

# ASA 700 The Auditor’s Report on a General Purpose Financial Report

## OBJECTIVE

The objective of ASA 700 *The Auditor’s Report on a General Purpose Financial Report* is to prescribe mandatory requirements for auditors in relation to the issuance of an auditor’s report as a result of an audit of a general purpose financial report, when that auditor’s report is both unqualified and unmodified. The Fact Sheet for ASA 701 *Modifications to the Auditor’s Report* explains the situation when modification to the auditor’s report for an emphasis of matter, a qualified opinion, a disclaimer of opinion or an adverse opinion is necessary. Figure 1 depicts the categories of auditor’s reporting choices and which Fact Sheets are applicable to each of the choices. ASA 700 includes example unqualified auditor’s reports and a useful summary of audit reporting requirements under the *Corporations Act 2001*.

Figure 1

		Categories of Auditor’s Reports	
		Unqualified	“Other than Unqualified”
Refer ASA 700 Fact Sheet (this Fact Sheet)	Unmodified		
	Modified	Emphasis of Matter	
Refer ASA 701 Fact Sheet			Qualified
			Disclaimer
			Adverse

## APPLICATION

Financial reporting periods commencing on or after 1 July 2006.

## THE AUDITOR’S OPINION

Under ASA 700 an unqualified opinion is required to be expressed when the auditor concludes that the financial report gives a true and fair view or presents fairly, in all material respects, in accordance with the applicable financial reporting framework. Under ASA 700 the auditor’s report is required to contain a clear expression of the auditor’s opinion on the financial report and, unless required by law or regulation to use different wording, the auditor’s opinion on a general purpose financial report prepared in accordance with a financial reporting framework that is designed to achieve fair presentation shall state whether the financial report “gives a true and fair view” or “presents fairly, in all material respects,” in accordance with the applicable financial reporting framework.

## THE APPLICABLE FINANCIAL REPORTING FRAMEWORK

A general purpose financial report under Australian Accounting Standards comprises a balance sheet, an income statement, a statement of changes in equity, a cash flow statement, a summary of significant accounting policies and other explanatory notes. ASA 700 deems that the phrases “gives a true and fair view” and “presents fairly, in all material respects,” are equivalent. Which is used may be determined by the law or regulations governing the audit of the financial report. For example, the auditor’s opinion on a financial report prepared in accordance with the *Corporations Act 2001* is required by that Act to use the phrase “true and fair view”. In all other cases, the auditor’s opinion on a general purpose financial report ordinarily uses the phrase “presents fairly, in all material respects.” In some cases, law or regulation governing the audit of a financial report may prescribe wording for the auditor’s opinion that is different from the above phrases. When wording prescribed by law or regulation differs significantly from the above phrases, there may be a risk that users misunderstand the assurance obtained in an audit of a financial report. Additionally, consistency in the auditor’s report, promotes

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credibility in the Australian marketplace by making more readily identifiable those audits that have been conducted in accordance with recognised auditing standards. It also helps to promote the reader's understanding and to identify unusual circumstances when they occur. Hence, whilst some elements of the auditor's report must be included because of requirements in ASA 700, auditors are encouraged to comply also with the non obligatory parts of the wording and format for the auditor's report suggested in ASA 700.

The auditor's judgement regarding whether the financial report gives a true and fair view or presents fairly, in all material respects, is made in the context of the applicable financial reporting framework, generally in Australia the AASB's Accounting Standards. The financial reporting framework provides a context for the auditor's evaluation of the fair presentation of the financial report, including whether the financial report has been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures.

## FORMING AN OPINION ON THE FINANCIAL REPORT

Under ASA 700 the auditor is under an obligation to evaluate the conclusions drawn from the audit evidence obtained as the basis for forming an opinion on the financial report. The auditor needs to evaluate whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial report taken as a whole is free from material misstatement. Under ASA 330 *The Auditor's Procedures in Response to Assessed Risks*, and ASA 320 *Materiality and Audit Adjustments*, the auditor needs to conclude whether sufficient appropriate audit evidence has been obtained to reduce to an acceptably low level the risks of material misstatement of the financial report and to evaluate the effects of uncorrected misstatements identified.

Forming this opinion involves evaluating whether the financial report has been prepared and presented in accordance with the specific requirements of the applicable financial reporting framework for particular classes of transactions, account balances and disclosures. This evaluation ordinarily involves considering whether, in the context of the applicable financial reporting framework:

- the accounting policies selected and applied are consistent with the financial reporting framework and are appropriate in the circumstances;
- the accounting estimates made by management and those charged with governance are reasonable in the circumstances;
- the information presented in the financial report, including accounting policies, is relevant, reliable, comparable and understandable; and
- the financial report provides sufficient disclosures to enable users to understand the effect of material transactions and events on the information conveyed in the financial report, for example, in the case of a financial report prepared in accordance with Australian Accounting Standards, the entity's financial position, financial performance and cash flows.

In forming an opinion the auditor ordinarily:

- evaluates the fair presentation of the financial report;
- considers whether the financial report, after any adjustments made by management and those charged with governance as a result of the audit process, is consistent with the auditor's understanding of the entity and its environment;
- considers the overall presentation, structure and content of the financial report; and
- considers whether the financial report, including the note disclosures, faithfully represents the underlying transactions and events in a manner that gives a true and fair view of or presents fairly, in all material respects, the information conveyed in the financial report in the context of the financial reporting framework.

In accordance with ASA 520 *Analytical Procedures*, the auditor is required to apply analytical procedures at or near the end of the audit when forming an overall conclusion as to whether the financial report as a whole is consistent with the auditor's understanding of the entity. Analytical procedures generally involve ratio analysis and other techniques. Such procedures help to corroborate conclusions formed during the audit and assist in arriving at the overall conclusion as to the fair presentation of the financial report.

## RARE CIRCUMSTANCES WHEN APPLYING THE FINANCIAL REPORTING FRAMEWORK RESULTS IN A MISLEADING FINANCIAL REPORT

Accounting Standard AASB 101 *Presentation of Financial Statements*, contains requirements relating to rare and exceptional circumstances in which management and those charged with governance conclude that compliance with an Australian Accounting Standard would be so misleading that it would conflict with the objective of the financial report as set out in the *Framework for the Preparation and Presentation of Financial Statements*. Furthermore, when a financial report is prepared pursuant to the *Corporations Act 2001*, that Act states that if the financial statements and notes prepared in compliance with the Australian Accounting Standards would not give a true and fair view, additional information must be included in the notes to the financial statements necessary to give a true and fair view.

Under ASA 701 *Modifications to the Auditor's Report*, if the auditor encounters circumstances that lead the conclusion that compliance with a specific requirement results in a financial report that is misleading, the auditor needs to consider the need to modify the auditor's report. The modifications, if any, that are appropriate to the auditor's report will depend on how management and those charged with governance address the matter in the financial report and how the financial reporting framework deals with these rare circumstances.

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## ELEMENTS OF THE AUDITOR'S REPORT IN AN AUDIT CONDUCTED IN ACCORDANCE WITH AUDITING STANDARDS

Appendix 1 to ASA 700 contains an illustration of the auditor's report for an audit of a financial report prepared in accordance with Australian Accounting Standards expressing an unqualified and unmodified opinion. In addition to the auditor's opinion, the elements explained below are required to be present.

### Title and introductory paragraph

Under ASA 700 the auditor is under an obligation to include in the auditor's report a title that clearly indicates that it is the report of an independent auditor. This title affirms that the auditor has met all of the relevant ethical requirements regarding independence and, therefore, distinguishes the independent auditor's report from reports issued by others. Also required is that the report be addressed as required by the circumstances of the engagement. It must include an introductory paragraph that identifies the entity whose financial report has been audited and state that the financial report has been audited. The introductory paragraph also must identify the title of each of the financial statements that comprise the financial report; refer to the summary of significant accounting policies, other explanatory notes and, when appropriate, the directors' declaration; and specify the date and period covered by the financial report. When the auditor is aware that the financial report will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the financial report is presented. This helps readers to identify the financial report to which the auditor's report relates.

### Supplementary information

In some circumstances, the entity may be required by law or regulation or standards, or may voluntarily choose, to present together with the financial report, supplementary information that is not required by the financial reporting framework. The auditor's opinion may or may not cover the supplementary information and therefore, the auditor, under ASA 700, needs to be satisfied that any supplementary information that is not covered by the auditor's opinion is clearly differentiated. In some circumstances, the supplementary information cannot be clearly differentiated from the financial report because of its nature and how it is presented and, accordingly, such supplementary information is covered by the auditor's opinion. In such cases, under ASA 700, the auditor needs to explain in the auditor's report that the information has not been audited.

### Responsibility of those charged with governance

Additionally, under ASA 700, the auditor's report must state that those charged with governance are responsible for the preparation and the fair presentation of the financial report in accordance with the applicable financial reporting framework and that this responsibility includes designing, implementing 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. There may be circumstances when it is appropriate for the auditor to add to the description of the responsibilities of those charged with governance to reflect additional responsibilities that are relevant to the preparation and presentation of the financial report in the context of the particular engagement or the nature of the entity. The term "those charged with governance" is used to describe those responsible for the preparation and fair presentation of the financial report.

### The auditor's responsibility

Further, under ASA 700, the auditor's report must state that the responsibility of the auditor is to express an opinion on the financial report based on the audit. This contrasts the auditor's responsibility with that for the preparation and fair presentation of the financial report by those charged with governance.

Additionally, under ASA 700 the auditor's report must state that the audit was conducted in accordance with Australian Auditing Standards, explain that those standards require that the auditor complies with relevant ethical requirements relating to audit engagements and state that the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion. It must also state that the auditor plans and performs the audit to obtain reasonable assurance whether the financial report is free from material misstatement. The auditor's report is required under ASA 700 to refer to the audit having been conducted in accordance with the Australian Auditing Standards and International Standards on Auditing (ISAs) only when the auditor has complied fully with all of the Auditing Standards and ISAs relevant to the audit.

### Description of the audit

Under ASA 700 the auditor's report must go on to describe an audit by stating that:

- 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. and
- an audit also includes evaluating the appropriateness of the accounting policies used, the reasonableness of accounting estimates made by those charged with governance, as well as the overall presentation of the financial report.

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## Other Reporting Responsibilities

Under ASA 700, when the auditor addresses other reporting responsibilities within the auditor's report on the financial report, the auditor is under an obligation to include these other reporting responsibilities in a separate section in the auditor's report that follows the opinion paragraph. This is to clearly distinguish them from the auditor's responsibilities for, and opinion on, the financial report.

## Auditor's signature, date, and address

Under ASA 700, the auditor's report must be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor, as appropriate. Under ASA 700 the auditor's report must be dated as of the date the auditor signs that report. This date can be no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial report. Sufficient appropriate audit evidence includes evidence that the entity's financial report has been prepared and that those charged with governance have asserted that they have taken responsibility for it. The date of the auditor's report informs the reader that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in ASA 560 *Subsequent Events*.

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