

Compiled Auditing Standard

ASA 701

(June 2007)

Auditing Standard ASA 701

Modifications to the Auditor's Report

This compilation was prepared on 27 June 2007 taking into account amendments made up to and including 27 June 2007

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



Australian Government

Auditing and Assurance Standards Board

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COMPILATION DETAILS

Auditing Standard ASA 701 *Modifications to the Auditor's Report* as Amended

This compilation takes into account amendments up to and including 27 June 2007 and was prepared on 27 June 2007 by the staff of the Auditing and Assurance Standards Board (AUASB).

This compilation is not a separate Auditing Standard made by the AUASB. Instead, it is a representation of ASA 701 (April 2006) as amended by an other Auditing Standard which is listed in the Table below.

Table of Standards

Standard	Date made	Operative date
ASA 701	28 April 2006	1 July 2006
ASA 2007-1	27 June 2007	1 July 2007 (Auditor's reports signed and dated on or after 1 July 2007)

Table of Amendments

Paragraph affected	How affected	By ... [paragraph]
Appendix 2 - Example 1	Amended	ASA 2007-1 [19, 20, 21, 22, 32]
Appendix 2 - Example 2	Amended	ASA 2007-1 [19, 20, 21, 22, 32]
Appendix 2 - Example 3	Amended	ASA 2007-1 [19, 20, 21, 25, 32]
Appendix 2 - Example 4	Amended	ASA 2007-1 [19]
Appendix 2 - Example 5	Amended	ASA 2007-1 [19, 20, 21, 26, 32]
Appendix 2 - Example 6	Amended	ASA 2007-1 [19, 20, 21, 27, 32]
Appendix 2 - Example 7	Amended	ASA 2007-1 [19]

AUTHORITY STATEMENT

Auditing Standard ASA 701 *Modifications to the Auditor's Report* (as amended 27 June 2007) is set out in paragraphs 1 to 37 and Appendices 1 to 2.

This Auditing Standard is to be read in conjunction with the *Preamble to AUASB Standards* which sets out the intentions of the AUASB on how the Auditing Standards are to be understood, interpreted and applied.

The mandatory requirements of this Auditing Standard are set out in **bold-type** paragraphs.

AUDITING STANDARD ASA 701

The Auditing and Assurance Standards Board (AUASB) made Auditing Standard ASA 701 *Modifications to the Auditor's Report*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*, on 28 April 2006.

This compiled version of ASA 701 incorporates subsequent amendments contained in an other Auditing Standard made by the AUASB up to and including 27 June 2007 (see Compilation Details).

AUDITING STANDARD ASA 701

Modifications to the Auditor's Report

Application

- 1 **This Auditing Standard applies to:**
 - (a) **an audit of a financial report for a financial year, or an audit of a financial report for a half-year, in accordance with Part 2M.3 of the *Corporations Act 2001*; and**
 - (b) **an audit of a financial report for any other purpose.**
- 2 This Auditing Standard also applies, as appropriate, to an audit of other financial information.

Operative Date

- 3 **This Auditing Standard is operative for financial reporting periods commencing on or after 1 July 2006.**
[Note: For operative dates of paragraphs changed or added by an amending Standard, see Compilation Details.]

Introduction

- 4 The purpose of this Auditing Standard is to establish mandatory requirements and to provide explanatory guidance on the circumstances when the auditor's report is modified and the form and the content of the modifications to the auditor's report in those circumstances.
- 5 ASA 700 *The Auditor's Report on a General Purpose Financial Report*, establishes mandatory requirements and provides explanatory guidance on the form and content of the auditor's report on a general purpose financial report prepared in accordance with a financial reporting framework designed to achieve fair presentation when the auditor is able to express an unqualified opinion and no modification to the auditor's report is necessary. ASA 800 *The*

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

Auditor's Report on Special Purpose Audit Engagements, establishes mandatory requirements and provides explanatory guidance on the form and content of the auditor's report in other audit engagements. This Auditing Standard describes how the auditor's report wording is modified in the following situations:

Matters that Do Not Affect the Auditor's Opinion

- (a) Emphasis of matter.

Matters that Do Affect the Auditor's Opinion

- (a) Qualified opinion.
 - (b) Disclaimer of opinion.
 - (c) Adverse opinion.
- 6 Uniformity in the form and content of each type of modified auditor's report will further the user's understanding of such auditor's reports. Accordingly, this Auditing Standard includes suggested wording of modifying phrases for use when issuing modified auditor's reports.
- 7 The illustrative auditor's reports in this Auditing Standard are based on the auditor's report on a general purpose financial report, prepared in accordance with the requirements of the *Corporations Act 2001* and ASA 700. The principles relating to the circumstances when the auditor's report is modified are, however, also applicable to reports on other engagements related to the audit of financial information, such as general purpose financial reports for entities of a different nature (for example, certain public sector entities) and the audit engagements described in ASA 800, and the illustrative reports are adapted as appropriate in the circumstances.

Matters that Do Not Affect the Auditor's Opinion

- 8 In certain circumstances, an auditor's report is modified by adding an emphasis of matter paragraph to highlight a matter affecting the financial report which is included in a note to the financial statements¹ that more extensively discusses the matter. The addition of such an emphasis of matter paragraph does not affect the auditor's opinion. The paragraph would preferably be included after the

¹ A note to the financial statements may, or may not, exist when information in a document containing the audited financial report is materially inconsistent with that financial report – see paragraph 17 of this Auditing Standard.

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paragraph containing the auditor's opinion but before the section on any other reporting responsibilities, if any. The emphasis of matter paragraph would ordinarily refer to the fact that the auditor's opinion is not qualified in this respect.

Significant Uncertainty - Going Concern

- 9 The auditor shall modify the auditor's report by adding a paragraph to highlight a significant uncertainty regarding a going concern problem.**
- 10 See ASA 570 *Going Concern*, for further mandatory requirements and explanatory guidance.

Significant Uncertainty - Other

- 11 The auditor shall modify the auditor's report by adding a paragraph if there is a significant uncertainty (other than a significant uncertainty regarding a going concern problem), the resolution of which is dependent upon future events and which may materially affect the financial report.**

Significant Uncertainty - Going Concern and Other

- 12 An uncertainty is a matter whose outcome depends on future events not under the direct control of the entity but that may affect the financial report.
- 13 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 mandatory requirements and explanatory guidance on this matter are contained in ASA 540 *Audit of Accounting Estimates*. Such an estimate will not ordinarily be regarded as a significant uncertainty for the purposes of this Auditing Standard.
- 14 The addition of a paragraph emphasising a significant uncertainty regarding a going concern problem or an other significant uncertainty is ordinarily adequate to meet the auditor's reporting responsibilities regarding such matters. However, in extreme cases, such as situations involving multiple uncertainties that are significant to the financial report, the auditor may consider it appropriate to express a disclaimer of opinion instead of adding an emphasis of matter paragraph.

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Additional Disclosures

- 15** When an unqualified opinion is expressed in the rare circumstances described in paragraph 34, the auditor's report shall include an emphasis of matter section headed "Application of Australian Accounting Standard AASB ..." which:
- (a) draws attention to the additional disclosures;
 - (b) states that in the auditor's opinion application of the particular Accounting Standard 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 auditor's report itself 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 the financial report.
- 16** When an auditor's report is prepared on a financial report prepared under the *Corporations Act 2001*, section 308(3B) requires that if the financial report includes additional information under paragraph 295(3)(c) (additional information included to give a true and fair view of the entity's financial position and performance), the auditor's report includes the auditor's opinion on whether the additional information was necessary to give a true and fair view. Appendix 2, Example 2 provides an example of such reporting requirements in the context of the circumstances described in paragraph 34 of this Auditing Standard. See also ASA 700 for mandatory requirements and explanatory guidance on Other Reporting Responsibilities.

Inconsistent Other Information

- 17** When information in a document containing the audited financial report is materially inconsistent with that financial report, the auditor's report shall include an emphasis of matter section describing the material inconsistency.

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- 18 See ASA 720 *Other Information in Documents Containing Audited Financial Reports*, for mandatory requirements and explanatory guidance relating to this matter.

Subsequent Events Resulting in a New Auditor's Report on a Revised Financial Report

- 19 When a financial report and the auditor's report thereon have been issued, and a fact is discovered that leads those charged with governance to prepare a revised financial report, the new auditor's report on the revised financial report shall include an emphasis of matter paragraph. That paragraph shall 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.**

Other Reporting Responsibilities

- 20 ASA 700 provides mandatory requirements and explanatory guidance relating to additional responsibilities the auditor may have to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial report.

Matters that Do Affect the Auditor's Opinion

- 21 An auditor may not be able to express an unqualified opinion when any of the following circumstances exist and, in the auditor's judgement, the effect of the matter is or may be material to the financial report:
- (a) there is a limitation on the scope of the auditor's work;
 - (b) there is a disagreement with those charged with governance regarding the acceptability of the accounting policies selected, the method of their application or the adequacy of financial report disclosures; or
 - (c) there is a conflict between applicable financial reporting frameworks.

The circumstances described in (a) could lead to a qualified opinion or a disclaimer of opinion. The circumstances described in (b) could lead to a qualified opinion or an adverse opinion. The circumstances described in (c) could lead to a qualified opinion or an adverse opinion. These circumstances are discussed more fully in paragraphs 29-36.

- 22 **A qualified opinion shall be expressed when the auditor concludes that an unqualified opinion cannot be expressed but that the effect of any disagreement with those charged with governance, a conflict between applicable financial reporting frameworks or limitation on scope is not so material and pervasive as to require an adverse opinion or a disclaimer of opinion. A qualified opinion shall be expressed as being “except for” the effects of the matter to which the qualification relates. The opinion paragraph shall be headed “Qualified Auditor’s Opinion”.**
- 23 **A disclaimer of opinion shall be expressed when the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial report. The opinion paragraph shall be headed “Disclaimer of Auditor’s Opinion”.**
- 24 **An adverse opinion shall be expressed when the effect of a disagreement or a conflict between applicable financial reporting frameworks is so material and pervasive to the financial report that the auditor concludes that a qualification of the auditor’s report is not adequate to disclose the misleading or incomplete nature of the financial report. The opinion paragraph shall be headed “Adverse Auditor’s Opinion”.**
- 25 **Whenever the auditor expresses an opinion that is other than unqualified, a clear description of all the substantive reasons shall be included in the auditor’s report and, unless impracticable, a quantification of the possible effect(s) on the financial report. If the effects or possible effects are incapable of being measured reliably, a statement to that effect and the reasons therefore shall be included in the basis for modification paragraph of the auditor’s report.**
- 26 **Ordinarily, this information would be set out in a separate paragraph preceding the opinion or disclaimer of opinion on the financial report and may include a reference to a more extensive discussion, if any, in a note to the financial statements.**
- 27 **When a major component of the financial report has been omitted, or is fundamentally misstated and the auditor is unable to generate the required information necessary to fully detail the financial effect of the matter, the auditor’s report shall include a statement indicating that the financial effect of the omission has not been detailed and the reasons therefor.**

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- 28 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.

Circumstances that may Result in Other than an Unqualified Opinion

Limitation on Scope

- 29 A limitation on the scope of the auditor's work may sometimes be imposed by the entity (for example, when the terms of the engagement specify that the auditor will not carry out an audit procedure that the auditor believes is necessary). However, when the limitation in the terms of a proposed engagement is such that the auditor believes the need to express a disclaimer of opinion exists, the auditor would ordinarily not accept such a limited engagement as an audit engagement, unless required by statute. Also, a statutory auditor would not ordinarily accept such an audit engagement when the limitation infringes on the auditor's statutory duties.
- 30 A scope limitation may be imposed by circumstances (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 the auditor is unable to carry out an audit procedure believed to be desirable. In these circumstances, under ASA 330 *The Auditor's Procedures in Response to Assessed Risks*, the auditor needs to carry out reasonable alternative audit procedures in an attempt to obtain sufficient appropriate audit evidence to support an unqualified opinion.
- 31 **When there is a limitation on the scope of the auditor's work that requires expression of a qualified opinion or a disclaimer of opinion, the auditor's report shall describe the limitation and indicate the possible adjustments to the financial report that might have been determined to be necessary had the limitation not existed.**

Disagreement with those Charged with Governance

- 32 The auditor may disagree with those charged with governance about matters such as the acceptability of accounting policies selected, the method of their application, or the adequacy of disclosures in the financial report.

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- 33** If disagreements between the auditor and those charged with governance about the acceptability, selection, application or adequacy of disclosures in the financial report are material to the financial report, the auditor shall express a qualified or an adverse opinion.
- 34** When the financial report has been prepared in accordance with Australian Accounting Standards but additional disclosures have been made in the financial report on the basis that, or which imply that, application of a particular Accounting Standard has resulted in the financial report being potentially misleading, a qualified opinion shall be expressed in relation to the additional disclosures, unless 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 the financial report.

When these circumstances exist, the auditor shall apply the mandatory requirements in paragraph 15.

Conflict Between Applicable Financial Reporting Frameworks

- 35** 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 Australian Accounting Standards:
- (a) an unmodified opinion shall be expressed with respect to presentation in accordance with relevant statutory and other requirements; and
 - (b) a qualified or adverse opinion shall be expressed with respect to presentation in accordance with Australian Accounting Standards as appropriate.
- 36** When the accounting policies applied are contrary to those required by relevant statutory and other requirements, the auditor's opinion shall be modified with respect to presentation in accordance with those requirements, whether or not the

auditor's opinion with respect to presentation in accordance with Australian Accounting Standards is modified.

Conformity with International Standards on Auditing

37 Except as noted below, this Auditing Standard conforms with International Standard on Auditing ISA 701 *Modifications to the Independent Auditor's Report*, issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants. The main differences between this Auditing Standard and ISA 701 are:

- In this Auditing Standard, use of an emphasis of matter paragraph is permitted to highlight only a “significant uncertainty” relating to a going concern problem (paragraph 9). However, ISA 701 requires the auditor to modify the auditor’s report by adding an emphasis of matter paragraph to highlight a “material matter regarding a going concern problem”.
- In this Auditing Standard, an auditor is required to modify the auditor’s report if there is a significant uncertainty (other than a significant uncertainty regarding a going concern problem), by using an emphasis of matter paragraph (paragraph 11). However, ISA 701 requires an auditor to consider modifying the auditor’s report if there is a significant uncertainty.
- In this Auditing Standard, mandatory requirements and explanatory guidance are provided:
 - ◆ when an auditor concurs with additional disclosures in the financial report;
 - ◆ when information in a document containing the audited financial report is materially inconsistent with that financial report; and
 - ◆ when subsequent events result in a new auditor’s report on a revised financial report (paragraphs 15 to 19),however, ISA 701 does not.
- This Auditing Standard does not permit use of an emphasis of matter paragraph to report on matters other than those affecting the financial report (paragraph 8). Furthermore,

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this Auditing Standard provides reference to ASA 700 when an auditor has additional reporting responsibilities (paragraph 20). However, ISA 701 allows an emphasis of matter paragraph to be used for other reporting responsibilities on matters other than those affecting the financial report.

- In this Auditing Standard, matters subject to qualification are required to be quantified. If they are incapable of being measured reliably, a statement to that effect and the reasons therefore shall be disclosed in the auditor's report (paragraph 25). However, ISA 701 requires quantification of the possible effects of a qualification "unless impracticable".
- In this Auditing Standard, mandatory requirements and explanatory guidance are provided when a major component of a financial report has been omitted or fundamentally misstated (paragraphs 27 to 28). However, ISA 701 does not.
- In this Auditing Standard mandatory requirements are provided when additional disclosures have been included in a financial report (paragraph 34). However, ISA 701 does not.
- In this Auditing Standard, mandatory requirements are provided 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 Australian Accounting Standards (paragraph 35). However, ISA 701 does not.
- In this Auditing Standard, mandatory requirements are provided when the accounting policies applied are contrary to those required by relevant statutory and other requirements (paragraph 36). However, ISA 701 does not.
- This Auditing Standard provides diagrams illustrating the terminology used in this Auditing Standard and the circumstances in which a modification would be issued and the type of modification appropriate in those circumstances (Appendix 1). However, ISA 701 does not.
- This Auditing Standard provides illustrative examples of modified auditor's reports in the appendices. However, ISA 701 provides illustrative examples, of the paragraphs in the

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auditor's report relating to modifications, in the body of the standard.

Compliance with this Auditing Standard enables compliance with ISA 701.

SUPERSEDED

APPENDIX 1

TERMINOLOGY USED IN THIS AUDITING STANDARD

	“Unqualified”	“Other than Unqualified”
“Unmodified”	Refer ASA 700	
“Modified”	Emphasis of Matter	
		Qualified
		Disclaimer
		Adverse

**CIRCUMSTANCES IN WHICH A MODIFICATION
WOULD BE ISSUED AND THE TYPE OF
MODIFICATION APPROPRIATE IN THOSE
CIRCUMSTANCES.**

Circumstances	Type of Modification	
	<i>Material but not Extreme</i>	<i>Extreme Cases²</i>
Scope Limitation (paragraphs 29-31)	Qualified (paragraph 22)	Disclaimer (paragraph 23)
Disagreement with those charged with governance ³ (paragraphs 32-34)	Qualified (paragraph 22)	Adverse (paragraph 24)
Conflict between applicable financial reporting frameworks (paragraphs 35-36)	Qualified (paragraph 22)	Adverse (paragraph 24)
Significant Uncertainty – Going Concern (paragraphs 9-10)	Emphasis of Matter (paragraph 8)	
Significant Uncertainty – Other (paragraph 11)	Emphasis of Matter (paragraph 8)	
Additional Disclosures with which the auditor concurs (paragraphs 15-16)	Emphasis of Matter (paragraph 8)	
Inconsistent Other Information (paragraphs 17-18)	Emphasis of Matter (paragraph 8)	
Subsequent Event resulting in a new auditor's report on a revised financial report (paragraph 19)	Emphasis of Matter (paragraph 8)	

² Extreme cases are where the effect(s) or possible effect(s) of the circumstances are so material and pervasive that an auditor has been unable to obtain sufficient appropriate audit evidence or where a qualified opinion is inadequate to disclose the misleading or incomplete nature of the financial report.

³ Including additional disclosure with which the auditor does not concur (paragraph 34).

APPENDIX 2

EXAMPLES OF MODIFIED AUDITOR'S REPORTS

These examples incorporate the mandatory requirements of this Auditing Standard and those of ASA 700 *The Auditor's Report on a General Purpose Financial Report*, but are not intended to suggest standard wording for the circumstances of particular modifications.

EXAMPLE 1: EMPHASIS OF MATTER

INDEPENDENT AUDITOR'S REPORT⁴

To the members of [name of entity]

Report on the Financial Report⁵

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.*]

⁴ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

⁵ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

* Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101.

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Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence⁶

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

⁶ Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an auditor's report.

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- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[In our opinion:

- (a) the financial report of [name of entity] is in accordance with 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 20XX and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.†]

Significant Uncertainty Regarding Litigation

Without qualification to the opinion expressed above, we draw attention to Note X to the financial statements. The [company/registered scheme/disclosing entity] is the defendant in a lawsuit alleging infringement of certain patent rights and claiming royalties and punitive damages. The [company/registered scheme/disclosing entity] has filed a counter action, and preliminary hearings and discovery proceedings on both actions are in progress. The ultimate outcome of the matter cannot presently be determined, and no provision for any liability that may result has been made in the financial report.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

† Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 and the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

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[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

SUPERSEDED

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EXAMPLE 2: 'EMPHASIS OF MATTER' - CONCURRENCE WITH 'ADDITIONAL DISCLOSURES'

INDEPENDENT AUDITOR'S REPORT⁷

To the members of [name of entity]

Report on the Financial Report⁸

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.*]

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

⁷ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

⁸ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

* Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*⁹

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[In our opinion:

- (a) the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

⁹ Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an auditor's report.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

- (i) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.†]

Application of Australian 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 income statement, applied the ABC method of accounting for (item) 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* and is so misleading that it conflicts with the objectives of the AASB framework for the preparation and presentation of financial statements. The directors have therefore provided the additional disclosures in Note X which indicate that had the LMN method of accounting for (item) been adopted, the financial report would, in the directors' opinion, have given a true and fair view and would meet the objectives of the AASB framework for the preparation and presentation of financial statements. 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 (item) leading to the balance sheet, income statement and statement of changes in equity being potentially misleading;
- (b) the additional disclosures provided by the directors in Note X are necessary to give the true and fair view required by the *Corporations Act 2001* and ensure the financial report as a whole is not misleading; and

† Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 and the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

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- (c) the information in Note X, including application of the LMN method as the most appropriate alternative method, is relevant and reliable.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

SUPERSEDED

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

EXAMPLE 3: 'LIMITATION ON SCOPE – QUALIFIED OPINION'

INDEPENDENT AUDITOR'S REPORT¹⁰

To the members of [name of entity]

Report on the Financial Report¹¹

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.*]

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Except as discussed in the qualification paragraph, we conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

¹⁰ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

¹¹ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

* Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*¹²

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

We did not observe the counting of the physical inventories as of 30 June 20XX, since that date was prior to the time we were initially engaged as auditors for the [company/registered scheme/disclosing entity]. Owing to the nature of the [company/registered scheme/disclosing entity]'s records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

Qualified Auditor's Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

¹² Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an auditor's report.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to physical inventory quantities:

- (a) the financial report of [name of entity] is in accordance with 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 20XX and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.†]

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

† Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 and the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

EXAMPLE 4: 'LIMITATION ON SCOPE – DISCLAIMER OF OPINION'

INDEPENDENT AUDITOR'S REPORT¹³

To the members of [name of entity]

Report on the Financial Report¹⁴

We were engaged to audit the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. Because of the matter discussed in the Basis for Disclaimer of Auditor's Opinion paragraph, we were not able to complete an audit in accordance with Auditing Standards.

*Independence*¹⁵

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

¹³ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

¹⁴ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁵ Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an auditor's report.

Compiled Auditing Standard ASA 701 Modifications to the Auditor's Report

Basis for Disclaimer of Auditor's Opinion

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

Disclaimer of Auditor's Opinion

In our opinion, because of the existence of the limitation on the scope of our work, as described in the preceding 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 of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements¹⁶

Due to the matter described in the Basis for Disclaimer of Auditor's Opinion paragraph, we have not been given all information, explanation and assistance necessary for the conduct of the audit; and 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 and registers as required by the *Corporations Act 2001*.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

¹⁶ For this example, see ASA 700 and section 308(3)(b) of the *Corporations Act 2001*.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

*EXAMPLE 5: 'DISAGREEMENT ON ACCOUNTING POLICIES –
INAPPROPRIATE ACCOUNTING METHOD - QUALIFIED OPINION'*

INDEPENDENT AUDITOR'S REPORT¹⁷

To the members of [name of entity]

Report on the Financial Report¹⁸

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.*]

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

¹⁷ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

¹⁸ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

* Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [company/registered scheme/disclosing entity] preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*¹⁹

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements. This practice, in our opinion, is not in accordance with Australian Accounting Standards. The provision for the year ended 30 June, 20XX, should be \$xxx based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the fixed assets should be reduced by accumulated depreciation of \$xxx and the loss for the year and accumulated deficit should be increased by \$xxx and \$xxx, respectively.

Qualified Auditor's Opinion

In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

¹⁹ Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an Auditor's report.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[In our opinion, except for the effect on the financial statements of the matter referred to in the preceding paragraph:

- (a) the financial report of [name of entity] is in accordance with 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 20XX and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.†]

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

† Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 and the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

EXAMPLE 6: 'DISAGREEMENT ON ACCOUNTING POLICIES – INADEQUATE DISCLOSURE - QUALIFIED OPINION'

INDEPENDENT AUDITOR'S REPORT²⁰

To the members of [name of entity]

Report on the Financial Report²¹

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.*]

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

²⁰ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

²¹ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

* Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [company/registered scheme/disclosing entity]'s preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence²²

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Qualified Auditor's Opinion

On 15 July, 20XX, the [company/registered scheme/disclosing entity] issued debentures in the amount of \$xxx for the purpose of financing plant expansion. The debenture agreement restricts the payment of future cash dividends to earnings after 30 June, 20XX. In our opinion, disclosure of this information is required by ...[refer to relevant Accounting Standard].

Qualified Auditor's Opinion

In our opinion, except for the omission of the information included in the preceding paragraph, the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

²² Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an auditor's report.

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- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[In our opinion, except for the omission of the information included in the preceding paragraph:

- (a) the financial report of [name of entity] is in accordance with 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 20XX and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.†]

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

† Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 and the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

EXAMPLE 7: 'DISAGREEMENT ON ACCOUNTING POLICIES – INADEQUATE DISCLOSURE - ADVERSE OPINION'

INDEPENDENT AUDITOR'S REPORT²³

To the members of [name of entity]

Report on the Financial Report²⁴

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant

²³ See ASA 700 for requirements and guidance on the auditor's report issued as a result of an audit of a general purpose financial report.

²⁴ The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

to the [company/registered scheme/disclosing entity]'s preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the [company/registered scheme/disclosing entity]'s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence²⁵

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Basis for Adverse Auditor's Opinion

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]. A consolidated financial report is required by Australian Accounting Standard AASB 127 *Consolidated and Separate Financial Statements* because [parent entity] has the capacity to dominate [subsidiary entity's] decision making in relation to its financial and operating policies. 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.

Had a consolidated financial report been presented, it would disclose a different financial position, different results of operations and different cash flows of the [parent entity]. The financial effect of this matter has not been detailed in this report as it is not the purpose of an independent auditor's report to present financial information of this nature.

²⁵ Refer ASIC Class Order 05/83 and ASA 700 for details of when an independence paragraph is required in an auditor's report.

Compiled Auditing Standard ASA 701 *Modifications to the Auditor's Report*

Adverse Auditor's Opinion

In our opinion, because of the effects of the matter discussed in the preceding paragraphs, the financial report of [name of entity] is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company/registered scheme/disclosing entity]'s and consolidated entity's financial position as at 30 June 20XX and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]