

(April 2006)

Explanatory Statement
***ASA 700 The Auditor's
Report on a General
Purpose Financial Report***

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



Australian Government

Auditing and Assurance Standards Board

Explanatory Statement

Reasons for Issuing ASA 700 *The Auditor's Report on a General Purpose Financial Report*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 700 *The Auditor's Report on a General Purpose Financial Report*, due to the requirements of the legislative provisions explained below.

The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* established the AUASB as an independent statutory body under section 227A of the *Australian Securities and Investments Commission Act 2001*, as from 1 July 2004. 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*.

Process of making Auditing Standards

Section 1455 of the *Corporations Act 2001* and *Corporations Regulation 10.5.01* gave interim legal endorsement from 1 July 2004 to the majority of Auditing Standards made by the former Auditing & Assurance Standards Board of the Australian Accounting Research Foundation. The AUASB has reviewed the Auditing Standards and has proceeded to make them as legally enforceable Auditing Standards under the *Corporations Act 2001*.

The Auditing Standards have been made also in accordance with the Financial Reporting Council's Strategic Direction to the AUASB dated 6 April 2005, pursuant to section 225 of the *ASIC Act*.

The Strategic Direction, *inter alia*, provides that the AUASB develops Auditing Standards that:

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- 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 a base;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the Strategic Direction, the AUASB has undertaken a process of thorough review and revision that has:

- addressed the enforceability of mandatory requirements;
- clarified auditors' obligations under the Auditing Standards;
- provided for sector neutrality in the Auditing Standards; and
- included other amendments as necessary.

Purpose of Auditing Standard ASA 700 *The Auditor's Report on a General Purpose Financial Report*

The purpose of Auditing Standard ASA 700 is to establish mandatory requirements and to provide explanatory guidance on the auditor's report issued as a result of an audit of a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation. This Auditing Standard also provides explanatory guidance on the matters the auditor ordinarily considers in forming an opinion on the financial report.

Auditing Standard ASA 700 is to be read in conjunction with the *Preamble to AUASB Standards*, which sets out the intentions of

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the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

Operative Date

The Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.

Main changes from Auditing Standard AUS 702 (May 2002) *The Audit Report on a General Purpose Financial Report*

The main differences between ASA 700 and AUS 702 are that in ASA 700:

1. The word 'shall', in the **bold-type** paragraphs, is the terminology used to describe an auditor's mandatory requirements, whereas an auditor's degree of responsibility is described in AUS 702 by the word 'should';
2. The explanatory guidance paragraphs provide guidance and illustrative examples to assist the auditor in fulfilling the mandatory requirements, whereas in AUS 702 some obligations are implied within certain explanatory paragraphs. Accordingly, such paragraphs have been redrafted to clarify that the matter forms part of the explanatory guidance.
3. The mandatory requirements and explanatory guidance relating to modifications to the auditor's report are included in ASA 701 *Modifications to the Auditor's Report*, whereas such mandatory requirements and explanatory guidance are contained in AUS 702 together with the mandatory requirements and explanatory guidance relating to unmodified auditor's reports. Furthermore, as described in the Main Changes section of ASA 701, new terminology relating to the types of opinions issued by the auditor has been adopted.

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4. The mandatory requirements refer generically to the “applicable financial reporting framework”. The mandatory requirements in AUS 702 specifically identify the financial reporting framework as the “Accounting Standards and other mandatory professional reporting requirements in Australia and, when appropriate, relevant statutory and other requirements”.
5. The following additional mandatory requirements are included (these mandatory requirements are either not contained in AUS 702 or have been expanded in this Auditing Standard). The addition of these mandatory requirements has resulted in a change in the content and format of the example auditor’s reports in the Appendices:

The Auditor’s Report on a Financial Report

- (a) Unless required by law or regulation to use different wording, the auditor’s opinion on a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation shall state whether the financial report “gives a true and fair view” or “presents fairly, in all material respects,” in accordance with the applicable financial reporting framework (paragraph 8).

In AUS 702, the wording to express the auditor’s opinion should be “presents fairly”.

Introductory Paragraph

- (b) The introductory paragraph in the auditor’s report shall identify the entity whose financial report has been audited and shall state that the financial report has been audited. The introductory paragraph shall also:

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- (i) identify the title of each of the financial statements that comprise the financial report;
- (ii) refer to the summary of significant accounting policies and other explanatory notes and, when appropriate, the directors' declaration; and
- (iii) specify the date and period covered by the financial report (paragraph 27).

In AUS 702, the audit report should identify the financial report being audited, including the name of the entity and the reporting period covered by the financial report.

The Responsibility of Those Charged with Governance for the Financial Report

- (c) The auditor's report shall state that those charged with governance are responsible for the preparation and the fair presentation of the financial report in accordance with the applicable financial reporting framework and that this responsibility includes:
 - (i) designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error;
 - (ii) selecting and applying appropriate accounting policies; and
 - (iii) making accounting estimates that are reasonable in the circumstances (paragraph 33).

In AUS 702, the audit report should include a statement that the financial report is the responsibility of the members of the governing body only.

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Auditor's Responsibility

- (d) The auditor's report shall also explain that Auditing Standards require that the auditor complies with relevant ethical requirements relating to audit engagements (paragraph 39).
- (e) The auditor's report shall describe an audit by stating that:
 - (i) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.
 - (ii) The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making those risk assessments, the auditor shall consider internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control.
 - (iii) An audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by those charged with

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governance, as well as the overall presentation of the financial report (paragraph 42).

In AUS 702, the audit report should include a statement that the auditor's procedures included the examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates only.

- (f) The auditor's report shall state that the auditor believes the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion (paragraph 43).

In AUS 702, the audit report should include a statement that the audit opinion expressed in the report has been formed on the basis identified in the scope section.

Auditor's Opinion

- (g) When Australian Accounting Standards are not used as the financial reporting framework, the reference to the financial reporting framework in the wording of the opinion shall identify the jurisdiction or country of origin of the financial reporting framework (paragraph 46).

Other Reporting Responsibilities

- (h) When the auditor addresses other reporting responsibilities within the auditor's report on the financial report, these other reporting responsibilities shall be included in a separate section in the auditor's report that follows the opinion paragraph (paragraph 51).

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Date of the Auditor's Report

- (i) The auditor's report shall be dated as of the date the auditor signs that report. The auditor shall date the auditor's report on the financial report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial report. Sufficient appropriate audit evidence shall include evidence that the entity's financial report has been prepared and that those charged with governance have asserted that they have taken responsibility for it (paragraph 54).

In AUS 702, the audit report should be dated as of the date the auditor signs that report. That date should be no earlier than the date on which the financial report is signed or approved by the governing body only.

Auditor's Report

- (j) The auditor's report shall be in writing (paragraph 59).

Auditor's Report for Audits Conducted in Accordance with both Australian Auditing Standards and International Standards on Auditing

- (k) The auditor's report shall refer to the audit having been conducted in accordance with the Australian Auditing Standards and ISAs only when the auditor has complied fully with all of the Auditing Standards and ISAs relevant to the audit (paragraph 63).

Unaudited Supplementary Information presented with an Audited Financial Report

- (l) The auditor shall be satisfied that any supplementary information presented together with the financial report that is not covered by the auditor's opinion is

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clearly differentiated from the audited financial report (paragraph 64).

- (m) If the auditor concludes that the entity's presentation of any unaudited supplementary information does not differentiate it sufficiently from the audited financial report, the auditor shall explain in the auditor's report that the information has not been audited (paragraph 67).
- 6. The mandatory requirements contained in paragraphs .17, .17(c), .17(e), .17(g), .24 and .26 of AUS 702 are not included. These mandatory requirements have been superseded by new mandatory requirements of this Auditing Standard or other Auditing Standards.
- 7. The explanatory guidance on concise financial reports and example auditor's reports in respect of concise financial reports, contained in an Appendix to AUS 702, are not included.
- 8. The example auditor's reports in the Appendices have been re-worded based on the example auditor's report in ISA 700 (Revised) *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.
- 9. Appendix 2 "Summary of Audit Reporting Requirements Under the *Corporations Act 2001*," has been updated.

Consultation prior to issuing this Auditing Standard

The AUASB has consulted publicly as part of its due process in developing this Auditing Standard. Exposure Draft ED 24/05 *Proposed Auditing Standard: The Independent Auditor's Report on a General Purpose Financial Report (Re-issuance of AUS 702) Part A* was issued on 16 November 2005 with a 45 day comment period. Submissions were received by the AUASB and

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it has considered these submissions as part of the development and finalisation of this Auditing Standard.