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# Explanatory Guide: Auditor's Reports

Issued by the Auditing and Assurance Standards Board

Draft



**Australian Government**

**Auditing and Assurance Standards Board**

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*Explanatory Guide: Auditor's Reports*

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This *Explanatory Guide: Auditor's Reports* is issued by the Auditing and Assurance Standards Board (AUASB).

This *Explanatory Guide*:

1. is not an AUASB Guidance Statement (GS) that provides guidance to assist auditors and assurance practitioners to fulfil the objectives of the audit or assurance engagement; and
2. does not itself establish or extend mandatory components or the assurance practitioner's obligations for the performance of audit, review, or assurance engagements under the AUASB Standards.

Disclaimer:

*Explanatory Guide: Auditor's Reports* has been developed by the Auditing and Assurance Standards Board (AUASB) to provide information on the suite of reporting standards forming part of the Australian Auditing Standards that will be operative for financial reporting periods commencing on or after 1 January 2010. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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## **Explanatory Guide: Auditor's Reports**

### **Purpose**

The purpose of this *Explanatory Guide* is to provide information to auditors and assurance practitioners on the suite of reporting standards forming part of the *Australian Auditing Standards* (the “Standards”) that will be operative for financial reporting periods commencing on or after 1 January 2010.

### **Introduction**

In October 2007, the AUASB decided to revise and redraft the existing Auditing Standards using the equivalent “clarity” versions of the International Standards on Auditing (ISAs) as the underlying standards. The exception is ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, which is based on existing ASRE 2410 (August 2008).

The new Auditing Standards have been approved by the AUASB in October 2009. Unless otherwise stated, a reference to “Standards” in this *Explanatory Guide* refers to the revised and redrafted *Australian Auditing Standards* applicable from 1 January 2010.

Although the fundamental principles governing an auditor's reporting responsibilities remain unchanged, the existing Standards have been subject to extensive revision. Accordingly, this *Explanatory Guide* illustrates the main features of the new suite of Standards that relate to reporting, and describes some of the key changes from the existing Standards.

Auditors and other assurance practitioners are reminded that requirements and related application and other explanatory material (referred to as “guidance material” hereafter) are found in the *Australian Auditing Standards*, the texts of which alone are authoritative, and that this *Explanatory Guide* (which is not exhaustive) is merely an aid to understanding these Standards, and should not be considered as a substitute for the Standards.

Requirements and guidance material are described only, and are not reproduced from the relevant Auditing Standards.

### **The New Reporting Standards**

The following table lists the relevant new reporting Standards that are operative for financial reporting periods commencing on or after from 1 January 2010:

Standard No.	Standard Name
ASA 700	<i>Forming an Opinion and Reporting on a Financial Report</i>
ASA 705	<i>Modifications to the Opinion in the Independent Auditor's Report</i>
ASA 706	<i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>

**The New Reporting Standards (cont'd)**

Standard No.	Standard Name
ASA 800	<i>Special Considerations–Audit of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i>
ASA 805*	<i>Special Considerations–Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>
ASA 810*	<i>Engagements to Report on Summary Financial Statements</i>
ASRE 2410	<i>Review of a Financial Report Performed by the Independent Auditor of the Entity</i>

\* These Auditing Standards do not directly apply to *Corporations Act 2001* audit engagements.

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## Comparative Table

The following table lists the new reporting Standards that will replace the existing reporting Standards for financial reporting periods commencing on or after 1 January 2010.

Existing Standard		New Standard
ASA 700 (6/07) <i>The Auditor's Report on a General Purpose Financial Report</i>	→	ASA 700 <i>Forming an Opinion and Reporting on a Financial Report</i>
ASA 701 (6/07) <i>Modifications to the Auditor's Report</i>	→	ASA 705 <i>Modifications to the Opinion in the Independent Auditor's Report</i> and ASA 706 <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>

**Comparative Table (cont'd)**

Existing Standard		New Standard
<p><b>ASA 800 (6/07)</b> <i>The Auditor's Report on Special Purpose Audit Engagements</i></p>	→	<p><b>ASA 800</b> <i>Special Considerations—Audit of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i></p> <p>and</p> <p><b>ASA 805</b> <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i></p> <p>and</p> <p><b>ASA 810</b> <i>Engagements to Report on Summary Financial Information</i></p>
<p><b>ASRE 2410 (8/08)</b> <i>Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity</i></p>	→	<p><b>ASRE 2410</b> <i>Review of Financial Reports Performed by the Independent Auditor of the Entity</i></p>

\*\*\*

## **Scope**

The reporting Standards deal with forming an opinion and the form and content of the auditor's report issued as a result of an audit or review of historical financial information.

Depending on the financial reporting framework adopted, historical financial information can be presented in the following forms:

- a financial report (under the *Corporations Act 2001*);
- a financial report (not under the *Corporations Act 2001*);
- interim financial report (under the *Corporations Act 2001*);
- interim financial report (not under the *Corporations Act 2001*);
- a complete set of financial statements;
- a single financial statement;
- a specific element, account or item of a financial statement; and
- summary financial statements (derived from an audited financial report).

The financial reporting framework (described below) is determined by the requirements of applicable law and regulation; Australian Accounting Standards; or the information needs of the entity's users.

The new suite of reporting Standards is organised so as to differentiate reporting requirements for a financial report/complete set of financial statements [ASAs 700, 705, 706, 800

and ASRE 2410] from reporting requirements of other historical financial information [ASAs 805 and 810].

ASA 700 is an overarching Standard on forming an opinion and reporting on an audit of a financial report/complete set of financial statements. It is also relevant to a single financial statement/element. Accordingly, the requirements in the Standard are to be applied by the auditor regardless of whether the financial report audited is “general purpose” *or* “special purpose”. ASA 800 deals with special considerations when a financial report is prepared in accordance with a special purpose framework. In situations requiring a modification to the auditor’s opinion, refer ASA 705; or in situations where the auditor needs to draw users’ attention to certain matters, refer ASA 706.

## **Reporting Frameworks**

### **Applicable Financial Reporting Frameworks**

The financial reporting framework may be prescribed by law or regulation or may be selected by management of an entity as the basis of preparation of the financial report. It is based on the financial information needs of the users of the financial report.

The framework selected also provides the auditor with the criteria to use for auditing the financial report. The terms of the audit engagement will determine the auditor’s objective in their audit, and therefore assist them in determining the acceptability of the framework chosen by management. The auditor also uses professional judgement and considers the nature of the entity, purpose of the financial report and whether any laws/regulations prescribe the applicable framework. [Refer ASA 210 *Terms of Engagement* for further information]

“Financial reporting frameworks” are classified in both the existing and the new Standards as either:

- a. A general purpose framework—designed to meet the common financial information needs of a wide range of users; *or*
- b. A special purpose framework—designed to meet the financial information needs of specific users.

Reference to an “applicable financial reporting framework” in the Standards means the financial reporting framework that is applicable (relevant) in the circumstances of the reporting entity.

*Further Classification of Financial Reporting Frameworks as either “Fair Presentation” or “Compliance”*

General or special purpose frameworks are further classified in *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards* as either “fair presentation” *or* “compliance” in nature.

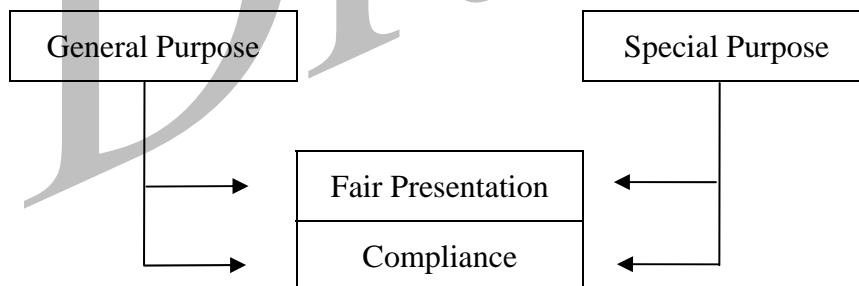
The term “fair presentation framework” means a financial reporting framework that requires compliance with the requirements of the framework and:

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

A fair presentation framework requires compliance with the requirements of the framework, however it does provide scope for additional disclosure and departures from the requirements in order for the financial report/statements to achieve fair presentation.

The term “compliance framework” means a financial reporting framework that requires compliance with the requirements of that framework, but does *not* contain the acknowledgements in (i) or (ii) above. A compliance framework requires compliance with the requirements of the framework, however, it does not provide scope for additional disclosure or departures from the requirements in order for the financial report to achieve compliance.

**Framework Diagram**



**Engagements including Assurance on non-financial information**

The terms of the auditor’s engagement with the entity may require the auditor to opine on more than a financial report prepared in accordance with a fair presentation *or* compliance framework. For example, the auditor may also be requested to provide assurance on non-financial criteria under ASAE 3100

*Compliance Engagements* (e.g. compliance with stated terms of a contract).

In this case, the auditor has a choice of including in their auditor's report on financial information, the additional reporting requirements from ASAE 3100 *or* to issue two separate auditor's reports covering both types of engagements.

### **Definitions of Key Reporting Terms used in the Standards**

The following definitions refer to terms used throughout this *Explanatory Guide*, and the Standards, and are reproduced here to assist users.

“A complete set of financial statements” means financial statements and related notes as determined by the requirements of the applicable financial reporting framework. For example, a complete set of financial statements as described in Accounting Standard AASB 101 *Presentation of Financial Statements* includes:

- (a) a statement of financial position as at the end of the period;
- (b) a statement of comprehensive income for the period;
- (c) a statement of changes in equity for the period;
- (d) a statement of cash flows for the period; and
- (e) notes, comprising a summary of significant accounting policies and other explanatory information.  
[Refer ASA 200, Para. 13]

“Element of a financial statement” means an element, account or item of a financial statement” [Refer ASA 805, Para. 6(a)]

“Financial Report” means, for the purpose of the *Corporations Act 2001*, financial statements for the year or the half-year and notes to the financial statements, and the director’s declaration about the statements and notes.

[Refer ASA 200, Para. Aus 13.3]

“Financial Report” means, for purposes other than the *Corporations Act 2001*, a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The requirements of the applicable financial reporting framework determine the form and content of the financial report. [Refer ASA 200, Para. Aus 13.4]

“Financial Statement” means a structured representation of historical financial information, intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. What constitutes a financial statement is determined by the requirements of the applicable financial reporting framework. [Refer ASA 200, Para. Aus 13.2]

“Historical financial information” means information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past. [Refer ASA 200, Para. 13(g)]

“Interim financial report” means a financial report that is prepared in accordance with an applicable financial reporting framework for a period that is shorter than the entity’s financial year. [Refer ASRE 2410, Para. 5]

“Single financial statement” or a specific element of a financial statement includes the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information relevant to the financial statement or to the element. [Refer ASA 805, Para. 6(c)]

“Summary financial statements” means historical financial information that is derived from an financial report, but that contains less detail than the financial report, while still providing a structured representation consistent with that provided by the financial report, of the entity's economic resources or obligations at a point in time or the changes therein for a period of time. Summary financial statements may include an assertion by those responsible for the summary financial statements. Different jurisdictions may use different terminology to describe such historical financial information. [Refer ASA 810, Para. Aus 4.1]

Note: It is important to remember that the requirements of the applicable financial reporting framework determine the form and content of the historical financial information (whether it is a financial report, complete set of financial statements, single financial statement, or summary financial statements) and therefore what constitutes that historical financial information.

## **Types of Historical Financial Information**

### **Financial report/complete set of financial statements**

A financial report/complete set of financial statements may be prepared in accordance with a general or special purpose framework, and can be either fair presentation or compliance in nature. A financial report differs from a complete set of financial statements as it includes a directors' declaration, *or* an assertion statement by those responsible for the financial report, about the financial statements and notes. The directors' declaration or assertion statement forms part of the auditor's subject matter. Hereafter references to a financial report in this document are taken to include a complete set of financial statements.

### **Other Historical Financial Information**

Other historical financial information, such as a single financial statement, or a specific element, account or item of a financial statement, may be prepared in accordance with a general or special purpose framework, and can be either fair presentation or compliance in nature. The financial information may be accompanied by an assertion statement, which will form part of the auditor's subject matter. The reporting standard (ASA 805) contemplates (but does *not* require) that the single financial statement be derived from a financial report already audited by the same auditor. Hereafter references to a single financial statement are taken to include a specific element, account or item of a financial statement.

## **Summary Financial Statements**

Summary financial statements can only be prepared under a compliance framework. They may be accompanied by an assertion statement, which forms part of the auditor's subject matter. Summary financial statements contain less detail than the audited financial report. The reporting standard (ASA 810) requires summary financial statements to be derived from a financial report that has been audited by the same auditor.

### *Concise Financial Reports*

A concise financial report is prepared in certain circumstances under the *Corporations Act 2001*, and in compliance with the requirements of AASB 1039 *Concise Financial Reports*. It is a particular example of summary financial statements. AASB 1039 is silent on the nature (i.e. general or special purpose) of the financial reporting framework applicable to a concise financial report, as well as its format; however, it does contain minimum information requirements for the concise financial report. AUASB Guidance Statement GS 001 *Concise Financial Reports* (December 2008) provides specific guidance material on the auditor's report on a concise financial report. In addition to GS 001, the Standards (including reporting Standard ASA 810) contain principles and procedures for the auditor to follow, to the extent that they are applicable in meeting the audit objectives for a concise financial report.

## **Form of Auditor's Opinion**

The form of an auditor's opinion is determined by reference to the:

- (a) applicable financial reporting framework (i.e. fair presentation or compliance); and, where applicable

- (b) law/regulation (prescribed reporting).

**Auditor's Opinion - Fair Presentation**

When expressing an unmodified opinion on historical financial information prepared in accordance with a fair presentation framework, the opinion will include one of the following phrases, which are regarded as being equal:

- a. The financial report present(s) fairly, in all material respects, ..... in accordance with [the applicable financial reporting framework]; *or*
- b. The financial report give(s) a true and fair view of ..... in accordance with [the applicable financial reporting framework].

**Auditor's Review Conclusion – Fair Presentation**

When expressing an unmodified review conclusion on a financial report, that is prepared in accordance with a fair presentation framework, the form of the review report depends on the applicable financial reporting framework.

The auditor's conclusion broadly takes the following form:  
Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the [period financial report] of [name of entity] does not present fairly, in all material respects [*or gives a true and fair view of*] the .....in accordance with the [applicable financial reporting framework]  
.....

## **Auditor's Opinion - Compliance**

### *Financial Report*

When expressing an unmodified opinion on a financial report prepared in accordance with a compliance framework, the auditor's opinion broadly takes the following form: that the financial report is prepared, in all material respects, in accordance with [the applicable financial reporting framework].

### *Summary Financial Statements*

Due to the nature of summary financial statement engagements, the auditor's opinion differs from the above framework opinions. When expressing an unmodified opinion on summary financial statements (excluding a concise financial report), the opinion will use one of the following phrases, which are regarded as being equal:

- a. The summary financial statements derived from the audited financial report of [name of entity] for the year ended [date] are consistent, in all material respects, with that audited financial report, in accordance with [the applied criteria]; or
- b. The summary financial statements derived from the audited financial report of [name of entity] for the year ended [date] are a fair summary of that audited financial report in accordance with [the applied criteria].

### *Concise Financial Report*

As noted above, a concise financial report is a particular type of summary financial statement, where the auditors reporting obligations are compliance in nature. These reporting obligations are specified under the *Corporations Act 2001*, with reference to AASB 1039. The auditor's opinion takes the form:

the concise financial report of [name of entity] for the year ended [date] complies with Accounting Standard AASB 1039.

### **Auditor's Report Prescribed by Law or Regulation**

In some cases, law or regulation prescribes the layout or wording of the auditor's report in a form, or in terms that are significantly different from the requirements of Australian Auditing Standards. There are two Standards which specifically address this issue:

1. *ASA 210 Agreeing the Terms of Audit Engagements*

This Standard deals with the situation where the prescribed wording of the auditor's report is in terms that are significantly different from the requirements of the Australian Auditing Standards. In such cases, the auditor is required by the Standard, to evaluate:

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

The Standard provides further requirements and guidance material relating to this evaluation. [Refer ASA 210, Para. 21]

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

Where the specific layout or wording of the auditor's report is prescribed by law or regulation, this Standard permits a reference to the Australian Auditing Standards only when specific elements, set out in paragraph 43 of the Standard, are included in the auditor's report. [Refer ASA 700, Para. 43]

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## Examples

Examples of the applicability of each of the reporting Standards to various forms of historical financial information are included in the following tables:

Entity and Information Type	Framework	Form of Opinion
<b>ASA 700: General Purpose—<i>Fair Presentation</i></b>		
Disclosing entity (e.g. listed company) — financial report	<ul style="list-style-type: none"> <li>• <i>Corporations Act 2001.</i></li> <li>• Australian Accounting Standards (Accounting Stds).*</li> </ul>	“True and fair”
Government department (reporting entity) — financial report	<ul style="list-style-type: none"> <li>• Sector-specific Accounting Stds.</li> </ul>	“Presents fairly in all material respects” <b>or</b> “true and fair”
Reporting entity <b>or</b> Non-reporting entity — financial report	<ul style="list-style-type: none"> <li>• Accounting Stds.</li> </ul>	“Presents fairly in all material respects” <b>or</b> “true and fair”

\* see AASB 101 *Presentation of Financial Statements*.

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Entity and Information Type	Framework	Form of Opinion
<b>ASA 700: General Purpose—<i>Compliance</i></b>		
Entity funded with public money — financial report	<ul style="list-style-type: none"> <li>Reporting requirements specified by applicable regulation.</li> </ul>	“Prepared in all material respects”
<b>ASRE 2410: General Purpose—<i>Fair Presentation</i></b>		
Disclosing entity (e.g. listed company) — half-year financial report	<ul style="list-style-type: none"> <li><i>Corporations Act 2001.</i></li> <li>Accounting Stds.</li> </ul>	[Negative form] “Not aware of any matter...believe... does not present a true and fair view of ...in accordance with...”
<b>ASA 800: Special Purpose—<i>Fair Presentation</i></b>		
Non-reporting entity — complete set of financial statements	<ul style="list-style-type: none"> <li>Accounting Stds.</li> <li>Reporting requirements specified by Mgmt.</li> </ul>	“Presents fairly in all material respects” <b>or</b> “true and fair”
Prescribed Association — complete set of financial statements	<ul style="list-style-type: none"> <li>Requirements of applicable State Act.</li> </ul>	“True and fair”

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Entity and Information Type	Framework	Form of Opinion
<b>ASA 800: Special Purpose—<i>Fair Presentation</i> (cont'd)</b>		
Financial Services Licensee — complete set of financial statements	<ul style="list-style-type: none"> <li>• Accounting Stds.</li> <li>• Reporting requirements specified by regulator.</li> </ul>	“Presents fairly in all material respects” <b>or</b> “true and fair”
Any entity type — financial report for borrowing covenant reporting purposes	<ul style="list-style-type: none"> <li>• Accounting Stds.</li> <li>• Reporting requirements specified by borrowings agreement.</li> </ul>	“Presents fairly in all material respects” <b>or</b> “true and fair”
<b>ASA 800: Special Purpose—<i>Compliance</i></b>		
Joint venture — complete set of financial statements	<ul style="list-style-type: none"> <li>• Reporting provisions of a joint venture agreement.</li> </ul>	“Prepared in all material respects”
Listed entity — borrowing Covenant reporting	<ul style="list-style-type: none"> <li>• Reporting requirements specified by borrowing agreement.</li> </ul>	“Prepared in all material respects”

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Entity and Information Type	Framework	Form of Opinion
<b>ASA 805: General or Special Purpose—<i>Fair Presentation</i></b>		
Small company — single balance sheet (incl. related notes)	<ul style="list-style-type: none"> <li>Accounting Stds.</li> </ul>	“Presents fairly in all material respects”
Large proprietary company — debtors balance audit at year end	<ul style="list-style-type: none"> <li>Accounting Stds.</li> <li>Reporting requirements specified by Mgmt.</li> </ul>	“Presents fairly in all material respects”
Small company — statement of cash receipts and payments, with related notes	<ul style="list-style-type: none"> <li>Cash basis of accounting.</li> </ul>	“Presents fairly in all material respects”
<b>ASA 805: General or Special Purpose—<i>Compliance</i></b>		
Insurance company — statement of liability for claims incurred but not reported	<ul style="list-style-type: none"> <li>Reporting requirements specified by regulation.</li> </ul>	“Prepared in all material respects”
Financial Services License — financial return	<ul style="list-style-type: none"> <li>Reporting requirements specified by regulation.</li> </ul>	“Prepared in all material respects”

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Entity and Information Type	Framework	Form of Opinion
<b>ASA 805: General or Special Purpose—Compliance (cont'd)</b>		
Small company — statement of cash receipts and payments for a grant received by Government Agency	<ul style="list-style-type: none"> <li>Reporting requirements determined by grant agreement (not fair presentation framework).</li> </ul>	“Prepared in all material respects”
Authorised Deposit-Taking Institution — APRA reporting forms	<ul style="list-style-type: none"> <li>APRA Prudential and Reporting Stds.</li> </ul>	“Prepared in all material respects”
<b>ASA 810: Summary Financial Statements</b>		
Large proprietary company — summary financial statements	<ul style="list-style-type: none"> <li>Reporting requirements specified by Mgmt.</li> </ul>	“Consistent, in all material respects with”; <b>or</b> “a fair summary of”
Listed entity — concise financial report	<ul style="list-style-type: none"> <li><i>Corporations Act 2001.</i></li> <li>AASB 1039.</li> <li>GS 001</li> </ul>	“Complies with AASB 1039...”

## **Other Reporting Responsibilities**

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

The auditor may have additional responsibilities to report on “other matters” that are supplementary to the auditor’s reporting responsibilities for the financial report. For example, the auditor may be required or requested to report on certain matters that come to the auditor’s attention during the course of the audit of the financial report. Alternatively, the auditor may be required or requested to perform, and report on, additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records.

Such other reporting responsibilities are addressed in a separate section of the auditor’s report in order to clearly distinguish them from the auditor’s responsibility under the Standards to report on the financial report. The separate section in the auditor’s report is sub-titled “Report on Other Legal and Regulatory Requirements” (or other heading, as appropriate). Where relevant, this section may also contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s). [Refer ASA 700, Para. 38-39]

### **Other Matter Paragraph**

An “Other Matter Paragraph” (OMP) in the auditor’s report is used if the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial report that in the auditor’s professional judgement is relevant to the users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report. The paragraph is sub-titled “Other Matter,” or other appropriate heading. [See ASA 706, Para. 8]

Note: An “Other Matter Paragraph” is *not* used for other reporting responsibilities under ASA 700, Para. 38-39 (discussed above).

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## **Main Features of the New Standards**

### **ASA 700—Unmodified opinions, General Purpose**

<b>Features</b>	
1	<p>Now covers both financial reporting frameworks:</p> <ul style="list-style-type: none"><li>• Fair presentation; and</li><li>• Compliance (new requirements and guidance material).</li></ul> <p>Appendix 1 includes examples of both types.</p>
2	<p>The auditor must evaluate whether the financial report is prepared in accordance with the financial reporting framework, and adequately refers to, or describes the framework.</p>
3	<p>Auditor's report no longer needs to refer to:</p> <ul style="list-style-type: none"><li>• Those charged with governance being responsible for “selecting and applying appropriate accounting policies”; and</li><li>• <i>Australian Accounting Interpretations</i>.</li></ul> <p>There are also changes to the wording of management's responsibilities in relation to internal control.</p>

**ASA 700—Unmodified opinions, General Purpose (cont'd)**

Features	
4	If the auditor is required by law or regulation to use a prescribed layout or wording in the auditor's report, the auditor can only refer to the Australian Auditing Standards when the report contains certain elements set out in the Standard.

**ASA 705—Modified Opinions**

Feature	
1	Now covers only modifications to the opinion, whereas the existing (ASA 701) also included requirements and guidance material relating to an Emphasis of Matter paragraph (EOM) – now covered in ASA 706.
2	The Standard now emphasises that the form of opinion is based on whether or not sufficient appropriate audit evidence has been obtained.
3	When expressing an adverse opinion or disclaimer of opinion, the description of the auditor's responsibilities in the auditor's report must be amended.

**ASA 705—Modified Opinions (cont'd)**

Features	
4	The auditor is required to communicate with those charged with governance when there is going to be any modification wording included in the auditor's report.
5	Appendix 1 contains illustrations of modified opinions for general purpose financial reports.

**ASA 706—Emphasis of Matter Paragraph (EOM) and Other Matter Paragraph (OMP)**

Features	
1	Does not include requirements and guidance material relating to modifications to the opinion (now covered by ASA 705).
2	Contains new requirements and guidance material on "Other Matter Paragraphs".
3	No longer prescribes the circumstances requiring an EOM but contains lists of other Standards that require an EOM or OMP (see Appendices 1 & 2). The Standard provides the form and placement of such paragraphs for the auditor to apply.

**ASA 706—Emphasis of Matter Paragraph (EOM) and Other Matter Paragraph (OMP) cont'd**

Features	
4	The auditor must now use professional judgement to determine what is <i>fundamental</i> to users' understanding of the financial report or <i>relevant</i> to users' understanding of the audit, the auditor's responsibilities, or the audit report.
5	An OMP is the communication of a matter other than that is disclosed/presented in the financial report, that the auditor considers relevant to users' understanding of the audit, the auditor's responsibilities, or the audit report.
6	An EOM draws users' attention to a matter that is disclosed/presented in the financial report, that the auditor considers fundamental to users' understanding of the financial report.
7	The auditor is required to communicate with those charged with governance when there is going to be any EOM or and/or OMP wording included in the auditor's report.
8	Appendix 3 contains illustrations of opinions containing an EOM and/or OMP for general purpose financial reports.

**ASA 706**—*Emphasis of Matter Paragraph (EOM) and Other Matter Paragraph (OMP) cont'd*

Features	
9	When a general purpose framework has been used for a specific purpose because it meets the users' special information needs, the auditor may use an OMP to restrict distribution or use of the <i>auditor's</i> report.
10	Existing requirement Para's. 15 and 34 dealt with additional information in the financial report so as to achieve fair presentation. These two paragraphs have been combined and reworded so as to remove reference to modifications to the opinion (now covered by ASA 705).

**ASA 800**—*Unmodified, Special Purpose*

Features	
1	Now covers only auditors reporting only in relation to a financial report. Existing ASA 800 included requirements and guidance material on other historical financial information (now covered in ASA 805 and 810).

**ASA 800—Unmodified, Special Purpose (cont'd)**

Features	
2	Clarifies that ASA 101-ASA 700 apply to the audit of a financial report, and that ASA 800 deals with “... <i>special considerations in the application of those Auditing Standards to an audit of a financial report prepared in accordance with a <u>special purpose framework</u></i> ”. (Note: <u>underlined words</u> – emphasis added)
3	The auditor must evaluate whether the financial report is prepared in accordance with the financial reporting framework, and adequately refers to, or describes the framework.
4	Reference is now made to ASA 700 for the auditor’s report format and content, with ASA 800 providing additional requirements in respect of the purpose of the financial report and management’s choice of the applicable financial reporting framework. Accordingly, modifications, EOM and OMP in relation to special purpose reporting are now covered by ASAs 705 and 706. Existing ASA 800 had prescribed the basic elements of the report.
5	An EOM in the auditor’s report is now used to alert users that the financial report is prepared in accordance with a special purpose framework and accordingly may not be suitable for other purposes. Previously this was included in the Scope section of the auditor’s report.

**ASA 800—Unmodified, Special Purpose (cont'd)**

Features	
6	Financial reporting requirements under the <i>Corporations Act 2001</i> are no longer included in the Appendices.
7	Appendix 1 contains illustrations of opinions for special purpose financial reports.

**ASA 805—Single Financial Statements and Specific Elements, Accounts and Items**

Features	
1	The new Standard (split out from existing ASA 800) covers an auditor's reporting only in relation to "... <i>special considerations in the application of the Australian Auditing Standards to an audit of a single financial statement or of a specific element, account, or item of a financial statement</i> ".
2	The Standard is <u>not</u> "made" under the <i>Corporations Act 2001</i> (the Act) because there is no requirement to audit a single financial statement under the Act. It is <u>not</u> considered a stand-alone Standard and should be read in conjunction with the other Standards (including ASA 800, where the single financial statement is prepared using a special purpose framework).

**ASA 805**—*Single Financial Statements and Specific Elements, Accounts and Items* (cont'd)

<b>Features</b>	
3	The auditor must evaluate whether the single financial statement is prepared in accordance with the financial reporting framework, and adequately refers to, or describes the framework.
4	Reference is made to ASA 700 for the auditor's reporting format and content, which is then tailored to the engagement circumstances.
5	The Standard contemplates (but does <u>not</u> require) that the auditor has already performed the audit of the financial report from which the single financial statement has been derived. If the auditor has not already audited the financial report, the auditor has to determine if the audit of a single financial statement is practical.
6	The auditor is not to issue their auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement unless satisfied the report is adequately differentiated from the auditor's report on the financial report.

**ASA 805**—*Single Financial Statements and Specific Elements, Accounts and Items (cont'd)*

<b>Features</b>	
7	If the opinion in the auditor's report on the financial report is modified or includes an EOM and/or OMP, the auditor must determine what effect this has on the auditor's report on a single financial statement.
8	The auditor must not express an unmodified opinion on a single financial statement if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial report.
9	Appendix 2 contains illustrations of opinions for a single financial statement.

**ASA 810**—*Summary Financial Statements*

<b>Features</b>	
1	The new Standard (split out from existing ASA 800) applies to summary financial statements derived from a financial report audited by the same auditor.

**ASA 810—Summary Financial Statements (cont'd)**

<b>Features</b>	
2	The Standard is <u>not</u> “made” under the <i>Corporations Act 2001</i> (the Act) because there is no requirement to audit summary financial statements under the Act. It is considered a stand-alone Standard, covering all aspects of the audit engagement. Its principles and procedures are consistent with the other Standards.
3	The auditor must determine the acceptability of the criteria used by management in the preparation of the summary financial statements.
4	The auditor’s report refers only to an audit conducted in accordance with ASA 810 (not the Australian Auditing Standards as in the existing).
5	The Standard details the procedures required to be performed by the auditor in order for them to form a conclusion on summary financial statements (not those in other Standards)
6	The Standard provides the format and content of the auditor’s report (i.e. no reference is made to ASA 700).

**ASA 810**—*Summary Financial Statements* (cont'd)

Features	
7	Any restrictions, modifications, EOM or OMP contained in the auditor's report on the financial report from which the summary financial statements were derived must also be reflected in the auditor's report on the summary financial statements.
8	The Standard applies to a concise financial report, to the extent it is applicable in meeting the objectives of the audit of the concise report.
9	Appendix 1 contains illustrations of opinions for summary financial statements.

**ASRE 2410**—*Review of a Financial Report Performed by the Independent Auditor of the Entity*

Features	
1	Covers only a review of a financial report by an independent auditor.
2	The auditor must evaluate whether the financial report is prepared in accordance with a financial reporting framework (fair presentation), and adequately refers to, or describes the framework.

**ASRE 2410**—*Review of a Financial Report Performed by the Independent Auditor of the Entity* (cont'd)

Features	
3	The auditor must determine the acceptability of the preconditions for the review.
4	Consistent with the principles in ASA 706, where there is significant uncertainty adequately disclosed in the financial report (not related to going concern), the auditor is required to consider including an EOM in the auditor's report (in the existing it was mandated).
5	Appendix 3 contains illustrations of review conclusions for the financial report.

### **Auditor's Obligations**

An auditor's obligations under the (new) Australian Auditing Standards, applicable for financial reporting periods commencing on or after 1 January 2010, are not less than their obligations under the existing Australian Auditing Standards.

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This *Explanatory Guide* should be read in conjunction with:

- the AUASB pronouncements mentioned in this Explanatory Guide;
- *ASA 101 Preamble to Australian Auditing Standards*; and
- *ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

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## **Appendix**

### **Overview of the Reporting Standards - Audit**

The following diagram is a broad illustration of the Standards in the ASA 700 and 800 series, which relate to the auditor's reporting on historical financial information (reporting Standards). Whilst the Standards listed are the primary Standards applicable to reporting for the particular audit engagement types listed, readers are reminded that they do not represent the *only* Standards that may be applicable to forming an opinion and reporting on an audit of a financial report/single financial statement. Where appropriate, the Standards contain cross references to other Standards (including other reporting Standards) that *may* be applicable in the circumstances of the audit.

*Explanatory Guide: Auditor's Reports*

APPENDIX

OVERVIEW OF THE "REPORTING STANDARDS" - AUDIT

