

ISA Objectives and Disposition of the Present Tense in Proposed ISAs 705 and 706

1. PROPOSED ISA 705

Proposed Objective to be Achieved

In relation to this ISA, when the auditor has concluded that an unmodified opinion is not appropriate, the objective of the auditor is to issue a report that contains a clear expression of the auditor's modified opinion on the financial statements and a sufficient description of the basis for the modification to enable users of the financial statements to understand the nature of the matter giving rise to the modification and the effects, or possible effects, of the matter on the financial statements.

Disposition of Present Tense Involving Auditor Actions

Paragraph	Change to Shall?	Comments
<p>10. In judging whether the effects of a misstatement, or a combination of misstatements, are pervasive to the financial statements, <u>the auditor considers</u> the following criteria:</p> <p>(a) Whether the effects:</p> <p style="padding-left: 20px;">(i) Relate to a single element, account or item in the financial statements that constitutes an exceptionally large proportion of the financial statements; or</p> <p style="padding-left: 20px;">(ii) Cannot be clearly confined to specific elements, accounts or items in the financial statements, and, where relevant, quantified; and</p> <p>(b) If the misstatement, or combination of misstatements, relates to:</p> <p style="padding-left: 20px;">(i) Disclosures, whether the effects are fundamental to users' understanding of the financial statements; or</p> <p style="padding-left: 20px;">(ii) Matters other than disclosures, whether the effects represent or could represent a substantial proportion of the financial statements.</p>	No	Explanatory in nature.
11. Determining whether the effects of a misstatement, or	No	Explains the factors that may

Paragraph	Change to Shall?	Comments
<p>a combination of misstatements, represent or could represent a substantial proportion of the financial statements is a matter of professional judgment. In making this determination, <u>the auditor considers</u> the nature of the misstatement or misstatements, the specific elements, accounts or items in the financial statements that are affected, and the magnitude or potential magnitude of the effects in relation to the financial statements as a whole.</p>		<p>be considered.</p>
<p>13. Where the auditor is engaged to report on a single financial statement (such as a balance sheet) that may or may not form part of a complete set of financial statements, <u>the evaluation of the pervasiveness of the effects or possible effects of a matter giving rise to a modification occurs</u> in the context of the single financial statement on which the auditor has been engaged to report.</p>	<p>No</p>	<p>Explains how one determines pervasiveness in relation to a single financial statement.</p>
<p>54. Other phrases such as “with the foregoing explanation” or “subject to” are not sufficiently clear or forceful and <u>are not used</u>.</p>	<p>No</p>	<p>Essential explanatory material.</p>

2. PROPOSED ISA 706

Proposed Objective to be Achieved

In relation to this ISA, the objective of the auditor is to issue a report that appropriately draws users’ attention to a matter presented and disclosed in the financial statements that the auditor judges to be of fundamental importance to the users’ understanding of the financial statements, or that appropriately communicates information on a matter not presented and disclosed in the financial statements but which the auditor considers necessary to communicate to the users.

Disposition of Present Tense Involving Auditor Actions

Paragraph	Change to Shall?	Comments
<p>9. ISA 570, “Going Concern,” requires the auditor to include an emphasis of matter paragraph in the auditor’s report on financial statements to highlight the existence of a material uncertainty regarding an</p>	<p>No</p>	<p>This paraphrases a requirement in ISA 570.</p>

Paragraph	Change to Shall?	Comments
<p>entity's ability to continue as a going concern. <u>The auditor draws attention</u> to the disclosure in the financial statements that discusses the going concern uncertainty.</p>		
<p>13. <u>The auditor does not make</u> disclosures in the emphasis of matter paragraph beyond those included in the financial statements because doing so may imply that the matter has not been appropriately disclosed or that there is a disagreement with management.</p>	Yes	
<p>19. Examples of other matters that are not required to be recognized or disclosed in the financial statements by the applicable financial reporting framework include the following:</p> <p>...</p> <p>(d) In rare circumstances, other matters <u>that the auditor considers</u> necessary to communicate to the user, for example, where the auditor judges it necessary to explain why the auditor is unable to resign from the engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a scope limitation imposed by management is pervasive.</p>	No	Explanatory in nature.

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