

EXPOSURE DRAFT

ED 25/05
(November 2005)

**Proposed Auditing Standard:
Modifications to the
Independent Auditor's
Report
(Re-issuance of AUS 702)
Part B**

Prepared and Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

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A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au.

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PREFACE

Reasons for Issuing ED 25/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 702) *Modifications to the Independent Auditor's Report* due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP 9 Act) established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards will be legislative instruments under the *Legislative Instruments Act 2003*.

ED 25/05 conforms with ISA 701 *Modifications to the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. Differences between this proposed Auditing Standard and ISA 701 are noted in paragraph 37 of the ED.

Main Proposals

This proposed Auditing Standard establishes mandatory requirements and provides explanatory guidance on the circumstances when the independent auditor's report is modified and the form and the content of the modifications to the auditor's report in those circumstances.

Proposed Operative Date

It is intended that this proposed Auditing Standard will be operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from existing AUS 702 (May 2002)

The main differences between this proposed Auditing Standard and the Auditing Standard issued by the former Auditing & Assurance Standards Board of the AARF that it supersedes, AUS 702 (May 2002), is that in this proposed Auditing Standard:

1. the word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility was previously described by the word 'should';
2. the explanatory paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, previously some obligations were implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance;
3. the mandatory requirements and explanatory guidance relating to modifications to the independent auditor's report are included in this proposed Auditing Standard, AUS 702 (Part B) *Modifications to the Independent Auditor's Report*, whereas previously such mandatory requirements and explanatory guidance were contained in the one Auditing Standard together with the mandatory requirements and explanatory requirements relating to unmodified auditor's reports;
4. a 'modified auditor's report' is the term used to describe an auditor's report containing:
 - a qualified opinion (referred to in AUS 702 as an "except for opinion");
 - a disclaimer of opinion (referred to in AUS 702 as an "inability to form an opinion");
 - an adverse opinion; or
 - an emphasis of matter paragraph.

Accordingly, in this Auditing Standard, whenever an auditor expresses an opinion that is other than unqualified, a description is included in the auditor's report in a section headed "Basis for [Qualified, Adverse, Disclaimer] Opinion" whereas in AUS 702 the section is referred to as the "Qualification" paragraph. Furthermore, when an auditor expresses a qualified, adverse or disclaimer opinion,

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the opinion paragraph is headed “Qualified Audit Opinion”, “Adverse Audit Opinion” or “Disclaimer of Audit Opinion” as applicable, whereas in AUS 702 the opinion paragraph, in such cases, is headed “Qualified Audit Opinion”.

Appendix 1 contains diagrams that demonstrate use of the new terminology in this Auditing Standard;

5. the following requirements relating to modifications, previously contained in AUS 702, have not been included in this proposed Auditing Standard:
- (a) the audit report should not, except as required by this AUS, draw attention to or emphasise any matter which has, in the auditor's opinion, been adequately dealt with in the financial report (AUS 702.31);
 - (b) there is no longer a requirement for the auditor to send a copy of the audit report to the Executive Director of the Australian Accounting Research Foundation when the auditor agrees with the inclusion of additional information in the financial report so as to ensure the financial report is not misleading (AUS 702.59); and
 - (c) AASB 110 Events after the Balance Sheet Date, prohibits the preparation of a financial report using a going concern basis when the going concern assumption is no longer appropriate (main difference between AASB 110 and the superceded AASB 1002 Events Occurring After the Reporting Date). Accordingly, the following basic principles and essential procedures previously contained in AUS 702.64 are no longer relevant and do not appear in this Auditing Standard:

“When it is highly improbable that an entity will continue as a going concern because of an event occurring after reporting date which provides new information that does not relate to conditions existing at reporting date, and there has been adequate disclosure of this in the financial report, in accordance with AASB 1002/AAS 8 "Events Occurring After Reporting Date" paragraph 5.1, the audit report should include an emphasis of matter section which describes the event and refers to the note to the financial statements. The auditor should carefully consider the adequacy of the disclosure of the event in the note and the

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reliability of all amounts and other disclosures affected by it”.

In addition, this Auditing Standard does not include requirements previously contained in paragraphs .10, .11, .32, .43, .45, .50 and .62 of AUS 702.

A Table of Proposed Changes is provided as an attachment to this Exposure Draft.

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Request for Comments

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 702 - Part B) *Modifications to the Independent Auditor's Report* by 30 December 2005. The AUASB would prefer that respondents express a clear overall opinion on whether the proposed Auditing Standard, as a whole, is supported and that this opinion be supplemented by detailed comments, whether supportive or critical, on any matter. The AUASB regards both critical and supportive comments as essential to a balanced review of the proposed Auditing Standard.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board makes Auditing Standard <<>> *Modifications to the Independent Auditor's Report* as set out in paragraphs 1 to 37 and Appendices 1 to 2, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*.

This Auditing Standard is to be read in conjunction with the *Preamble to the AUASB Standards*, which sets out the AUASB's intentions on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD

Modifications to the Independent Auditor's Report

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and provide explanatory guidance on the circumstances when the independent auditor's report is modified and the form and the content of the modifications to the auditor's report in those circumstances.
- 5 AUS 702 (Part A) *The Independent Auditor's Report on a General Purpose Financial Report*, establishes mandatory requirements and provides explanatory guidance on the form and content of the independent auditor's report on a general purpose financial report prepared in accordance with a financial reporting framework designed to achieve fair presentation when the auditor is able to express an unqualified opinion and no modification to the auditor's report is necessary. AUS 802 *The Audit Report on Financial Information other than a General Purpose Financial Report*, establishes mandatory requirements and provides explanatory guidance on the form and content of the independent auditor's report in other audit engagements. This Auditing Standard describes how the auditor's report wording is modified in the following situations:

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Matters that Do Not Affect the Auditor's Opinion

- (a) Emphasis of matter

Matters that Do Affect the Auditor's Opinion

- (a) Qualified opinion,
 - (b) Disclaimer of opinion, or
 - (c) Adverse opinion.
- 6 Uniformity in the form and content of each type of modified auditor's report will further the user's understanding of such auditors' reports. Accordingly, this Auditing Standard includes suggested wording of modifying phrases for use when issuing modified auditors' reports.
- 7 The illustrative auditors' reports in this Auditing Standard are based on the independent auditor's report on a general purpose financial report, prepared in accordance with the requirements of the *Corporations Act 2001*. The principles relating to the circumstances when the auditor's report is modified are, however, also applicable to reports on other engagements related to the audit of financial information, such as general purpose financial reports for entities of a different nature (for example, a not-for-profit organisation) and the audit engagements described in AUS 802, and the illustrative reports are adapted as appropriate in the circumstances.

Matters that Do Not Affect the Auditor's Opinion

- 8 In certain circumstances, an auditor's report is modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial report which is included in a note to the financial statements that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included after the paragraph containing the auditor's opinion but before the section on any other reporting responsibilities, if any. The emphasis of matter paragraph would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.

Significant Uncertainty — Going Concern

- 9 **The auditor shall modify the auditor's report by adding a paragraph to highlight a significant uncertainty regarding a going concern problem.**

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- 10 See AUS 708 *Going Concern*, for mandatory requirements and explanatory guidance relating to this matter.

Significant Uncertainty – Other

- 11 The auditor shall modify the auditor's report by adding a paragraph if there is a significant uncertainty (other than a significant uncertainty regarding a going concern problem), the resolution of which is dependent upon future events and which may affect the financial report.**

Significant Uncertainty – Going Concern and Other

- 12 An uncertainty is a matter whose outcome depends on future events not under the direct control of the entity but that may affect the financial report.
- 13 Accounting estimates are customarily made in connection with amounts and other disclosures appearing in the financial reports. In most cases the auditor is able to be satisfied regarding the reasonableness of an accounting estimate, and mandatory requirements and explanatory guidance on this matter is contained in AUS 516 *Audit of Accounting Estimates*. Such an estimate will not ordinarily be regarded as a significant uncertainty for the purposes of this Auditing Standard.
- 14 The addition of a paragraph emphasising a significant uncertainty regarding a going concern problem or an other significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial report, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

Additional Disclosures

- 15 When an unqualified opinion is expressed in the rare circumstances described in paragraph 34, the auditor's report shall include an emphasis of matter section headed "Application of Accounting Standards in Australia AASB ..." which:**
- (a) **draws attention to the additional disclosures;**
 - (b) **states that in the auditor's opinion application of the particular Accounting Standard has, in this instance,**

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resulted in the financial report being potentially misleading;

- (c) **states the specific reasons why the auditor believes the additional disclosures are necessary to ensure the financial report as a whole is not misleading (the auditor's reasons are to be stated in the auditor's report itself rather than only by reference to the reasons included in the financial report); and**
- (d) **states that, in the auditor's opinion, the additional disclosures are relevant and reliable in meeting the objectives of the financial report.**

- 16 When an auditor's report is prepared on a financial report prepared under the *Corporations Act 2001*, section 308(3B) requires that if the financial report includes additional information under paragraph 295(3)(c) (additional information included to give a true and fair view of the entity's financial position and performance), the auditor's report includes the auditor's opinion on whether the additional information was necessary to give a true and fair view. In accordance with paragraphs 15 and 34 of this Auditing Standard, the auditor includes an emphasis of matter paragraph to address the additional information. Appendix 2, Example 2 provides an example of such reporting requirements.

Inconsistent Other Information

- 17 **When information in a document containing the audited financial report is materially inconsistent with that financial report, the auditor's report shall include an emphasis of matter section describing the material inconsistency.**
- 18 See AUS 212 *Other Information in Documents Containing Audited Financial Reports*, for mandatory requirements and explanatory guidance relating to this matter.

Subsequent Events Resulting in a New Auditor's Report on a Revised Financial Report

- 19 **When a financial report and the auditor's report thereon have been issued, and a fact is discovered that leads those charged with governance to prepare a revised financial report, the new auditor's report on the revised financial report shall include an emphasis of matter paragraph. That paragraph shall refer to a note to the financial statements that more extensively discusses**

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the reason for the revision of the previously issued financial report, and to the earlier report issued by the auditor.

Other Reporting Responsibilities

- 20 AUS 702 (Part A), provides mandatory requirements and explanatory guidance relating to additional responsibilities the auditor may have to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial report.

Matters that Do Affect the Auditor's Opinion

- 21 An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor's judgment, the effect of the matter is or may be material to the financial report:

- (a) There is a limitation on the scope of the auditor's work;
- (b) There is a disagreement with those charged with governance regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial report disclosures; or
- (c) There is a conflict between applicable financial reporting frameworks.

The circumstances described in (a) could lead to a qualified opinion or a disclaimer of opinion. The circumstances described in (b) could lead to a qualified opinion or an adverse opinion. The circumstances described in (c) could lead to a qualified opinion or an adverse opinion. These circumstances are discussed more fully in paragraphs 29-36.

- 22 **A qualified opinion shall be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion shall be expressed as being 'except for' the effects of the matter to which the qualification relates. The opinion paragraph shall be headed "Qualified Auditor's Opinion".**

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- 23 **A disclaimer of opinion shall be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial report. The opinion paragraph shall be headed “Disclaimer of Auditor’s Opinion”.**
- 24 **An adverse opinion shall be expressed when the effect of a disagreement or a conflict between applicable financial reporting frameworks is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor’s report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph shall be headed “Adverse Auditor’s Opinion”.**
- 25 **Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons shall be included in the auditor’s report and, unless impracticable, a quantification of the possible effect(s) on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore shall be included in the basis for modification paragraph of the auditor’s report.**
- 26 Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion on the financial report and may include a reference to a more extensive discussion, if any, in a note to the financial statements.
- 27 **When a major component of the financial report has been omitted, or is fundamentally misstated, it may not be appropriate for the auditor to generate the required information necessary to fully detail the financial effect of the matter. The auditor’s report shall include a statement indicating that the financial effect of the omission has not been detailed and the reasons therefore.**
- 28 This situation may arise, for example, when no cash flow statement has been prepared for inclusion in the financial report or a major subsidiary has not been consolidated.

Circumstances that may Result in Other than an Unqualified Opinion

Limitation on Scope

- 29 A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists, the auditor would ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor would not ordinarily accept such an audit engagement when the limitation infringes on the auditor's statutory duties.
- 30 A scope limitation may be imposed by circumstances (for example, when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories). It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, pursuant to AUS 502 *Audit Evidence*, the auditor is required to carry out reasonable alternative procedures to obtain sufficient appropriate audit evidence to support an unqualified opinion.
- 31 **When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report shall describe the limitation and indicate the possible adjustments to the financial statements that might have been determined to be necessary had the limitation not existed.**

Disagreement with those Charged with Governance

- 32 The auditor may disagree with those charged with governance about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial report.
- 33 **If such disagreements are material to the financial report, the auditor shall express a qualified or an adverse opinion.**
- 34 **When the financial report has been prepared in accordance with Accounting Standards in Australia but additional disclosures have been made in the financial report on the basis that, or**

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which imply that, application of a particular Accounting Standard has resulted in the financial report being potentially misleading, a qualified opinion shall be expressed in relation to the additional disclosures, unless the auditor is of the opinion that:

- (a) it is likely, in the absence of the additional disclosures, that users would be misled when making evaluations or decisions about the allocation of scarce resources; and
- (b) the additional disclosures contain all, and only, relevant and reliable information, and are presented in such a manner as to ensure the financial report as a whole is comparable and understandable in meeting the objectives of the financial report,

when these circumstances exist, the auditor shall apply the mandatory requirements in paragraphs 15.

Conflict Between Applicable Financial Reporting Frameworks

35 When the application of accounting policies required or allowed by relevant statutory and other requirements has not resulted in a fair presentation in accordance with Accounting Standards in Australia:

- (a) an unmodified opinion shall be expressed with respect to presentation in accordance with relevant statutory and other requirements; and
- (b) a qualified or adverse opinion shall be expressed with respect to presentation in accordance with Accounting Standards in Australia as appropriate.

36 When the accounting policies applied are contrary to those required by relevant statutory and other requirements, the auditor's opinion shall be modified with respect to presentation in accordance with those requirements, whether or not the auditor's opinion with respect to presentation in accordance with Accounting Standards in Australia is modified.

Conformity with International Standards on Auditing

37 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 701 *Modifications to the Independent Auditor's Report*, issued by the International Auditing and Assurance Standards Board of the International Federation of

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Accountants. The differences between this Auditing Standard and ISA 701 are:

- In this Auditing Standard use of an emphasis of matter paragraph is permitted to highlight only a “significant uncertainty” relating to a going concern problem (paragraph 9). Whereas ISA 701 requires the auditor to modify the auditor’s report by adding an emphasis of matter paragraph to highlight “material matters regarding going concern problems”.
- In this Auditing Standard, an auditor is required to modify the auditor’s report if there is a significant uncertainty (other than a significant uncertainty regarding a going concern problem), by using an emphasis of matter paragraph (paragraph 11). Whereas ISA 701 requires an auditor to consider modifying the auditor’s report if there is a significant uncertainty.
- In this Auditing Standard, mandatory requirements and explanatory guidance are provided:
 - ◆ when an auditor concurs with additional disclosures in the financial report;
 - ◆ when information in a document containing the audited financial report is materially inconsistent with that financial report; or
 - ◆ when subsequent events result in a new audit report on a revised financial report (paragraphs 15 to 19)

whereas ISA 701 does not;

- This Auditing Standard provides reference to AUS 702, Part A when an auditor has additional reporting responsibilities (paragraph 20). Whereas ISA 701 allows an emphasis of matter paragraph to be used for other reporting responsibilities on matters other than those affecting the financial report;
- In this Auditing Standard, the AUASB considers that matters subject to qualification should be quantified unless they are incapable of being measured reliably, in which case a statement to that effect and the reasons therefore should be disclosed in the auditor’s report (paragraph 25).

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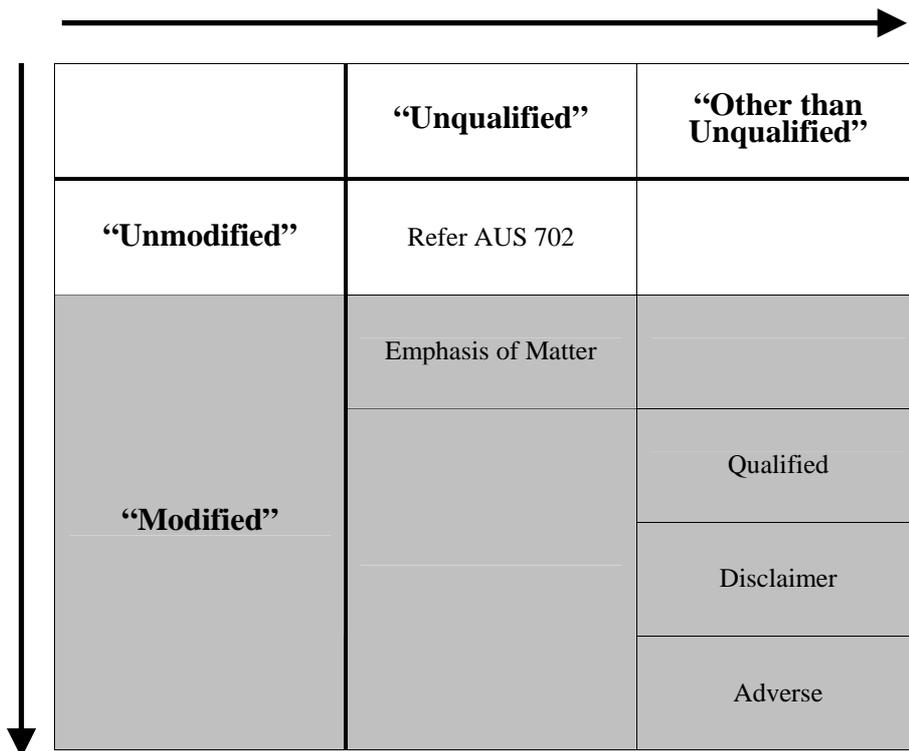
Whereas ISA 701 requires quantification of the possible effects of a qualification "unless impracticable".;

- In this Auditing Standard, mandatory requirements and explanatory guidance are provided when a major component of a financial report has been omitted or fundamentally misstated (paragraphs 27 to 28). Whereas ISA 701 does not;
- In this Auditing Standard mandatory requirements are provided when additional disclosures have been included in a financial report (paragraph 34). Whereas ISA 701 does not;
- This Auditing Standard provides diagrams of the terminology used in this Auditing Standard and the circumstances in which a modification would be issued and the type of modification appropriate in those circumstances. Whereas ISA 701 does not; and
- This Auditing Standard provides illustrative examples of modified auditor's reports in the appendices. Whereas, ISA 701 provides illustrative examples, of the paragraphs in the auditor's report relating to modifications, in the body of the standard;

Compliance with this Auditing Standard enables compliance with ISA 701.

APPENDIX 1

TERMINOLOGY USED IN THIS AUDITING STANDARD



	“Unqualified”	“Other than Unqualified”
“Unmodified”	Refer AUS 702	
“Modified”	Emphasis of Matter	
		Qualified
		Disclaimer
		Adverse

**CIRCUMSTANCES IN WHICH A MODIFICATION
WOULD BE ISSUED AND THE TYPE OF
MODIFICATION APPROPRIATE IN THOSE
CIRCUMSTANCES.**

Circumstances	Type of Modification	
	<i>Material but not Extreme</i>	<i>Extreme Cases¹</i>
Scope Limitation (paragraph 29- 31)	Qualified (paragraph 22)	Disclaimer (paragraph 23)
Disagreement with those charged with governance ² (paragraph 32- 34)	Qualified (paragraph 22)	Adverse (paragraph 24)
Conflict between applicable financial reporting frameworks (paragraph 35- 36)	Qualified (paragraph 22)	Adverse (paragraph 24)
Significant Uncertainty – Going Concern (paragraph 9- 10)	Emphasis of Matter (paragraph 8)	
Significant Uncertainty – Other (paragraph 11- 12)	Emphasis of Matter (paragraph 8)	
Additional Disclosures with which the auditor concurs (paragraph 15- 16)	Emphasis of Matter (paragraph 8)	
Inconsistent Other Information (paragraph 17- 18)	Emphasis of Matter (paragraph 8)	
Subsequent Event resulting in a new auditor's report on a revised financial report (paragraph 19)	Emphasis of Matter (paragraph 8)	

¹ Extreme cases are where the effect(s) or possible effect(s) of the circumstances are so material and pervasive that an auditor has been unable to obtain sufficient appropriate audit evidence or that a qualified opinion is inadequate to disclose the misleading or incomplete nature of the financial report.

² Including additional disclosure with which the auditor does not concur (paragraph 34).

APPENDIX 2

EXAMPLES OF MODIFIED AUDITOR'S REPORTS

These examples incorporate the mandatory requirements of this Auditing Standard but are not intended to suggest standard wording for the circumstances of particular modifications.

EXAMPLE 1: EMPHASIS OF MATTER

INDEPENDENT AUDITOR'S REPORT³

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

³ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion the financial report of [name of entity] is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Significant Uncertainty Regarding Litigation

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

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Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

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EXAMPLE 2: 'EMPHASIS OF MATTER' - CONCURRENCE WITH 'ADDITIONAL DISCLOSURES'

INDEPENDENT AUDITOR'S REPORT⁴

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of

⁴ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion the financial report of [name of entity] is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Application of Accounting Standards in Australia AASB 10XX

Without qualification to the opinion expressed above, attention is drawn to the following matter. As required by the *Corporations Act 2001* the [company/registered scheme/disclosing entity] has, in the preparation of its balance sheet and income statement, applied the ABC method of accounting for widgets in accordance with Accounting Standard AASB 10XX:

The directors are of the opinion, however, that application of the ABC method has not resulted in the financial report giving a true and fair view as required by the *Corporations Act 2001* and is so misleading that it conflicts with the objectives of the AASB framework for the preparation and presentation of financial statements. The directors have therefore provided the additional disclosures in Note X which indicate that had the LMN method of accounting for widgets been adopted, the financial report would, in the directors' opinion, have given a true and fair view and would meet the objectives of the AASB framework for the preparation and presentation of financial statements. The effect of adopting the LMN method rather than the ABC method is disclosed in Note X.

Proposed Auditing Standard: *Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)*

Because of (state the auditor's reasons in full), it is our opinion that:

- (a) application of the ABC method in accordance with Accounting Standard AASB 10XX has, in this instance, resulted in the treatment of widgets leading to the balance sheet and income statement being potentially misleading;
- (b) the additional disclosures provided by the directors in Note X are necessary to give the true and fair view required by the *Corporations Act 2001* and ensure the financial report as a whole is not misleading; and
- (c) the information in Note X, including application of the LMN method as the most appropriate alternative method, is relevant and reliable.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

EXAMPLE 3: 'LIMITATION ON SCOPE – QUALIFIED OPINION'

INDEPENDENT AUDITOR'S REPORT⁵

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. *Except as discussed in the qualification paragraph*, we conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report 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. An audit also includes evaluating the appropriateness of

⁵ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

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

Qualified Auditor's Opinion

In our opinion, *except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities*, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Proposed Auditing Standard: *Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

EXAMPLE 4: 'LIMITATION ON SCOPE – DISCLAIMER OF OPINION'

INDEPENDENT AUDITOR'S REPORT⁶

To the members of [name of entity]

Report on the Financial Report

We were engaged to audit the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Because of the matter discussed in the Basis for Disclaimer of Opinion paragraph, we were not able to complete an audit in accordance with Auditing Standards.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Disclaimer of Auditor's Opinion

As noted in Note X to the financial statements, a fire at the [[company/registered scheme/disclosing entity]'s] computer centre destroyed

⁶ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

many of the accounting and statutory records. The fire occurred prior to the completion of our audit. As the remaining accounting and statutory records are not adequate to permit the application of necessary auditing procedures, we are unable to obtain all the information and explanations we require in order to form an opinion on the financial report.

Disclaimer of Auditor's Opinion

In our opinion, *because of the existence of the limitation on the scope of our work, as described in the preceding paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether the financial report of [name of entity] is in accordance with the Corporations Act 2001, including:*

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Report on Other Legal and Regulatory Requirements⁷

We have not been given all information, explanation and assistance necessary for the conduct of the audit; and we are unable to determine whether the [[company/registered scheme/disclosing entity]] has kept:

- (a) financial records sufficient to enable the financial report to be prepared and audited; and
- (b) other records and registers as required by the *Corporations Act 2001*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

⁷ For this example, see paragraph 21 of this Auditing Standard and section 308(3)(b) of the *Corporations Act 2001*

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

EXAMPLE 5: 'DISAGREEMENT ON ACCOUNTING POLICIES – INAPPROPRIATE ACCOUNTING METHOD - QUALIFIED OPINION'

INDEPENDENT AUDITOR'S REPORT⁸

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [company/registered scheme/disclosing entity] preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an

⁸ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

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opinion on the effectiveness of the [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

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

Qualified Auditor's Opinion

In our opinion, *except for the effect on the financial statements of the matter referred to in the preceding paragraph*, the financial report of [name of entity] is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Proposed Auditing Standard: *Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

EXAMPLE 6: 'DISAGREEMENT ON ACCOUNTING POLICIES – INADEQUATE DISCLOSURE - QUALIFIED OPINION'

INDEPENDENT AUDITOR'S REPORT⁹

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [company/registered scheme/disclosing entity]'s preparation and fair presentation of the financial report in order to design audit procedures that

⁹ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

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

Qualified Auditor's Opinion

In our opinion, *except for the omission of the information included in the preceding paragraph*, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 31 December 20X1 and of its performance for the year ended on that date; and
- (b) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Proposed Auditing Standard: *Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)*

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

EXAMPLE 7: 'DISAGREEMENT ON ACCOUNTING POLICIES – INADEQUATE DISCLOSURE - ADVERSE OPINION'

INDEPENDENT AUDITOR'S REPORT¹⁰

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 31 December 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [company/registered scheme/disclosing entity]'s preparation and fair presentation of the financial report in order to design audit procedures that

¹⁰ See AUS 702 for requirements and guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report.

Proposed Auditing Standard: Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Adverse Auditor's Opinion

Included in the financial report as a non-current asset is [parent entity's] investment in [subsidiary entity], recorded at a cost of \$XXX. [Parent entity] has not presented a consolidated financial report which combines the financial report of [subsidiary entity] with that of [parent entity]. A consolidated financial report is required by Australian Accounting Standard AASB 127, *Consolidated and Separate Financial Statements* because [parent entity] has the capacity to dominate [subsidiary entity's] decision making in relation to its financial and operating policies. In our opinion, the presentation of a consolidated financial report is fundamental to a proper appreciation of [parent entity's] financial position, the results of its operations and its cash flows.

Had a consolidated financial report been presented, it would disclose a different financial position, different results of operations and different cash flows of the [parent entity]. The financial effect of this matter has not been detailed in this report as it is not the purpose of an independent auditor's report to present financial information of this nature.

Adverse Auditor's Opinion

In our opinion, *because of the effects of the matter discussed in the preceding paragraphs*, the financial report of [name of entity] is *not* in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s and consolidated entity's financial

Proposed Auditing Standard: *Modifications to the Independent Auditor's Report (Re-issuance of AUS 702)*

position as at 31 December 20X1 and of their performance for the year ended on that date; and

- (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Table of Proposed Changes to AUS 702 (Part B) Modifications To The Independent Auditor's Report**Base Standard**

This proposed Auditing Standard, AUS 702 Part B, has been based on the equivalent ISA 701 (effective for auditor's reports dated on or after 31 December 2006).

Main Differences Between Existing AUS 702 and ISA 701

The main differences are:

1. AUS 702 contains requirements and guidance for auditor's reports that are both unmodified and modified. ISA 701 only addresses modifications to the auditor's report.
2. AUS 702 uses the term 'qualified opinion' as a reference, collectively and individually, to any of the following: 'except for opinion', an 'adverse opinion' and an 'inability to form an opinion'. The term 'unqualified' is used to mean the opposite of 'qualified' and is commonly referred to as a 'clean opinion'. An 'emphasis of matter' is not considered as a qualification.
ISA 701 uses different terminology. A 'qualified opinion' is the equivalent of an 'except for opinion' (only). A 'disclaimer of opinion' is the equivalent of an 'inability to form an opinion'. A 'modified report' is one that includes a 'qualified opinion', an 'adverse opinion', a 'disclaimer of opinion' or an 'emphasis of matter'. The proposed Auditing Standard provides further details under the 'Main Changes' section and in Appendix 1.
3. AUS 702 contains basic principles/essential procedures that are not included in ISA 701. Refer AUS 702.10, .11, .31, .43, .50, .51, .52, .55, .63, .64, and .65. The proposed Auditing Standard (ED 25/05) provides further details under the 'Main Changes' section.
4. AUS 702 contains example audit reports (Appendix 1), that differ in the exact form and wording from the suggested wording contained within the text of ISA 701.
5. AUS 702 requires matters subject to qualification to be quantified unless they are incapable of being measured reliably, in which case a statement to that effect and the reasons therefore should be disclosed in the auditor's report (AUS 702.19). ISA 701 requires quantification of the possible effects of a qualification "unless impracticable".
6. AUS 702 is more explicit than ISA 701 regarding what constitutes a disagreement with management (AUS 702.44 to .49).
7. AUS 702 is more explicit than ISA 701 regarding use of an emphasis of matter paragraph in the auditor's report. AUS 702 prescribes the circumstances when an emphasis of matter must be used (AUS 702.57 to .65). AUS 702 provides requirements and guidance relating to "inherent uncertainty". ISA 701 requires the auditor to consider the use of an emphasis of matter paragraph regarding a significant uncertainty.
8. AUS 702 permits the use of an emphasis of matter paragraph only in relation to matters affecting the financial report (AUS 702.31). ISA 701 permits use of an emphasis of matter paragraph for matters that affect the financial report and matters that do not.

Main Changes To ISA 701 Resulting In Proposed New Auditing Standard (ED 25/05)

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Changes
9, 11, 15, 17, 19, 22, 23, 24, 25, 27, 31, 33, 34, 35, 36	Requirement	Replaced “should” with “shall”.
9	Requirement	Replace the term ‘material matters’ with the term ‘significant uncertainty’ (also insert new heading).
10	New guidance	Insert paragraph referencing to AUS 708 <i>Going Concern</i> .
11	Requirement	Consequential change resulting from item 2 above (also insert new heading).
13	Guidance	Insert paragraph from AUS 702.60 (also insert new heading).
14	Guidance	Consequential change resulting from item 2 above (significant uncertainty).
15	Requirement	Insert paragraph from AUS 702.58 (also insert new heading).
16	Guidance	New paragraph to relate paragraph 15 to the <i>Corporations Act 2001</i> .
17	Requirement	Insert paragraph from AUS 702.63 (also insert new heading).
18	New guidance	Insert paragraph referencing to AUS 212 <i>Other Information in Documents Containing Audited Financial Reports</i> .
19	Requirement	Insert paragraph from AUS 702.65 (also insert new heading).
20	New guidance	Insert paragraph referencing to (new) AUS 702 Part A relating to supplementary reporting matters.

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Changes
21	Guidance	Insert text from AUS 702.42 (b) relating to conflicts between applicable financial reporting frameworks and consequential addition to the types of modification.
22, 24	Requirement	New text to include conflicts between applicable financial reporting frameworks.
22, 23, 24	Requirement	New requirement relating to the heading of the opinion paragraph.
25	Requirement	Insert new sentence derived from AUS 702.19 relating to statements when effects (of modifications) are incapable of reliable measurement. New reference to 'the basis for modification' paragraph.
27, 28	Requirement / Guidance	Insert paragraphs from AUS 702.20 relating to omissions and misstatements of major components.
n/a	Guidance	Incorporate illustrations in ISA 701.19 into new Appendix 2.
n/a	Guidance	Incorporate illustrations in ISA 701.21 into new Appendix 2.
34	Requirement	Insert paragraph from AUS 702.47 relating to additional disclosures.
35, 36	Requirement	Insert paragraph from AUS 702.51 and .52 relating to conflicts between applicable financial reporting frameworks.
	Appendix	Insert new Appendix 1, illustrating use of new terminology.
	Appendix	Insert new Appendix 2, example Auditor's Reports.