

ASA 705
(December 2015)

Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Auditing Standard

This Auditing Standard is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

Contact Details

Auditing and Assurance Standards Board
Podium Level
Level 14, 530 Collins Street
Melbourne Victoria AUSTRALIA 3000

Phone: (03) 8080 7400
E-mail: enquiries@auasb.gov.au

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

COPYRIGHT

© 2015 Commonwealth of Australia. The text, graphics and layout of this Auditing Standard are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source as being the Australian Auditing and Assurance Standards Board (AUASB).

Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Otherwise, no part of this Auditing Standard may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

This Auditing Standard reproduces substantial parts of the corresponding International Standard on Auditing issued by the International Auditing and Assurance Standards Board (IAASB) and published by the International Federation of Accountants (IFAC), in the manner described in the statement on Conformity with International Standards on Auditing. The AUASB acknowledges that IFAC is the owner of copyright in the International Standard on Auditing incorporated in this Auditing Standard throughout the world.

All existing rights in this material are reserved outside Australia. Reproduction outside Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use only.

Further information and requests for authorisation to reproduce this Auditing Standard for commercial purposes outside Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne, Victoria 8007 or sent to enquiries@auasb.gov.au. Any decision to approve a request may also require the agreement of IFAC.

ISSN 1833-4393

CONTENTS

PREFACE

AUTHORITY STATEMENT

CONFORMITY WITH INTERNATIONAL STANDARDS ON AUDITING

	<i>Paragraphs</i>
Application	Aus 0.1-Aus 0.2
Operative Date	Aus 0.3
Introduction	
Scope of this Auditing Standard	1
Types of Modified Opinions	2
Effective Date	3
Objective	4
Definitions	5
Requirements	
Circumstances When a Modification to the Auditor's Opinion is Required	6
Determining the Type of Modification to the Auditor's Opinion	7-15
Form and Content of the Auditor's Report When the Opinion is Modified	16-29
Communication with Those Charged with Governance	30
Application and Other Explanatory Material	
Types of Modified Opinions	A1
Circumstances When a Modification to the Auditor's Opinion is Required	A2-Aus A12.1
Determining the Type of Modification to the Auditor's Opinion	A13-A16
Form and Content of the Auditor's Report When the Opinion is Modified Illustrative Auditor's Reports	A17-A19
Qualified Opinion	A20
Basis for Opinion	A21-A26
Communication with Those Charged with Governance	A27
Appendix: Illustrations of Auditor's Reports with Modifications to the Opinion	

PREFACE

Reasons for Issuing ASA 705

The AUASB issues Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory committee of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001*, the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required, inter alia, to develop auditing standards that have a clear public interest focus and are of the highest quality.

Main Features

This Auditing Standard represents the Australian equivalent of revised ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* (January 2015) and replaces the current ASA 705 issued by the AUASB in October 2009 (as amended).

This Auditing Standard contains differences from the revised ISA 705, which have been made to accord with the Australian legislative environment and to maintain audit quality where the AUASB has considered there are compelling reasons to do so.

The revision of ASA 705 reflects:

- (a) Recent enhancements to auditor reporting developed by the International Auditing and Assurance Standards Board. The improvements include:
 - (i) Consequential alignment with the requirements and guidance contained within the revised Auditing Standard, ASA 700 *Forming an Opinion and Reporting on a Financial Report*;
 - (ii) Amendments to the illustrative auditor's reports, contained within the appendix, that reflect changes made to the form and content of the revised auditor's reports contained within ASA 700;
 - (iii) A prohibition on reporting key audit matters and enhanced auditor responsibility descriptions when the auditor disclaims an opinion.
- (b) Revisions to guidance that seek to focus the auditor's attention more explicitly on financial statement disclosures throughout the audit process.

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* 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 ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. This Auditing Standard is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Dated: 1 December 2015

M H Kelsall
Chairman - AUASB

Conformity with International Standards on Auditing

This Auditing Standard conforms with International Standard on Auditing ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board of the International Federation of Accountants (IFAC).

Paragraphs that have been added to this Auditing Standard (and do not appear in the text of the equivalent ISA) are identified with the prefix "Aus".

The following application and other explanatory material are additional to ISA 705:

- Paragraphs Aus A12.1; Aus A15.1; and Aus A23.1 refer to requirements under the *Corporations Act 2001*.
- The appendix includes [Aus] Illustration 1A, [Aus] Illustration 2A and [Aus] Illustration 3A example auditor's reports (in respect of a single company and a group) that conform with the requirements of the *Corporations Act 2001*.

This Auditing Standard incorporates terminology and definitions used in Australia.

The equivalent requirements and related application and other explanatory material included in ISA 705 in respect of "relevant ethical requirements", have been included in Auditing Standard, ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. There is no international equivalent to ASA 102.

Compliance with this Auditing Standard enables compliance with ISA 705.

AUDITING STANDARD ASA 705

Modifications to the Opinion in the Independent Auditor's Report

Application

- Aus 0.1 This Auditing Standard applies to:
- (a) an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with the *Corporations Act 2001*; and
 - (b) an audit of a financial report, or a complete set of financial statements, for any other purpose.
- Aus 0.2 This Auditing Standard also applies, as appropriate, to an audit of other historical financial information.

Operative Date

- Aus 0.3 This Auditing Standard is operative for financial reporting periods ending on or after 15 December 2016.

Introduction

Scope of this Auditing Standard

1. This Auditing Standard deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ASA 700,¹ the auditor concludes that a modification to the auditor's opinion on the financial report is necessary. This Auditing Standard also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in ASA 700 apply, and are not repeated in this Auditing Standard unless they are explicitly addressed or amended by the requirements of this Auditing Standard.

Types of Modified Opinions

2. This Auditing Standard establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:
 - (a) The nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
 - (b) The auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report. (Ref: Para. A1)

Effective Date

3. [Deleted by the AUASB. Refer Aus 0.3]

Objective

4. The objective of the auditor is to express clearly an appropriately modified opinion on the financial report that is necessary when:

¹ See ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

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

Definitions

5. For the purposes of this Auditing Standard, the following terms have the meanings attributed below:
- (a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial report of misstatements or the possible effects on the financial report of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial report are those that, in the auditor's judgement:
 - (i) Are not confined to specific elements, accounts or items of the financial report;
 - (ii) If so confined, represent or could represent a substantial proportion of the financial report; or
 - (iii) In relation to disclosures, are fundamental to users' understanding of the financial report.
 - (b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial report.

Requirements

Circumstances When a Modification to the Auditor's Opinion is Required

6. The auditor shall modify the opinion in the auditor's report when:
- (a) The auditor concludes that, based on the audit evidence obtained, the financial report as a whole is not free from material misstatement; or (Ref: Para. A2–A7)
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial report as a whole is free from material misstatement. (Ref: Para. A8–Aus A12.1)

Determining the Type of Modification to the Auditor's Opinion

Qualified Opinion

7. The auditor shall express a qualified opinion when:
- (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive.

Adverse Opinion

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report.

Disclaimer of Opinion

9. The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive.
10. The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial report due to the potential interaction of the uncertainties and their possible cumulative effect on the financial report.

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement

11. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial report, the auditor shall request that management remove the limitation.
12. If management refuses to remove the limitation referred to in paragraph 11 of this Auditing Standard, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,² and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.
13. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
 - (a) If the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
 - (b) If the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
 - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
 - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial report. (Ref. Para. A14)
14. If the auditor withdraws as contemplated by paragraph 13(b)(i) of this Auditing Standard, before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15- Aus A15.1)

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion

15. When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial report as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such

² See ASA 260 *Communication with Those Charged with Governance*, paragraph 13.

an unmodified opinion in the same report³ in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial report as a whole.
(Ref: Para. A16)

Form and Content of the Auditor's Report When the Opinion is Modified

Auditor's Opinion

16. When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section. (Ref: Para. A17–A19)

Qualified Opinion

17. When the auditor expresses a qualified opinion due to a material misstatement in the financial report, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:
- (a) When reporting in accordance with a fair presentation framework, the accompanying financial report presents fairly, in all material respects (or gives a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial report has been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20)

Adverse Opinion

18. When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:
- (a) When reporting in accordance with a fair presentation framework, the accompanying financial report does not present fairly (or give a true and fair view of) [...] in accordance with [the applicable financial reporting framework]; or
 - (b) When reporting in accordance with a compliance framework, the accompanying financial report has not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

19. When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
- (a) State that the auditor does not express an opinion on the accompanying financial report;
 - (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report; and

³ ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

- (c) Amend the statement required by paragraph 24(b) of ASA 700, which indicates that the financial report has been audited, to state that the auditor was engaged to audit the financial report.

Basis for Opinion

- 20. When the auditor modifies the opinion on the financial report, the auditor shall, in addition to the specific elements required by ASA 700: (Ref: Para. A21)
 - (a) Amend the heading “Basis for Opinion” required by paragraph 28 of ASA 700 to “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” as appropriate; and
 - (b) Within this section, include a description of the matter giving rise to the modification.
- 21. If there is a material misstatement of the financial report that relates to specific amounts in the financial report (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)
- 22. If there is a material misstatement of the financial report that relates to qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.
- 23. If there is a material misstatement of the financial report that relates to the non-disclosure of information required to be disclosed, the auditor shall:
 - (a) Discuss the non-disclosure with those charged with governance;
 - (b) Describe in the Basis for Opinion section the nature of the omitted information; and
 - (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A23-Aus A23.1)
- 24. If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.
- 25. When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion required by paragraph 28(d) of ASA 700 to include the word “qualified” or “adverse”, as appropriate.
- 26. When the auditor disclaims an opinion on the financial report, the auditor’s report shall not include the elements required by paragraphs 28(b) and 28(d) of ASA 700. Those elements are:
 - (a) A reference to the section of the auditor’s report where the auditor’s responsibilities are described; and
 - (b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor’s opinion.
- 27. Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial report, the auditor shall describe in the Basis for Opinion section 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. (Ref: Para. A24)

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

Description of Auditor's Responsibilities for the Audit of the Financial Report When the Auditor Disclaims an Opinion on the Financial Report

28. When the auditor disclaims an opinion on the financial report due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 38-40 of ASA 700 to include only the following: (Ref: Para. A25)
- (a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial report in accordance with Australian Auditing Standards and to issue an auditor's report;
 - (b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report; and
 - (c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of ASA 700.

Considerations When the Auditor Disclaims an Opinion on the Financial Report

29. Unless required by law or regulation, when the auditor disclaims an opinion on the financial report, the auditor's report shall not include a Key Audit Matters section in accordance with ASA 701⁴ or an Other Information section in accordance with ASA 720.⁵ (Ref: Para. A26)

Communication with Those Charged with Governance

30. When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification. (Ref: Para. A27)

* * *

⁴ See ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraphs 11-13.

⁵ See ASA 720 *The Auditor's Responsibilities Relating to Other Information*, paragraph A54.

Application and Other Explanatory Material

Types of Modified Opinions (Ref: Para. 2)

- A1. The table below illustrates how the auditor's judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial report, affects the type of opinion to be expressed.

Nature of Matter Giving Rise to the Modification	Auditor's Judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Report	
	Material but Not Pervasive	Material and Pervasive
The financial report is materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Circumstances When a Modification to the Auditor's Opinion is Required

Nature of Material Misstatements (Ref: Para. 6(a))

- A2. ASA 700 requires the auditor, in order to form an opinion on the financial report, to conclude as to whether reasonable assurance has been obtained about whether the financial report as a whole is free from material misstatement.⁶ This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial report in accordance with ASA 450.⁷
- A3. ASA 450 defines a misstatement as a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial report may arise in relation to:
- The appropriateness of the selected accounting policies;
 - The application of the selected accounting policies; or
 - The appropriateness or adequacy of disclosures in the financial report.

Appropriateness of the Selected Accounting Policies

- A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial report may arise, for example, when:
- The selected accounting policies are not consistent with the applicable financial reporting framework;
 - The financial report does not correctly describe an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows; or

⁶ See ASA 700, paragraph 11.

⁷ See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraph 11.

- (c) The financial report does not represent or disclose the underlying transactions and events in a manner that achieves fair presentation.

A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial report may arise when the entity has not complied with these requirements.

Application of the Selected Accounting Policies

A6. In relation to the application of the selected accounting policies, material misstatements of the financial report may arise:

- (a) 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
- (b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness or Adequacy of Disclosures in the Financial Report

A7. In relation to the appropriateness or adequacy of disclosures in the financial report, material misstatements of the financial report may arise when:

- (a) The financial report does not include all of the disclosures required by the applicable financial reporting framework;
- (b) The disclosures in the financial report are not presented in accordance with the applicable financial reporting framework; or
- (c) The financial report does not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Paragraph A14 of ASA 450 provides further examples of material misstatements in qualitative disclosures that may arise.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

A8. The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

- (a) Circumstances beyond the control of the entity;
- (b) Circumstances relating to the nature or timing of the auditor's work; or
- (c) Limitations imposed by management.

A9. An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.

A10. Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.

- The accounting records of a significant component have been seized indefinitely by governmental authorities.
- A11. Examples of circumstances relating to the nature or timing of the auditor's work include 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.
- A12. Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include 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.
- Aus A12.1 An inability to obtain sufficient appropriate audit evidence due to a management-imposed limitation may be a matter that the auditor is required to report to the Australian Securities and Investments Commission (ASIC) under sections 311, 601HG or 990K of the *Corporations Act 2001* (the Act). Particular attention should be given to section 312 of the Act which deals with assisting an auditor.

Determining the Type of Modification to the Auditor's Opinion

Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement (Ref: Para. 13(b)(i)–14)

- A13. The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing.
- A14. In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial report of public sector entities. It may also be the case in jurisdictions where the auditor is appointed to audit the financial report covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those the financial report or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report.⁸
- A15. When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.
- Aus A15.1 Under the *Corporations Act 2001*, the removal and resignation of auditors is covered by sections 329 and 331AC.

⁸ See ASA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph A10.

Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: Para. 15)

- A16. The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:
- The expression of an unmodified opinion on the financial report prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial report under a different financial reporting framework.⁹
 - The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see ASA 510¹⁰). In this case, the auditor has not expressed a disclaimer of opinion on the financial report as a whole.

Form and Content of the Auditor's Report When the Opinion is Modified

Illustrative Auditor's Reports (Ref: Para. 16)

- A17. [Aus] Illustrations 1A and 2A in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial reports are materially misstated.
- A18. [Aus] Illustration 3A in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial report. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial report. In each of the latter two cases, the possible effects on the financial report of the inability are both material and pervasive. The Appendices to other Australian Auditing Standards that include reporting requirements, including ASA 570,¹¹ also include illustrations of auditor's reports with modified opinions.

Auditor's Opinion (Ref: Para. 16)

- A19. Amending this heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

Qualified Opinion (Ref: Para. 17)

- A20. When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.

Basis for Opinion (Ref: Para. 20, 21, 23, 27)

- A21. Consistency in the auditor's report helps to promote users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.
- A22. An example of the financial effects of material misstatements that the auditor may describe within the Basis for Opinion section in the auditor's report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated.
- A23. Disclosing the omitted information within the Basis for Opinion section would not be practicable if:

⁹ See ASA 700, paragraph A25(b) for a description of this circumstance.

¹⁰ See ASA 510 *Initial Audit Engagements—Opening Balances*, paragraph 10.

¹¹ See ASA 570 *Going Concern*.

- (a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or
- (b) In the auditor's judgement, the disclosures would be unduly voluminous in relation to the auditor's report.

Aus A23.1 Where an audit is conducted under the *Corporations Act 2001* (the Act) and there is a material misstatement of the financial report that relates to the non-disclosure of required information, the auditor needs to consider reporting obligations under the Act, for example under sections 311, 601HG or 990K of the Act.

A24. An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial report.

Description of Auditor's Responsibilities for the Audit of the Financial Report When the Auditor Disclaims an Opinion on the Financial Report (Ref: Para. 28)

A25. When the auditor disclaims an opinion on the financial report, the following statements are better positioned within the Auditor's Responsibilities for the Audit of the Financial Report section of the auditor's report, as illustrated in Illustrations 4–5 of the Appendix.

- The statement required by paragraph 28(a) of ASA 700, amended to state that the auditor's responsibility is to conduct an audit of the entity's financial report in accordance with Australian Auditing Standards; and
- The statement required by paragraph Aus 28(c) of ASA 700 about independence and other ethical responsibilities.

Considerations When the Auditor Disclaims an Opinion on the Financial Report (Ref: Para. 29)

A26. Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial report and may further guard against inappropriate reliance on them. However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial report as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial report as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with ASA 720 addressing the auditor's consideration of the consistency of the other information with the financial report. Accordingly, paragraph 29 prohibits a Key Audit Matters section or an Other Information section from being included in the auditor's report when the auditor disclaims an opinion on the financial report, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

Communication with Those Charged with Governance (Ref: Para. 30)

- A27. Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the wording of the modification enables:
- (a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);
 - (b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and

- (c) Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

Appendix

(Ref: Para. A17-A18, A25)

Illustrations of Auditor's Reports with Modifications to the Opinion

- Illustration 1: [Deleted by the AUASB. Refer [Aus] Illustration 1A].
- [Aus] Illustration 1A: An auditor's report containing a qualified opinion due to a material misstatement of the financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 2: [Deleted by the AUASB. Refer [Aus] Illustration 2A].
- [Aus] Illustration 2A: An auditor's report containing an adverse opinion due to a material misstatement of the group financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 3: [Deleted by the AUASB. Refer Illustration [Aus] 3A].
- [Aus] Illustration 3A: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate - financial report prepared in accordance with the *Corporations Act 2001* (a fair presentation framework).
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the financial report.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial report.

Example Auditor's Report
Single Company—*Corporations Act 2001*
(Fair Presentation Framework)

[Aus] Illustration 1A: Qualified Opinion due to a Material Misstatement of the Financial Report

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

- Audit of the financial report of a single listed company. The audit is not a group audit (i.e. ASA 600 does not apply).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial report (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 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 company's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[#]

Qualified Opinion

We have audited the financial report of ABC Company Ltd. (the Company), which comprises the statement of financial position as at 30 June 20X1, 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, and the directors' declaration.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

[#] The sub-title "Report on the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at \$xxx. The directors have not stated the inventories at the lower of cost and net realisable value but have stated them solely at cost, which constitutes a departure from Australian Accounting Standards. The Company's records indicate that, had the directors stated the inventories at the lower of cost and net realisable value, an amount of \$xxx would have been required to write the inventories down to their net realisable 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 Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.*

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

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

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

[Reporting in accordance with the reporting requirements in ASA 720 – see [Aus] Illustration 6A in Appendix 3 of revised ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.#]

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

* 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 auditor's report was made. [Refer: section 307C (5A)(d) of the *Corporations Act 2001*.]

Paragraph 22 of ASA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

Report on the Remuneration Report[§]

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

[§] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity—Corporations Act 2001
(Fair Presentation Framework)

[Aus] Illustration 2A: Adverse Opinion due to a Material Misstatement of the Financial Report

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

- Audit of the financial report of a listed company and its subsidiaries (the Group). The audit is a group audit (i.e. ASA 600 applies).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The financial report is materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the financial report. The effects of the misstatement on the financial report has not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 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 Group's ability of to continue as a going concern in accordance with ASA 570.
- ASA 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Consolidated Financial Report[#]

Adverse Opinion

We have audited the financial report of ABC Company Ltd. (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, and the directors' declaration.

[#] The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Auditing Standard ASA 705

Modifications to the Opinion in the Independent Auditor's Report

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Australian Accounting Standards, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying financial report would have been materially affected. The effects on the financial report of the failure to consolidate have not been determined.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.*

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

Key Audit Matters

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

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

[Reporting in accordance with the reporting requirements of ASA 720 - see [Aus] Illustration 7A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 7A would be customised to describe the specific matter giving rise to the adverse opinion that also affects the other information.#]

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

* 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 auditor's report was made. [Refer: section 307C (5A)(d) of the *Corporations Act 2001*.]

Paragraph 22 of ASA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report[§]

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

[Auditor's name and signature]*

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

[§] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

* The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity—Corporations Act 2001
(Fair Presentation Framework)

[Aus] Illustration 3A: Qualified Opinion due the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate

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

- Audit of the financial report of a listed company and its subsidiaries (the Group). The audit is a group audit (i.e. ASA 600 applies).
- The financial report is prepared by the directors of the company in accordance with Australian Accounting Standards (a general purpose framework) and under the *Corporations Act 2001*. The directors have elected to report only the consolidated financial position and financial results in the primary financial statements.
- The terms of the audit engagement reflect the description of the directors' responsibility for the financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the financial report (i.e., a qualified opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- 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 Group's ability to continue as a going concern in accordance with ASA 570.
- Key audit matters have been communicated in accordance with ASA 701.
- The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial report also affects the other information.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under section 308(3C) of the *Corporations Act 2001*.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Audit of the Financial Report[#]

Qualified Opinion

We have audited the financial report of ABC Company Ltd., (the Company), and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, and the directors' declaration.

[#] The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements", or other appropriate sub-title, is not applicable.

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 20X1 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Qualified Opinion

The ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at \$xxx on the consolidated statement of financial position as at 30 June 20X1, and ABC Company's share of XYZ Company's net income of \$xxx is included in ABC Company's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC Company's investment in XYZ Company as at 30 June 20X1 and ABC Company's share of XYZ Company's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ Company. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.*

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

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

[Reporting in accordance with the reporting requirements of ASA 720. – see [Aus] Illustration 6A in Appendix 3 of ASA 720. The last paragraph of the other information section in [Aus] Illustration 6A

* 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 auditor's report was made. [Section 307C (5A)(d) of the *Corporations Act 2001*.]

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

would be customised to describe the specific matter giving rise to the qualified opinion that also affects the other information.[#]

Responsibilities of the Directors for the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Auditor's Responsibilities for the Audit of the Financial Report

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

Report on the Remuneration Report[§]

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

*[Auditor's name and signature]**

[Name of Firm]

[Date of the auditor's report]

[Auditor's address]

[#] Paragraph 22 of revised ASA 720 requires the auditor to consider the implications for the other information statement of a matter giving rise to a qualified or adverse opinion in accordance with ASA 705.

[§] The Report on the Remuneration Report is an example of "Other Reporting Responsibilities"—refer paragraphs 42-44. Any additional "Other Reporting Responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report. Under paragraph 42, the sub-title "Report on Other Legal and Regulatory Requirements" or other sub-title as appropriate to the section is used.

^{*} The auditor is required, under the *Corporations Act 2001*, to sign the auditor's report in both their own name and the name of their firm [section 324AB(3)] or the name of the audit company [section 324AD(1)], as applicable.

Example Auditor's Report
Consolidated Entity (not listed)
(Fair Presentation Framework)

Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Financial Report

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

- Audit of a financial report of an entity other than a listed entity, and its subsidiaries (the Group). The audit is a group audit (i.e., ASA 600 applies).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared in accordance with the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the financial report. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial report (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Inclusion of key audit matters is not permitted under paragraph 29.
- The auditor is not permitted to include an other information section in accordance with ASA 720*.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under law.

* Paragraph A54 of ASA 720 *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include a other information section, when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report^{*}

Disclaimer of Opinion

We were engaged to audit the financial report of ABC Entity and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 20X1, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the declaration by those charged with governance.[#]

We do not express an opinion on the accompanying financial report of the Group. Because of the significance of the matter 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 this financial report.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Entity is carried at \$xxx on the consolidated statement of financial position, which represents over 90% of the Group's net assets as at 30 June 20X1. We were not allowed access to the management and the auditors of XYZ Entity, including XYZ Entity's auditor's audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Entity's assets that it controls jointly, its proportional share of XYZ Entity's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

Responsibilities of Management and Those Charged with Governance for the Financial Report[†]

Management is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as management determines is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, management is responsible for assessing the ability of the Group 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 intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Group.

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matter 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 the financial report.

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*

* The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

Or other applicable assertion by management or those charged with governance.

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

Auditing Standard ASA 705
Modifications to the Opinion in the Independent Auditor's Report

(the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ASA 700 – see [Aus] Illustration 2A in ASA 700.]

*[Signature]**

[Date of the auditor's report]

[Auditor's address]

* The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate. [Ref: ASA 700 Aus A59.1]

Example Auditor's Report
Single Entity (not listed)
(Fair Presentation Framework)

Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Report

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

- Audit of a financial report of an entity other than a listed entity. The audit is not a group audit (i.e., ASA 600, does not apply).
- The financial report is prepared by management of the entity in accordance with Australian Accounting Standards (a general purpose framework). The financial report is *not* prepared in accordance with the *Corporations Act 2001*.
- The terms of the audit engagement reflect the description of management's responsibility for the financial report in ASA 210.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial report, 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 report.
- The relevant ethical requirements that apply to the audit are the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants*.
- Inclusion of key audit matters is not permitted under paragraph 29.
- The auditor is not permitted to include an other information section in accordance with ASA 720*.
- Those responsible for oversight of the financial report differ from those responsible for the preparation of the financial report.
- A more limited description of the auditor's responsibilities section is required.
- In addition to the audit of the financial report, the auditor has other reporting responsibilities required under law.

INDEPENDENT AUDITOR'S REPORT

To the Members of ABC Entity [or Other Appropriate Addressee]

Report on the Audit of the Financial Report[#]

Disclaimer of Opinion

We were engaged to audit the financial report of ABC Entity (the Entity), which comprises the statement of financial position as at 30 June 20X1, 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

* Paragraph A54 of revised ASA 720 *The Auditor's Responsibilities Relating to Other Information* requires the auditor not to include an other information section, when the auditor issues a disclaimer of opinion on the financial report in accordance with ASA 705.

The sub-title "Report on the Audit of the Financial Report" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

statements, including a summary of significant accounting policies, and the declaration by those charged with governance.[#]

We do not express an opinion on the accompanying financial report of the Entity. 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 the financial report.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Entity until after 30 June 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 30 June 20X0 and 20X1, which are stated in the statements of financial position at \$xxx and \$xxx, respectively. In addition, the introduction of a new computerised 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 \$xx as at 30 June 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.

Responsibilities of Management and Those Charged with Governance for the Financial Report[†]

[Reporting in accordance with ASA 700 – see Illustration 3.]

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the Entity's financial report in accordance with Australian Auditing Standards 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 the financial report.

We are independent of the Entity in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Report on Other Legal and Regulatory Requirements

[Reporting in accordance with ASA 700 – see [Aus] Illustration 1A in ASA 700.]

[Signature][§]

[Date of the auditor's report]

[Auditor's address]

[#] Or other applicable assertion by management or those charged with governance.

[†] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

[§] The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate. [Ref: ASA 700 Aus A59.1]