

Chapter 3

Audit Reports

■ Concept Checks

P. 81

1. The standard unmodified opinion audit report for a nonpublic entity contains the following eight parts:
 1. *Report title*: Auditing standards require that the report be titled and that the title includes the word *independent*.
 2. *Audit report address*: The report is usually addressed to the company, its stockholders, or the board of directors.
 3. *Introductory paragraph*: The introductory paragraph of the report makes the simple statement that the CPA firm has done an *audit*. Second, it lists the financial statements that were audited, including the balance sheet dates and the accounting periods for the income statement and statement of cash flows.
 4. *Management's responsibility*: This paragraph indicates that the financial statements are the responsibility of management, including selecting appropriate accounting principles and maintaining internal control over financial reporting. The paragraph must be preceded by the heading "Management's Responsibility for the Financial Statements".
 5. *Auditor's responsibility*: The auditor's responsibility section of the report includes three paragraphs and it must include the heading "Auditor's Responsibility". The first paragraph indicates that the auditor's responsibility is to express an opinion on the statements based on an audit conducted in accordance with auditing standards, and that the audit provides reasonable assurance that the financial statements are free of material misstatement.

The second paragraph is the *scope paragraph* and is a factual statement about what the auditor did in the audit. The paragraph briefly describes important aspects of an audit, including that the procedures depend on the auditor's judgment and assessment of the risks of material misstatements. The scope paragraph also indicates that the auditor considers the entity's internal control, but not for the purposes of expressing an opinion on the effectiveness of internal control over financial reporting. The last sentence of the paragraph indicates that the audit includes evaluating the appropriateness of accounting policies selected, the reasonableness of accounting estimates, and the overall financial statement presentation.

Concept Check, P. 81 (continued)

The third paragraph indicates that the auditor believes the audit evidence is sufficient and appropriate to provide a basis for the audit opinion.

6. *Opinion paragraph:* The final paragraph in the standard report states the auditor's conclusions based on the results of the audit. The paragraph must include the title "Opinion".
 7. *Signature and Address of CPA firm:* The name identifies the CPA firm or practitioner who performed the audit, and the city and state where the auditor is located.
 8. *Audit report date:* The appropriate date for the report is the one on which the auditor completed the auditing procedures needed to obtain sufficient appropriate evidence to support the opinion.
2. The auditor should include an explanatory paragraph in an unmodified opinion audit report when the audit is completed with satisfactory results and the financial statements are fairly presented, but the auditor believes it is important to draw the reader's attention to certain matters or the auditor is required to provide additional information. The following are the most important causes of the addition of an emphasis of matter explanatory paragraph or a modification in the wording of the standard unmodified opinion audit report:
- Lack of consistent application of generally accepted accounting principles
 - Substantial doubt about going concern
 - Auditor agrees with a departure from promulgated accounting principles
 - Emphasis of other matters
 - Reports involving other auditors

P. 93

1. The three conditions requiring a departure from an unmodified opinion are:
 1. *The scope of the audit has been restricted.* One example is when the client will not permit the auditor to confirm material receivables. Another example is when the engagement is not agreed upon until after the client's year-end when it may be impossible to physically observe inventories.
 2. *The financial statements have not been prepared in accordance with generally accepted accounting principles.* An example is when the client insists upon using replacement costs for fixed assets.
 3. *The auditor is not independent.* An example is when the auditor owns stock in the client's business.

Concept Check, P. 93 (continued)

2. The three alternative opinions that may be appropriate when the client's financial statements are not in accordance with GAAP are an unmodified opinion, qualified as to opinion only, and adverse opinion. Determining which is appropriate depends entirely upon materiality. An unmodified opinion is appropriate if the GAAP departure is immaterial (standard unmodified) or if the auditor agrees with the client's departure from GAAP (unmodified with explanatory paragraph). A qualified opinion is appropriate when the deviation from GAAP is material but not highly material; the adverse opinion is appropriate when the deviation is highly material.

■ Review Questions

3-1 Auditors' reports are important to users of financial statements because they inform users of the auditor's opinion as to whether or not the financial statements are fairly stated or whether no conclusion can be made with regard to the fairness of their presentation. Users especially look for any deviation from the wording of the standard unmodified report and the reasons and implications of such deviations. Having standard wording improves communications for the benefit of users of the auditor's report. When there are departures from the standard wording, users are more likely to recognize and consider situations requiring a modification or qualification to the auditor's report or opinion.

3-2 The purpose of the scope paragraph under the auditor's responsibility is to inform the financial statement users of the nature of the audit procedures performed. The information in the scope paragraph includes:

1. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.
2. The audit procedures selected depend on the auditor's judgment, and consider the auditor's assessment of the risks of material misstatement, whether due to fraud or error.
3. As part of this risk assessment, the auditor considers internal control over financial reporting in the design of the audit procedures. The assessment is not for the purpose of expressing an opinion on internal control over financial reporting, and the auditor does not express such an opinion.
4. An audit includes evaluating the appropriateness of the accounting policies used, the reasonableness of significant estimates, and the overall presentation of the financial statements.

3-3 The purpose of the opinion paragraph is to state the auditor's conclusions based upon the results of the audit evidence. The most important information in the opinion paragraph includes:

3-3 (continued)

1. The words “in our opinion,” which indicate that the conclusions are based on professional judgment.
2. A statement about whether the financial statements were presented fairly and in accordance with generally accepted accounting principles along with indication of the fiscal year(s) associated with those statements.

3-4 The report should be dated 12 August 2016, the last date of the visit by the audit team.

3-5 A standard unmodified opinion audit report may be issued under the following circumstances:

1. All statements—balance sheet, income statement, statement of retained earnings, and statement of cash flows—are included in the financial statements.
2. Sufficient appropriate evidence has been accumulated and the auditor has conducted the engagement in a manner that enables him or her to conclude that the audit was performed in accordance with auditing standards.
3. The financial statements are presented in accordance with appropriate accounting standards such as U.S. generally accepted accounting principles or IFRS. This also means that adequate disclosures have been included in the footnotes and other parts of the financial statements.
4. There are no circumstances requiring the addition of an explanatory paragraph or modification of the wording of the report.

3-6 The introductory, scope, and opinion paragraphs are modified to include reference to management’s report on internal control over financial reporting, and the scope of the auditor’s work and opinion on internal control over financial reporting. The introductory and opinion paragraphs also refer to the framework used to evaluate internal control. Two additional paragraphs are added between the scope and opinion paragraphs that define internal control and describe the inherent limitations of internal control.

3-7 The standard unmodified opinion audit report for a non-public entity under AICPA auditing standards and the standard unqualified report for a public company under PCAOB auditing standards are very similar in substance. The introductory paragraphs are similar, although the public company report includes the responsibilities of management and the auditor. In contrast, the report for the non-public entity in Figure 3-1 has separate paragraphs for management’s and the auditor’s responsibility. These paragraphs provide additional information on the nature of these responsibilities.

3-7 (continued)

The scope paragraphs in each report are similar. However, there are differences in the description of the nature of the auditor's testing. The report for the non-public company indicates that the procedures are based on the auditor's judgment and consider the risks of material misstatement. The report for the non-public company also indicates that the auditor considers internal control in designing the audit procedures, and not for the purpose of expressing an opinion on internal control.

3-8 The management of a company should be alarmed as the auditors have concluded that the client has failed to comply with generally accepted accounting principles or local accounting standards, such that the non-compliance is highly material towards the truth and fairness of the financial statement as a whole. The auditors have decided not to buy-off the financial statement, and the company would find it difficult to file the financial statement with the Registrar of Company and other authorities without serious queries.

3-9 When another CPA has performed part of the audit, the primary auditor issues one of the following types of reports based on the circumstances.

1. No reference is made to the other auditor. This will occur if the other auditor audited an immaterial portion of the financial statements, the other auditor is known or closely supervised, or if the principal auditor has thoroughly reviewed the other auditor's work.
2. Issue a shared opinion in which reference is made to the other auditor. This type of report is issued when it is impractical to review the work of the other auditor or when a portion of the financial statements audited by the other CPA is material in relation to the total.
3. The report may be qualified if the principal auditor is not willing to assume any responsibility for the work of the other auditor. A disclaimer may be issued if the segment audited by the other CPA is highly material.

3-10 Even though this change has been reflected in the financial statements, a separate explanatory paragraph is required to explain the change in generally accepted accounting principles in the first year in which the change took place.

3-11 Changes that affect the consistency of the financial statements may involve any of the following:

- a. Change in accounting principle
- b. Change in reporting entity
- c. Corrections of errors involving accounting principles.

An example of a change that affects consistency would be a change in the method of computing depreciation from straight line to an accelerated method. A separate explanatory paragraph is required if the amounts are material.

3-11 (continued)

Comparability refers to items such as changes in estimates, presentation, and events rather than changes in accounting principles. For example, a change in the estimated life of a depreciable asset will affect the comparability of the statements. In that case, no explanatory paragraph for lack of consistency is needed because the same method of depreciation is used in both years, but the information may require disclosure in the statements.

3-12 In the following situations, the auditor may place “Conditions Requiring Departures from Unmodified Opinion Audit Report”:

1. Perhaps the client has restricted the audit or the scope of the audit.
2. The client perhaps did not prepare financial statements in accordance with GAA or local accounting standards.
3. Perhaps the auditor himself is not independent when performing the audit due to pressures from the client.

3-13 A *qualified opinion* states that there has been either a limitation on the scope of the audit of material accounts, transactions, or disclosures or a material departure from GAAP in the financial statements, but that the auditor believes that the overall financial statements are fairly presented. This type of opinion may not be used if the auditor believes the exceptions being reported upon are extremely material, in which case a disclaimer or adverse opinion would be used.

An *adverse opinion* states that the auditor believes the overall financial statements are so materially misstated or misleading that they do not present fairly in accordance with GAAP the financial position, results of operations, or cash flows.

A *disclaimer of opinion* states that the auditor has been unable to satisfy himself or herself as to whether or not the overall financial statements are fairly presented because of a significant limitation of the scope of the audit, or a non-independent relationship under the AICPA *Code of Professional Conduct* between the auditor and the client.

Examples of situations that are appropriate for each type of opinion are as follows:

OPINION TYPE	EXAMPLE SITUATION
Qualified	Inability to confirm the existence of an asset which is material but not extremely material in value.
Adverse	A highly material departure from GAAP.
Disclaimer	Material physical inventories not observed and the inventory cannot be verified through other procedures. Lack of independence by the auditor.

3-14 A qualified report due to a scope limitation is issued when the auditor can neither perform procedures that he or she considers necessary nor satisfy himself or herself by using alternative procedures, usually due to the existence of conditions beyond the client's or the auditor's control, but the amount involved in the financial statements is not highly material. An important part of qualified opinion due to a scope limitation is that it results from not accumulating sufficient appropriate audit evidence, either because of the client's request or because of circumstances beyond anyone's control. When the opinion is qualified due to a scope limitation, the auditor modifies both the scope and opinion paragraphs. The scope paragraph is modified to indicate that the auditor's scope has been restricted and the opinion paragraph is modified to include the qualified opinion.

A report qualified as to opinion only results when the auditor has accumulated sufficient appropriate evidence but has concluded that the financial statements are not correctly stated. The only circumstance in which an opinion only qualification is appropriate is for material, but not highly material, departures from GAAP. When the opinion is qualified due to a GAAP departure, only the opinion paragraph is modified to include the qualified opinion. The scope paragraph is not modified because there has been no limitation on the auditor's scope.

3-15 The common definition of materiality as it applies to accounting and, therefore, to audit reporting is:

A misstatement in the financial statements can be considered material if knowledge of the misstatement would affect a decision of a reasonable user of the statements.

Conditions that affect the auditor's determination of materiality include:

- Potential users of the financial statements
- Dollar amounts of the following items: net income before taxes, total assets, current assets, current liabilities, and owners' equity
- Nature of the potential misstatements—certain misstatements, such as fraud, are likely to be more important to users of the financial statements than other misstatements.

3-16 To deal with scope restrictions caused by the audit client, PCAOB auditing standards would encourage the auditor to release a disclaimer of opinion. AICPA auditing standards on the other hand, would also require the auditor to release a disclaimer of opinion, or to withdraw from the engagement if the auditor is unable to perform alternative procedures to obtain sufficient appropriate evidence.

To deal with scope beyond the audit client's control, the standards would require the auditor to issue a qualification of scope and opinion.

3-17 When the auditor discovers more than one condition that requires a departure from or a modification of a standard opinion audit report, the report should be modified for each condition. An exception is when one condition neutralizes the other condition. An example would be when the auditor is not independent and there is also a scope limitation. In this situation the lack of independence overshadows the scope limitation. Accordingly, the scope limitation should not be mentioned.

3-18 Given the global nature of the financial markets, investors, both in the U.S. and abroad, frequently make investments in companies that are located all over the world. While many companies located outside the U.S. already prepare financial statements in accordance with International Financial Reporting Standards (IFRS), financial statements of U.S.-based entities are based on U.S. generally accepted accounting principles, and differences in the basis of presentation makes the analysis of U.S. and non-U.S.-based company financial statements difficult. Similarly, differences exist in auditing standards issued across the globe, so the adoption of International Statements on Auditing (ISAs) would mean auditors from around the globe are conducting their audits using the same set of standards. The embrace of IFRS and ISAs will help investors in their analysis of audited financial statements prepared across the globe.

■ Multiple Choice Questions From CPA Examinations

3-19 a. (4) b. (1) c. (4)

3-20 a. (1) b. (4) c. (2)

■ Discussion Questions and Problems

- 3-21** a. Auditors would use sampling to choose the items to be checked in an audit. They are not required to check every single item in the financial statements. Sampling gives the auditor an overall view of the accuracy of the statements, therefore “true and fair”. As an auditor cannot check every single item in the financial statement, he is unable to certify “a precise view” of the statements.
- b. As Tesco PLC is a company incorporated in the United Kingdom, financial reporting must follow UK laws and UK accounting standards even though the company operates in various countries.
- c. An auditor acts as a watchdog to see that the financial statements are presented in a “true and fair” manner. It is not the duty of the auditor to identify and correct every error in a financial statement.
- d. The auditor is required to date his report on the day the audit was completed and not on any other date.
- e. The name of the Chartered Accountants and Statutory Auditors rather than that of the individual practitioner should appear on the Independent auditors’ report to the members because it is the firm, PricewaterhouseCoopers LLP that accepts responsibility for the report issued, instead of the Senior Statutory Auditor himself.

3-22 a. Items that need not be included in the auditor's report are:

1. Patel may or may not choose to add an explanatory paragraph that highlights the recent acquisition of Stockard Inc., which is disclosed in the financial statements. There would be no requirement to include that explanatory paragraph.
2. Patel may or may not choose to add an explanatory paragraph about the issuance of the debentures, which is disclosed in the footnotes. There would be no requirement to include that explanatory paragraph.

b. The following deficiencies are in Patel's report:

1. That Bellamy is presenting comparative financial statements. (Both years' statements should be referred to in the audit report.) There are comparative statements, but the audit report identifies and deals with only the current year's financial statements. An opinion must also be included for the prior period financial statements.
2. The fact that it is a private company, means the report should comply with reporting requirements in AICPA auditing standards. The audit report is neither addressed nor dated, and it does not contain a title. The audit report date should be the date on which the auditor completed the audit procedures needed to obtain sufficient appropriate evidence.
3. The balance sheet is as of a specific date, whereas the income statement and the statement of retained earnings are for a period of time. The introductory paragraph should identify the period of time (usually one year).
4. There is no separate management's responsibility paragraph that states the responsibilities of management.
5. There is no separate auditor's responsibility paragraph. The last two sentences in the first paragraph should be moved to be included in this paragraph.
6. There is no separate scope paragraph that describes what an audit is.
7. The audit was made in accordance with *auditing standards generally accepted in the United States of America* rather than *generally accepted accounting standards*.
8. The word *material* is excluded from the statement in the introductory paragraph that is part of the auditor's responsibility (free of material misstatement).
9. Additional paragraph(s) should be included that describe the limitation on the scope related to audit testing for accounts receivable, and the failure to include disclosure of the loss contingency related to pending litigation.

3-22 (continued)

10. The opinion paragraph states that accounting principles were consistent with those used in the prior year. The opinion paragraph should make no reference to consistency.
11. The opinion paragraph excludes the required phrase, "in all material respects."
12. The opinion paragraph includes the words "generally accepted auditing standards" rather than the phrase "accounting principles generally accepted in the United States of America."
13. The opinion should be qualified rather than being unmodified. Qualifications are caused by the:
 - (a) failure to disclose the loss contingency.
 - (b) scope restriction in the audit of accounts receivable.

(a) CONDITION	(b) MATERIALITY LEVEL	(c) TYPE OF REPORT	COMMENTS
1. None	Not applicable	Standard, unmodified	The company has made a business decision to follow a different financing method for use of delivery trucks, which is adequately disclosed. There is no change of accounting principle.
2. Substantial doubt about going concern	Material	Unmodified — Emphasis- of-matter explanatory paragraph	Because the auditor has substantial doubt about the client's ability to continue as a going concern, the auditor should add an explanatory paragraph to the unmodified opinion.
3. None	Material	Standard, unmodified	While the auditor engaged a business valuation specialist to gather evidence about the fair value of the investment, the auditor would issue an unmodified opinion given he or she was able to conclude that the valuation specialist's work provides sufficient appropriate evidence.
4. Failure to follow GAAP	Highly material or material. We need additional information regarding the auditor's preliminary judgment about materiality	Adverse (if highly material) or Qualified (if material)	The materiality of twenty percent of net earnings before taxes would be sufficient for many auditors to require an adverse opinion. That materiality question is a matter of auditor judgment.

3-23 (continued)

(a) CONDITION	(b) MATERIALITY LEVEL	(c) TYPE OF REPORT	COMMENTS
5. Scope of the audit has been restricted	Highly material	Disclaimer	Because the client refuses to allow the auditor to expand the scope of his audit, a disclaimer of opinion is appropriate rather than a qualified opinion.
6. Lack of independence	Not applicable	Disclaimer	Lack of independence by audit personnel on the engagement mandates a disclaimer for lack of independence.

3-24

(a) CONDITION	(b) MATERIALITY LEVEL	(c) TYPE OF REPORT	COMMENTS
1. Substantial doubt about going concern	Material	(2) Unmodified — Emphasis- of-matter explanatory paragraph	Because the auditor has substantial doubt about the client's ability to continue as a going concern, the auditor should add an explanatory paragraph to the unmodified opinion.
2. Failure to follow GAAP	Material or Highly material (more information is needed about the size of the misstatement)	(4) Qualified opinion only—GAAP departure (7) Adverse	The failure to reduce the value of the inventory for a decline in value is a departure from GAAP.

3-24 (continued)

(a) CONDITION	(b) MATERIALITY LEVEL	(c) TYPE OF REPORT	COMMENTS
3. None	Not applicable	(1) Unmodified— standard wording	There is no indication questioning the ability of the business to continue operations. The auditor does not add an explanatory paragraph simply because there is a risky business, but the auditor could choose to emphasize this matter in an explanatory paragraph.
4. Change in accounting principle	Immaterial	(1) Unmodified— standard wording	The change in accounting principle is immaterial and thus disclosure is not required.
5. None	Not applicable	(3) Unmodified— nonstandard report wording	U.S. auditing standards now allow an auditor to perform an audit in accordance with both U.S. GAAS and ISAs. The auditor's responsibility paragraph is modified to indicate that audit was conducted in accordance with both standards.
6. Scope of the audit has been restricted	Material or Highly material	(1) Unmodified— standard wording	The scope of the audit was initially restricted, but the auditor was able to satisfy himself or herself by alternative procedures.
7. Report involving other auditors	Material	(3) Unmodified— nonstandard report wording	This is a shared audit report in which the auditor will identify the portion of work done by the other auditor in the auditor's responsibility paragraph and still issue an unmodified opinion. The absolute dollar amounts of assets and revenues or percentages must be stated.

(a) CONDITION	(b) MATERIALITY LEVEL	(c) TYPE OF REPORT	(d) MODIFIED WORDING / ADDITIONAL PARAGRAPHS (& OTHER COMMENTS)
1. None	Immaterial	Unqualified— standard wording	The amount is immaterial. The facts are adequately disclosed in the footnote.
2. None	Not applicable	Unqualified— standard wording	There is no indication questioning the ability of the business to continue operations. The auditor does not automatically add an explanatory paragraph simply because there is a risky business.
3. Failure to follow accounting standards (GAAP/IFRS)	Material	Qualified opinion only—except for	The standards require the use of a qualified opinion for the failure to include a statement of cash flows. Third paragraph must be added stating the omission.
4. Substantial doubt about going concern	Material	Unqualified— explanatory paragraph	There is a question about the ability of the company to continue as a going concern. The auditor therefore must issue an unqualified report with an explanatory paragraph following the opinion.
5. Scope of the audit has been restricted	Highly material	Disclaimer	The client has restricted the scope of the audit and the auditor was not able to satisfy him or herself by alternative procedures. Because it was a client restriction rather than a condition beyond the client's control causing the limitation, and because the limitation is highly material, a disclaimer is appropriate. Introductory paragraph is modified, second paragraph is added describing the scope restriction, scope paragraph is omitted, and opinion paragraph is a disclaimer of opinion.

3-25 (continued)

(a) CONDITION	(b) MATERIALITY LEVEL	(c) TYPE OF REPORT	(d) MODIFIED WORDING / ADDITIONAL PARAGRAPHS (& OTHER COMMENTS)
6. Report involving other auditors	Material	Unqualified modified wording	This is a shared audit report in which the auditor will identify the portion of work done by the other auditor in the introductory paragraph and still issue an unqualified opinion. The absolute dollar amounts of assets and revenues or percentages must be stated in the introductory paragraph. Introductory paragraph, scope paragraph, and opinion paragraph are all modified.

- 3-26** a. Users may find the disclosures by the auditor about critical audit matters helpful in understanding some of the challenges and issues that arose during the audit. Matters that would be disclosed provide users insights about the most difficult, subjective, or complex auditor judgments or issues that posed the most difficulty to the auditor in obtaining sufficient appropriate evidence for forming an opinion.
- b. Auditing financial statements is a complex process that requires the knowledge, experience, and judgment of professional auditors. Most investors are not familiar with the details of the audit process and they may not be able to appropriately evaluate many of the issues disclosed and how the auditor reached his or her conclusions about the impact of those items on the financial statements and the audit process. Disclosure of critical audit matters may create unnecessary confusion about the nature of the auditor's opinion provided in the audit report. Opponents also believe disclosure of such matters should come from management rather than the auditor.
- c. The challenge for auditors when making disclosure of critical audit matters will be determining which items should be communicated and the nature and extent of that communication. Because most audits involve complex issues, the need to include such disclosures will likely lengthen the auditor's report substantially, which may not improve communications to users of the financial statements. Disclosure of these matters may increase second-guessing of the audit process, leading to increased audit costs and unwarranted auditor litigation.

- 3-27** a. There are a number of differences between the ISA 700 auditor's report and the unmodified opinion audit report for nonpublic entities shown in Figure 3-1:
1. The ISA report notes that the audit was conducted in accordance with ISA standards rather than U.S. GAAS.
 2. The ISA report includes a sentence explicitly stating that the auditor is independent and that the auditor has complied with the IESBA Code. The only reference to independence in the report in Figure 3-1 is in the report title.
 3. The unmodified opinion audit report for nonpublic entities includes a description of what the audit entails, including the auditor's consideration of internal control over financial reporting, accounting policies, accounting estimates, and the overall presentation of the financial statements. That report also explicitly notes that the auditor is not providing an opinion on internal control. The ISA report does not include similar disclosures.
 4. While both reports acknowledge that the auditor obtains reasonable assurance, the ISA report provides additional information that emphasizes that reasonable assurance is not a guarantee.
 5. While the wording differs between the two reports, both the ISA report and the unmodified opinion audit report for nonpublic entities recognize that the audit entails the performance of procedures to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Both reports also include a statement containing the auditor's conclusion that the audit evidence obtained provides a basis for the opinion issued.
- b. There are a number of differences between the ISA 700 auditor's report and the standard unmodified opinion audit report for public companies shown in Figure 3-3.
1. The ISA report notes that the audit was conducted in accordance with ISA standards rather than PCAOB auditing standards.
 2. The ISA report includes a sentence explicitly stating that the auditor is independent and that the auditor has complied with the IESBA Code. The audit report for public companies does not have the same disclosure.
 3. The unmodified opinion audit report for public companies includes a brief description of what the audit entails, including the examination of evidence on a test basis and the assessment of accounting principles used and significant estimates made by management, and the overall financial statement presentation. The ISA report does not include similar disclosures.
 4. While both reports acknowledge that the auditor obtains reasonable assurance, the ISA reports provides additional information about that including emphasis that reasonable assurance is not a guarantee.

3-27 (continued)

5. While the wording differs between the two reports, both the ISA report and the unmodified opinion audit report for public companies recognize that the audit entails the performance of procedures to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Both reports also include a statement containing the auditor's conclusion that the audit evidence obtained provides a basis for the opinion issued
- c. The ISA report's discussion about the importance of auditor independence provides more explicit emphasis on the independence of the auditor, which may be a helpful reminder to users of the financial statements. Additionally, the expanded discussion about the concept of reasonable assurance helps emphasize the fact that the audit is not a guarantee that all material misstatements will be detected. In contrast, the ISA report provides little information about the audit process and that lack of disclosure may lead to lack of user understanding about key aspects of the audit process and what the auditor has and has not done.

3-28 a.

1. PricewaterhouseCoopers was the auditor.
 2. Australian Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001 and International Financial Reporting Standards.
 3. The main responsibility of the auditor to the company is to express an opinion on the financial report based on their audit.
 4. The bank audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report.
 5. The audit was completed on 8 May 2015.
- b.
1. ASA570 standard is relevant when dealing with the issue of "Going Concern."
 2. The overall objectives of the independent auditor would be spelt out in ASA200
 3. The types of financial reports that would come under these standards are:
 - (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 the Corporations Act 2001 ; and
 - (b) An audit of a financial report, or a complete set of financial statements, for any other purpose.