

**ASA 700**

(October 2009)

**Explanatory Statement**

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

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

**DISCLAIMER**

This document contains draft proposals to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions and/or proposals to be contained in a published Exposure Draft or Auditing Standard. No responsibility is taken by the AUASB for the results of reliance, actions or omissions to act on the basis of any information contained in this document (including appendices), or for any errors or omissions in it.



**Australian Government**

**Auditing and Assurance Standards Board**

## **Obtaining a Copy of this Explanatory Statement**

This Explanatory Statement is available on the Auditing and Assurance Standards Board (AUASB) website: [www.auasb.gov.au](http://www.auasb.gov.au)

### **Contact Details**

Auditing and Assurance Standards Board  
Level 7  
600 Bourke Street  
Melbourne Victoria 3000  
AUSTRALIA

Phone: (03) 8080 7400  
Fax: (03) 8080 7450  
E-mail: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

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

**Explanatory Statement ASA 700 *Forming an Opinion and Reporting on a Financial Report***

---

**Reasons for Issuing Auditing Standard ASA 700  
*Forming an Opinion and Reporting on a Financial Report***

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is as an independent statutory board 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 Act), 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 to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

**Operative Date**

ASA 700 *Forming an Opinion and Reporting on a Financial Report* is operative for financial reporting periods commencing on or after 1 January 2010.

**Purpose of Auditing Standard ASA 700 *Forming an Opinion and Reporting on a Financial Report***

The purpose of the Auditing Standard is to establish Requirements and to provide Application and Other Explanatory Material to auditors regarding their responsibility to form an opinion on the financial report. It also deals with the form and content of the auditor’s report issued as a result of an audit of a financial report.

## **Explanatory Statement ASA 700 *Forming an Opinion and Reporting on a Financial Report***

---

### **Main Features**

The Auditing Standard:

- (a) defines a general purpose financial report;
- (b) describes the terms “fair presentation framework” and “compliance framework”;
- (c) requires the auditor to form an opinion having concluded on whether the auditor has obtained reasonable assurance;
- (d) requires the auditor to evaluate whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework;
- (e) describes the form of opinion and the circumstances under which each form of opinion is required; and
- (f) describes the required contents of the independent auditor’s report.

### **Preamble and Overall Objectives**

ASA 700 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. ASA 700 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*.

### **Process of making Australian Auditing Standards**

The AUASB’s Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;
- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

## **Explanatory Statement ASA 700 *Forming an Opinion and Reporting on a Financial Report***

---

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the Requirements or the Application and Other Explanatory Material; and
- included other amendments as necessary.

### **Consultation Process prior to issuing the Auditing Standard**

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 03/09 *Proposed Auditing Standard: Forming an Opinion and Reporting on a Financial Report* (Re-issuance of ASA 700), was issued on 6 March 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;
- the significant costs, if any, and benefits, of compliance with any additional Requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

## **Regulation Impact Statement**

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in Clarity format, including ASA 700 *Forming an Opinion and Reporting on a Financial Report*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

## **Main Differences from ASA 700 *The Auditor's Report on a General Purpose Financial Report* (April 2006, as amended)**

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, ASA 700 *The Auditor's Report on a General Purpose Financial Report* (April 2006, as amended), are:

1. Auditing Standard ASA 700 is written in the 'clarity' format using the equivalent International Standard on Auditing (ISA 700 *Forming an Opinion and Reporting on Financial Statements*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
3. Certain guidance material in the extant Auditing Standard has been elevated to Requirements.
4. The following Requirements included in the Auditing Standard are in part, or full, additional compared to the extant Auditing Standard:
  - (a) The auditor shall evaluate whether the financial report adequately refers to or describes the applicable financial reporting framework. (Ref: Para. 15)
  - (b) When the financial report is prepared in accordance with a compliance framework, the auditor is not required to

**Explanatory Statement ASA 700 *Forming an Opinion and Reporting on a Financial Report***

---

evaluate whether the financial report achieves fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial report is misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report.

(Ref: Para. 19)

- (c) When expressing an unmodified opinion on the financial report prepared in accordance with a compliance framework, the auditor's opinion shall be that the financial report is prepared, in all material respects, in accordance with [the applicable financial reporting framework].

(Ref: Para. 36)

- (d) An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction ("other auditing standards"), but may additionally have complied with the Australian Auditing Standards in the conduct of the audit. If this is the case, the auditor's report may refer to Australian Auditing Standards in addition to the other auditing standards, but the auditor shall do so only if:

- There is no conflict between the requirements in the other auditing standards and those in the Australian Auditing Standards that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by Australian Auditing Standards; and
- The auditor's report includes, at a minimum, each of the elements set out in paragraph 43(a)-(i) of this Auditing Standard when the auditor uses the layout or wording specified by the other auditing standards. Reference to law or regulation in paragraph 43(e) of this Auditing Standard shall be read as reference to the other auditing standards. The auditor's report shall thereby identify such other auditing standards. (Ref: Para. 44)

- (e) When the auditor's report refers to both the other auditing standards and Australian Auditing Standards, the auditor's

**Explanatory Statement ASA 700 *Forming an Opinion and Reporting on a Financial Report***

---

report shall identify the jurisdiction of origin of the other auditing standards. (Ref: Para. 45)

5. Application and Other Explanatory Material, linked to the additional mandatory obligations listed at 4. above is also included in the Auditing Standard.

Draft