion, that it had commissioned, entitled "The true and fair requirement revisited" (The Opinion).<sup>23a</sup> The Opinion confirms the overarching nature of the true and fair requirement to the preparation of financial statements in the UK, whether they are prepared in accordance with international or national accounting standards. The Opinion states that "The preparation of financial statements is not a mechanical process where compliance with relevant accounting standards will automatically ensure that those financial statements show a true and fair view, or a fair presentation. Such compliance may be highly likely to produce such an outcome; but it does not guarantee it."

A15-2. In addition to preparing the financial statements in accordance with a fair presentation framework, the directors are therefore required to consider whether the individual accounting policies applied and the financial statements as a whole present a true and fair view. Similarly, auditors are required to exercise professional judgment in evaluating such matters before expressing an audit opinion. As a result, The Opinion confirms that it will not be sufficient for either directors or auditors to reach such conclusions solely because the financial statements were prepared in accordance with applicable accounting standards.

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

- A17. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with ISA (UK) 210 (Revised June 2016), the auditor determined that the framework is acceptable.<sup>24</sup> (Ref: Para. 19)

<sup>23a</sup> The opinion can be downloaded from the FRC website at <https://www.frc.org.uk/Our-Work/Codes-Standards/Accounting-and-Reporting-Policy/True-and-Fair.aspx>.

<sup>24</sup> ISA (UK) 210 (Revised June 2016), *Agreeing the Terms of Audit Engagements*, paragraph 6(a).

**Auditor's Report** (Ref: Para. 20)

- A18. A written report encompasses reports issued in hard copy and those using an electronic medium.
- A19. The Appendix to this ISA (UK)<sup>24a</sup> contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 20–49. With the exception of the Opinion and Basis for Opinion sections, this ISA (UK) does not establish requirements for ordering the elements of the auditor's report. However, this ISA (UK) requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with ISAs (UK) more recognizable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the Appendix to this ISA (UK).

*Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing (UK)*

Title (Ref: Para. 21)

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

Addressee (Ref: Para. 22)

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

A21-1. In the UK, for entities incorporated under the Companies Act,<sup>24b</sup> the auditor is required to report to the company's members because the audit is undertaken on their behalf. Such auditor's reports are, therefore, typically addressed to either the members or the shareholders of the company. 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.

Auditor's Opinion (Ref. Para. 24–26)

Reference to the financial statements that have been audited

- A22. The auditor's report states, for example, that the auditor has audited the financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and notes to the financial statements, including a summary of significant accounting policies.
- A23. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may

<sup>24a</sup> The examples in the Appendix have not been tailored for the UK. Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK) are given in the current version of the FRC's Compendium of Illustrative Auditor's Reports.

<sup>24b</sup> In the UK, the Companies Act 2006 establishes this requirement.

consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor’s report relates.

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

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

A24-1. For statutory audits of financial statements, the auditor’s report is required by UK legislation<sup>24c</sup> to state clearly whether, in the auditor’s opinion, the financial statements:

- (a) Give a true and fair view:
  - (i) In the case of an individual balance sheet, of the state of affairs of the entity as at the end of the financial year;
  - (ii) In the case of an individual profit and loss account, of the profit or loss of the entity for the financial year;
  - (iii) In the case of group accounts, of the state of affairs as at the end of the financial year and of the profit or loss for the financial year of the undertakings included in the consolidation as a whole, so far as concerns members of the entity;
- (b) Have been properly prepared in accordance with the relevant financial reporting framework; and
- (c) Have been prepared in accordance with the requirements of the relevant legislation.

A24-2. UK auditor’s reports prepared in accordance with Section 495(3) of the Companies Act 2006 will meet the requirement in paragraph 25. This is supported by recital 10 of EU Directive 2003/51/EC which states “The fundamental requirement that an audit opinion states whether the annual or consolidated accounts give a true and fair view in accordance with the relevant financial reporting framework does not represent a restriction of the scope of that opinion but clarifies the context in which it is expressed”.

A24-3. In the UK, “relevant financial reporting framework” is used in legislation to refer to the applicable financial reporting framework.

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

Description of the financial statements and the matters they present

A26. The auditor’s opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements may include: a statement of financial

<sup>24c</sup> Section 495(3) of the Companies Act 2006.

position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information may also be considered to be an integral part of the financial statements.

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

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

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

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

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

A28-1. In the UK, the financial reporting framework is normally one of:

- International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the national law that is applicable when using IFRSs and, in the case of consolidated financial statements of publicly traded companies,<sup>24d</sup> Article 4 of the IAS Regulation (1606/2002/EC).
- UK Generally Accepted Accounting Practice, which comprises applicable UK law and UK Accounting Standards as issued by the FRC.

- A29. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "... in accordance with International Financial Reporting Standards and the requirements of Jurisdiction X Corporations Act." ISA (UK) 210 (Revised June 2016) deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.<sup>25</sup>

A29-1. In the UK, certain small companies are permitted by law to prepare their financial statements in accordance with the micro-entities regime which is considered to be a compliance framework. Paragraph 26 sets out the form of opinion for a compliance

<sup>24d</sup> A publicly traded company is one whose securities are admitted to trading on a regulated market in any Member State in the European Union.

<sup>25</sup> ISA (UK) 210 (Revised June 2016), paragraph 18.

framework, however, the auditor is required by law to state whether the financial statements give a true and fair view.<sup>25a</sup> ISA (UK) 210 (Revised June 2016) provides guidance to support the auditor's response in these circumstances.<sup>25b</sup>

- A30. As indicated in paragraph A13, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 25–27 refers to both frameworks as follows:
- (a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., IFRSs). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects [...], in accordance with accounting principles generally accepted in Jurisdiction X and with IFRSs).
  - (b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., the national framework) but a modified opinion given with regard to the other framework (e.g., IFRSs) in accordance with ISA (UK) 705 (Revised June 2016).
- A31. As indicated in paragraph A13, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 53–54 and related application material in paragraphs A78–A86). Accordingly,
- (a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with ISA (UK) 705 (Revised June 2016).
  - (b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with ISA (UK) 706 (Revised June 2016), drawing attention to the disclosure.

#### Joint Audits

A31-1. The Companies Act 2006 permits companies to appoint a sole auditor or joint auditors. Where a company appoints joint auditors each firm is required to agree on the results of the audit and submit a joint auditor's report and opinion. In the case of disagreement, each firm is required to submit the auditor's opinion in a separate paragraph of the auditor's report and state the reason for the disagreement.<sup>25c</sup>

<sup>25a</sup> Section 495(3A) of the Companies Act 2006.

<sup>25b</sup> ISA (UK) 210 (Revised June 2016), paragraphs A36-1–A36-2.

<sup>25c</sup> Section 495(5) of the Companies Act 2006.

Basis for Opinion (Ref: Para. 28)

- A32. The Basis for Opinion section provides important context about the auditor’s opinion. Accordingly, this ISA (UK) requires the Basis for Opinion section to directly follow the Opinion section in the auditor’s report.
- A33. The reference to the standards used conveys to the users of the auditor’s report that the audit has been conducted in accordance with established standards.

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

- A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. ISA (UK) 200 (Revised June 2016) explains that relevant ethical requirements ordinarily comprise Parts A and B of the IESBA Code related to an audit of financial statements together with national requirements that are more restrictive.<sup>26</sup> When the relevant ethical requirements include those of the IESBA Code, the statement may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.
- A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A35-1. The FRC’s Ethical Standard applies to all audit engagements performed in compliance with ISAs (UK). For audit engagements of certain types of entities (Listed; SME Listed; Public Interest), it includes either additional, or less stringent, requirements that apply in certain circumstances.<sup>26a</sup>

A35-2. The firm is required to establish policies and procedures in accordance with the FRC’s Ethical Standard<sup>26b</sup> that set out the circumstances in which the additional requirements, applicable to audit engagements for certain types of entities (Listed; SME Listed; Public Interest), apply to other audit engagements.

A35-3. When identifying the relevant ethical requirements in the auditor’s report and indicating that these include the FRC’s Ethical Standard, the auditor indicates that they were applied as required for each type of entity (Listed; SME Listed; Public Interest) for which the FRC Ethical Standard includes additional requirements:

- (a) That is relevant in the case of the audited entity; and
- (b) Where (having regard to the policies and procedures referred to in paragraph A35-2) the auditor determined it to be appropriate to apply to the audit engagement the additional requirements included in the FRC Ethical Standard applicable for that type of entity.

<sup>26</sup> ISA (UK) 200 (Revised June 2016), paragraph A14.

<sup>26a</sup> FRC’s Ethical Standard, *Part B, Section 1 – General Requirements and Guidance*, paragraph 1.48.

<sup>26b</sup> FRC’s Ethical Standard, *Part B, Section 1 – General Requirements and Guidance*, paragraph 1.49.

A35-4. Where the firm has taken advantage of an exemption provided in the FRC's Ethical Standard in relation to audits of small entities, the auditor's report discloses this fact.<sup>26c</sup>

- A36. Law or regulation, national auditing standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial statements.
- A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

#### Considerations specific to group audits

- A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.<sup>27</sup>
- A39. The ISAs (UK) do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the IESBA Code or other ethical requirements to which the group engagement team is subject, nor do the ISAs (UK) require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. ISA (UK) 600 (Revised June 2016)<sup>28</sup> provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

#### Key Audit Matters (Ref: Para. 31)

- A40. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterized in such law or regulation as public interest entities.
- A41. The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.
- A42. ISA (UK) 210 (Revised June 2016) requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance

<sup>26c</sup> FRC's Ethical Standard, *Part B, Section 6 – Provisions Available for Audits of Small Entities*, paragraph 6.15.

<sup>27</sup> ISA (UK) 600 (Revised June 2016), paragraph A37.

<sup>28</sup> ISA (UK) 600 (Revised June 2016), paragraphs 19–20.

arrangements of the entity and relevant law or regulation.<sup>29</sup> ISA (UK) 210 (Revised June 2016) also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.<sup>30</sup> When the auditor is not otherwise required to communicate key audit matters, ISA (UK) 210 (Revised June 2016)<sup>31</sup> explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

#### Considerations specific to public sector entities

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

#### Responsibilities for the Financial Statements (Ref: Para. 33–35)

A44. ISA (UK) 200 (Revised June 2016) explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with ISAs (UK) is conducted.<sup>32</sup> Management and, where appropriate, those charged with governance accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. ISA (UK) 260 (Revised June 2016) uses the term those charged with governance to describe the person(s) or organization(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.

A44-1. In the UK, the preparation of financial statements requires those charged with governance 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 those charged with governance choose, or are required, to use. In contrast, the auditor's responsibility is to audit the financial statements in order to express an opinion on them.

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

<sup>29</sup> ISA (UK) 210 (Revised June 2016), paragraphs 9 and A21.

<sup>30</sup> ISA (UK) 210 (Revised June 2016), paragraph 10.

<sup>31</sup> ISA (UK) 210 (Revised June 2016), paragraph A23a.

<sup>32</sup> ISA (UK) 200 (Revised June 2016), paragraph 13(j).

- A46. ISA (UK) 210 (Revised June 2016) requires the auditor to agree management’s responsibilities in an engagement letter or other suitable form of written agreement.<sup>33</sup> ISA (UK) 210 (Revised June 2016) provides some flexibility in doing so, by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor’s judgment, are equivalent in effect to those set out in ISA (UK) 210 (Revised June 2016). For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor’s report to describe the responsibilities as required by paragraph 34(a) of this ISA (UK). In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording in paragraph 34(a) of this ISA (UK) is used. In addition to including the description of management’s responsibilities in the auditor’s report as required by paragraph 34, the auditor may refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (e.g., in the annual report of the entity or a website of an appropriate authority).
- A47. In some jurisdictions, law or regulation prescribing management’s responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in ISA (UK) 315 (Revised June 2016)<sup>34</sup>), the descriptions in ISA (UK) 210 (Revised June 2016) and in paragraph 34 do not make specific reference to them.
- A48. The Appendix<sup>34a</sup> to this ISA (UK) provides illustrations of how the requirement in paragraph 34(b) would be applied when IFRSs is the applicable financial reporting framework. If an applicable financial reporting framework other than IFRSs is used, the illustrative statements featured in the Appendix to this ISA (UK) may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

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

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

#### Auditor’s Responsibilities for the Audit of the Financial Statements (Ref: Para. 37–40)

- A50. The description of the auditor’s responsibilities as required by paragraphs 37–40 of this ISA (UK) may be tailored to reflect the specific nature of the entity, for example,

<sup>33</sup> ISA (UK) 210 (Revised June 2016), paragraph 6(b)(i)–(ii).

<sup>34</sup> ISA (UK) 315 (Revised June 2016), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c).

<sup>34a</sup> The examples in the Appendix have not been tailored for the UK. Illustrative auditor’s reports tailored for use with audits conducted in accordance with ISAs (UK) are given in the current version of the FRC’s Compendium of Illustrative Auditor’s Reports.

when the auditor's report addresses consolidated financial statements. Illustration 2 in the Appendix<sup>34a</sup> to this ISA (UK) includes an example of how this may be done.

A50-1. Where the auditor is required to report by exception on certain matters relating to going concern, the auditor is required to include a description of the auditor's responsibilities with respect to those matters in the auditor's report. When describing the auditor's responsibilities relating to management's use of the going concern basis of accounting and the disclosure of material uncertainties, the auditor may choose to include this description either:

- (a) in the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report; or
- (b) in the Conclusions Relating to Going Concern section of the auditor's report,<sup>34b</sup> and cross-refer from the respective section as appropriate.

A50-2. Auditor's reports which include a description of the auditor's responsibilities relating to management's use of the going concern basis of accounting and the disclosure of material uncertainties in the Conclusions Relating to Going Concern section of the auditor's report will include the minimum elements of an auditor's report required by paragraph 50(k) of ISA 700 (Revised) and therefore the auditor is not precluded from being able to assert compliance with International Standards on Auditing issued by the IAASB.

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

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

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

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

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

A53. The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph 40(c). For example, the auditor may make reference to the requirement in paragraph 9 of ISA (UK) 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risk of material misstatement or significant risks identified in accordance with ISA (UK) 315 (Revised June 2016); significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that

<sup>34b</sup> ISA (UK) 570 (Revised June 2016), paragraph 21-2 deals with the auditor's responsibilities to include such a section in the auditor's report.

have been identified as having high estimation uncertainty; and the effects on the audit of significant events or transactions that occurred during the period.

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

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

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

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

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

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

**Auditor’s Responsibilities for the Audit of the Financial Statements**

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

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

A57-1. The FRC maintains on its web-site a generic “Description of the Auditor’s Responsibilities for the Audit of the Financial Statements” of private sector entities.<sup>34c</sup> These descriptions address the auditor’s responsibilities under ISAs (UK).

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

- A58. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor’s responsibilities under the ISAs (UK). For example, the auditor may be asked to report certain matters if they come to the auditor’s attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Auditing standards in the specific jurisdiction often provide guidance on the auditor’s responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A58-1. In the UK, other reporting responsibilities 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 either:

- (a) A positive statement in the auditor’s report; or
- (b) By exception.

An example of (b) arises in the UK where company legislation requires the auditor of a company to report when a company has not maintained adequate accounting records.<sup>34d</sup>

A58-2. Where the auditor is required to report by exception and has discharged the auditor’s responsibilities and has nothing to report in respect of them, the conclusion could be

<sup>34c</sup> The web-site reference relevant to the UK is [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

<sup>34d</sup> Section 498(2) of the Companies Act 2006.

expressed in the form of the following phrase: "We have nothing to report in respect of the following."

A58-3. Where the auditor expresses a modified conclusion in respect of other reporting responsibilities (including those on which they are required to report by exception), ISA (UK) 705 (Revised June 2016), adapted as necessary in the circumstances, may assist the auditor in considering the nature and form of the modification that is appropriate. Such a modification may also give rise to a modification of the auditor's opinion on the financial statements in accordance with ISA (UK) 705 (Revised June 2016). For example, if adequate accounting records have not been maintained and as a result it proves impracticable for the auditor to obtain sufficient appropriate evidence concerning material matters in the financial statements, the auditor's report on the financial statements includes a qualified opinion or disclaimer of opinion arising from that limitation in accordance with ISA (UK) 705 (Revised June 2016).

A59. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

A59-1. In the UK, for the audit of certain public sector entities the audit mandate may require the auditor to express an opinion on regularity. Regularity is the requirement that financial transactions are in accordance with the legislation authorizing them.

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

#### Auditor's responsibilities and duties for the directors' remuneration report in the UK

A60-1. Section 420 of the Companies Act 2006 sets out the duty of directors of quoted companies<sup>34e</sup> to prepare a directors' remuneration report for each financial year of a company.

A60-2. Section 497 of the Companies Act 2006 requires in respect of quoted companies that the auditor in the auditor's report on the company's annual accounts for the financial year, must:

- (a) Report to the company's members on the auditable part of the directors' remuneration report, and
- (b) State whether in the auditor's opinion that part of the directors' remuneration report has been properly prepared in accordance with this Act.

<sup>34e</sup> A quoted company is defined in Section 385 of the Companies Act 2006.

A60-3. Section 498(2) of the Companies Act 2006 also requires the auditor of a quoted company to form an opinion as to whether the auditable part of the company's directors' remuneration report is in agreement with the accounting records and returns. If the auditor is of the opinion that the auditable part of the report is not in agreement with the accounting records and returns the auditor is required to state that fact in the auditor's report.

A60-4. Section 498(4) of the Companies Act 2006 further requires that if the requirements of regulations under Section 421 of the Companies Act 2006 as to information forming the auditable part of the directors' remuneration report are not complied with in that report the auditor is required to include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the required particulars.

A60-5. Section 498(4) of the Companies Act 2006 has an identical requirement with respect to the disclosures made under Section 412 of the Companies Act 2006 (disclosure of directors' benefits: remuneration, pensions and compensation for loss of office in the notes to the accounts). These latter requirements are separate from the requirements relating to the directors' remuneration report.

Provisions of the directors' remuneration report which are subject to audit

A60-6. The information contained in the directors' remuneration report which is subject to audit is the information required by paragraphs 4–17 of Part 3 of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

Reporting on the directors' remuneration report

A60-7. As the auditor is not required to audit all of the information contained in the directors' remuneration report the auditor will need, in the auditor's report, to describe accurately which elements of the directors' remuneration report the auditor has audited. The auditor, therefore, makes arrangements with the directors, well in advance of the year end, to ensure that the audited disclosures will be clearly distinguished from those that have not been audited.

A60-8. It would be unsatisfactory for an auditor, in the auditor's report, to describe what the auditor has audited in an uninformative manner such as "the disclosures required by Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations" as this would require readers of the auditor's report to have a detailed knowledge of the requirements.

A60-9. The auditor assesses whether the scope of the audit will be capable of being clearly described. If this cannot be achieved to the auditor's satisfaction by cross-reference, the auditor sets out the particulars that have been audited within the auditor's report.

Difference between the disclosures required by Schedule 5 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

A60-10. Schedule 5 of the Regulations requires a company to provide certain information concerning directors' remuneration by way of the notes to the company's financial statements. The majority of the provisions of Schedule 5 apply only to unquoted companies (as the information required to be disclosed would be duplicated by disclosures in the directors' remuneration report). However, the provisions described as "Total amount of directors' remuneration etc." apply to both quoted and unquoted companies.

A60-11. A consequence of this may be that the financial statements of a quoted company disclose aggregate directors' remuneration that may differ from the aggregate

directors' remuneration disclosed in the directors' remuneration report. This may arise because the definition of aggregate remuneration differs between the two Schedules.

A60-12. Both of these disclosures are reported on by the auditor. Where both disclosures have been prepared in accordance with the requirements of the Companies Act 2006 and the various Regulations any difference between the disclosures is, prima facie, an inconsistency. However, this inconsistency arises from complying with the law and it would, therefore, be inappropriate to "correct" the inconsistency. However, as users may think the inconsistency is a mistake the auditor encourages the directors to provide an explanation of any difference within the annual report.

#### Issuing the directors' remuneration report as a separate document

A60-13. If a quoted company issues its directors' remuneration report as a separate document the scope of the auditor's report included in the annual report will, nevertheless, encompass the auditable part of the directors' remuneration report. For this reason the requirements of ISA (UK) 720 (Revised June 2016)<sup>34f</sup> apply to the content of a separate directors' remuneration report, notwithstanding the fact that the Report is not included in a document containing audited financial statements.

A60-14. When the directors' remuneration report is issued as a separate document, although not required by the Companies Act 2006, the auditor:

- (a) When the auditor's report is unmodified, encourages the directors to indicate within the directors' remuneration report where the auditor's report, prepared in accordance with Section 495 of the Companies Act 2006, may be found; or
- (b) When the auditor expresses either a qualified or adverse opinion or disclaims an opinion, which is relevant to the directors' remuneration report, requires the directors to reproduce the relevant parts of the auditor's report as part of the directors' remuneration report. In the event that the directors do not agree to do so, the auditor considers whether to resign.

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

A61. ISQC (UK) 1 (Revised June 2016)<sup>35</sup> requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these ISQC (UK) 1 (Revised June 2016) requirements, naming the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

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

<sup>34f</sup> ISA (UK) 720 (Revised June 2016), *The Auditor's Responsibilities Relating to Other Information*.

<sup>35</sup> ISQC (UK) 1 (Revised June 2016), *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraph 32.

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

Signature of the Auditor (Ref: Para. 47)

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

The “Senior Statutory Auditor” under the UK Companies Act 2006<sup>35a</sup>

A64-1. Section 503(3) of the Companies Act 2006 requires, where the auditor is a firm, that the auditor’s report must be signed by the “senior statutory auditor in his or her own name for and on behalf of the auditor”.

A64-2. Sections 503 and 504 of the Companies Act 2006 address the signature of the auditor’s report. The requirement for the senior statutory auditor to sign in his or her own name applies to auditor’s reports:

- (a) Prepared in accordance with the requirements of Sections 495, 496 and 497 of the Companies Act 2006; and
- (b) In respect of voluntary revisions of annual accounts and reports made in accordance with Section 454 of the Companies Act 2006.

A64-3. The Companies Act 2006 sets out a number of requirements regarding the appointment of auditors. However, other than as described in paragraph A64-4, there are no legal requirements concerning eligibility for appointment as the senior statutory auditor. This is an internal matter for the firm as under Section 504(1) of the Companies Act 2006 it is the firm which is required to identify which individual is the senior statutory auditor.

Eligibility for appointment as senior statutory auditor in the UK

A64-4. Section 504(2) of the Companies Act 2006 requires that the person identified as senior statutory auditor of a company must be eligible for appointment as auditor of the company in question. Eligibility for appointment is dealt with in Sections 1212 to 1225 of the Companies Act 2006.

<sup>35a</sup> The Secretary of State has appointed the Auditing Practices Board by virtue of Article 11 of the “Statutory Auditors (Delegation of Functions etc) Order 2008. SI 2008 No. 496 to issue guidance with respect to the meaning of the term “senior statutory auditor”. This ISA (UK) constitutes that guidance.

#### Meaning of “Senior Statutory Auditor” in the UK

A64-5. Subject to meeting the Companies Act 2006 requirement described in paragraph A64-4, the term “Senior Statutory Auditor” has the same meaning as the term “Engagement Partner” when used in ISAs (UK).<sup>35b</sup>

#### Involvement of more than one partner in an audit engagement

A64-6. Where more than one partner is involved in the conduct of an audit engagement, it is important that the responsibilities of the respective partners are clearly defined and understood by the engagement team.<sup>35c</sup> In particular, it is necessary for it to be clearly understood which partner is designated as the engagement partner and is, therefore, the senior statutory auditor identified by the firm in accordance with Section 504(1) of the Companies Act 2006.

#### Meaning of “Signing” the Auditor’s Report

A64-7. Section 505(1) of the Companies Act 2006 requires that the name of the senior statutory auditor must be stated in copies of the auditor’s report published by, or on behalf of, the company.

A64-8. In paragraph A64-7 references to the auditor’s report is to the auditor’s report provided to the company by the auditor upon completion of the audit. Such references do not refer to the authentication of the copy auditor’s reports required to be delivered to the Registrar of Companies.<sup>35d</sup>

A64-9. Paragraphs 6–10 of Schedule 1 of “The Companies Act 2006 (Commencement No.5, Transitional Provisions and Savings) Order 2007”<sup>35e</sup> address the authentication of accounts and reports filed with the Registrar. With effect from 6 April 2008 this order requires the copies of auditor’s reports delivered to the Registrar to:

- (a) State the name of the auditor and (where the auditor is a firm) the name of the person who signed it as senior statutory auditor; and
- (b) Be signed by the auditor or (where the auditor is a firm) in the name of the firm by a person authorized to sign on the firm’s behalf.

The senior statutory auditor, therefore, does not necessarily need to sign copy auditor’s reports that are required to be delivered to the Registrar.

#### Changing the senior statutory auditor during the reporting period

A64-10. Where the firm changes the senior statutory auditor (ie the engagement partner) during the engagement the new senior statutory auditor reviews the audit work performed to the date of the change. The review procedures are sufficient to satisfy the new senior statutory auditor that the audit work performed to the date of the review had been

<sup>35b</sup> ISA (UK) 220 (Revised June 2016), *Quality Control for Audits of Historical Financial Information*, paragraph 7(a).

<sup>35c</sup> ISA (UK) 220 (Revised June 2016), paragraph A13.

<sup>35d</sup> In the Companies Act 2006, the expressions “the Registrar of Companies” and “the Registrar” mean the registrar of companies for England & Wales, Scotland or Northern Ireland, as the case may require (Section 1060 (3) the Companies Act 2006).

<sup>35e</sup> SI 2007 No. 3495.

planned and performed in accordance with professional standards and regulatory and legal requirements.<sup>35f</sup>

Senior statutory auditor unable to be present to sign the auditor's report

A64-11. Under Section 503(3) of the Companies Act 2006, the senior statutory auditor must sign the auditor's report. Another partner, or responsible individual, is not able to sign for and on behalf of the senior statutory auditor.

A64-12. In circumstances where the senior statutory auditor is unable to continue to take responsibility for the direction, supervision and performance of the audit, the firm appoints a replacement senior statutory auditor and the circumstances are treated in the same way as a change of engagement partner described in paragraph A19 of ISA (UK) 220 (Revised June 2016).

A64-13. In circumstances where the senior statutory auditor is absent but is still able to, and does, take responsibility for the direction, supervision and performance of the audit, the senior statutory auditor may sign the auditor's report using electronic means (e.g., e-mail or fax).

A64-14. In circumstances where the auditor's report needs to be signed by a certain date (e.g., listed entities and other public interest entities) it would be pragmatic for the firm to have a contingency plan as to who would succeed as senior statutory auditor in the event that the audit is at an advanced stage but the senior statutory auditor is unable to sign the auditor's report. If another audit partner is actively involved in the audit engagement, a suitable contingency plan may be for that other partner to work in parallel with the senior statutory auditor and be able to take over as senior statutory auditor if the need arises. Any contingency plan would also need to take into account the firm's plans for partner rotation in accordance with the requirements of the FRC's Ethical Standard.

A64-15. An audit is considered to be at an "advanced stage" when it is complete subject only to the following:

- (a) Clearing outstanding matters which are unlikely to have a material impact on the financial statements;
- (b) Completing audit procedures on the detail of note disclosures on the financial statements that will not have a material impact on the primary financial statements and completing the auditor's reading of "other information" in the annual report, in accordance with ISA (UK) 720 (Revised June 2016);
- (c) Updating the subsequent events review covering the period to the date of the auditor's report on the financial statements; and
- (d) Obtaining final written representations from management and establishing that the financial statements have been reviewed and approved by the directors.

A64-16. Circumstances may arise where another partner has not worked in parallel with the senior statutory auditor. In such exceptional circumstances it may be permissible for

<sup>35f</sup> ISA (UK) 220 (Revised June 2016), *Quality Control for Audits of Historical Financial Information*, paragraph A19.

the engagement quality control reviewer<sup>35g</sup> to be appointed as the replacement senior statutory auditor<sup>35h</sup> where:

- (a) the engagement quality control reviewer has completed his or her review; and
- (b) the audit is at an “advanced stage”.

However, once an engagement quality reviewer has been appointed as a replacement senior statutory auditor he or she can no longer act as the engagement quality control reviewer because his or her objectivity may have been impaired through assuming the role of senior statutory auditor.

#### Joint Audits

A64-17. As indicated in paragraph A31-1, where a company appoints joint auditors each firm appoints a senior statutory auditor both of which are required to sign the auditors’ report in accordance with the requirements of Section 503 of the Companies Act 2006.

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

#### Auditor’s Address (Ref: Para. 48)

A65-1. In the UK, legislation<sup>35i</sup> requires the auditor’s report to identify the auditor’s place of establishment in addition to naming the location in the jurisdiction where the auditor practices as required by paragraph 48.

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

A66. The date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor’s responsibility for events and transactions after the date of the auditor’s report is addressed in ISA (UK) 560.<sup>36</sup>

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

A67-1. The auditor, therefore, plans the conduct of the audit 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 other information and that the auditor has completed a sufficient review of post balance sheet events.

A67-2. The date of the auditor’s report is, therefore, the date on which the auditor signs the auditor’s report expressing an opinion on the financial statements for distribution with those financial statements, following:

<sup>35g</sup> This is on the assumption that the engagement quality control reviewer is eligible to be appointed as the senior statutory auditor (see paragraph A64-4 for eligibility criterion).

<sup>35h</sup> ISA (UK) 220 (Revised June 2016) *Quality Control for an Audit of Financial Statements* requires an engagement quality control reviewer to be appointed in respect of all listed entities and public interest entities.

<sup>35i</sup> Section 495(4) of the Companies Act 2006.

<sup>36</sup> ISA (UK) 560, *Subsequent Events*, paragraphs 10–17.

- (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 form part of the annual report): 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.

A67-3. The form of the financial statements and other 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 the 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.

A67-4. 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 the auditor's procedures for reviewing subsequent events cover the period up to that date.

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

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

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

A70. ISA (UK) 200 (Revised June 2016) explains that the auditor may be required to comply with legal or regulatory requirements in addition to ISAs.<sup>37</sup> When the differences between the legal or regulatory requirements and ISAs relate only to the layout and wording of the auditor’s report, the requirements in paragraph 50(a)–(o) set out the minimum elements to be included in the auditor’s report to enable a reference to the International Standards on Auditing. In those circumstances, the requirements in paragraphs 21–49 that are not included in paragraph 50(a)–(o) do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.

A70-1. This ISA (UK) is consistent with ISA 700 (Revised) “Forming an Opinion and Reporting on Financial Statements,” as issued by the IAASB. Auditor’s reports prepared in compliance with the requirements of this ISA (UK) will include the minimum elements of an auditor’s report required by paragraph 50(a)-(o) of ISA 700 (Revised) and does not therefore preclude the auditor from being able to assert compliance with International Standards on Auditing issued by the IAASB.

A71. Where specific requirements in a particular jurisdiction do not conflict with ISAs, the layout and wording required by paragraphs 21–48 of ISA 700 (Revised) assist users of the auditor’s report in more readily recognizing the auditor’s report as a report of an audit conducted in accordance with ISAs.

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

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

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

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

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

<sup>37</sup> ISA (UK) 200 (Revised June 2016), paragraph A55.

- (a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,
- (b) Whether additional explanation in the auditor’s report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor’s report cannot mitigate possible misunderstanding, ISA 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with ISA 210, an audit conducted in accordance with such law or regulation does not comply with ISAs. Accordingly, the auditor does not include any reference in the auditor’s report to the audit having been conducted in accordance with International Standards on Auditing.<sup>38</sup>

#### Considerations specific to public sector entities

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

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

A76. The auditor may refer in the auditor’s report to the audit having been conducted in accordance with both International Standards on Auditing as well as the national auditing standards when, in addition to complying with the relevant national auditing standards, the auditor complies with each of the ISAs relevant to the audit.<sup>39</sup>

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

A77-1. ISAs (UK) are consistent with International Standards on Auditing as issued by the IAASB and the requirements of ISAs (UK) do not conflict with the requirements in ISAs. An audit conducted in accordance with ISAs (UK) does not therefore preclude the auditor from being able to assert compliance with International Standards on Auditing issued by the IAASB.

#### **Supplementary Information Presented with the Financial Statements** (Ref: Para. 53–54)

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

<sup>38</sup> ISA 210, paragraph 21.

<sup>39</sup> ISA 200, paragraph A56.

user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.

- A79. Paragraph 53 of this ISA (UK) explains that the auditor's opinion covers supplementary information that is an integral part of the financial statements because of its nature or how it is presented. This evaluation is a matter of professional judgment. To illustrate:
- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
  - When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.
- A80. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor's report is sufficient.
- A81. Law or regulation may not require that the supplementary information be audited, and management may decide to ask the auditor not to include the supplementary information within the scope of the audit of the financial statements.
- A82. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."
- A83. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:
- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
  - Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labeling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.
- A84. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in ISA (UK) 720 (Revised June 2016).<sup>40</sup>

---

<sup>40</sup> ISA (UK) 720 (Revised June 2016), *The Auditor's Responsibilities Relating to Other Information*.

## **Appendix**

(Ref: Para. A19)

### **Illustrations of Independent Auditor's Reports on Financial Statements**

The examples in the Appendix have not been tailored for the UK. Illustrative auditor's reports tailored for use with audits conducted in accordance with ISAs (UK) are given in the current version of the FRC's Compendium of Illustrative Auditor's Reports.

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

**Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

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

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 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.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

## **INDEPENDENT AUDITOR’S REPORT**

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

### **Report on the Audit of the Financial Statements<sup>1</sup>**

#### **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

<sup>1</sup> 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.

International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ *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.]

### **Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

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

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>2</sup>**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,<sup>3</sup> 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

<sup>2</sup> 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.

<sup>3</sup> 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 ...”

material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.<sup>4</sup>
- 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

---

<sup>4</sup> 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.

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

## **Report on Other Legal and Regulatory Requirements**

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

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

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

*[Auditor Address]*

*[Date]*

**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.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.
- In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.

## **INDEPENDENT AUDITOR’S REPORT**

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

### **Report on the Audit of the Consolidated Financial Statements<sup>5</sup>**

#### **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

<sup>5</sup> 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.

December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### **Basis for Opinion**

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

### **Key Audit Matters**

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

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

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

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

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements<sup>6</sup>**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs,<sup>7</sup> 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

---

<sup>6</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>7</sup> 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 ..."

are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.<sup>8</sup>
- 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

---

<sup>8</sup> 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.

deficiencies in internal control that we identify during our audit.

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

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

## Report on Other Legal and Regulatory Requirements

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

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

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

*[Auditor Address]*

*[Date]*

**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.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.
- The auditor elects to refer to the description of the auditor’s responsibility included on a website of an appropriate authority.

**INDEPENDENT AUDITOR’S REPORT**

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

**Opinion**

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

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

## **Basis for Opinion**

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

## **Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

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

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>9</sup>**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,<sup>10</sup> 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*]

---

<sup>9</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>10</sup> Where management’s responsibility is to prepare financial statements that give a true and fair view, this may read: “Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such ...”

**Illustration 4 – Auditor’s Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework**

For purposes of 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 required by law or regulation. 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 the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern in accordance with ISA 570 (Revised).
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with ISA 701.
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

## **INDEPENDENT AUDITOR’S REPORT**

[Appropriate Addressee]

### **Opinion**

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

In our opinion, the accompanying financial statements of the Company are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for*

*the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information [or another title if appropriate such as “Information Other than the Financial Statements and Auditor’s Report Thereon”]**

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

**Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>11</sup>**

Management is responsible for the preparation of the financial statements in accordance with XYZ Law of Jurisdiction X,<sup>12</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**Auditor’s Responsibilities for the Audit of the Financial Statements**

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for

<sup>11</sup> Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

<sup>12</sup> 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 ...”

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.<sup>13</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

*[Auditor Address]*

*[Date]*

---

<sup>13</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements..e.





**Financial Reporting Council**

8th Floor  
125 London Wall  
London  
EC2Y 5AS

+44 (0)20 7492 2300

[www.frc.org.uk](http://www.frc.org.uk)