

Auditing Standard

AUS 702
(March 2002)

The Audit Report on a General Purpose Financial Report

Prepared by the **Auditing & Assurance Standards Board** of the
Australian Accounting Research Foundation



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Auditing Standards contain the basic principles and essential procedures identified in bold-type (black lettering) which are mandatory, together with related guidance. For further information about the responsibility of members for compliance with AUSs refer Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards".

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AUDITING STANDARD
AUS 702 "THE AUDIT REPORT ON A GENERAL PURPOSE
FINANCIAL REPORT"

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MAIN FEATURES

This Standard:

- (a) establishes standards and provides guidance on the form and content of the audit report issued in connection with the audit of a general purpose financial report;
- (b) provides guidance on the qualitative characteristics of the audit report on a general purpose financial report;
- (c) identifies the basic elements of the audit report on a general purpose financial report; and
- (d) identifies circumstances that result in a modified audit report, with particular reference to those circumstances that give rise to:
 - (i) a qualified opinion; and
 - (ii) an emphasis of matter.

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Introduction

- .01 The purpose of this Auditing Standard (AUS) is to establish standards and provide guidance on the form and content of the audit report issued in connection with the audit of a general purpose financial report prepared by an entity in the public or private sectors. Much of this AUS can be adapted for audit reports on information other than general purpose financial reports.
- .02 *The auditor should review and assess the conclusions drawn from the audit evidence obtained as the basis for expressing an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and UIG Consensus Views and, when appropriate, relevant statutory and other requirements. The audit report should contain a clear written expression of opinion on the financial report taken as a whole.*
- .03 "Accounting Standards" has the meaning attributed to it in Miscellaneous Professional Statement APS 1 "Conformity with Accounting Standards and UIG Consensus Views".
- .04 "Financial report" means a general purpose financial report as defined in Miscellaneous Professional Statement APS 1 "Conformity with Accounting Standards and UIG Consensus Views".
- .05 "Modified audit report" means an audit report that contains a qualified opinion and/or an emphasis of matter.
- .06 "UIG Consensus Views" has the meaning attributed to it in Miscellaneous Professional Statement APS 1 "Conformity with Accounting Standards and UIG Consensus Views".

Qualitative Characteristics of the Audit Report

- .07 The audit report needs to possess the qualitative characteristics of relevance, reliability, materiality, timeliness, comparability and understandability.
- .08 Relevant information relates to the needs of those to whom the audit report is addressed, and includes an explanation of the nature and extent of the auditor's work and the degree of assurance provided. The basic elements of information which are relevant for inclusion in the audit report are discussed in AUS 702.13 to .38.

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- .09 The reliability of the audit report will depend upon the sufficiency and appropriateness of the audit evidence obtained and the degree of correspondence between that evidence and the type of audit opinion expressed. The concept of reliability is particularly relevant to the determination of audit risk, that is the risk that the auditor may express an inappropriate opinion. The auditor would ensure that audit risk is reduced to an acceptably low level.
- .10 ***The auditor should ensure that the explanatory material included in a qualification section or an emphasis of matter section is reliable and satisfies the test of materiality.***
- .11 It is the obligation of the auditor to issue an audit report within a reasonable period of time after submission to the auditor of the completed financial report. ***The auditor should not unreasonably defer issuing an audit report in the hope of obtaining further evidence to resolve a situation that may result in a modified audit report.***
- .12 Audit reports are to be expressed in a clear, affirmative and unambiguous manner so as to reflect the individual circumstances relevant to each audit. Nonetheless, a measure of uniformity in the form and content of the audit report is desirable so that the message is communicated by different auditors in a comparable manner, to help promote understandability and to identify unusual circumstances when they are reported. The Appendices to this AUS include examples of audit reports containing unqualified and modified audit reports prepared in accordance with this AUS.

Basic Elements of the Audit Report

- .13 The audit report includes the following basic elements, ordinarily in the following layout:
- (a) a title;
 - (b) the addressee;
 - (c) a section describing the audit scope;
 - (d) when the audit opinion is qualified, a section describing the qualification;
 - (e) a section expressing the auditor's opinion on the financial report;

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- (f) when appropriate, a section describing an emphasis of matter;
 - (g) the auditor's signature;
 - (h) the auditor's address; and
 - (i) the date of the audit report.
- .14 The audit report may include other matters as required by the audit mandate that do not affect the form or content of the financial report, such as an opinion on the entity's compliance with specific statutory or other requirements. For example, an audit report prepared pursuant to the *Corporations Act 2001*, may, while containing an unqualified opinion on the financial report, include the auditor's opinion regarding a deficiency, failure or shortcoming in the keeping of statutory registers. Such matters would ordinarily be included in a separate section, following the opinion section, with an appropriate heading such as "Additional Statutory Disclosures".

Title

- .15 ***The audit report should have an appropriate title including the word "Independent"***. This helps the user to identify the audit report and to easily distinguish it from reports that might be issued by others, for example by management.

Addressee

- .16 ***The audit report should be addressed as required by the terms of the engagement***. The audit report will usually be addressed to either the governing body or the members of the entity whose financial report is being audited.

Scope Section

- .17 ***The audit report should include a section headed "Scope" which includes the following:***
- (a) ***identification of the financial report being audited, including the name of the entity and the reporting period covered by the financial report;***
 - (b) ***a statement that the financial report is the responsibility of the members of the governing body;***

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- (c) a statement that the auditor has conducted an independent audit of the financial report in order to express an opinion thereon to the addressee;*
- (d) a statement that the audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement;*
- (e) in rare and exceptional circumstances, when a departure from a basic principle or essential procedure may be necessary, as indicated in Miscellaneous Professional Statement APS 1.1 "Conformity with Auditing Standards", the statement required under paragraph (d) should provide details of the particular basic principle(s) or essential procedure(s) that has been departed from together with the justification for the departure. As indicated in APS 1.1, this statement is not required where the basic principle or essential procedure relates to a matter that is not material or where the Auditing Standard contains an exceptional circumstance departure provision in the black-lettering;*
- (f) 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;*
- (g) a statement indicating that these procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the financial reporting framework identified in AUS 702.21 (clearly indicating that Australia is the country of origin of the identified financial reporting framework), so as to present a view which is consistent with the auditor's understanding of the entity's financial position, the results of its operations and its cash flows; and*
- (h) a statement that the audit opinion expressed in the report has been formed on the above basis.*

.18 This section may also contain details of any other duties imposed on the auditor by the audit mandate, particularly when "Additional Statutory Disclosures" are made (refer AUS 702.14).

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Qualification Section

- .19 The duty of the auditor is to convey information, not merely arouse enquiry. ***Therefore, whenever the auditor expresses a qualified opinion, the audit report should include a section headed "Qualification" which includes a clear description of all the substantive reasons, and:***
- (a) ***a quantification of the effects or possible effects on the amounts and other disclosures contained in, or omitted from, the financial report; or***
 - (b) ***if the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefor.***

This information may also include a reference to a more extensive discussion in a note to the financial statements.

- .20 ***When a major component of the financial report has been omitted, or is fundamentally misstated, it may not be appropriate for the auditor to generate the required information necessary to fully detail the financial effect of the matter. The audit report should include a statement indicating that the financial effect of the omission has not been detailed and the reasons therefor.*** This situation may arise, for example, when no cash flow statement has been prepared for inclusion in the financial report or a major subsidiary has not been consolidated.

Audit Opinion Section

- .21 ***The audit report should include a section headed "Audit Opinion" or "Qualified Audit Opinion", as appropriate. This section should clearly express the auditor's opinion as to whether the financial report is presented fairly in accordance with:***
- (a) ***Accounting Standards and other mandatory professional reporting requirements in Australia; and***
 - (b) ***when appropriate, relevant statutory and other requirements.***
- .22 Specific reference in the audit report to Accounting Standards and other mandatory professional reporting requirements and, when appropriate, relevant statutory and other requirements, is required because it advises the user of the financial reporting framework within which the professional opinion of the auditor has been

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reached. UIG Consensus Views are mandatory professional reporting requirements. The statement required by AUS 702.17 (g) regarding presentation of a view which is consistent with the auditor's understanding of the entity's financial position, the results of its operations and its cash flows is inextricably linked to, and does not override, the formation of an opinion regarding fair presentation in accordance with the identified financial reporting framework (clearly indicating that Australia is the country of origin of the identified financial reporting framework).

Wording to Express the Auditor's Opinion

- .23 ***The wording to express the auditor's opinion should be: " ... presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia [and, when appropriate, relevant statutory and other requirements]".*** The word "fairly" has been used in this context to communicate to the user that the auditor has applied judgement when considering the application of the financial reporting framework, it does not constitute an override of that framework. The word "applicable" has been used in this context to communicate to the user that due cognisance has been paid to the application of all relevant Accounting Standards, be they Australian Accounting Standards or AASB Accounting Standards. This wording also allows for uniformity in describing the financial reporting framework regardless of whether or not a particular entity is required to comply with AASB Accounting Standards.
- .24 ***When the audit mandate makes the wording identified in AUS 702.23 inappropriate, the auditor should ensure that the wording required by the mandate, supplemented if necessary, is adequate to convey the opinion required by AUS 702.21.*** For example, Appendix 4 to this AUS provides examples of audit reports prepared pursuant to the *Corporations Act 2001* in which the expression "true and fair view" is used.

Types of Opinion

- .25 ***The opinion expressed in the audit report should be either:***
- (a) unqualified¹; or***
 - (b) qualified¹. A qualified opinion should be expressed as:***

¹ An audit report that contains either an unqualified or a qualified opinion may, in certain circumstances, include an emphasis of matter section.

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- (i) *an "except for" opinion;*
- (ii) *an adverse opinion; or*
- (iii) *an inability to form an opinion.*

Unqualified Opinion

.26 *An unqualified opinion should be expressed when the auditor is satisfied in all material respects that the financial report is presented fairly in accordance with:*

- (a) *Accounting Standards and UIG Consensus Views; and*
- (b) *relevant statutory and other requirements,*

so as to present a view which is consistent with the auditor's understanding of the entity's financial position, the results of its operations and its cash flows.

"Except for" Opinion

.27 *An "except for" opinion should be expressed when the auditor concludes that an unqualified opinion is inappropriate because of a disagreement with management, a conflict between applicable financial reporting frameworks or a scope limitation, the effects or possible effects of which are not of such a magnitude or so pervasive or fundamental as to require the expression of an adverse opinion or an inability to form an opinion.*

Adverse Opinion

.28 *An adverse opinion should be expressed when the effects of a disagreement with management or a conflict between applicable financial reporting frameworks is of such a magnitude or is so pervasive or fundamental that the financial report taken as a whole is, in the auditor's opinion, misleading or of little use to the addressee of the audit report.* For example, an adverse opinion would be expressed when the financial report is so incomplete as to be uninformative or clearly inadequate for a proper appreciation of the entity's financial position, the results of its operations and its cash flows.

.29 In such circumstances, expression of an inability to form an opinion is not appropriate since the auditor has sufficient appropriate audit evidence to form an opinion that the financial information is not

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presented fairly in accordance with Accounting Standards, UIG Consensus Views and relevant statutory and other requirements.

Inability to Form an Opinion

- .30 ***An inability to form an opinion should be expressed when a scope limitation exists and:***
- (a) ***sufficient appropriate audit evidence to resolve the uncertainty resulting from the limitation cannot reasonably be obtained; and***
 - (b) ***the possible effects of the adjustments that might have been required had the uncertainty been resolved are of such a magnitude or so pervasive or fundamental that the auditor is unable to express an opinion on the financial report taken as a whole.***

Emphasis of Matter Section

- .31 In certain limited circumstances it will be appropriate for the auditor to draw attention to or emphasise a matter that is relevant to the users of the audit report but is not of such a nature that it affects the audit opinion. The circumstances in which an emphasis of matter will be appropriate are discussed in AUS 702.57 to .65. In other circumstances however, use of an emphasis of matter would be inappropriate and would unacceptably impair the audit report's understandability. ***The audit report should not, except as required by this AUS, draw attention to or emphasise any matter which has, in the auditor's opinion, been adequately dealt with in the financial report.***
- .32 ***An emphasis of matter section should be suitably headed and should be placed immediately after the audit opinion section.*** An emphasis of matter is not a qualification and care needs to be taken to ensure that this is clear to the user of the audit report when describing the matter, for example by use of words such as "Without qualification to the opinion expressed above, attention is drawn to ..." or, when the audit opinion has been qualified, "Without further qualification to the opinion expressed above, attention is drawn to ...".

Signature

- .33 ***The audit report should be signed in the name of the appointed auditor.*** This will be the audit firm or the individual, as appropriate.

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Auditor's Address

- .34 ***The audit report should name a specific location, which is ordinarily the city in which the auditor maintains the office that has responsibility for the audit.***

Date of the Audit Report

- .35 ***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.***
Dating the audit report informs the user that the auditor considered the effects on the financial report and on the audit report of those transactions and other events that occurred up to the date cited and of which the auditor became aware.
- .36 The financial report approved by the governing body and considered by the auditor when signing the audit report, may be in the form of final drafts from which printed documents will be prepared. Subsequent production of printed copies of the financial report and audit report does not constitute the creation of a new document. Copies of the report produced for circulation may therefore reproduce a printed version of the auditors' signature showing the date of actual signature.
- .37 Before signing the audit report, the auditor will need to consider whether the form of draft documents is sufficiently clear to form an opinion on the overall financial report presentation. When the auditor concludes that this is not the case, it will be necessary for signing to be deferred.
- .38 If the date on which the auditor signs the audit report is later than that on which the governing body approved the financial report, the auditor would take such steps as are appropriate to:
- (a) obtain assurance that the governing body would have approved the financial report on that later date (for example, by obtaining confirmation from specified individual members of the governing body to whom authority has been delegated for this purpose); and
 - (b) ensure that procedures regarding subsequent events cover the period up to that date.

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Circumstances that Result in a Modified Report

.39 The following table lists the circumstances in which a modified report would be issued and the type of audit opinion appropriate to those circumstances:

	Material but not Extreme	Extreme Cases
Disagreement with management (including inherent uncertainty not adequately disclosed) (AUS 702.44 to .50)	"except for" opinion	adverse opinion
Conflict between applicable financial reporting frameworks (AUS 702.51 and .52)	"except for" opinion	adverse opinion
Scope limitation (AUS 702.53 to .56)	"except for" opinion	inability to form an opinion
Additional disclosure with which the auditor concurs (AUS 702.58 and .59)	unqualified opinion with an emphasis of matter	
Inherent uncertainty (going concern or other) that is adequately disclosed (AUS 702.60 to .62)	unqualified opinion with an emphasis of matter	
Accompanying information is inconsistent with the audited financial report (AUS 702.63)	unqualified opinion with an emphasis of matter	
Subsequent event creates new conditions which did not exist at reporting date and which render the going concern basis inappropriate, and this is adequately disclosed (AUS 702.64)	unqualified opinion with an emphasis of matter	
Subsequent event results in a new audit report on a revised financial report (AUS 702.65)	unqualified opinion with an emphasis of matter	

.40 In a modified audit report, reference would be made to all relevant matters. For example, a qualification on one matter would not be regarded as a reason for omitting other, perhaps unrelated, qualifications which otherwise would have been reported. Similarly,

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reporting a matter directly to, for example, management or a regulator, would not be regarded as a reason for omitting that matter from the audit report on the financial report.

- .41 When the audit report is modified, the auditor would consider whether the circumstances giving rise to the modification may necessitate:
- (a) inclusion in the audit report of other matters as required by the audit mandate. For example, when reporting under the *Corporations Act 2001*, a qualification because of a limitation on scope will usually also require the auditor to state that all the required information and explanations have not been obtained; or
 - (b) forwarding the audit report or a separate report to a third party, such as a regulatory body or law enforcement agency, as required by the audit mandate or by the law.

Circumstances that Result in a Qualified Opinion

- .42 ***The auditor should express a qualified opinion when any of the following circumstances exist and, in the auditor's judgement, the effects of the matter are or are likely to be material:***

- (a) ***a disagreement with management regarding the financial report;***
- (b) ***a conflict between applicable financial reporting frameworks; or***
- (c) ***a limitation on the scope of the audit.***

- .43 ***Before expressing a qualified opinion, the auditor should take all reasonable steps to be in a position to express an unqualified opinion.*** The fact that the auditor may judge it necessary to include a qualified opinion in the audit report does not necessarily impugn the integrity of the entity's management who are responsible for the preparation and presentation of the financial report and the information contained therein. There may, for instance, be factors affecting certain assets or liabilities of the entity which give rise to a difference of opinion between management and the auditor as to the amounts at which the relevant items ought to be stated in the financial report. It is the duty of the auditor to exercise independent judgement and express an opinion.

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Disagreement with Management

- .44 The auditor may disagree with management as to:
- (a) the appropriateness of the accounting policies selected;
 - (b) the method of their application (including the appropriateness of accounting estimates); and
 - (c) the adequacy or appropriateness of disclosures in the financial report (including disclosures regarding inherent uncertainties).

Accounting policies and disclosures are determined in accordance with Accounting Standards and UIG Consensus Views and relevant statutory and other requirements.

Accounting Standards

- .45 ***When there has been a departure from an Accounting Standard and/or UIG Consensus View the auditor should express a qualified opinion. When the qualification involves a departure from a specific Accounting Standard and/or UIG Consensus View, the audit report should cite that Standard and/or Consensus View.*** This includes cases when the auditor disagrees with management as to the appropriateness of an accounting estimate made pursuant to a specific Accounting Standard and/or UIG Consensus View.
- .46 When the auditor is satisfied that there has been a departure from a UIG Consensus View, the auditor should consider whether this departure also represents a departure from an Accounting Standard. Where it is clear that the UIG Consensus View is directly related to a specific Accounting Standard and has been issued to assist in the application of that Standard, the auditor should express a qualified opinion on the basis of the departure from both the Accounting Standard and the UIG Consensus View. Where the UIG Consensus View is supported by principles drawn from more than one accounting Standard and/or Statements of Accounting Concepts and/or other pronouncements, the auditor will need to exercise judgement in determining whether the departure from the UIG also constitutes a departure from Accounting Standards. Where the auditor is satisfied that there is no departure from Accounting Standards, the auditor should express a qualified opinion on the departure from the UIG Consensus View.

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- .47 *When the financial statements have been prepared in accordance with Accounting Standards and UIG Consensus Views, but additional disclosures have been made in the financial report on the basis that, or which imply that, application of a particular Accounting Standard and/or UIG Consensus View has resulted in the financial report being potentially misleading, a qualified opinion should be expressed in relation to the additional disclosures unless, in rare circumstances, the auditor is of the opinion that:*
- (a) it is likely, in the absence of the additional disclosures, that users would be misled when making evaluations or decisions about the allocation of scarce resources; and*
 - (b) the additional disclosures contain all, and only, relevant and reliable information, and are presented in such a manner as to ensure the financial report as a whole is comparable and understandable in meeting the objectives of a general purpose financial report.*

When these rare circumstances exist, AUS 702.58 and .59 apply.

- .48 When an accounting policy or disclosure for a particular transaction or event is not governed by a specific Accounting Standard and/or UIG Consensus View, the auditor would be satisfied that the selected accounting policy, as applied, and the disclosures made, are in accordance with the Accounting Standards dealing with materiality and accounting policies.

Relevant Statutory and Other Requirements

- .49 *The auditor should form an opinion on compliance with those statutory and other requirements that affect the form or content of the financial report when:*
- (a) those requirements apply to the entity by virtue of an Act of Parliament, including any regulations, rules or directives, pursuant to such an Act;*
 - (b) the audit mandate requires the auditor to form such an opinion; or*
 - (c) the financial report includes an assertion that those requirements have been complied with.*

Examples of such requirements may include the requirements of a self regulatory professional association, a securities exchange, a

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contract and a constituting document such as a trust deed or partnership agreement.

- .50 ***When there has been a departure from a relevant statutory or other requirement, the auditor should express a qualified opinion.*** Depending upon the audit mandate, it will be appropriate for the auditor to report on the financial report's presentation in accordance with relevant statutory and other requirements either explicitly or only on an exception basis, that is, only when a departure has been noted.

Conflict between Applicable Financial Reporting Frameworks

- .51 ***When the application of accounting policies required or allowed by relevant statutory and other requirements has not resulted in a fair presentation in accordance with Accounting Standards and/or UIG Consensus Views:***

(a) ***an unqualified opinion should be expressed with respect to presentation in accordance with relevant statutory and other requirements; and***

(b) ***a qualified opinion should be expressed with respect to presentation in accordance with Accounting Standards and UIG Consensus Views as appropriate.***

- .52 ***When the accounting policies applied are contrary to those required by relevant statutory and other requirements, the audit opinion should be qualified with respect to presentation in accordance with those requirements, whether or not the auditor's opinion with respect to presentation in accordance with Accounting Standards and UIG Consensus Views is qualified.***

Scope Limitation

- .53 A limitation on the scope of the auditor's work exists when sufficient appropriate audit evidence on which to base an unqualified opinion does or did exist, or could reasonably be expected to have existed, but is not available to the auditor.

- .54 A limitation on the scope of the auditor's work may be imposed by the audit mandate, for example when the terms of the engagement specify that the auditor will not carry out a specific audit procedure that the auditor considers necessary or when there is a restriction on the type of opinion the auditor can express. ***When a scope limitation imposed by the audit mandate is such that the auditor considers an inability to form an opinion would need to be expressed, the***

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limited engagement should not be accepted or continued past the current period as an audit engagement. An auditor should not accept an audit engagement when a known limitation infringes on the auditor's legal duties or ethical or other professional responsibilities.

- .55 A limitation on the scope of the auditor's work may be imposed by the circumstances of the particular engagement, for example when the timing of the auditor's appointment is such that the auditor is unable to observe the counting of physical inventories. It may also arise when, in the opinion of the auditor, the entity's accounting records are inadequate or when an audit procedure the auditor believes desirable is unable to be carried out. *When a scope limitation is imposed by the circumstances of the particular engagement, the auditor should attempt to carry out reasonable alternative procedures to overcome the limitation.*
- .56 *When a scope limitation exists, the wording of the auditor's opinion should indicate that it is qualified as to the effects on the financial report of such adjustments, if any, as might have been required had the limitation not existed.*

Circumstances that Result in an Emphasis of Matter

- .57 The inclusion in the audit report of an emphasis of matter section is appropriate only in the circumstances described below.

Additional Disclosure

- .58 *When an unqualified opinion is expressed in the rare circumstances described in AUS 702.47, the audit report should include an emphasis of matter section headed "Application of Australian Accounting Standard AAS ... (or Accounting Standard AASB ...)" and/or "Application of Urgent Issues Group Consensus View ..." which:*
- (a) draws attention to the additional disclosures;*
 - (b) states that in the auditor's opinion application of the particular Accounting Standard and/or UIG Consensus View has, in this instance, resulted in the financial report being potentially misleading;*
 - (c) states the specific reasons why the auditor believes the additional disclosures are necessary to ensure the financial report as a whole is not misleading (the auditor's reasons are to be stated in the audit report itself*

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rather than only by reference to the reasons included in the financial report); and

(d) states that, in the auditor's opinion, the additional disclosures are relevant and reliable in meeting the objectives of a general purpose financial report.

.59 *The auditor should send a copy of the audit report to the Executive Director of the Australian Accounting Research Foundation within seven days after the date thereof.*

Inherent Uncertainty

.60 Accounting estimates are customarily made in connection with amounts and other disclosures appearing in the financial reports. In most cases the auditor is able to be satisfied regarding the reasonableness of an accounting estimate, and guidance on this matter is contained in AUS 516 "Audit of Accounting Estimates". Such an estimate will not ordinarily be regarded as an inherent uncertainty for the purposes of this AUS.

.61 In certain instances however, the effects of a matter, the outcome of which is contingent upon future events, will not be capable of reasonable measurement at the date the audit report is signed, by virtue of the nature of the matter in question, the facts of the particular situation and the lack of objective evidence. Such a matter is an inherent uncertainty for the purposes of this AUS when its potential to affect the financial report is not so remote as to make its disclosure irrelevant. An inherent uncertainty can be expected to be resolved at a future date and may arise, for example, regarding the continued appropriateness of the going concern assumption.

.62 *When an inherent uncertainty exists, the audit report should include an emphasis of matter section headed "Inherent Uncertainty regarding ...", and the auditor should carefully consider the adequacy of the disclosure of the uncertainty and the reliability of all amounts and other disclosures affected by it.* If however, in the auditor's opinion, disclosure of the uncertainty is inadequate or amounts and other disclosures are unreliable, a qualified opinion would be expressed on the basis of a disagreement with management and the emphasis of matter section would be omitted. For example, disclosure of an inherent uncertainty regarding unresolved litigation may be considered to be inadequate unless the range of possible outcomes and the probability of each is disclosed.

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Inconsistent Other Information

- .63 ***When information in a document containing the audited financial report is materially inconsistent with that financial report, the audit report should include an emphasis of matter section describing the material inconsistency.***

Inappropriateness of Going Concern as a Result of New Conditions After Reporting Date

64. ***When it is highly improbable that an entity will continue as a going concern because of an event occurring after reporting date which provides new information that does not relate to conditions existing at reporting date, and there has been adequate disclosure of this in the financial report, in accordance with AASB 1002/AAS 8 "Events Occurring After Reporting Date" paragraph 5.1, the audit report should include an emphasis of matter section which describes the event and refers to the note to the financial statements. The auditor should carefully consider the adequacy of the disclosure of the event in the note and the reliability of all amounts and other disclosures affected by it. If however, in the auditor's opinion, disclosure of the event is inadequate or amounts and other disclosures are unreliable, a qualified opinion would be expressed on the basis of a disagreement with management. Having regard to the guidance in this Standard, the auditor should exercise professional judgement in respect of the likely effect(s) of the disagreement with management, and determine whether it is appropriate to express either an "except for" opinion or an "adverse opinion" in relation to such matters.***

Subsequent Events Resulting in a New Audit Report on a Revised Financial Report

- .65 ***When a financial report and the audit report thereon have been issued, and a fact is discovered that leads management to prepare a revised financial report, the new audit report on the revised financial report should include an emphasis of matter paragraph. That paragraph should refer to a note to the financial statements that more extensively discusses the reason for the revision of the previously issued financial report, and to the earlier report issued by the auditor.***

Operative Date

- .66 This revised AUS is operative in relation to the first financial reporting period ending on or after 30 June 2002, although earlier application is encouraged. This current revision of AUS 702

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supersedes AUS 702 "The Audit Report on a General Purpose
Financial Report", as revised in February 1999.

Compatibility with International Standards on Auditing

- .67 Except for the following matters, the basic principles and essential procedures of this AUS and of International Standard on Auditing ISA 700 The Auditor's Report on Financial Statements, are consistent in all material respects:
- (a) ISA 700 requires quantification of the possible effects of a qualification "unless impracticable". The Auditing & Assurance Standards Board considers that matters subject to qualification should be quantified unless they are incapable of being measured reliably, in which case a statement to that effect and the reasons therefor should be disclosed in the audit report.
 - (b) ISA 700 permits an "except for" opinion if a matter that is material and pervasive does not render the financial report as a whole misleading when it is read in conjunction with the audit report. The Auditing & Assurance Standards Board considers that the audit report ought not be treated as part of the financial report and, therefore, ought not be used as a means of providing information to overcome deficiencies in the financial report. Therefore, this AUS requires that the auditor's decision as to whether to issue an "except for" or adverse opinion be made by considering the effect of the matter on the financial report alone, rather than by considering its effect on the financial report when read in conjunction with the audit report;
 - (c) AUS 702 is more explicit than ISA 700 regarding what constitutes a disagreement with management (AUS 702.44 to .49);
 - (d) the position adopted in ISA 700 regarding an emphasis of matter can be summarised as follows:

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	Material but not Extreme	Extreme Cases
Inherent uncertainty: going concern question	unqualified opinion with an emphasis of matter is required	unqualified opinion with an emphasis of matter, or inability to form an opinion is required
Inherent uncertainty: other than a going concern question	unqualified opinion is required, an emphasis of matter may be added	unqualified opinion with an emphasis of matter, or inability to form an opinion is required
Any other matter that does not result in a qualification	unqualified opinion is required, an emphasis of matter may be added	unqualified opinion is required, an emphasis of matter may be added

The Auditing & Assurance Standards Board considers that:

- (i) because of the possibility of an emphasis of matter being misinterpreted as a qualification and therefore misleading users of the audit report, an emphasis of matter should only be added in certain limited circumstances (AUS 702.31);
- (ii) to ensure consistency in audit reporting, an emphasis of matter should always be added when those limited circumstances arise; and
- (iii) because those limited circumstances do not affect the auditor's opinion on the financial report, an inability to form an opinion is not appropriate even in extreme cases.

The circumstances in which an emphasis of matter is to be used are limited by AUS 702 to the following:

- (i) "additional disclosures" (AUS 702.58 and .59);

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- (ii) "inherent uncertainties" including those involving a going concern question (AUS 702.60 to .62);
- (iii) "inconsistent other information" (AUS 702.63);
- (iv) "inappropriateness of going concern as a result of new conditions after reporting date" (AUS 702.64); and
- (v) "subsequent events resulting in a new audit report on a revised financial report" (AUS 702.65).

In addition, ISA 700 allows an emphasis of matter to be placed either before or after the audit opinion. To ensure consistency and to reinforce the fact that an emphasis of matter does not affect the auditor's opinion on the financial report, AUS 702.32 requires that an emphasis of matter be placed immediately after the audit opinion section;

- (e) various differences exist in relation to the exact form and wording of the audit report, including the requirements of AUS 702 to use the word "Independent" in the title and appropriate headings within the report; and
- (f) ISA 700 does not include basic principles/essential procedures equivalent to those identified in AUS 702.10, .11, .43, .51, .52 and .55.

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Background to Revision

This section does not form part of the Standard. It is a summary of the reasons for the current revision to the Standard and of key issues which have been considered by the Auditing & Assurance Standards Board (AuASB) as part of this revision.

1. In June 2001, the International Auditing Practices Committee (IAPC) of the International Federation of Accountants amended its International Standard on Auditing ISA 700 "The Auditor's Report on Financial Statements", to require the country of origin of the relevant financial reporting framework used in the preparation of a financial report to be clearly identified in the auditor's report, when the framework used is not International Accounting Standards.
2. Following exposure in Australia of ED 79 "Amendments to AUS 702" in October 2001, the AuASB has sought to harmonise AUS 702 with the changes made by the IAPC to its revised ISA 700. AUS 702 now requires auditors to clearly identify both in the "Scope" and "Audit Opinion" sections of the auditor's report, that an Australian financial reporting framework has been used to prepare the audited financial report.
3. Other amendments to the "grey letter" text of AUS 702 have been made to replace references to the former Corporations Law with the *Corporations Act 2001*, which came into effect on 15 July 2001. All audit reports on corporate financial reports that are signed on or after 15 July 2001 are now to refer to the *Act*.
4. Footnotes have been inserted in Appendices 1 and 2 to draw to the attention of auditors that references to "results of operations" in the "Scope" and "Audit Opinion" sections of example "non-corporate" audit reports may be replaced by the term "financial performance", as a result of the changes in terminology brought about by revised Accounting Standard AAS 1/AASB 1018 "Statement of Financial Performance." It is recommended that references in audit reports for corporate entities (refer Appendix 4) are best not changed at this stage, due to the term "performance" having a broader meaning under section 297 of the *Corporations Act 2001*, to also include "cash flows", in addition to "results of operations/financial performance" as it is understood under AAS 1/AASB 1018.

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APPENDIX 1 - EXAMPLE OF AN UNQUALIFIED AUDIT REPORT

This Appendix provides an example of an unqualified audit report that is consistent with the requirements of this AUS. The Auditing & Assurance Standards Board believes the form of audit report in this example is relevant for general purpose financial reports of all entities in the private and public sectors. However, some audit mandates:

- (a) require certain information to be provided by the auditor in addition to that included in this form of audit report (as noted in AUS 702.14); and/or
- (b) make the wording of the opinion expressed in this form of audit report inappropriate (as noted in AUS 702.24).

The most commonly encountered of such mandates is for audits conducted pursuant to the *Corporations Act 2001*, the audit reporting requirements of which are summarised in Appendix 3. Appendix 4 provides examples of corporate entity audit reports.

INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the financial report of [name of entity] for the year ended 30 June 20X1 as set out on pages X to Y¹. The [members of the governing body] are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to [addressee].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia [and relevant statutory and other requirements²] so as to present a view which is consistent with our understanding of the [entity's] financial position, the results of its operations[#] and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia (and [#]²) the financial position of [name of entity] as at 30 June 20X1 and the results of its operations[#] and its cash flows for the year then ended.

Date	Firm
Address	Partner

¹ or identify the individual components when appropriate.

² cite relevant statutory and other requirements when appropriate.

[#] "The term "results of operations" may also be described as "financial performance" consistent with the term used in Accounting Standard AAS 1/AASB 1018 "Statement of Financial Performance".

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APPENDIX 2 - EXAMPLES OF MODIFIED AUDIT REPORTS

These examples incorporate the requirements of this AUS but are not intended to suggest standard wording for the circumstances of particular qualifications.

Example 1: "Emphasis of Matter"

INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the financial report of [name of entity] for the year ended 30 June 20X1 as set out on pages X to Y¹. The [members of the governing body] are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to [addressee].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia [and relevant statutory and other requirements²] so as to present a view which is consistent with our understanding of the [entity's] financial position, the results of its operations³ and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia (and [#]) the financial position of [name of entity] as at 30 June 20X1 and the results of its operations³ and its cash flows for the year then ended.

Inherent Uncertainty Regarding Litigation

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated in Note X to the financial statements, [name of entity] is the defendant in litigation alleging infringement of certain patent rights and claiming royalties and damages amounting to \$XXX. The [entity] has filed a counter-action for damages etc, amounting to \$XXX, and preliminary hearings and discovery proceedings on both actions are in progress. As discussed in Note X, the circumstances of the case are such that the ultimate outcome of the litigation cannot presently be determined with an acceptable degree of reliability, and accordingly no provision for any liability that may result has been made in the financial statements.

Date
Address

Firm
Partner

¹ or identify the individual components when appropriate.

² cite relevant statutory and other requirements when appropriate.

[#] "The term "results of operations" may also be described as "financial performance" consistent with the term used in AAS 1/AASB 1018 "Statement of Financial Performance".

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Example 2: "Except for" Opinion

INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the financial report of [name of entity] for the year ended 30 June 20X1 as set out on pages X to Y³. The [members of the governing body] are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to [addressee].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia [and relevant statutory and other requirements⁴] so as to present a view which is consistent with our understanding of the [entity's] financial position, the results of its operations[#] and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

[name of entity] has not recognised interest earned but not received as at balance date. This is a departure from Australian Accounting Standard AAS 1 "Statement of Financial Performance", which requires that all items of revenue arising during a period be taken into account in determining the profit for that period. The total interest earned but not received as at 30 June 20X1 was \$XXX (20X0 — \$XXX). In our opinion, this revenue should have been recognised in the year in which it was earned. Had this been done, the operating profit before income tax would be \$XXX (20X0 — \$XXX), after income tax and extraordinary items \$XXX (20X0 — \$XXX), total equity \$XXX (20X0 — \$XXX) and sundry debtors \$XXX (20X0 — \$XXX).

Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph, the financial report presents fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia (and ...⁴) the financial position of [name of entity] as at 30 June 20X1 and the results of its operations[#] and its cash flows for the year then ended.

Date	Firm
Address	Partner

³ or identify the individual components when appropriate.

⁴ cite relevant statutory and other requirements when appropriate.

[#] "The term "results of operations" may also be described as "financial performance" consistent with the term used in Accounting Standard AAS 1/AASB 1018 "Statement of Financial Performance".

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Example 3: Adverse Opinion

INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the financial report of [parent entity] for the year ended 30 June 20X1 as set out on pages X to Y⁵. The [members of the governing body] are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to [addressee].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia [and relevant statutory and other requirements⁶] so as to present a view which is consistent with our understanding of the [parent entity's] financial position, the results of its operations[#] and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

Included in the financial report as a non-current asset is [parent entity's] investment in [subsidiary entity], recorded at a cost of \$XXX. [Parent entity] has not presented a consolidated financial report which combines the financial report of [subsidiary entity] with that of [parent entity]. Although a consolidated financial report is not required by ...⁶, it is required by Australian Accounting Standard AAS 24 "Consolidated Financial Reports" because [parent entity] has the capacity to dominate [subsidiary entity's] decision making in relation to its financial and operating policies.

The audited financial report of [subsidiary entity] for the year ended 30 June 20X1 disclosed an operating loss and extraordinary items after income tax of \$XXX (20X0 – \$XXX) and a net liability position of \$XXX (20X0 – \$XXX). As there were no significant transactions between [parent entity] and [subsidiary entity] during the year and no significant inter-entity balances at balance date, had a consolidated financial report been presented, it would disclose an operating loss and extraordinary items after income tax attributable to members of [parent entity] of approximately \$XXX (20X0 – \$XXX) and a net liability position of approximately \$XXX (20X0 – \$XXX). In our opinion, the presentation of a consolidated financial report is fundamental to a proper appreciation of [parent entity's] financial position, the results of its operations[#] and its cash flows.

⁵ or identify the individual components when appropriate.

⁶ cite relevant statutory and other requirements.

[#] "The term "results of operations" may also be described as "financial performance" consistent with the term used in Accounting Standard AAS 1/AASB 1018 "Statement of Financial Performance".

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Qualified Audit Opinion

In our opinion, the financial report of [parent entity] complies with ...⁶, however, because of the effects of the matter discussed in the qualification paragraphs, the financial report does not present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia the financial position of [parent entity] as at 30 June 20X1 and the results of its operations[#] and its cash flows for the year then ended.

Date
Address

Firm
Partner

[#] "The term "results of operations" may also be described as "financial performance" consistent with the term used in Accounting Standard AAS 1/AASB 1018 "Statement of Financial Performance".

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Example 4: Inability to Form an Opinion

INDEPENDENT AUDIT REPORT

To [addressee]

Scope

We have audited the financial report of [name of entity] for the year ended 30 June 20X1 as set out on pages X to Y⁷. The [members of the governing body] are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to [addressee].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia [and relevant statutory and other requirements⁸] so as to present a view which is consistent with our understanding of the [entity's] financial position, the results of its operations[#] and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

As stated in Note X to the financial statements, a fire at the [entity's] computer centre destroyed many of the accounting records. The fire occurred prior to the completion of our audit. As the remaining accounting records are not adequate to permit the application of necessary auditing procedures, we are unable to obtain all the information and explanations we require in order to form an opinion on the financial report.

Qualified Audit Opinion

In our opinion, because of the existence of the limitation on the scope of our work as described in the qualification paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed, we are unable to and do not express an opinion as to whether the financial report is presented fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements (and ...⁸) of the financial position of [name of entity] as at 30 June 20X1 and the results of its operations[#] and its cash flows for the year then ended.

Date
Address

Firm
Partner

⁷ or identify the individual components when appropriate.
⁸ cite relevant statutory and other requirements when appropriate.
[#] "The term "results of operations" may also be described as "financial performance" consistent with the term used in Accounting Standard AAS 1/AASB 1018 "Statement of Financial Performance".

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APPENDIX 3

*SUMMARY OF AUDIT REPORTING REQUIREMENTS
OF THE CORPORATIONS ACT 2001*

Background

- .01 The auditor's reporting obligations for entities subject to the *Corporations Act 2001* ("the Act") are found in Division 3 of Part 2M.3 of that Act. The Act sets out the auditor's obligations to form an opinion and to report to members, both in respect of the audit of an annual financial report¹ and the audit or review of a half-yearly financial report. . The Act came into effect on 15 July 2001 and replaced the former Corporations Law, following the referral of powers by the States to the Commonwealth.
- .02 This Appendix provides a summary of the auditor's responsibilities with regard to the audit of the annual financial report of a corporate entity. Guidance on the audit and review of half-year financial reports is contained in Auditing Guidance Statement AGS 1016 "Audit and Review Reports on Half-Year Financial Reports of Disclosing Entities Under the Corporations Act 2001".

Duty to Form an Opinion

- .03 Section 307 of the Act requires an auditor who conducts an audit of a financial report for a financial year or half-year to form an opinion as to:
- (a) whether the financial report is in accordance with the Act, including:

¹ Note Under section 314 of the *Corporations Act 2001* a company, registered scheme or disclosing entity may report to members by way of either a full or concise report. See Appendix 4 of this Auditing Standard for various examples of audit reports on full corporate financial reports and Appendix 5 for examples of audit reports on concise corporate financial reports.

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- (i) section 296 (compliance with accounting standards)²; and
- (ii) section 297 (true and fair view)³; and
- (b) whether the auditor has been given all information, explanation and assistance necessary for the conduct of the audit; and
- (c) whether the company, registered scheme or disclosing entity has kept financial records sufficient to enable a financial report to be prepared and audited; and
- (d) whether the company, registered scheme or disclosing entity has kept other records and registers as required by that Act.

Duty to Report on the Annual Financial Report

- .04 An auditor who audits the financial report for a financial year must report to members on whether the auditor is of the opinion that the financial report is in accordance with the Act, including: the matters identified in section 307(a) as outlined above. If the auditor is not of that opinion, the auditor's report must say why [section 308(1)].
- .05 If, in the auditor's opinion, the financial report does not comply with an accounting standard, the auditor's report must, to the extent practicable, quantify the effect that non-compliance has on the financial report. If it is not practicable to quantify the effect fully, the report must say why [section 308(2)].

² Section 296 *inter alia* requires that in addition to compliance with accounting standards, the financial report must also comply with any further requirements in the regulations to the *Corporations Act 2001*.

³ Section 297 requires that the financial statements and notes for a financial year must give a true and fair view of:

- (a) the financial position and performance of the company, registered scheme or disclosing entity; and
- (b) if consolidated financial statements are required – the financial position and performance of the consolidated entity.

For the purposes of the guidance provided in this Appendix as well as Appendix 4, the AuASB is of the view that the term "financial position" is represented by the corporate entity's balance sheet as at the end of the financial year, and the term "performance" is represented by the corporate entity's results of operations for the financial year as reported in the statement of financial performance, (previously known as profit and loss statement) and cash flows for the financial year as reported in the statement of cash flows.

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- .06 The audit report must describe:
- (a) any defect or irregularity in the financial report [section 308(3)(a)]; and
 - (b) any deficiency, failure or shortcoming in respect of the matters identified in sections 307(b), (c) or (d) [section 308(3)(b)]. Whilst the auditor is required to form an opinion on these matters, the auditor only needs to report on them by exception.
- .07 The audit report must specify the date on which it is made [section 308(4)].

Directors' Declaration

- .08 Section 295(1)(c) of the Act includes a Directors' Declaration on the annual financial statements and notes as part of the annual financial report.
- .09 Section 295(4) defines the Directors' Declaration as a declaration by the directors:
- (a) that the financial statements and notes comply with accounting standards; and
 - (b) that the financial statements and notes give a true and fair view (as per section 297 of the Act); and
 - (c) whether, in the directors' opinion, there are reasonable grounds to believe that the company, registered scheme, or disclosing entity will be able to pay its debts as and when they become due and payable; and
 - (d) whether, in the directors' opinion, the financial statements and notes are in accordance with the Act, including:
 - (i) the requirements of section 296 (compliance with accounting standards); and
 - (ii) section 297 (true and fair view).
- .10 As indicated above, sections 307 and 308 of the Act require the auditor to form an opinion and report to members as to whether the financial report is in accordance with that Act. Consequently, it should be noted that as the Directors' Declaration forms part of the

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financial report under section 295(1), the auditor is also required to form an opinion on this declaration.

Concise Financial Reports

- .11 Section 314(1) of the Act enables companies, registered schemes and disclosing entities to report to members for a financial year either by way of a full annual report or alternatively, a concise report.
- .12 A concise report is defined in section 314(2) to comprise a concise financial report for the year drawn up in accordance with accounting standards made for concise reporting; the directors' report for the year; and a statement by the auditor that the financial report has been audited, and whether, in the auditor's opinion, the concise financial report complies with the accounting standards relating to concise reporting.⁴ In addition, a copy of any qualification in the auditor's report on the entity's full financial report, and of any statements included in the emphasis of matter section of the auditor's report on the full financial report, must also be included in the concise report. It should be noted however, that section 314 does not require a concise financial report to include the directors' declaration made under section 295(4) in respect of the full financial report. Consequently, where the directors of an entity decide to include the directors' declaration as part of the concise financial report, the auditor has a discretion as to whether to make reference to the declaration in the audit report on the concise financial report.
- .13 Pursuant to the provisions in section 314(2) of the Act, the Australian Accounting Standards Board in December 1998 issued Accounting Standard AASB 1039 "Concise Financial Reports". The Standard *inter alia* specifies the minimum content of a concise financial report, including a requirement that the financial statements forming part of that report be accompanied by discussion and analysis to assist the understanding of members. Given that the concise report will, in many cases, be the only report which is sent to members,⁵ the concise financial report is to be regarded as a general purpose financial report.
- .14 Given that the concise financial report is an alternative form of reporting to members under the Act, the Auditing & Assurance Standards Board (AuASB) believes that the audit of the concise

⁴ Example audit reports on concise financial reports may be found in Appendix 5 to this Auditing Standard.

⁵ Unless members request a copy of the full annual report – see section 314 (2)(d).

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financial report should be treated as a separate engagement from the audit of the full financial report. This view has also been taken because additional audit procedures will be necessary when undertaking the audit of the concise financial report, given that AASB 1039 requires the inclusion of other information not found in the full financial report, such as discussion and analysis.

- .15 In order to avoid any misunderstandings in relation to the audit of the concise financial report, it is in the interests of both the entity and the auditor to initially confirm the objective and scope of the audit of the concise financial report (including the audit of discussion and analysis disclosures in that report), by way of a separate audit engagement letter. On recurring audits, the engagement letter should be revised as appropriate. Furthermore, given that the Act does not require a directors' declaration to be included in the concise financial report, it would also be prudent for the auditor to obtain a written representation from the entity's directors which attests that the concise financial report (including the discussion and analysis disclosures) complies with the requirements of AASB 1039.
- .16 AASB 1039 adopts the view that the information reported in the financial statements forming part of the concise financial report will be enhanced by discussion and analysis of the principal factors which affect the financial performance, financial position and financing and investing activities of an entity. According to that Accounting Standard, the extent of discussion and analysis which is required to be provided in concise financial reports will vary from entity to entity, and from year to year, as is necessary in the circumstances to compensate for the brevity of the concise financial report, compared with the full financial report. Whilst AASB 1039 does not mandate specific discussion and analysis disclosures, paragraph 5.3.2 of the Standard does provide various examples of the types of disclosures which may be expected to accompany the statement of financial performance, the statement of financial position and the statement of cash flows.
- .17 As the inclusion of discussion and analysis is not presently required in the full financial reports of entities reporting under the Act, the audit of a concise financial report requires additional audit procedures to be undertaken as appropriate, to enable the auditor to reach a conclusion on the discussion and analysis, when forming an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with AASB 1039.
- .18 These additional audit procedures may include for example, a recalculation of ratios and/or trend analysis which have been

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included in the discussion and analysis, and ensuring that these are consistent with the information in the entity's financial statements. Whilst AASB 1039 requires that the financial statements and the specific disclosures in a concise financial report be consistent with the full financial report of the entity, it is recognised that because of the nature of discussion and analysis, such information (for example, a discussion and analysis of the main influences on the costs of the operations of the entity) goes beyond the type of disclosure which is normally included in the audited full financial report. In such circumstances, appropriate additional audit procedures would need to be performed to enable the auditor to form an opinion on the accuracy of the disclosure. Furthermore, the auditor is required to apply other audit procedures and exercise professional judgement to determine whether such information is complete in terms of satisfying the broad discussion and analysis requirements of AASB 1039.

- .19 Where information which is of a subjective and/or prospective nature is included in the discussion and analysis, either to comment on, or to augment the entity's financial statements forming part of the concise financial report (for example, a discussion of the impact of significant economic or other events on the operations of the entity), the auditor will again need to exercise professional judgement, and assess whether the inclusion of such information in the audited concise financial report has the potential to materially mislead users. If the auditor considers that this information is overly subjective and/or prospective in nature, and that it is information which cannot be quantified or verified, then the auditor may be obliged under AUS 702 to issue a modified audit report with the auditor's opinion qualified as a result of a disagreement with management on the adequacy or appropriateness of disclosures in the concise financial report.⁶
- .20 In view of the above, it is important that the auditor ascertains from management at an early stage during the audit, the extent and nature of the discussion and analysis which it intends to include in the concise financial report. In doing so, the auditor seeks to avert any difficulties which might otherwise arise with regard to the auditability of such information and thus, inform management at that stage if, in the auditor's opinion, there is any possibility that users might be materially misled by the inclusion of overly subjective and/or prospective terminology and information in the discussion and analysis which forms part of the concise financial report.

⁶ See AUS 702.44.

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Other Requirements

- .21 In addition to the foregoing statutory requirements pertaining to the audit of the annual financial report, it should be borne in mind that there are further specific statutory requirements in respect of certain other matters affecting the auditor's responsibilities. The auditor should therefore, note the requirements of section 311 in respect of reporting suspected contraventions of the Act to the Australian Securities & Investments Commission (ASIC), and section 313 relating to special provisions on the audit of borrowing corporations and guarantor bodies.

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APPENDIX 4 - EXAMPLES OF AUDIT REPORTS ON FULL CORPORATE FINANCIAL REPORTS

These examples incorporate both the requirements of this AUS and the statutory audit reporting requirements of the *Corporations Act 2001* (as summarised in Appendix 3), but are not intended to suggest standard wording for the circumstances of particular qualifications.

Example 1: Single Corporate Entity – Unqualified Opinion

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y¹. The [company/registered scheme/disclosing entity]'s directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements[#] so as to present a view which is consistent with our understanding of the [company/registered scheme/disclosing entity]'s financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of [name of entity] is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Date
Address

Firm
Partner

¹ or identify the individual components when appropriate, including the Directors' Declaration.

[#] or refer to the *Corporations Act 2001*.

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Example 2: Consolidated Financial Report – Unqualified Opinion

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y². The financial report includes the consolidated financial statements of the consolidated entity comprising the [company/registered scheme/disclosing entity] and the entities it controlled at the year's end or from time to time during the financial year. The [company/registered scheme/disclosing entity]'s directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements[#] so as to present a view which is consistent with our understanding of the [company/registered scheme/disclosing entity]'s and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of [name of entity] is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s and consolidated entity's financial position as at 30 June 20X1 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Date
Address

Firm
Partner

² or identify the individual components when appropriate, including the Directors' Declaration.

[#] or refer to the *Corporations Act 2001*.

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Example 3: Single Corporate Entity – "Except for" Opinion, for example, a Departure from an Accounting Standard

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y³. The [company/registered scheme/disclosing entity]'s directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements[#] so as to present a view which is consistent with our understanding of the [company/registered scheme/disclosing entity]'s financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

Explanatory paragraph describing the reasons for the qualification and quantifying the effects.

Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph, the financial report of [name of entity] is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Date	Firm
Address	Partner

³ or identify the individual components when appropriate, including the Directors' Declaration.

[#] or refer to the *Corporations Act 2001*.

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Example 4: Single Corporate Entity – Inability to Form an Opinion

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y⁴. The [company/registered scheme/disclosing entity]'s directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements[#] so as to present a view which is consistent with our understanding of the [company/registered scheme/disclosing entity]'s financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

Explanatory paragraph describing the reasons for the qualification and quantifying the possible effects.

Qualified Audit Opinion⁵

In our opinion, because of the existence of the limitation on the scope of our work, as described in the qualification paragraph, and the effects of such adjustments, if any, as might have been determined to be necessary had the limitation not existed:

1. we are unable to and do not express an opinion as to whether the financial report of [name of entity] is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

⁴ or identify the individual components when appropriate, including the Directors' Declaration.

[#] or refer to the *Corporations Act 2001*.

⁵ the wording of this example will not be appropriate in all circumstances, for example, when the auditor is able to form an opinion about the keeping of financial records sufficient to enable a financial report to be prepared and audited, and the keeping of other records.

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- (b) other mandatory professional reporting requirements in Australia; and
- 2. we have not been given all information, explanation and assistance necessary for the conduct of the audit; and
- 3. we are unable to determine whether the [company/registered scheme/disclosing entity] has kept:
 - (a) financial records sufficient to enable the financial report to be prepared and audited; and
 - (b) other records (with the exception of registers) as required by the *Corporations Act 2001*.

Date
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Partner

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Example 5: Single Corporate Entity – Concurrence with "Additional Disclosures"

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y⁶. The [company/registered scheme/disclosing entity]'s directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity].

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements[#] so as to present a view which is consistent with our understanding of the [company/registered scheme/disclosing entity]'s financial position, and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of [name of entity] is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Application of Accounting Standard AASB 10XX

Without qualification to the opinion expressed above, attention is drawn to the following matter. As required by the *Corporations Act 2001* the [company/registered scheme/disclosing entity] has, in the preparation of its balance sheet and profit and loss statement, applied the ABC method of accounting for widgets in accordance with Accounting Standard AASB 10XX:

The directors are of the opinion, however, that application of the ABC method has not resulted in the financial report giving a true and fair view as required by the *Corporations Act 2001*. The directors have therefore provided the additional disclosures in Note X which indicate that had the LMN method of accounting for widgets been adopted, the financial report would, in the

⁶ or identify the individual components when appropriate, including the Directors' Declaration.

[#] or refer to the *Corporations Act 2001*.

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directors' opinion, have given a true and fair view. The effect of adopting the LMN method rather than the ABC method is disclosed in Note X.

Because of (state the auditor's reasons in full), it is our opinion that:

- (a) application of the ABC method in accordance with Accounting Standard AASB 10XX has, in this instance, resulted in the treatment of widgets leading to the balance sheet and profit and loss statement being potentially misleading;
- (b) the additional disclosures provided by the directors in Note X are necessary to ensure the financial report as a whole is not misleading; and
- (c) the information in Note X, including application of the LMN method as the most appropriate alternative method, is relevant and reliable.

Date
Address

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Partner

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APPENDIX 5

EXAMPLES OF AUDIT REPORTS ON CONCISE CORPORATE FINANCIAL REPORTS

These examples incorporate both the requirements of this AUS and the statutory audit reporting requirements of section 314 of the *Corporations Act 2001* in respect of concise financial reports prepared in accordance with Accounting Standard AASB 1039 "Concise Financial Reports". The examples, however, are not intended to suggest standard wording for the circumstances of particular qualifications.

It should also be noted that as AASB 1039 does not require parent entity information to be separately disclosed when consolidated financial information is presented in concise financial reports, separate references to the parent entity and consolidated entity are not required in audit reports on concise financial reports.

Example 1: Unqualified Audit Report on a Concise Corporate Financial Report

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the concise financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y¹, in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity]. The [company/registered scheme/disclosing entity]'s directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of [name of entity] for the year ended 30 June 20X1. Our audit report on the full financial report was signed on [date], and was not subject to any qualification.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

¹ Or identify individual components when appropriate.

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Audit Opinion

In our opinion, the concise financial report of [name of entity] complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Date
Address

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Partner

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Example 2: Qualified Audit Report on a Concise Corporate Financial Report – "Except for" Opinion

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the concise financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y², in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity]. The [company/registered scheme/disclosing entity]'s directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of [name of entity] for the year ended 30 June 20X1. Our audit report on the full financial report was signed on [date], and was subject to qualification for the reasons set out in the qualification paragraph below.³

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Qualification

*Explanatory paragraph describing the reasons for the qualification and quantifying the effects.*⁴

Qualified Audit Opinion

In our opinion, except for the effects on the concise financial report of the matter referred to in the qualification paragraph, the concise financial report of [name of entity] complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Date
Address

Firm
Partner

² Or identify individual components when appropriate.

³ If the audit report on the full financial report is unqualified, and the qualification to be included in the audit report on the concise financial report relates solely to a defect in the concise financial report, the wording in the scope section should be amended to read "which was not subject to any qualification".

⁴ If the audit report on the full financial report has been qualified, the qualification paragraph from that audit report should be included here.

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Example 3: Modified Audit Report on a Concise Corporate Financial Report – "Emphasis of Matter"

INDEPENDENT AUDIT REPORT

To the members of [name of entity]:

Scope

We have audited the concise financial report of [name of entity] for the financial year ended 30 June 20X1 as set out on pages X to Y⁵, in order to express an opinion on it to the members of the [company/registered scheme/disclosing entity]. The [company/registered scheme/disclosing entity]'s directors are responsible for the concise financial report.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the concise financial report is free of material misstatement. We have also performed an independent audit of the full financial report of [name of entity] for the year ended 30 June 20X1. Our audit report on the full financial report was signed on [date], and was not subject to any qualification, but included a statement in respect of [description of emphasis of matter *e.g. inherent uncertainty regarding litigation*] as set out below.

Our procedures in respect of the audit of the concise financial report included testing that the information in the concise financial report is consistent with the full financial report, and examination on a test basis, of evidence supporting the amounts, discussion and analysis, and other disclosures which were not directly derived from the full financial report. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports".

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the concise financial report of [name of entity] complies with Accounting Standard AASB 1039 "Concise Financial Reports".

Description of Emphasis of Matter e.g. Inherent Uncertainty Regarding Litigation.

Insert emphasis of matter paragraph as per the audit report on the entity's full financial report.

Date
Address

Firm
Partner

⁵ Or identify individual components when appropriate.