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Explanatory Guide: Auditors' Reports

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Explanatory Guide: Auditors' Reports

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Purpose

The purpose of this Explanatory Guide is to provide information to auditors and assurance practitioners on the ASA 700 and ASA 800 series of standards addressing auditors' reports (the "Reporting Standards"). These standards 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 extant Auditing Standards using the equivalent "clarity" versions of the International Standards on Auditing (ISAs) as the underlying standards. The exception is ASRE 2410 which will be based on extant ASRE 2410 (August 2008). The new Auditing Standards are, until final versions are issued, differentiated from the extant Auditing Standards by including the words "Revised and Redrafted" (in brackets, in the title).

Although the fundamental principles governing auditors' reporting responsibilities remain unchanged, the extant Standards have been subject to extensive revision. Accordingly, this explanatory guide describes the main features of the Reporting Standards and some of the changes from the extant Standards.

Auditors and other assurance practitioners are reminded that Requirements and related Application and Other Explanatory Material (hereafter referred to as "guidance") are found in the *Australian Auditing Standards* and that this explanatory guide is

merely an aid to understanding these Standards and should not be considered as a substitute for the Standards.

The Reporting Standards

The following table lists the Reporting Standards that will become operative for reporting periods commencing on or after 1 January 2010:

Standard No.	Title
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>
ASA 800	<i>Special Considerations – Audits of Financial Reports Prepared in Accordance with a Special Purpose Framework</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>

Comparative Table

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

Title (Extant Standard)		Title (Revised and Redrafted Standard)
ASA 700 (Compiled 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 (Compiled 6/07) <i>Modifications to the Auditor's Report</i>	→	ASA 705 <i>Modification 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>

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Title (Extant Standard)		Title (Revised and Redrafted Standard)
ASA 800 (Compiled 6/07) <i>The Auditor's Report on Special Purpose Audit Engagements</i>	→	ASA 800 <i>Special Considerations – Audit of a Financial Report Prepared in Accordance with a Special Purpose Framework</i> and ASA 805 <i>Special Considerations – Audit of a Single Financial Statement and Specific Elements, Accounts or Items of a Financial Statement</i> and ASA 810 <i>Engagements to Report on Summary Financial Statements</i>

Scope

The Reporting Standards deal with the form and content of the auditors' reports 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) a financial report (as defined in the *Corporations Act 2001*);
- (b) a complete set of financial statements and notes thereto;
- (c) a single financial statement;
- (d) as a specific element, account or item of a financial statement; and
- (e) summary financial statements.

The financial reporting framework (described below) is determined by applicable laws, regulations, Australian Accounting Standards, and the information needs of the entity's users.

Financial Reports and Complete Set of Financial Statements

The Reporting Standards are organised so as to differentiate reporting requirements for a financial report or complete set of financial statements [ASAs 700, 705, 706, and 800] from reporting requirements for other historical financial information, such as a single financial statement or summary financial statements [ASAs 805 and 810].

A "financial report", in addition to a complete set of financial statements, includes a declaration (assertion) by those responsible for the financial report, about the financial

statements and notes. The declaration forms part of the auditor's subject matter.

A "complete set of financial statements" comprises financial statements [i.e. *statement of financial position; statement of comprehensive income; statement of changes in equity; and statement of cash flows*]; and related notes [comprising a summary of significant accounting policies and other explanatory information]. A complete set of financial statements may be accompanied by a declaration (assertion) which forms part of the auditor's subject matter.

Note: It is important to remember that the requirements of the applicable financial reporting framework determine the form and content of the financial report/statements, and what constitutes a financial report or complete set of financial statements.

Single Financial Statements and Specific Elements, Accounts and Items of a Financial Statement

This historical financial information may be prepared in accordance with a general or special purpose financial reporting framework. When performing the audit of such information, the standard contemplates (but does not require), that such information be derived from a financial report/complete set of financial statements already audited by the same auditor. Such information may be accompanied by a declaration (assertion) which forms part of the auditor's subject matter.

Summary Financial Statements

Summary financial statements are derived from a financial report or complete set of financial statements that have been audited by the same auditor. Summary financial statements contain less detail than the audited financial report or complete set of financial statements.

Summary financial statements may be accompanied by a declaration (assertion) which forms part of the auditor's subject matter.

A concise financial report prepared under the *Corporations Act 2001* is an example of summary financial statements.

Financial Reporting Frameworks

Financial reporting frameworks are classified in both the extant and the new Auditing 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.

These frameworks are referred to as the 'applicable financial reporting framework' in the *Audit Reporting Standards*.

'General purpose' and 'special purpose' financial reporting frameworks are further classified as either *fair presentation* or *compliance* in nature.

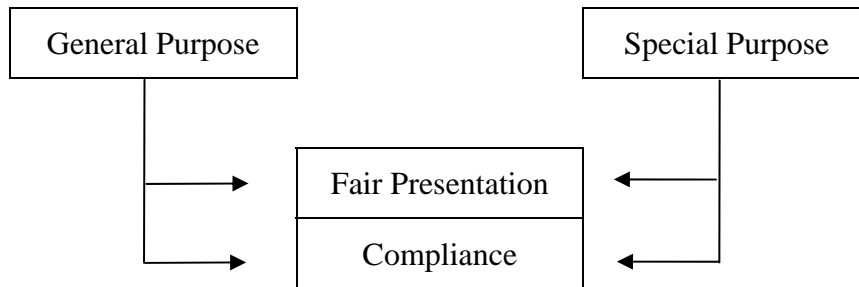
The term "fair presentation framework" is used to refer to a general or special purpose framework that requires compliance with the requirements of the framework and:

- (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.

The term “compliance framework” is used to refer to a general or special purpose framework that requires compliance with the requirements of that framework, but does *not* contain the acknowledgements in (i) or (ii) above.

Framework Diagram



Form of an Auditor’s Opinion

The form of an auditor’s opinion is determined by the applicable financial reporting framework and not by the type/nature of the historical financial information that is audited.

A. Fair Presentation

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

- (a) the financial report/complete set of financial statements present(s) fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or

- (b) the financial report/complete set of financial statements give(s) a true and fair view of ... in accordance with [the applicable financial reporting framework].

B. Compliance

When expressing an unmodified opinion on a financial report/complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial report/financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

C. Summary Financial Statements

When expressing an unmodified opinion on summary financial statements, the auditor's opinion shall use one of the following phrases, which are regarded as being equal:

- (a) the summary financial statements are consistent, in all material respects, with the audited financial report/statements, in accordance with [the applied criteria]; or
- (b) the summary financial statements are a fair summary of the audited financial report/statements, in accordance with [the applied criteria].

D. Auditors' Reports Prescribed by Law or Regulation

In certain circumstances, law or regulation prescribes the content and/or format of auditors' reports. There are two Auditing Standards which specifically address this issue:

- (i) ASA 210 (Revised and Redrafted) *Agreeing the Terms of Audit Engagements*¹

This Standard deals with the situation where the prescribed wording of auditors' reports 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/statements, and if so,
- (b) whether additional explanation in the auditor's report can mitigate possible misunderstanding.

The Standard provides further Requirements and guidance relating to this evaluation.

- (ii) ASA 700 (Revised and Redrafted) *Forming an Opinion and Reporting on a Financial Report*

Where specific layout or wording of auditors' reports is prescribed by law or regulation, ASA 700 permits reference to the Australian Auditing Standards only when specific elements, as detailed in paragraph 43 of the Standard, are included in auditors' reports.

¹ As at 18 March 2009, the AUASB has not yet issued the exposure draft of ASA 210 (Revised and Redrafted). Accordingly, readers are directed to the underlying standard, ISA 210 (Redrafted) for relevant details.

Examples

The attached Appendix illustrates the steps in determining the applicability of the Reporting Standards.

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

* See AASB 101 *Presentation of Financial Statements*.

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Entity and Information Type	Reporting Requirements Determined By	Form of Auditors' Opinions
ASA 700: General Purpose—<i>Compliance Framework</i>		
Entity funded with public money — financial report or complete set of financial statements	<ul style="list-style-type: none"> • Reporting requirements specified by applicable regulation 	“Prepared in all material respects”
ASA 800: Special Purpose—<i>Fair Presentation Framework</i>		
Non-reporting entity — financial report or complete set of financial statements	<ul style="list-style-type: none"> • Accounting Stds • Reporting requirements specified by Mgmt 	“Presents fairly in all material respects”; or “true and fair”
Prescribed Association — complete set of financial statements	<ul style="list-style-type: none"> • <i>Associations Incorporations Act 1981</i> 	“True and fair”
Financial Services Licensee — complete set of financial statements	<ul style="list-style-type: none"> • Accounting Stds • Reporting requirements specified by regulator 	“Presents fairly in all material respects”; or “true and fair”
Any entity type — financial report or complete set of financial statements for borrowing covenant reporting purposes	<ul style="list-style-type: none"> • Accounting Stds • Reporting requirements specified by borrowings agreement 	“Presents fairly in all material respects”; or “true and fair”

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Entity and Information Type	Reporting Requirements Determined By	Form of Auditors' Opinions
ASA 800: Special Purpose—<i>Compliance Framework</i>		
Joint venture — complete set of financial statements	<ul style="list-style-type: none"> Reporting provisions of a contract 	“Prepared in all material respects”
Listed entity — Borrowing Covenant, complete set of financial statements	<ul style="list-style-type: none"> Reporting requirements specified by borrowings agreement 	“Prepared in all material respects” or as prescribed
Solicitor — Trust Account	<ul style="list-style-type: none"> Law Institute/Society Rules 	“Prepared in all material respects” or as prescribed
Financial Services License — financial return	<ul style="list-style-type: none"> Reporting requirements specified by regulation 	“Prepared in all material respects”

ASA 805: General or Special Purpose—<i>Fair Presentation Framework</i>		
Small company — Single financial statement (e.g. balance sheet), with related notes	<ul style="list-style-type: none"> Accounting Stds 	“Presents fairly in all material respects”
Large proprietary company — Debtors balance audit at year end	<ul style="list-style-type: none"> Accounting Stds Reporting requirements specified by Mgmt 	“Presents fairly in all material respects”

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Entity and Information Type	Reporting Requirements Determined By	Form of Auditors' Opinions
ASA 805: General or Special Purpose—<i>Fair Presentation Framework</i> (cont'd)		
Small company — Single statement of cash receipts and disbursements, with related notes	<ul style="list-style-type: none"> • Cash basis of accounting 	“Presents fairly in all material respects”
Listed entity — Statement of cash flows only, for borrowing covenant reporting purposes	<ul style="list-style-type: none"> • Reporting requirements specified by borrowings agreement 	“Presents fairly in all material respects”

ASA 805: General or Special Purpose—<i>Compliance Framework</i>		
Insurance company — statement of liability for claims incurred but not reported	<ul style="list-style-type: none"> • Reporting requirements specified by regulation 	“Prepared in all material respects”
Government Agency — grant acquittal	<ul style="list-style-type: none"> • Donor's grant conditions 	“Prepared in all material respects”
Authorised Deposit-Taking Institution — APRA reporting forms (data collection)	<ul style="list-style-type: none"> • Legislation • APRA Prudential and Reporting Stds 	“Prepared in all material respects”

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Entity and Information Type	Reporting Requirements Determined By	Form of Auditors' Opinions
ASA 805: General or Special Purpose—<i>Compliance Framework</i> (cont'd)		
Sole Proprietor — Lessors' Outgoings or rent certificates	<ul style="list-style-type: none"> Lease agreement 	"Prepared in all material respects"
Small company — workers compensation	<ul style="list-style-type: none"> Reporting requirements specified by regulation 	"Prepared in all material respects"
Listed Entity — royalty returns	<ul style="list-style-type: none"> Reporting requirements specified by regulation or contract/agreement 	"Prepared in all material respects" or as prescribed

ASA 810: Summary Financial Statements		
Large proprietary company — Summarised financial statements	<ul style="list-style-type: none"> Reporting requirements specified by Mgmt 	"Consistent, in all material respects with"; or "a fair summary of"
Listed entity — Concise Financial Report	<ul style="list-style-type: none"> The Act AASB 1039 	"Complies with..."

Other Reporting Responsibilities

The auditor may have additional reporting responsibilities that are supplementary to the auditor's responsibility under the Standards to report on the financial report (or complete set of

financial statements). For example, the auditor may be required, or requested, to report on certain circumstances if they come to the auditor's attention during the course of the audit of the financial report (or complete set of financial statements). Alternatively, the auditor may be required, or requested, to perform and report on additional specified procedures, or to express an opinion on specific areas, such as the adequacy of accounting books and records.

Such additional reporting responsibilities are contained 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 (or complete set of financial statements). The separate section is sub-titled "Report on Other Legal and Regulatory Requirements" (or otherwise as appropriate). Where relevant, this section may contain sub-heading(s) that describe(s) the content of the other reporting responsibility paragraph(s). [See ASA 700 paras 38-39]

Other Matter Paragraph (OM)

An "Other Matter" paragraph 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 (or complete set of financial statements) that, in the auditor's professional judgement, is relevant to 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]

<p><u>Note:</u> An "Other Matter" paragraph is <i>not</i> used for other reporting responsibilities under ASA 700 paras 38-39.</p>
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Main Features of the Reporting Standards

ASA 700—Unmodified General Purpose

Main Features	
1	Now covers 2 financial reporting frameworks: <ul style="list-style-type: none">• Fair presentation; and• Compliance (new Requirements and guidance).
2	Auditors' reports no longer needs to refer to: <ul style="list-style-type: none">• Those charged with governance being responsible for “selecting and applying appropriate accounting policies”;and• Australian Accounting Interpretations.
3	The auditor must evaluate whether the financial report properly describes the applicable financial reporting framework.

ASA 705—Modified Opinion

Main Features	
1	Covers only modifications to the auditor's opinion, whereas the extant (ASA 701) also included requirements and guidance relating to an emphasis of matter.
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 is be amended.

ASA 706—Emphasis of Matter Paragraphs (EOM) and Other Matter Paragraphs (OM)

Main Features	
1	Does not include Requirements and guidance relating to modifications to the opinion (now covered by ASA 705).
2	New Requirements and guidance on "Other Matter" paragraphs.
3	No longer prescribes the circumstances requiring an EOM but contains lists of other Standards that require an EOM or OM (see Appendices).
4	The auditor now uses professional judgement to determine what is <i>fundamental</i> to users' understanding of the financial report and <i>relevant</i> to users' understanding of the audit, the

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	auditor's responsibilities or the audit report.
5	When a general purpose framework has been used to meet the users' special purpose information needs, the auditor may use an OM to restrict distribution or use of the auditor's report.
6	Via ASA 800, an EOM 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.
7	Extant Requirement paragraphs 15 and 34 dealt with additional information included 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 Reports/Statements

Main Features	
1	Covers auditors' reporting only in relation to a financial report or complete set of financial statements. Extant ASA 800 included Requirements and guidance on other historical financial information (now covered in ASA 805 and 810).
2	The Standard clarifies that the ASA 100 to ASA 700 series of Auditing Standards apply to the audit of a financial report/statements and that 800 deals with "... <i>special considerations in the application of those Auditing Standards to an audit of a financial report or a complete set of financial statements prepared in accordance with a <u>special</u></i>

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	<p><i>purpose framework</i>". (<u>underline</u> – emphasis added)</p> <p>Accordingly, modifications, EOM and OM in relation to special purpose reporting are covered by ASAs 705 and 706.</p>
3	<p>An EOM 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.</p>
4	<p>Auditors' report format is determined by ASA 700. Previously, ASA 800 prescribed the basic elements of the report.</p>
5	<p>Specific financial reporting requirements under the <i>Corporations Act 2001</i> are no longer included in the Appendices.</p>

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

Main Features	
1	<p>The new Standard clarifies that the ASA 100 to ASA 700 series of Standards apply to the audit of a financial report/statements and that 805 deals with "...<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>".</p>
2	<p>The Standard is <u>not</u> "made" under the <i>Corporations Act 2001</i> (the "Act") because there is no requirement to prepare, or audit, a single financial statement, or of a specific element,</p>

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	account, or item of a financial statement, under the Act.
3	Auditors' reporting requirements are contained in ASA 700, application of which is adapted as necessary in the circumstances of the engagement.
4	The Standard contemplates (but does not require) that the auditor has already performed the audit of the financial report/complete set of financial statements from which the single financial statement, specific element, account or item has been derived.
5	The auditor is not to issue the auditor's report containing the opinion on the single financial statement or on the specific element, account or item of a financial statement unless satisfied the report is adequately differentiated from the auditor's report on the financial report or complete set of financial statements.
6	If the opinion in the auditor's report on the financial report (or complete set of financial statements) is modified, contains restrictions or that report includes an EOM or OM, the auditor is required to determine what effect this has on the auditor's report on a single financial statement or specific element, account or item of a financial statement.
7	The auditor is not to 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 (or complete set of financial statements).

ASA 810—Summary Financial Statements

Main Features	
1	Applies only to summary financial statements derived from a financial report audited by the same auditor.
2	The Standard is not “made” under the <i>Corporations Act 2001</i> because there is no requirement to prepare, or audit, summary financial statements under the Act.
3	The auditor’s report refers only to an audit conducted in accordance with ASA 810 (not the Australian Auditing Standards).
4	The Standard elaborates on the nature of procedures and the form and content of the auditor’s report.
5	Any modifications, restrictions, EOM or OM contained in the auditor’s report on the financial report (or complete set of financial statements) from which the summary financial statements were derived, must also be reflected in the auditor’s report on the summary financial statements.

Obligations

Auditors’ obligations under the Reporting Standards, applicable for financial reporting periods commencing on or after 1 January 2010, are not less than their obligations under the extant Australian Auditing Standards.

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