

**DRAFT SUPPLEMENTAL GUIDANCE FOR THE PROPOSED
INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF
FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES – AUDITOR
REPORTING**

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I. Introduction

This Supplement has been developed to provide additional guidance for auditors with regard to modifications to the auditor's report when using the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities ([draft] ISA for LCE) and is to be read together with the [draft] ISA for LCE.

This Supplement provides non-authoritative guidance and does not amend or override the [draft] ISA for LCE, the text of which alone is authoritative. Reading this Auditor Reporting Supplemental Guidance is not a substitute for reading the [draft] ISA for LCE. The Auditor Reporting Supplemental Guidance is not meant to be exhaustive and reference to the [draft] ISA for LCE should always be made.

This Supplement provides guidance on:

- Various elements of the auditor's report (**Part II**).
- Modifications to the opinion in the auditor's report (**Part III**).
- Content of the Basis for Opinion section when modifications are made to the opinion in the auditor's report (**Part IV**).
- The use of Emphasis of Matter paragraphs within the auditor's report (**Part V**).
- The use of Other Matter paragraphs within the auditor's report (**Part VI**).
- Reporting on Other Information (**Part VII**).
- Reporting on a material uncertainty related to going concern (**Part VIII**).

The Appendix to this Supplement includes five illustrative auditor's reports including:

- Illustrative Report 1—A qualified opinion, also with an Emphasis of Matter paragraph and reporting on other legal and regulatory requirements.
- Illustrative Report 2—An adverse opinion.
- Illustrative Report 3—A disclaimer of opinion with an Other Matter paragraph.
- Illustrative Report 4—An unmodified opinion with Other Information.
- Illustrative Report 5—An unmodified opinion with a material uncertainty related to going concern.

These illustrative reports set out examples that are not contained within the [draft] ISA for LCE, i.e., they may be used to guide auditors where relevant, in addition to the specified format and content of the auditor's report contained in Part 9 of the [draft] ISA for LCE. As described in paragraph 9.4.1. of the [draft] ISA for LCE, departures from the specified format and content in Part 9 are not permitted, except where amendment is required for compliance with law or regulation, or when the opinion or report needs to be modified in response to the specific engagement circumstances. This includes a modified opinion, Emphasis of Matter paragraph, Other Matter paragraph, a material uncertainty related to going concern, other reporting responsibilities, or a separate section dealing with Other Information.

II. The Auditor's Report

Reference to [draft] ISA for LCE: Part 9.4, Auditor's Report

Paragraph 9.4.1. of the [draft] ISA for LCE sets out the specified format and content to be included in the auditor's report issued. As described in paragraph 9.4.1.(a), when the layout and wording of the auditor's

report is prescribed by law or regulation, the auditor’s report shall refer to the [draft] ISA for LCE only if all significant elements of the specified format and content are included. Significant elements include:

- A title.
- An addressee, as required by the circumstances of the engagement.
- An “Opinion: section containing:
 - A statement that the financial statements have been audited, an identification of the entity’s whose financial statements that have been audited and an identification of those financial statements; and
 - An expression of the auditor’s opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.
- A “Basis for Opinion” section containing:
 - A statement that the audit was conducted in accordance with [the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities] (or tailored in the context of the relevant requirements of the particular jurisdiction);
 - A statement that the auditor is independent of the entity in accordance with the ethical requirements that are relevant to the audit of the financial statements in the particular jurisdiction and has fulfilled the auditor’s other ethical responsibilities in accordance with these requirements. The statement identifies the jurisdiction of origin of the relevant ethical requirements; and
 - A statement whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.
- A description of [management’s] (or tailored in the context of the relevant requirements of the particular jurisdiction) responsibilities for the preparation of the financial statements that address the matters as contemplated in paragraph 9.4.1 of Part 9 of the [draft] ISA for LCE for this section of the auditor’s report.
- A description of the auditor’s responsibilities for the audit of the financial statements that address the matters as contemplated in paragraph 9.4.1 of Part 9 of the [draft] ISA for LCE for this section of the auditor’s report.
- The auditor’s signature.
- The auditor’s address.
- The date of the auditor’s report.
- When the auditor’s opinion needs to be modified in response to the specific engagement circumstances, an Opinion and Basis for Opinion sections (see above), modified to express the auditor’s qualified or adverse or disclaimer of opinion, with a description of the matter giving rise to the modification.
- Where applicable to the engagement circumstances, an Emphasis of Matter paragraph, an Other Matter paragraph, a Material Uncertainty related to Going Concern section, an Other Information section or a section that addresses other reporting responsibilities that are in addition to the auditor’s responsibilities under the [draft] ISA for LCE.

This section provides further guidance on some of the required content of the auditor's report.

1. Addressee

Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared. It is often addressed to the shareholders or to those charged with governance of the entity (or to the board of directors of the entity) whose financial statements are being audited.

2. Opinion

The phrases "present fairly, in all material respects," and "give a true and fair view" used by the auditor when expressing an opinion on financial statements prepared in accordance with a fair presentation framework are regarded as being equivalent phrases. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction.

3. Relevant Ethical Requirements

Paragraph 9.4.1 requires that the Basis for Opinion section includes a statement that the auditor is independent of the entity in accordance with the ethical requirements that are relevant to the "audit of the financial statements in [jurisdiction]" and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. Relevant ethical requirements (see the Glossary of Terms in Appendix 1 of the [draft] ISA for LCE) ordinarily comprise the provisions of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") related to audits of financial statements, together with national requirements that are more restrictive.

Law or regulation may require the auditor to provide in the auditor's report more specific information about the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial statements. When the relevant ethical requirements include those of the IESBA Code, this statement in the auditor's report may also refer to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the auditor may choose to rather refer to the IESBA Code alone.

4. Other Reporting Responsibilities

Paragraph 9.4.1(b) contemplates, among other matters, that the specified format and content of the auditor's report may be modified for other reporting responsibilities. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the [draft] ISA for LCE, these other reporting responsibilities are addressed in a separate section in the auditor's report. Such other reporting responsibilities may be included under a section with a heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section.

If the auditor's report contains a separate section that addresses other reporting responsibilities, the sections of the auditor's report presented under the reporting responsibilities required by the [draft] ISA for LCE may be included under a heading "Report on the Audit of the Financial Statements," followed by the "Report on Other Legal and Regulatory Requirements." If the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the [draft] ISA for LCE, the

other reporting responsibilities may be presented in the same section as the reporting required by the [draft] ISA for LCE, but are to be clearly differentiated.

Illustrative Report 1 in the appendix to this supplement provides an illustration of other reporting responsibilities, under the heading "Report on Other Legal and Regulatory Requirements."

5. Signature of the Auditor

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

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

6. Date of the Auditor's Report

The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.

III. Modifications to the Opinion in the Auditor's Report

Reference to [draft] ISA for LCE: Part 9.5.

As described in Paragraph 9.5.1.A of the [draft] standard, the auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Part 9.5. of the [draft] ISA for LCE specifies how the auditor modifies the Opinion and Basis for Opinion sections of the auditor's report when the auditor expresses a modified opinion (see paragraphs 9.5.1B–9.5.4). This includes requirements presented in the following three tables in the [draft] standard:

- Table A specifies how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed. (e.g., a qualified opinion, adverse opinion or disclaimer of opinion).
- Table B specifies the modification to be made to the opinion (e.g., wording, title of heading) for each type of opinion in Table A. The table distinguishes between financial statements prepared in accordance with a fair presentation framework and those prepared in accordance with a compliance framework.
- Table C sets out specific circumstances when the auditor's opinion is to be modified, and the types of opinions expressed in those circumstances based on the nature of the matter giving rise to the modification (see Table A). Table C is not an exhaustive list of all circumstances when the auditor's opinion is to be modified.

A material misstatement of the financial statements, resulting in either a qualified opinion or an adverse opinion, may arise in relation to:

- The appropriateness of the selected accounting policies.

This may be the case, for example, when:

- The selected accounting policies are not consistent with the applicable financial reporting framework; or
- The financial statements, including the related notes, do not represent the underlying transactions and events in a manner that achieves fair presentation.

- The application of the selected accounting policies.

This may be the case, for example:

- When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or
- Due to the method of application of the selected accounting policies (such as an unintentional error in application).

- The appropriateness or adequacy of disclosures in the financial statements.

This may be the case, for example, when:

- The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
- The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
- The financial statements do not provide the disclosures necessary to achieve fair presentation.

The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit), resulting in either a qualified opinion or a disclaimer of opinion, may arise from:

- Circumstances beyond the control of the entity.

This may be the case, for example, when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

- Circumstances relating to the nature or timing of the auditor's work.

This may be the case, for example, when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.

- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.
- Limitations imposed by management.
This may be the case, for example, when:
 - Management prevents the auditor from observing the counting of the physical inventory.
 - Management prevents the auditor from requesting external confirmation of specific account balances.

Illustrative Report 1 in the appendix to this supplement provides an illustration of a qualified opinion due to financial statements that are materially misstated.

Illustrative Report 2 in the appendix to this supplement provides an illustration of an adverse opinion due to financial statements that are materially misstated.

Illustrative Report 3 in the appendix to this supplement provides an illustration of a disclaimer of opinion due to the inability to obtain sufficient appropriate audit evidence.

IV. Basis for Opinion

Reference to [draft] ISA for LCE: Part 9.5.

As described in Paragraph 9.5.1.B of the [draft] ISA for LCE, when the auditor modifies the audit opinion, the auditor shall, within the Basis for Opinion section, include a description of the matter giving rise to the modification and amend the heading accordingly. The Appendix to this supplement provides illustrative headings and wording that may be modified as appropriate to reflect the circumstances giving rise to the modification of the opinion.

If the modification results from an inability to obtain sufficient appropriate audit evidence, the Basis for Opinion section may include the reasons for that inability. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the Basis for Opinion section may describe the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof.

Paragraph 9.5.3. of the [draft] ISA for LCE provides guidance where there is a material misstatement of the financial statements that relates to specific amounts in the financial statements, qualitative disclosures and non-disclosure in the financial statements.

Illustrative Report 1 in the Appendix to this supplement provides an illustration of modifications to the Basis for Opinion due to a material misstatement of the financial statements relating to specific amounts in the financial statements where it is assumed that it is practicable to quantify the financial effects of the misstatement.

Illustrative Report 2 in the Appendix to this supplement provides an illustration of modifications to the Basis for Opinion due to an adverse opinion resulting from financial statements that are materially misstated.

Illustrative Report 3 in the Appendix to this supplement provides an illustration of modifications to the Basis for Opinion due to a disclaimer of opinion resulting from the inability to obtain sufficient appropriate audit evidence.

V. Emphasis of Matter Paragraphs

Reference to [draft] ISA for LCE: Part 9.6.1, 9.6.4. and 9.6.5.

As described in paragraph 9.6.1. of the [draft] ISA for LCE, the auditor may consider it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements. In these circumstances the auditor includes an Emphasis of Matter paragraph within a separate section of the auditor's report with an appropriate heading. The Appendix to this supplement provides illustrative wording that may be modified as appropriate to reflect the circumstances giving rise to the matter.

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events)
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters. In considering the need for an Emphasis of Matter paragraph the auditor uses professional judgment. An Emphasis of Matter paragraph is not a substitute for:

- A modified opinion when required by the circumstances of a specific audit engagement;
- Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or
- Reporting when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

Illustrative Report 1 in the appendix to this supplement provides an illustration of an Emphasis of Matter paragraph.

VI. Other Matter Paragraphs

Reference to [draft] ISA for LCE: Paragraph 9.6.2.–9.6.4, 9.6.6.

As described in paragraph 9.6.2. of the [draft] ISA for LCE, the auditor may consider it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's professional judgment, is relevant to the users' understanding of the audit, the auditor's responsibilities or the auditor's report. In these circumstances, the auditor shall include an Other Matter paragraph in the auditor's report provided this is not prohibited by law or regulation.

The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

When an Other Matter paragraph is included to draw users' attention to a matter relating to other reporting responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section (see Section II (4) above). When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

If the auditor provides a new or amended auditor's report as a result of a subsequent event(s), the new or amended auditor's report may include an Emphasis of Matter paragraph or Other Matter paragraph referring to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier auditor's report provided by the auditor.

Illustrative Report 3 in the Appendix to this supplement provides an illustration of an Other Matter paragraph.

VII. Other Information

Reference to [draft] ISA for LCE: Part 9.8.

The auditor is required to determine, through discussion with management, which document(s) comprises the entity's annual report (see paragraph 9.8.1. of the [draft] standard). In this way the auditor may identify a document(s) that meet the definition of "other information" contained in an annual report. In these circumstances, if the auditor has obtained some or all of the 'other information' at the date of the auditor's report, the auditor is required to include an Other Information section in the auditor's report (see paragraph 9.8.7. of the [draft] standard).

However, when the auditor disclaims an opinion on the financial statements, the auditor shall not include an Other Information section in the auditor's report, unless required by law or regulation to report on other information (see paragraph 9.8.8. of the [draft] standard). When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole and lead to confusion for users of the financial statements.

"Other information" by definition is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.

Law, regulation or custom may define the content of an annual report (which also is a defined term in the [draft] ISA for LCE), and the name by which it is to be referred, and the content and name may vary within, and between, jurisdictions. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law,

regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:

- Management report.
- Management commentary.
- Operating and financial review.
- Similar reports by those charged with governance (for example, a directors’ report or chairman’s statement).

If the auditor identifies ‘other information,’ the auditor has a responsibility to undertake work in relation to such ‘other information’ to enable the auditor to appropriately report in the Other Information section in the auditor’s report. Paragraph 9.8.2.–9.8.6. and 9.8.9. of the [draft] ISA for LCE describes the requirements for the auditor in this regard. Paragraph 9.8.10. (Table E) prescribes the content of the Other Information section in the auditor’s report.

Illustrative Report 4 in the appendix to this supplement provides an illustration of circumstances where there is ‘other information.’

VIII. Material Uncertainty Related to Going Concern

Reference to [draft] ISA for LCE: Part 8.5. and Paragraph 9.6.7.

The potential implications for the auditors’ report, based on the auditor’s judgment, where the facts and circumstances result in the auditor having concerns about going concern, are summarized in the table below (this table also assists in contextualizing a material uncertainty related to going concern relative to other concerns about going concern the auditor may have):

Auditor’s Conclusion (in the Auditor’s Judgment, based on the Audit Evidence Obtained)	Impact on the Auditors Report	Reference to the [draft] ISA for LCE
<ul style="list-style-type: none"> • Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have been made 	<ul style="list-style-type: none"> • An unmodified opinion is expressed • A separate section is included under the heading “Material Uncertainty Related to Going Concern,” which also draws attention to the relevant disclosures within the financial statements 	9.6.7.

<ul style="list-style-type: none"> Financial statements have been appropriately prepared on a going concern basis A material uncertainty has been identified Appropriate disclosures have NOT been made 	<ul style="list-style-type: none"> A qualified or adverse opinion is expressed, as appropriate State in the “Basis for Qualified (Adverse) Opinion” section of the report that a material uncertainty exists that may cause a significant doubt on the entity’s ability to continue as a going concern and that the matter is not appropriately disclosed in the entity’s financial statements 	<p>9.5.1.Q. 9.5.1.R.</p>
<ul style="list-style-type: none"> Financial statements have been prepared on a going concern basis The use of the going concern basis of accounting is inappropriate 	<ul style="list-style-type: none"> An adverse opinion is expressed 	<p>9.5.1.P.</p>
<ul style="list-style-type: none"> The entity is not a going concern The financial statements have been appropriately prepared on a basis other than going concern The alternative basis of accounting is appropriate in the circumstances 	<ul style="list-style-type: none"> An unmodified opinion may be able to be expressed if there is adequate disclosure about the basis of accounting on which the financial statements are prepared It may be considered appropriate to include an Emphasis of Matter paragraph drawing the user’s attention to the alternative basis of accounting and the reasons for its use 	<p>N/A</p>

Illustrative Report 5 in the Appendix to this supplement provides an illustration of an unmodified report with a material uncertainty related to going concern.

Illustrative Auditor's Reports¹

1. Qualified Opinion, Emphasis of Matter and Reporting on Other Legal and Regulatory Requirements

(see Sections II (4), III, IV and V)

Qualified Opinion due to a Material Misstatement of the Financial Statements, an Emphasis of Matter and Reporting on Other Legal and Regulatory Requirements

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

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5. of the [draft] ISA for LCE.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate). It is practicable to quantify the financial effects of the misstatements.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (See Part 8.5. of the [draft] ISA for LCE).
- Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements (i.e., an Emphasis of Matter paragraph is needed).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements. In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

¹ As these illustrative auditor's reports pertain to the [draft] ISA for LCE, the reports as presented do not apply to listed entities and are not for group financial statements.

INDEPENDENT AUDITOR’S REPORT

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

Report on the Audit of the Financial Statements²

Qualified Opinion

We³ have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Qualified Opinion

The Company’s inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from [applicable financial reporting framework]. The Company’s records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders’ equity would have been reduced by xxx, xxx and xxx, respectively.

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

Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company’s production facilities. Our opinion is not modified in respect of this matter.

² The sub-title “Report on the Audit of the Financial Statements” is unnecessary in circumstances when the second sub-title “Report on Other Legal and Regulatory Requirements” is not applicable (see Section II (4) of this supplement).

³ Text that has been shaded is the prescribed form and content of the auditor’s report that is required, and may not be changed.

Responsibilities of Management⁴

Management is responsible for the preparation and fair presentation of the financial statements in accordance with [applicable financial reporting framework],⁵ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Understand internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to

⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁵ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

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

[Auditor Address]

[Date]

2. Adverse Opinion

(see Sections III and IV)

Adverse Opinion due to a Material Misstatement of the Financial Statements

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

- **Audit of a complete set of financial statements of an entity using a fair presentation framework.**
- **The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.**
- **The financial statements are materially misstated due to an impairment not being recognized on land which comprises over 80% of the entity's assets and so the auditor has concluded that this is material and pervasive to the financial statements as a whole (i.e., an adverse opinion is appropriate).**
- **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (See Part 8.5 of the [draft] ISA for LCE).**
- **There is no other information reported in an annual report.**
- **Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.**
- **The auditor has no other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR'S REPORT

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

Adverse Opinion

We⁶ have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

⁶ Text that has been shaded is the prescribed form and content of the auditor's report that is required, and may not be changed.

Basis for Adverse Opinion

As explained in Note X to the financial statements, the company did not perform an impairment review of land at the reporting date in accordance with [applicable financial reporting framework]. An independent valuer has assessed the recoverable value of the land included in Note X to the financial statements, is less than the carrying amount by an amount of xxx. Consequently, assets are overstated by xxx, while income tax, net income and shareholders' equity is overstated by an amount of xxx, xxx, and xxx respectively. These required adjustments are considered material and pervasive to the financial statements as a whole.

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

Responsibilities of Management for the Financial Statements⁷

[See Illustration 1 above]

Auditor's Responsibilities for the Audit of the Financial Statements

[See Illustration 1 above]

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

[Auditor Address]

[Date]

⁷ Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

3. Disclaimer of Opinion with an Other Matter Paragraph

(see Sections III, IV and VI)

Disclaimer of Opinion Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements and an Other Matter Paragraph

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

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity’s inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- The prior period financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements.
- There is no other information reported in an annual report.
- Owing to the disclaimer of opinion, a more limited description of the auditor’s responsibilities section is required.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

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

Disclaimer of Opinion

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

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Other Matter

The financial statements for the year ended [end of prior reporting period] were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

Responsibilities of Management and Those Charged with Governance for the Financial Statements⁸

[See Illustration 1 above]

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with the ISA for LCE and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We⁹ are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

[Auditor Address]

[Date]

⁸ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁹ Text that has been shaded is the prescribed form and content of the auditor's report that is required, and may not be changed.

4. Unmodified Opinion with Other Information

(see Section VII)

Unmodified Opinion When the Auditor has Obtained All of the Other Information Prior to the Date of the Auditor’s Report and Has Not Identified a Material Misstatement of the Other Information

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

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (See Part 8.5 of the [draft] ISA for LCE).
- The auditor has obtained all of the other information prior to the date of the auditor’s report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

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

Opinion

We¹⁰ have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

¹⁰ Text that has been shaded is the prescribed form and content of the auditor’s report that is required, and may not be changed.

framework].

Basis for Opinion

We¹¹ conducted our audit in accordance with the [International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE)]. Our responsibilities under the ISA for LCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management¹² is responsible for the other information. The other information comprises the [information included in the X report,¹³ but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements¹⁴

[See Illustration 1 above]

Auditor's Responsibilities for the Audit of the Financial Statements

[See Illustration 1 above]

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

[Auditor Address]

[Date]

¹¹ Text that has been shaded is the prescribed form and content of the auditor's report that is required, and may not be changed.

¹² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

¹³ A more specific description of the other information, such as "the management report and five-year financial review," may be used to identify the other information.

¹⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

5. Unmodified Opinion with a Material Uncertainty Related to Going Concern

(see Section VIII)

Unmodified Opinion When a Material Uncertainty Related to Going Concern Exists and Disclosure in the Financial Statements is Adequate

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

- Audit of a complete set of financial statements of an entity using a fair presentation framework.
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.5 of the [draft] ISA for LCE.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate (See Part 8.5 of the [draft] ISA for LCE).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

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

Opinion

[See Illustration 4 above]

Basis for Opinion

[See Illustration 4 above]

Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of xxx during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by xxx. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements¹⁵

[See Illustration 1 above]

Auditor's Responsibilities for the Audit of the Financial Statements

[See Illustration 1 above]

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

[Auditor Address]

[Date]

¹⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.