

**EXPOSURE DRAFT**

**ED 24/05**  
(November 2005)

**Proposed Auditing Standard:  
The Independent Auditor's  
Report on a General Purpose  
Financial Report  
(Re-issuance of AUS 702)  
Part A**

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



**Australian Government**

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**Auditing and Assurance Standards Board**

### **Commenting on this Exposure Draft**

Comments on this Exposure Draft should be forwarded so as to arrive by 30 December 2005. Comments should be addressed to:

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA  
E-mail: [edcomments@auasb.gov.au](mailto:edcomments@auasb.gov.au)

A copy of all non-confidential submissions will be placed on public record on the AUASB website: [www.auasb.gov.au](http://www.auasb.gov.au).

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Auditing and Assurance Standards Board    Phone: (03) 8080 7400  
Level 4    Fax: (03) 8080 7450  
530 Collins Street    E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)  
Melbourne Victoria 3000  
AUSTRALIA

**Postal Address:**  
PO Box 204  
Collins Street West  
Melbourne Victoria 8007  
AUSTRALIA

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## PREFACE

### Reasons for Issuing ED 24/05

The Auditing and Assurance Standards Board (AUASB) is proposing to re-issue Auditing Standard (AUS 702) *The Independent Auditor's Report on a General Purpose Financial 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 24/05 conforms with ISA 700 (Revised) *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, issued in December 2004 by the International Auditing and Assurance Standards Board of the International Federation of Accountants. Differences between this proposed Auditing Standard and ISA 700 (Revised) are noted in paragraph 70 of the ED.

### Main Proposals

This proposed Auditing Standard:

- (a) establishes mandatory requirements and provides explanatory guidance on the form and content of the auditor's report issued in connection with the audit of a general purpose financial report;
- (b) establishes explanatory guidance on the matters the auditor considers in forming an opinion on the financial report;
- (c) establishes mandatory requirements and provides explanatory guidance on the auditor's reporting on other reporting responsibilities in addition to the auditor's opinion on the financial report;
- (d) establishes mandatory requirements and provides explanatory guidance on the auditor's performance and reporting responsibilities when the audit has been conducted in accordance with both Auditing Standards and International Standards on Auditing; and

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- (e) establishes mandatory requirements and provides explanatory guidance on the auditor's responsibilities with respect to supplementary financial report information included with the financial report that is not required by the financial reporting framework.

### **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 (March 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 (March 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, whereas 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 proposed 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. Furthermore, as described in the Main Changes section of AUS 702 (Part B), new terminology relating to the types of opinions issued by the auditor has been adopted;
4. a number of topics have been introduced and/or expanded on including:
  - the respective responsibilities of those charged with governance and the auditor;

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- the auditor's reporting on other reporting responsibilities in addition to the auditor's opinion on the financial report;
- the auditor's performance and reporting responsibilities when the audit has been conducted in accordance with Auditing Standards as well as International Standards on Auditing; and
- the auditor's responsibilities with respect to supplementary financial report information included with the financial report that is not required by the financial reporting framework.

Accordingly, the following additional mandatory requirements are included in this proposed Auditing Standard. Some of the additional mandatory requirements below may have previously been included in the explanatory paragraphs:

*The Auditor's Report on a Financial Report*

- (a) unless required by law or regulation to use different wording, the auditor's opinion on a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation shall state whether the financial report "gives a true and fair view" or "is presented fairly, in all material respects," in accordance with the applicable financial reporting framework (whereas, previously, the phrase used in auditor's reports prepared for purposes other than the *Corporations Act 2001* was "is presented fairly") (paragraph 8);

*Introductory Paragraph*

- (b) the introductory paragraph in the auditor's report shall:
  - (i) identify the title of each of the financial statements that comprise the financial report; and
  - (ii) refer to the summary of significant accounting policies and other explanatory notes (paragraph 27);

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*The Responsibility of Those Charged with Governance for the Financial Report*

- (c) the auditor's report shall state that those charged with governance are responsible for the preparation and the fair presentation of the financial report in accordance with the applicable financial reporting framework and that this responsibility includes:
  - (i) 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;
  - (ii) selecting and applying appropriate accounting policies; and
  - (iii) making accounting estimates that are reasonable in the circumstances (paragraph 33);

*Auditor's Responsibility*

- (d) the auditor's report shall also explain that Auditing Standards require the auditor to comply with relevant ethical requirements relating to audit engagements (paragraph 39);
- (e) the auditor's report shall describe an audit by stating that the procedures selected depend on the auditor's judgement, 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 shall consider 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. 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 report, 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 internal control (paragraph 42);

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*Auditor's Opinion*

- (f) when Accounting Standards in Australia are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion shall identify the jurisdiction or country of origin of the financial reporting framework (paragraph 46);

*Other Reporting Responsibilities*

- (g) when the auditor addresses other reporting responsibilities within the auditor's report on the financial report, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that follows the opinion paragraph (paragraph 51);

*Auditor's Report*

- (h) the auditor's report shall be in writing (paragraph 59);

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

- (i) the auditor's report shall refer to the audit having been conducted in accordance with the Auditing Standards and ISAs only when the auditor has complied fully with all of the Auditing Standards and ISAs relevant to the audit (paragraph 63);

*Unaudited Supplementary Information presented with an Audited Financial Report*

- (j) the auditor shall be satisfied that any supplementary information presented together with the financial report that is not covered by the auditor's opinion is clearly differentiated from the audited financial report (paragraph 65); and
- (k) if the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial report, the auditor shall explain in the auditor's report that the information has not been audited (paragraph 68).

- 5. the following requirements relating to unmodified auditor's reports, previously contained in AUS 702, have not been included in this proposed Auditing Standard:

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- (a) their rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards", the statement required under paragraph (d) should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure (paragraph .17(e) in AUS 702); and

In addition, this Auditing Standard does not include the requirements previously contained in paragraphs .17, .17(g) and .49 of AUS 702;

- 6. the explanatory guidance on concise financial reports, previously included in AUS 702, is not contained in this proposed Auditing Standard; and
- 7. the example auditor's reports in the Appendices have been reworded based on the example auditor's report in ISA 700 (Revised). The example relating to auditor's reports prepared pursuant to the *Corporations Act 2001* includes specific matters relating to auditor independence and the entity's annual general meeting.

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

## **Request for Comments**

Comments are invited on this Exposure Draft of the proposed re-issuance of Auditing Standard (AUS 702) *The Independent Auditor's Report on a General Purpose Financial 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.

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) makes Auditing Standard << >> *The Independent Auditor's Report on a General Purpose Financial Report* as set out in paragraphs 1 to 70 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 AUASB Standards*, which sets out the intentions of the AUASB 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

### *The Independent Auditor's Report on a General Purpose Financial Report*

#### Application

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

#### Operative Date

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

#### Introduction

- 3 The purpose of this Auditing Standard is to establish mandatory requirements and provide explanatory guidance on the independent auditor's report issued as a result of an audit of a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation.<sup>1</sup> This Auditing Standard also provides explanatory guidance on the matters the auditor ordinarily considers in forming an opinion on the financial report. As described in AUS 202 *Objective and General Principles Governing an Audit of a Financial Report*, "general purpose financial reports" are financial reports prepared in accordance with a financial reporting framework that is designed to meet the common information needs of a wide range of users.
- 4 This Auditing Standard addresses circumstances when the auditor is able to express an unqualified opinion and no modification to the auditor's report is necessary. AUS 702 (Part B) *Modifications to the Independent Auditor's Report*, establishes mandatory requirements and provides explanatory guidance on modifications to this report

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<sup>1</sup> This Auditing Standard does not address the auditor's report on a concise financial report prepared in accordance with the *Corporations Act 2001*. Concise financial reports are addressed in a separate Guidance Statement.

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for an emphasis of matter, a qualified opinion, a disclaimer of opinion, or an adverse opinion.

- 5 *AUS 802 The Independent Auditor's Report on Special Purpose Audit Engagements*, establishes mandatory requirements and provides explanatory guidance on the form and content of the auditor's report issued as a result of an audit of:
- (a) a complete financial report prepared in accordance with an other comprehensive basis of accounting such as a special purpose financial report prepared for the purpose of fulfilling the directors' financial reporting requirement under the *Corporations Act 2001*;
  - (b) a component of a general purpose or special purpose financial report, such as a single financial statement, specified accounts, elements of accounts, or items in a financial statement;
  - (c) compliance with contractual agreements; and
  - (d) summarised financial reports.

### **The Auditor's Report on a Financial Report**

- 6 **The auditor's report shall contain a clear expression of the auditor's opinion on the financial report.**
- 7 As stated in AUS 202, the objective of an audit of a financial report is to enable the auditor to express an opinion whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework. In Australia, the applicable financial reporting framework for a general purpose financial report is:
- (a) Accounting Standards promulgated by the Australian Accounting Standards Board ("Accounting Standards in Australia"); and
  - (b) When appropriate, other relevant statutory<sup>2</sup> or other requirements.
- 8 **Unless required by law or regulation to use different wording, the auditor's opinion on a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation shall state whether**

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<sup>2</sup> Such as the *Corporations Act 2001*.

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**the financial report “gives a true and fair view” or “is presented fairly, in all material respects,” in accordance with the applicable financial reporting framework.**

- 9 As explained in AUS 202, the financial reporting framework determines what constitutes a general purpose financial report. A general purpose financial report under Accounting Standards in Australia comprises a balance sheet, an income statement, a statement of changes in equity, a cash flow statement and a summary of significant accounting policies and other explanatory notes.
- 10 For the purposes of this Auditing Standard, the phrases “gives a true and fair view” and “is presented fairly, in all material respects,” are equivalent. Which of these phrases is used may be determined by the law or regulations governing the audit of the financial report. For example, the auditor’s opinion on a financial report prepared in accordance with the *Corporations Act 2001* is required by that Act to use the phrase “true and fair view.” In other cases, the auditor’s opinion on a general purpose financial report ordinarily uses the phrase “is presented fairly, in all material respects”.
- 11 In some cases, law or regulation governing the audit of a financial report may prescribe wording for the auditor’s opinion that is different from the phrase described in paragraph 8. Although the auditor may be obliged to use the prescribed wording, the auditor’s responsibilities as described in this Auditing Standard for forming the opinion remain the same.
- 12 When wording prescribed by law or regulation differs significantly from the phrases in paragraph 8, there may be a risk that users misunderstand the assurance obtained in an audit of a financial report. For example, the wording may convey to readers that the auditor is attesting to the accuracy of the financial report amounts rather than expressing an opinion on whether the financial report gives a true and fair view or is presented fairly, in all material respects. In such circumstances, the auditor ordinarily considers whether the risk of misunderstanding can be mitigated through appropriate explanation in the auditor’s report.

*Applicable Financial Reporting Framework*

- 13 The auditor’s judgment regarding whether the financial report gives a true and fair view or is presented fairly, in all material respects, is made in the context of the applicable financial reporting framework. As discussed in AUS 204 *Terms of Audit Engagements*, without an acceptable financial reporting framework, the auditor does not have suitable criteria for evaluating the entity’s financial report.

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to AUS 202, the auditor is required to determine whether the financial reporting framework adopted by those charged with governance in preparing the financial report is acceptable.

- 14 In the case of a financial report that is within the scope of this Auditing Standard, application of a financial reporting framework determined to be acceptable for a general purpose financial report will, except in the extremely rare circumstances discussed in paragraph 20, result in a financial report that achieves fair presentation. Although the financial reporting framework may not specify how to account for or disclose all transactions or events, it ordinarily embodies sufficient broad principles that can serve as a basis for developing and applying accounting policies that are consistent with the concepts underlying the requirements of the framework. Thus, the financial reporting framework provides a context for the auditor's evaluation of the fair presentation of the financial report, including whether the financial report has been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures.

*Forming an Opinion on the Financial Report*

- 15 **The auditor shall evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial report.**
- 16 When forming an opinion on the financial report, pursuant to paragraph 15 of this Auditing Standard, the auditor is required to evaluate whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial report taken as a whole is free from material misstatement. Pursuant to AUS 406 *The Auditor's Procedures in Response to Assessed Risks*, and AUS 306, *Materiality and Audit Adjustments*, the auditor is required to conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level, the risks of material misstatement of the financial report and to evaluate the effects of uncorrected misstatements identified.
- 17 Pursuant to paragraphs 8 and 15 of this Auditing Standard, the auditor is required to form an opinion as to whether the financial report gives a true and fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework which involves evaluating whether the financial report has been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures. Pursuant to paragraph 15 of this Auditing Standard, in undertaking

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this evaluation, the auditor is required to consider whether, in the context of the applicable financial reporting framework:

- (a) the accounting policies selected and applied are consistent with the financial reporting framework and are appropriate in the circumstances;
- (b) the accounting estimates made by those charged with governance are reasonable in the circumstances;
- (c) the information presented in the financial report, including accounting policies, is relevant, reliable, comparable and understandable; and
- (d) the financial report provides sufficient disclosures to enable users to understand the effect of material transactions and events on the information conveyed in the financial report, for example, in the case of a financial report prepared in accordance with Accounting Standards in Australia, the entity's financial position, financial performance and cash flows.

18 Pursuant to paragraph 15 of this Auditing Standard, in forming an opinion as to whether the financial report gives a true and fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework, the auditor is required to:

- (a) evaluate the fair presentation of the financial report;
- (b) consider whether the financial report, after any adjustments made by those charged with governance as a result of the audit process, is consistent with the auditor's understanding of the entity and its environment;
- (c) consider the overall presentation, structure and content of the financial report ; and
- (d) consider whether the financial report, including the note disclosures, faithfully represents the underlying transactions and events in a manner that gives a true and fair view of or presents fairly, in all material respects, the information conveyed in the financial report in the context of the financial reporting framework.

19 In accordance with AUS 512 *Analytical Procedures*, the auditor is required to apply analytical procedures at or near the end of the audit when forming a conclusion as to whether the financial report as a whole is consistent with the auditor's understanding of the entity.

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Such procedures help to corroborate conclusions formed during the audit and assist in arriving at the overall conclusion as to the fair presentation of the financial report.

*Extremely Rare Circumstances when Applying the Financial Reporting Framework Results in a Misleading Financial Report*

- 20 Pursuant to AUS 204, the auditor is required to consider the acceptability of the financial reporting framework when considering accepting the engagement. Application of a financial reporting framework determined to be acceptable for a general purpose financial report will ordinarily result in a financial report that achieves fair presentation. In extremely rare circumstances, however, application of a specific requirement in a framework that has been determined to be acceptable for a general purpose financial report may result in a financial report that is misleading in the particular circumstances of the entity. AASB 101 *Presentation of Financial Statements*, contains requirements relating to rare and exceptional circumstances in which those charged with governance conclude that compliance with an Accounting Standard would be so misleading that it would conflict with the objective of the financial report as set out in the *Framework for the Preparation and Presentation of Financial Statements*. Furthermore, when a financial report is prepared pursuant to the *Corporations Act 2001*, that Act states that if the financial statements and notes prepared in compliance with the Accounting Standards would not give a true and fair view, additional information must be included in the notes to the financial statements necessary to give a true and fair view. If the auditor encounters circumstances that lead the auditor to conclude that compliance with a specific requirement results in a financial report that is misleading, pursuant to AUS 702 (Part B), the auditor is required to consider the need to modify the auditor's report. The modifications, if any, that are appropriate to the auditor's report will depend on how those charged with governance address the matter in the financial report and how the financial reporting framework deals with these rare circumstances (see AUS 702 (Part B)).

**Elements of the Auditor's Report in an Audit Conducted in Accordance with Auditing Standards<sup>3</sup>**

- 21 Consistency in the auditor's report, when the audit has been conducted in accordance with the Auditing Standards, promotes credibility in the Australian marketplace by making more readily identifiable those audits that have been conducted in accordance

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<sup>3</sup> Paragraphs 62-64 address the auditor's report when the audit has been conducted in accordance with both Auditing Standards and International Standards on Auditing.

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with recognised auditing standards. It also helps to promote the reader's understanding and to identify unusual circumstances when they occur.

22 Paragraphs 23-61 set out the mandatory requirements and explanatory guidance relating to the following elements of the auditor's report when the audit has been conducted in accordance with the Auditing Standards:

- (a) Title;
- (b) Addressee;
- (c) Introductory paragraph;
- (d) The responsibility of those charged with governance for the financial report;
- (e) Auditor's responsibility;
- (f) Auditor's opinion;
- (g) Other reporting responsibilities;
- (h) Auditor's signature;
- (i) Date of the auditor's report; and
- (j) Auditor's address.

*Title*

**23 The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor.**

24 In accordance with AUS 202, the auditor is required to comply with relevant ethical requirements relating to audit engagements, which includes independence requirements. A title indicating the report is the report of an independent auditor, for example, *Independent Auditor's Report*, affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others.

*Addressee*

**25 The auditor's report shall be addressed as required by the circumstances of the engagement.**

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- 26 Laws or regulations often specify to whom the auditor's report on a general purpose financial report is to be addressed. For example, the auditor's report on a financial report prepared pursuant to the *Corporations Act 2001* is required by that Act to be addressed to the members of the entity. In other cases, the auditor's report on a general purpose financial report is ordinarily 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 report is being audited.

*Introductory Paragraph*

- 27 **The introductory paragraph in the auditor's report shall identify the entity whose financial report has been audited and shall state that the financial report has been audited. The introductory paragraph shall also:**
- (a) **identify the title of each of the financial statements that comprise the financial report;**
  - (b) **refer to the summary of significant accounting policies, other explanatory notes and, when appropriate, the directors' declaration;**
  - (c) **specify the date and period covered by the financial report.**
- 28 This mandatory requirement is ordinarily met by stating that the auditor has audited the accompanying financial report of the entity, which comprises (state the titles of the financial statements required by the applicable financial reporting framework, specifying the date and period covered by those financial statements) and referring to the summary of significant accounting policies, other explanatory notes and, when appropriate, the directors' declaration. In addition, when the auditor is aware that the financial report will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the financial report is presented. This helps readers to identify the financial report to which the auditor's report relates.
- 29 The auditor's opinion covers the financial report as defined by the applicable financial reporting framework. In the case of a financial report prepared in accordance with Accounting Standards in Australia, this includes: a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, and a summary of significant accounting policies and other explanatory

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notes. In some cases additional information may also be considered to be an integral part of the financial report.

- 30 In some circumstances, the entity may be required by law or regulation or standards, or may voluntarily choose, to present together with the financial report, supplementary information that is not required by the financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the financial reporting framework or to provide further explanation of specific financial report items. Such information is normally presented in either supplementary schedules or as additional notes. The auditor's opinion may or may not cover the supplementary information and therefore, pursuant to paragraph 65 of this Auditing Standard, the auditor is required to be satisfied that any supplementary information that is not covered by the auditor's opinion is clearly differentiated.
- 31 In some circumstances, the supplementary information cannot be clearly differentiated from the financial report because of its nature and how it is presented and, accordingly, such supplementary information is covered by the auditor's opinion. For example, the auditor's opinion covers notes or supplementary schedules that are cross-referenced from the financial report. This would also be the case when the notes to the financial report includes an explanation of the extent to which the financial report complies with another financial reporting framework. In such cases, pursuant to paragraph 68 of this Auditing Standard, the auditor is required to explain in the auditor's report that the information has not been audited.
- 32 Supplementary information that is presented as an integral part of the financial report does not need to be specifically referred to in the introductory paragraph of the auditor's report when the reference to the notes in the description of the components of the financial report in the introductory paragraph is sufficient.

*The Responsibility of Those Charged with Governance for the Financial Report*

- 33 **The auditor's report shall state that those charged with governance are responsible for the preparation and the fair presentation of the financial report in accordance with the applicable financial reporting framework and that this responsibility includes:**
- (a) **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;**

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- (b) selecting and applying appropriate accounting policies; and**
- (c) making accounting estimates that are reasonable in the circumstances.**

- 34 A financial report is the representation of those charged with governance. The responsibility of those charged with governance for the preparation and fair presentation of the financial report is ordinarily defined by the applicable financial reporting framework. For example, in the case of a financial report prepared in accordance with Accounting Standards in Australia, those charged with governance are responsible for preparing a financial report that fairly presents the financial position, financial performance and cash flows of the entity in accordance with Accounting Standards in Australia. To fulfil this responsibility, those charged with governance and management design and implement internal control<sup>4</sup> to prevent or to detect and correct misstatements, whether due to fraud or error, in order to ensure the reliability of the entity's financial reporting. The preparation of the financial report requires those charged with governance to exercise judgment in making accounting estimates that are reasonable in the circumstances, as well as to select and apply appropriate accounting policies. These judgements are made in the context of the applicable financial reporting framework.
- 35 There may be circumstances when it is appropriate for the auditor to add to the description of the responsibilities of those charged with governance referred to in paragraph 33 to reflect additional responsibilities that are relevant to the preparation and presentation of the financial report in the context of the particular engagement or the nature of the entity.
- 36 The term those charged with governance has been used in this Auditing Standard to describe those responsible for the preparation and fair presentation of the financial report. Other terms to describe those charged with governance may be appropriate depending on the legal framework governing the audit of the financial report. For example, the appropriate term to describe those responsible for the preparation and fair presentation of a financial report prepared pursuant to the *Corporations Act 2001*, is the directors.

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<sup>4</sup> In some cases, law or regulation prescribing the responsibility of those charged with governance may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting systems. As books, records and accounting systems are an integral part of internal control (as defined in AUS 402 "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement"), no specific reference is made to them in paragraph 33 for the description of the responsibilities of those charged with governance.

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*Auditor's Responsibility*

- 37 **The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial report based on the audit.**
- 38 The auditor's report states that the auditor's responsibility is to express an opinion on the financial report based on the audit in order to contrast it to the responsibility of those charged with governance for the preparation and fair presentation of the financial report.
- 39 **The auditor's report shall state that the audit was conducted in accordance with Auditing Standards in Australia. The auditor's report shall also explain that those standards require that the auditor complies with relevant ethical requirements relating to audit engagements and that the auditor plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.**
- 40 The reference to the Auditing Standards used conveys to the reader that the audit has been conducted in accordance with established standards.
- 41 AUS 202 specifies what is required in order to conduct an audit in accordance with the Auditing Standards. Pursuant to AUS 202, the auditor is not permitted to represent compliance with Auditing Standards unless the auditor has complied fully with all of the Auditing Standards relevant to the audit.
- 42 **The auditor's report shall describe an audit by stating that:**
- (a) **An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report;**
  - (b) **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 shall consider 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. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction**

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with the audit of the financial report, 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 internal control; and

- (c) An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by those charged with governance, as well as the overall presentation of the financial report.

- 43 The auditor's report shall state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

*Auditor's Opinion*

- 44 An unqualified opinion shall be expressed when the auditor concludes that the financial report gives a true and fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- 45 When expressing an unqualified opinion, the auditor shall include a section headed "Auditor's Opinion." The opinion paragraph of the auditor's report shall state the auditor's opinion that the financial report gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework (unless the auditor is required by law or regulation to use different wording for the opinion, in which case the prescribed wording shall be used).
- 46 When Accounting Standards in Australia are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion shall identify the jurisdiction or country of origin of the financial reporting framework.
- 47 The auditor's opinion states that the financial report gives a true and fair view of or presents fairly, in all material respects, the information that the financial report is designed to convey (which is determined by the financial reporting framework). For example, in the case of a financial report prepared in accordance with Accounting Standards in Australia, the auditor expresses an opinion that the financial report gives a true and fair view of or is presented fairly, in all material respects, 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.

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48 To advise the reader of the context in which the auditor's opinion is expressed, pursuant to paragraph 45 of this Auditing Standard, the auditor's opinion identifies the applicable financial reporting framework on which the financial report is based. When the applicable financial reporting framework is not the Accounting Standards in Australia, pursuant to paragraph 46 of this Auditing Standard, the auditor's opinion also identifies the jurisdiction or country of origin of the applicable financial reporting framework. Pursuant to paragraph 45 of this Auditing Standard, the auditor is required to identify the applicable financial reporting framework in such terms as:

"... in accordance with Accounting Standards in Australia" or

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

49 When the applicable financial reporting framework encompasses legal and regulatory requirements, pursuant to paragraph 45 of this Auditing Standard, the auditor is required to identify the applicable financial reporting framework in such terms as:

"... in accordance with Accounting Standards in Australia and, when appropriate, other relevant statutory or other requirements" or

"...in accordance with accounting principles generally accepted in Country X and the requirements of Country X Corporations Act."

*Other Reporting Responsibilities*

50 In some cases, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial report. 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 report. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters. When the audit of the financial report is conducted pursuant to the *Corporations Act 2001*, section 308(3)(b) of that Act requires the auditor to describe in the auditor's report any deficiency, failure or shortcoming in respect of certain matters referred to in section 307(b), (c) or (d) of that Act.

**51 When the auditor addresses other reporting responsibilities within the auditor's report on the financial report, these other reporting responsibilities shall be included in a separate section in the auditor's report that follows the opinion paragraph.**

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- 52 Pursuant to paragraph 51 of this Auditing Standard, the auditor is required to address these other reporting responsibilities in a separate section of the auditor's report in order to clearly distinguish them from the auditor's responsibilities for, and opinion on, the financial report.

*Auditor's Signature*

- 53 **The auditor's report shall be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate.**

*Date of the Auditor's Report*

- 54 **The auditor shall date the auditor's report on the financial report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial report. Sufficient appropriate audit evidence shall include evidence that the entity's financial report has been prepared and that those with the recognised authority have asserted that they have taken responsibility for it.**
- 55 The date of the auditor's report informs the reader 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 AUS 760 *Subsequent Events*.
- 56 Since the auditor's opinion is provided on the financial report and the financial report is the responsibility of those charged with governance, pursuant to paragraph 54 of this Auditing Standard the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until the auditor obtains evidence that a financial report has been prepared and those charged with governance have accepted responsibility for it.
- 57 The auditor's report on a financial report prepared pursuant to the *Corporations Act 2001* is required by that Act to specify the date on which the auditor's report was made.

*Auditor's Address*

- 58 **The report shall name the location in the country or jurisdiction where the auditor practices.**

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*Other*

**59 The auditor's report shall be in writing.**

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

61 Appendix 1 to this Auditing Standard contains an illustration of the auditor's report incorporating the elements set forth above for an audit of a financial report prepared in accordance with Accounting Standards in Australia expressing an unmodified opinion.

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

62 The auditor may conduct the audit in accordance with both the Auditing Standards and the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board.

**63 The auditor's report shall refer to the audit having been conducted in accordance with the Auditing Standards and ISAs only when the auditor has complied fully with all of the Auditing Standards and ISAs relevant to the audit.**

64 Pursuant to paragraph 63 of this Auditing Standard, a reference to both the Auditing Standards and ISAs is not appropriate if there is a conflict between the reporting requirements regarding the auditor's report in the Auditing Standards and in the ISAs relating to an emphasis of matter. ISA 701 *Modifications to the Independent Auditor's Report*, permits the auditor to modify the auditor's report by using an emphasis of matter paragraph to report on matters other than those affecting the financial report, whereas AUS 702 (Part B) does not permit the use of the emphasis of matter paragraph to report on such matters. In the case of such conflicts, pursuant to paragraph 63 of this Auditing Standard, the auditor's report refers only to the auditing standards (either Auditing Standards or the ISAs) in accordance with which the auditor has complied with the reporting requirements.

**Unaudited Supplementary Information Presented with an Audited Financial Report**

**65 The auditor shall be satisfied that any supplementary information presented together with the financial report that is**

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**not covered by the auditor's opinion is clearly differentiated from the audited financial report.**

- 66 As noted in paragraphs 30-32, the entity may be required to, or those charged with governance may choose to, include supplementary information together with the financial report. The auditor's opinion is considered to cover supplementary information that cannot be clearly differentiated from the financial report because of its nature and how it is presented. In other circumstances, however, law or regulation may not require the supplementary information to be audited and those charged with governance may not ask the auditor to include the supplementary information within the scope of the audit of the financial report. When the supplementary information is not intended to be audited, pursuant to paragraph 65 of this Auditing Standard, the auditor is required to consider whether that supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion and, if so, asks those charged with governance to change how the information is presented. For example, the auditor considers where the unaudited information is presented in relation to the financial report and any audited supplementary information, and whether it is clearly labelled as "unaudited". The auditor may, for example, ask those charged with governance to remove any cross references from the financial report to unaudited supplementary schedules or unaudited notes because the demarcation between the audited and unaudited information would not be sufficiently clear as such unaudited notes that are intermingled with the audited notes can also be misinterpreted as being audited. The auditor may also, for example, ask the entity to place the unaudited information outside of the set of a financial report, or, if that is not possible in the circumstances, at a minimum, place the unaudited notes together at the end of the required notes to the financial report and clearly label them as unaudited.
- 67 As noted in paragraph 28, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented in the auditor's report. This helps readers differentiate the financial report from other information not covered by the auditor's opinion.
- 68 **If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial report, the auditor shall explain in the auditor's report that that information has not been audited.**

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- 69 Pursuant to AUS 212 *Other Information in Documents Containing Audited Financial Statements*, the auditor is required to read the supplementary information that is unaudited to identify material inconsistencies with the audited financial report. The auditor's responsibilities with respect to unaudited supplementary information are described in AUS 212.

**Conformity with International Standards on Auditing**

- 70 This Auditing Standard conforms with International Standard on Auditing ISA 700 (Revised) *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and effective for auditor's reports dated on or after 31 December 2006. The differences between this Auditing Standard and ISA 700 are:
- This Auditing Standard includes the following mandatory requirements which are included only as guidance in the explanatory paragraphs of ISA 700:
    - ◆ Unless required by law or regulation to use different wording, the auditor's opinion on a general purpose financial report prepared in accordance with a financial reporting framework designed to achieve fair presentation shall state whether the financial report "gives a true and fair view" or "is presented fairly, in all material respects" in accordance with the financial reporting framework (paragraph 8);
    - ◆ The auditor's report shall be signed in one or more of the name of the audit firm, the audit company or the personal name of the auditor, as appropriate for the particular jurisdiction (ISA 700 requires the auditor's report to be signed but this mandatory requirement does not specify by whom) (paragraph 53); and
    - ◆ If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial report, the auditor shall explain in the auditor's report that that information has not been audited (paragraph 68).

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- This Auditing Standard contains the following mandatory requirement, “when expressing an unqualified opinion, the auditor shall include a section headed “Auditor’s Opinion,” whereas ISA 700 does not (paragraph 45).
- This Auditing Standard contains a section relating to “Auditor’s Reports for Audits Conducted in Accordance with Both Auditing Standards and International Standards on Auditing” whereas, the equivalent section in ISA 700 relates to “Auditor’s Reports for Audits Conducted in Accordance with Both ISAs and Auditing Standards of a Specific Jurisdiction or Country. In this Auditing Standard, this section has been tailored to reflect audits conducted in accordance with both Auditing Standards and ISAs whereas, in ISA 700, this section has a broad focus.
- This Auditing Standard contains references to the audit reporting requirements of the *Corporations Act 2001*, whereas ISA 700 does not.
- The example auditor’s reports are contained in the Appendix to this Auditing Standard whereas, the example auditor’s report is contained in the body of the standard in ISA 700.
- This Auditing Standard does not contain references to practises in “other jurisdictions” that are included in ISA 700 when this practise is not relevant to or permitted in Australia.

Compliance with this Auditing Standard enables compliance with ISA 700.

## APPENDIX 1

### EXAMPLE OF AN UNMODIFIED AUDITOR'S REPORT

#### INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

#### **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, and a summary of significant accounting policies and other explanatory notes<sup>5</sup>.

#### *The Responsibility of Those Charged with Governance for the Financial Report*<sup>6</sup>

[Those charged with governance or insert title] are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia<sup>7</sup>. 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 Auditing 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

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<sup>5</sup> As noted in paragraph 28, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

<sup>6</sup> Or , alternatively, insert the title of those charged with governance. For example, "Directors' Responsibility for the Financial Report."

<sup>7</sup> And, when appropriate, statutory or other requirements

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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.<sup>8</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by [those charged with governance], 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.

*Auditor's Opinion*

In our opinion, the financial report presents fairly, in all material respects, (or "gives a true and fair view of") the financial position of [name of entity] as of 31 December 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Accounting Standards in Australia<sup>9</sup>.

**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<sup>10</sup>]

[Date of the auditor's report]

[Auditor's address]

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8 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "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".

9 And, when appropriate, statutory or other requirements.

10 Pursuant to paragraph 53 of this Auditing Standard, the auditor's report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

## APPENDIX 2

### SUMMARY OF AUDIT REPORTING REQUIREMENTS OF THE *CORPORATIONS ACT 2001*

- 1 The auditor's responsibilities for an entity subject to the *Corporations Act 2001* ("the Act") are found in Division 3 of Part 2M.3 of that Act. The Act sets out the auditor's obligations to form an opinion and to report to members, both in respect of the audit of an annual financial report<sup>11</sup>, and the audit or review of a half-year financial report.
- 2 This Appendix provides a summary of the auditor's responsibilities with regard to the audit of an annual financial report or a half-year financial report in accordance with the Act. The Appendix in ASRE 2410 *Review of Interim Financial Information by the Auditor of the Entity* provides a summary of the auditor's responsibilities with regard to the review of a half-year financial report in accordance with the Act.

#### **Duty to Form an Opinion**

- 3 Section 307 of the Act requires an auditor who conducts an audit of the financial report for a financial year or half-year to form an opinion about:
  - (a) whether the financial report is in accordance with this Act, including:
    - (i) section 296 or 304 (compliance with accounting standards); and
    - (ii) section 297 or 305 (true and fair view); and
  - (aa) if the financial report includes additional information under paragraph 295(3)(c) or 303(3)(c) (information included to give true and fair view of financial position and performance) — whether the inclusion of that additional information was necessary to give the true and fair view required by section 297 or 305.

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<sup>11</sup> Under section 314 of the *Corporations Act 2001*, a company, registered scheme or disclosing entity may report to members by way of either a full or concise report. This Auditing Standard does not address the auditor's report on a concise report.

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- (b) whether the auditor has been given all information, explanation and assistance necessary for the conduct of the audit; and
- (c) whether the company, registered scheme or disclosing entity has kept financial records sufficient to enable a financial report to be prepared and audited; and
- (d) whether the company, registered scheme or disclosing entity has kept other records and registers as required by this Act.

**Duty to Report – Annual Financial Report**

4 Section 308(1) of the Act states that an auditor who audits the financial report for a financial year must report to members on whether the auditor is of the opinion that the financial report is in accordance with this Act, including:

- (a) section 296 (compliance with accounting standards); and
- (b) section 297 (true and fair view).

If not of that opinion, the auditor's report must say why.

*Non-compliance with accounting standards*

5 Section 308(2) of the Act requires that if the auditor is of the opinion that the financial report does not comply with an accounting standard, the auditor's report must, to the extent practicable to do so, quantify the effect that non-compliance has on the financial report. If it is not practicable to quantify the effect fully the report must say why.

*Defects or irregularities*

6 Section 308(3) requires that the auditor's report must describe:

- (a) any defect or irregularity in the financial report; and
- (b) any deficiency, failure or shortcoming in respect of the matters referred to in paragraph 307(b), (c) or (d) (described above).

*Auditing Standards Disclosures*

7 Section 308(3A) requires that the auditor's report must include any statements or disclosures required by the auditing standards.

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*Information included to give true and fair view*

- 8 Section 308(3B) requires that if the financial report includes additional information under paragraph 295(3)(c) (information included to give true and fair view of financial position and performance), the auditor's report must also include a statement of the auditor's opinion on whether the inclusion of that additional information was necessary to give the true and fair view required by section 297.

*Other*

- 9 Section 308(4) of the Act requires that the report must specify the date on which it was made.

**Duty to Report – Audit of Half-Year Financial Report**

- 10 Section 309(1) of the Act states that an auditor who audits the financial report for a half-year must report to members on whether the auditor is of the opinion that the financial report is in accordance with this Act, including:

- (a) section 304 (compliance with accounting standards); and
- (b) section 305 (true and fair view).

If not of that opinion, the auditor's report must say why.

*Non-compliance with accounting standards*

- 11 Section 309(2) of the Act requires that if the auditor is of the opinion that the financial report does not comply with an accounting standard, the auditor's report must, to the extent practicable to do so, quantify the effect that non-compliance has on the financial report. If it is not practicable to quantify the effect fully the report must say why.

*Defects or irregularities*

- 12 Section 309(3) requires that the auditor's report must describe:
- (a) any defect or irregularity in the financial report; and
  - (b) any deficiency, failure or shortcoming in respect of the matters referred to in paragraph 307(b), (c) or (d) (described above).

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*Auditing Standards Disclosures*

- 13 Section 309(5A) requires that the auditor's report must include any statements or disclosures required by the auditing standards.

*Information included to give true and fair view*

- 14 Section 309(5B) requires that if the financial report includes additional information under paragraph 303(3)(c) (information included to give true and fair view of financial position and performance), the auditor's report must also include a statement of the auditor's opinion on whether the inclusion of that additional information was necessary to give the true and fair view required by section 306.

*Other*

- 15 Section 309(6) requires that a report under subsection (1) must specify the date on which it was made.

**Auditor's Independence Declaration**

- 16 The *Corporations Act 2001* contains general and specific provisions in relation to auditor independence. This section discusses the requirement of the auditor to prepare a written auditor's independence declaration only.
- 17 Section 307C provides that if an auditor conducts an audit of a financial report for a full year or an audit or review of the financial report for a half year, the auditor must give the directors of the company, registered scheme or disclosing entity:
- (a) A written declaration that, to the best of the auditor's knowledge and belief, there have been:
    - (i) no contraventions of the auditor independence requirements of the Act in relation to the auditor or review; and
    - (ii) no contraventions of any applicable code of professional conduct in relation to the audit or review; or
  - (b) A written declaration that, to the best of the individual auditor's knowledge and believe, the only contraventions of:

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- (i) the auditor independence requirements of the Act in relation to the audit or review; or
- (ii) any applicable code of professional conduct in relation to the audit or view;

are those contraventions details of which are set out in the declaration.

- 18 Section 307C(5) of the *Corporations Act 2001* requires that the declaration be given when the audit report is given to the directors of the company, registered scheme or disclosing entity and that the declaration must be signed by the person making the declaration. However, ASIC has issued Class Order 05/83 "Timing of Auditor's Independence Declarations" which allows an auditor's report to be signed after the auditor's independence declaration is given to directors.

**Signing the Auditor's Report**

- 19 Section 324AA of the Act states that, subject to part 2M.4 of the Act, the following may be appointed as auditor for a company or a registered scheme for the purposes of the Act:
- (a) an individual;
  - (b) a firm;
  - (c) a company.
- 20 Section 324AB (3) of the Act requires that "a report or notice that purports to be made or given by a firm appointed as auditor of a company or registered scheme is not taken to be duly made or given unless it is signed by a member of the firm who is a registered company auditor both:
- (a) in the firm name; and
  - (b) in his or her own name.
- 21 Section 324AD (1) of the Act requires that "a report or notice that purports to be made or given by an audit company appointed as auditor of a company or registered scheme is not taken to be duly made or given unless it is signed by a director of the audit company (or the lead auditor or review auditor for the audit) both:
- (a) in the audit company's name; and

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(b) in his or her own name.

**Reporting to ASIC**

22 Section 311 of the Act contains specific provisions relating to the auditor's obligation to notify ASIC of certain circumstances within 28 days after the auditor becomes aware of those circumstances.

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*EXAMPLE OF AN UNMODIFIED AUDITOR'S REPORT – SINGLE CORPORATE ENTITY*

INDEPENDENT AUDITOR'S REPORT

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 and other explanatory notes and the directors' declaration.<sup>1213</sup>

*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

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12 *Corporations Amendment Regulations 2005 (No. 4)* was released on 7 July 2005. These Regulations allow a listed company to make certain disclosures required by Accounting Standards AASB 1046 'Director and Executive Disclosures by Disclosing Entities' in the annual directors' report. In such cases, the Auditing Guidance Note "Auditor's Report on AASB 1046 Remuneration Disclosures contained in the Annual Directors' Report" issued by the AUASB contains suggested wording for the auditor's report which shows how the audit reporting requirements, arising from the issue of the Regulations, can be met.

13 As noted in paragraph 29, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

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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.<sup>14</sup> 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 company/registered scheme/disclosing entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.<sup>15</sup>

*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.

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14 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances."

15 Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the audit report was made.

**Proposed Auditing Standard: *The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702)***

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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<sup>16</sup>]

[Date of the auditor's report]

[Auditor's address]

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<sup>16</sup> Pursuant to paragraph 53 of this Auditing Standard, the auditor's report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

**Proposed Auditing Standard: *The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702)***

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*EXAMPLE OF AN UNMODIFIED AUDITOR'S REPORT –  
CONSOLIDATED ENTITY*

INDEPENDENT AUDITOR'S REPORT

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 and other explanatory notes and the directors' declaration of the consolidated entity comprising the [company/registered scheme/disclosing entity] and the entities it controlled at the year's end or from time to time during the financial year.<sup>1718</sup>

*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.

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17 *Corporations Amendment Regulations 2005 (No. 4)* was released on 7 July 2005. These Regulations allow a listed company to make certain disclosures required by Accounting Standards AASB 1046 'Director and Executive Disclosures by Disclosing Entities' in the annual directors' report. In such cases, the Auditing Guidance Note "Auditor's Report on AASB 1046 Remuneration Disclosures contained in the Annual Directors' Report" issued by the AUASB contains suggested wording for the auditor's report which shows how the audit reporting requirements, arising from the issue of the Regulations, can be met.

18 As noted in paragraph 29, when the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

**Proposed Auditing Standard: *The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702)***

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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.<sup>19</sup> 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.<sup>20</sup>

*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 and consolidated entity's financial 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.

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19 In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances."

20 Or, alternatively, include statements (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the audit report was made.

**Proposed Auditing Standard: *The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702)***

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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<sup>21</sup>]

[Date of the auditor's report]

[Auditor's address]

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21 Pursuant to paragraph 53 of this Auditing Standard, the auditor's report is required to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

<b>Table of Proposed Changes to AUS 702 (Part B) <i>The Independent Auditor's Report on a General Purpose Financial Report</i></b>
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***Base Standard***

ISA 700, "The Independent Auditor's Report on a complete set of General Purpose Financial Statements," was used as the base standard when drafting this proposed Auditing Standard.

***Main differences between the Base Standard and the existing AUS 702***

The main differences between ISA 700 and the existing AUS 702 are:

1. the mandatory requirements and explanatory guidance relating to modifications to the independent auditor's report are included in proposed AUS 702 (Part B) *Modifications to the Independent Auditor's Report*, whereas in AUS 702 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;
2. a 'modified auditor's report' is the term used in ISA 700 to describe an auditor's report containing:
  - A qualified opinion;
  - A disclaimer of opinion;
  - An adverse opinion; or
  - An emphasis of matterwhereas in AUS 702, the term used to describe such reports was a "qualified auditor's report". Furthermore, AUS 702 use the terms "except for opinion" rather than a "qualified opinion" and an "inability to form an opinion" rather than "a disclaimer of opinion." In ISA 700, an "unqualified" auditor's report refers to an auditor's report that does not contain a qualified, disclaimer or adverse opinion.
3. ISA 700 contains the following mandatory requirements and/or explanatory guidance whereas AUS 702 does not:
  - Explanatory guidance on the matters the auditor ordinarily considers when forming the auditor's opinion on the fair presentation of the financial report as a whole at the conclusion of the audit.
  - Mandatory requirements relating to the auditor's performance and reporting responsibilities when the audit has been conducted in accordance with Auditing Standards as well as ISAs.
  - Mandatory requirements and explanatory guidance on how the auditor shall report on other reporting responsibilities in addition to the auditor's opinion on the financial report.
  - Mandatory requirements and explanatory guidance on the auditor's responsibilities with respect to supplementary financial report information included with the financial report that is not required by the financial reporting framework.
  - Explanatory guidance relating to the date of the auditor's report and its relationship to the date of the financial report and the date when the financial report is considered to be approved and issued.

4. ISA 700 requires the auditor's opinion to state whether the financial report "gives a true and fair view" or "is presented fairly, in all material respects," in accordance with the applicable financial reporting framework (unless required by law or regulation to use different wording) whereas, in AUS 702, the phrase used in an auditor's opinion other than one prepared in accordance with the *Corporations Act 2001* was "is presented fairly".
5. the following basic principles and essential procedures relating to unmodified opinions included in AUS 702, are not contained in ISA 700:
  - the audit report should include a section headed "scope" which includes the following: (paragraph 17 in AUS 702)
    - (i) in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards", the statement required under paragraph (d) should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure (paragraph 17(e) in AUS 702); and
    - (ii) a statement indicating that these procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the financial reporting framework identified in AUS 702.21 (clearly indicating that Australia is the country of origin of the identified financial reporting framework), so as to present a view which is consistent with the auditor's understanding of the entity's financial position, the results of its operations and its cash flows (paragraph 17(g) in AUS 702); and
  - the auditor should form an opinion on compliance with those statutory and other requirements that affect the form or content of the financial report when:
    - (i) those requirements apply to the entity by virtue of an Act of Parliament, including any regulations, rules or directives, pursuant to such an Act;
    - (ii) the audit mandate requires the auditor to form such an opinion; or
    - (iii) the financial report includes an assertion that those requirements have been complied with (paragraph 49 in AUS 702)
6. the example auditor's report in ISA 700 contains new wording which includes:
  - Expansion on the topic of the respective responsibilities of those charged with governance and the auditor.
  - An updated description of the audit process to reflect the new Audit Risk standards.
  - Clarification of the scope of the auditor's responsibilities with respect to internal control.
  - Reference to the independent requirements of the *Corporations Act 2001*.Furthermore, the example auditor's report is contained in the body of the standard in ISA 700 whereas, the example auditor's reports are contained in the appendices in AUS 702.
7. AUS 702 contains a summary of the audit reporting requirements of the *Corporations Act 2001* and example auditor's reports prepared in accordance with the *Corporations Act 2001* whereas ISA 700 does not.

***Table of proposed changes from the Base Standard***

The table below details the proposed changes from the base standard, ISA 700 (excluding changes to reflect Australian terminology and references to Australian Auditing Standards).

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
1	Requirement / Guidance	Insert New Application paragraph.
2	Requirement	Insert Operative Date paragraph.
		Delete Public Sector Perspective and Effective Date.
6, 15, 23, 25, 27, 33, 37, 39, 42, 43, 44, 45, 46, 51, 53, 54, 58, 59, 63, 65	Requirement	Replace “should” with “shall”.
3, 12	Guidance	Insert “ordinarily” to clarify implied obligations.
13, 16, 17, 20, 30, 41, 48, 49, 52, 56, 66, 69	Guidance	Insert “pursuant to...the auditor is required to...” to clarify implied obligations.
3, 4, 5, 28	Guidance	Change: <ul style="list-style-type: none"> <li>• “standard” to “mandatory requirement”</li> <li>• “requirement” to “mandatory requirement”</li> <li>• “guidance” to “explanatory guidance”</li> </ul>
5(a)	Guidance	Insert: <p>(a) “.....such as a special purpose financial report prepared for the purpose of fulfilling the directors’ financial reporting requirements under the <i>Corporations Act 2001</i>.”</p>
7, 9, 17, 20, 29, 34, 46, 47, 48, 49, 61	Requirement / Guidance	Insert reference to the following: <ul style="list-style-type: none"> <li>• the applicable financial reporting framework in Australia;</li> <li>• the items that comprise a general purpose financial report in Australia under the applicable financial reporting framework;</li> <li>• specific requirements of the Accounting Standards in Australia.</li> </ul>

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
8, 9	Requirement	<p>Elevate to black letter the following:</p> <p>“Unless required by law or regulation to use different wording, the auditor’s opinion on a complete general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation shall state whether the financial report “gives a true and fair view” or “is presented fairly, in all material respects,” in accordance with the applicable financial reporting framework”.</p> <p>The footnote previously attached to this sentence has been included in the body of the standard.</p>
10, 11, 20, 26, 35, 36, 50, 57	Requirement / Guidance	<p>Tailor standard to the Australian environment by:</p> <ul style="list-style-type: none"> <li>• inserted reference to the requirements of the <i>Corporations Act 2001</i>;</li> <li>• inserted reference to preferred practise for non-<i>Corporations Act 2001</i> audits;</li> <li>• deleted reference to practise in “other jurisdictions” which is not permitted in Australia;</li> <li>• other minor wording changes.</li> </ul>
18, 19	Guidance	Insert bullet points to improve clarity of paragraph.
24	Guidance	Insert reference to AUS 202 to tie back sentence relating to auditor independence to applicable black letter in AUS 202.
31	Guidance	Insert reference to (new) black letter paragraph 68 of the Auditing Standard.
39	Requirement	Replaced reference to “International Standards on Auditing” with “Auditing Standards in Australia” and included standard wording relating to compliance with ethical requirements.
53	Requirement	Insert “...in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate” which has been elevated from the guidance. The reference to practice in other jurisdictions has also been deleted.
	Appendix	Relocate the example auditor’s report from the body of the standard to the Appendix and tailor to Australian

Paragraph No. in Proposed Exposure Draft	Status (Requirement, Guidance, Footnote or Appendix)	Description of Proposed Change(s)
		environment.
62, 63, 64	Requirement / Guidance	Update section to reflect an audit conducted in accordance with both Auditing Standards and the International Standards on Auditing, rather than an audit conducted in accordance with both Auditing Standards and the auditing standards of a specific jurisdiction or country. This change has resulted in the deletion of 3 paragraphs (2 mandatory requirement paragraphs) contained in ISA 700 which are no longer appropriate.
68	Requirement	Elevate to a mandatory requirement the following: “If the auditor concludes that the entity’s presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial report, the auditor shall explain in the auditor’s report that that information has not been audited”.
	Appendix	Insert Appendix 2 containing a summary of the audit reporting requirements of the <i>Corporations Act 2001</i> and the example auditor’s reports. Example auditor’s reports have been based on the report in Appendix 1 but have been tailored to reflect the <i>Corporations Act 2001</i> reporting requirements.
13, 17(b), 18(b), 20, 22(d), 33, 34, 35, 36, 38, 42(c), 56, 66	Requirement / Guidance / Appendix	Replace the term “management” with “those charged with governance” when appropriate.
	Footnote 1	Insert footnote referring to concise financial reports.