

The International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)

Auditor Reporting Supplemental Guidance

JULY 2024



This Guidance was prepared by the IAASB staff to help jurisdictions adopt the ISA for LCE.

This staff-prepared publication does not amend or override the ISA for LCE, the text of which alone is authoritative. The [ISA for LCE](#) and Basis for Conclusions (explaining the IAASB's rationale for the proposals as reflected in the standard) were published in December 2023.

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I. Introduction

This Auditor Reporting Supplemental Guidance (Supplement) has been developed to provide additional guidance for auditors with regard to modifications to the auditor's report when using the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and is to be read together with the ISA for LCE.

This Supplement provides non-authoritative guidance and does not amend or override the ISA for LCE, the text of which alone is authoritative. Reading this Supplement is not a substitute for reading the ISA for LCE. This Supplement is not meant to be exhaustive and reference to the ISA for LCE should always be made.

This Supplement provides guidance on:¹

- Various elements of the auditor's report (**Part II**).
- Modifications to the opinion in the auditor's report (**Part III**).
- The use of Emphasis of Matter paragraphs within the auditor's report (**Part IV**).
- The use of Other Matter paragraphs within the auditor's report (**Part V**).
- Reporting on Other Information (**Part VI**).
- Reporting on a material uncertainty related to going concern (**Part VII**).

The Appendix includes the following eight illustrative auditor's reports:

- Illustrative Report 1 – A qualified opinion (material misstatement of the financial statements), an Emphasis of Matter paragraph and reporting on other legal and regulatory requirements.
- Illustrative Report 2 – A qualified opinion (inability to obtain sufficient appropriate audit evidence) in an Audit of Group Financial Statements (Group Audit).
- Illustrative Report 3 – An adverse opinion.
- Illustrative Report 4 – A disclaimer of opinion and an Other Matter paragraph.
- Illustrative Report 5 – An unmodified opinion and Other Information section.
- Illustrative Report 6 – An unmodified opinion and a material uncertainty related to going concern.
- Illustrative Report 7 – A qualified opinion based on a material uncertainty related to going concern.
- Illustrative Report 8 – An adverse opinion based on a material uncertainty related to going concern.

These illustrative reports set out examples that are not contained within the ISA for LCE. They may be used to guide auditors where relevant, in addition to the specified format and content of the auditor's report contained in Part 9 of the ISA for LCE. As described in paragraph 9.4.1. of the ISA for LCE, departures from the specified format and content in Part 9 are not permitted, except where an amendment is required for compliance with law or regulation, or when the opinion or report needs to be modified in response to the specific engagement circumstances. This includes a modified opinion, Emphasis of Matter paragraph, Other Matter paragraph, a Material Uncertainty Related to Going Concern, other reporting responsibilities, or a separate section dealing with Other Information.

¹ The IAASB will also publish a first-time implementation Guide in which includes guidance related to transition from the International Standards on Auditing to the ISA for LCE, including the effects of transition to the auditor's report.

II. The Auditor's Report (*Part 9.4.*)

Paragraph 9.4.1. of the ISA for LCE sets out the specified format and content to be included in the auditor's report. As described in paragraph 9.4.1.(a), when the layout or wording of the auditor's report is prescribed by law or regulation, the auditor's report shall refer to the ISA for LCE only if the elements of the specified format and content are included. These elements are:

- A title.
- An addressee, as required by the circumstances of the engagement.
- An "Opinion" section containing:
 - A statement that the financial statements have been audited, an identification of the entity's whose financial statements that have been audited and an identification of those financial statements; and
 - An expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements.
- A "Basis for Opinion" section containing:
 - A statement that the audit was conducted in accordance with the ISA for LCE or tailored in the context of the relevant requirements of the particular jurisdiction;
 - A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement identifies the jurisdiction of origin of the relevant ethical requirements or refers to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code); and
 - A statement whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
- A description of [management's] (or tailored in the context of the relevant requirements of the particular jurisdiction) responsibilities for the preparation of the financial statements that address the matters as contemplated in paragraph 9.4.1. of Part 9 of the ISA for LCE for this section of the auditor's report.
- A description of the auditor's responsibilities for the audit of the financial statements that addresses the matters as contemplated in paragraph 9.4.1. of Part 9 of the ISA for LCE for this section of the auditor's report.
- Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction.
- The auditor's address.
- The date of the auditor's report.
- When the auditor's opinion is modified in response to the specific engagement circumstances, an Opinion and Basis for Opinion sections (see above), modified to express the auditor's qualified or adverse or disclaimer of opinion, with a description of the matter giving rise to the modification.

- Where applicable to the engagement circumstances, an Emphasis of Matter paragraph, an Other Matter paragraph, a Material Uncertainty Related to Going Concern section, an Other Information section or a section that addresses other reporting responsibilities that are in addition to the auditor's responsibilities under the ISA for LCE.

Below is further guidance on some of the required elements of the auditor's report.

1. Addressee

Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed. The auditor's report is normally addressed to those for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity (or to the board of directors of the entity) whose financial statements are being audited.

2. Opinion

The phrases "present fairly, in all material respects," and "give a true and fair view" used by the auditor when expressing an opinion on financial statements prepared in accordance with a fair presentation framework are regarded as being equivalent phrases. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction.

3. Relevant Ethical Requirements

Paragraph 9.4.1. requires that the Basis for Opinion section includes a statement that the auditor "is independent of the [Entity] in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements." As described in the Glossary of Terms in Appendix 1 of the ISA for LCE, relevant ethical requirements ordinarily comprise the provisions of the IESBA Code related to audits of financial statements, together with national requirements that are more restrictive.

Law or regulation may require the auditor to provide in the auditor's report more specific information about the relevant ethical requirements, including those related to independence, that applied to the audit of the financial statements. When the relevant ethical requirements include those of the IESBA Code, the statement in the auditor's report may also make reference to the IESBA Code. If the IESBA Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.

4. Other Reporting Responsibilities

Paragraph 9.4.1.(c) contemplates, among other matters, that the specified format and content of the auditor's report may be modified for other reporting responsibilities (i.e., reporting responsibilities in addition to the auditor's responsibilities under the ISA for LCE). If applicable, other reporting responsibilities are addressed in a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements", or otherwise as appropriate to the content of the section. In this case, the sections of the auditor's report that address the auditor's reporting responsibilities under the ISA for LCE may be presented under the sub-title "Report on the Audit of the Financial Statements," followed by the sub-title "Report on Other Legal and Regulatory Requirements."

If the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISA for LCE, the other reporting responsibilities may be presented in the

same section as the related report elements as required by the ISA for LCE but are to be clearly differentiated.

Illustrative Report

Illustrative Report 1 in the Appendix provides an illustration of other reporting responsibilities, under the heading “Report on Other Legal and Regulatory Requirements.”

5. Signature of the Auditor

The auditor’s signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor’s signature, in certain jurisdictions, the auditor may be required to declare in the auditor’s report the auditor’s professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

In some cases, law or regulation may allow for the use of electronic signatures in the auditor’s report.

6. Date of the Auditor’s Report

The date of the auditor’s report informs the user of the auditor’s report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date.

III. Modifications to the Opinion in the Auditor’s Report (Part 9.5.)

Part 9.5. of the ISA for LCE specifies when and how the auditor modifies the Opinion and Basis for Opinion sections of the auditor’s report when the auditor expresses a modified opinion. This includes requirements presented in the following three tables in the standard:

- Table A specifies how the auditor’s professional judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed. (i.e., a qualified opinion, adverse opinion or disclaimer of opinion).
- Table B specifies the modification to be made to the opinion for each type of opinion in Table A. The table distinguishes between financial statements prepared in accordance with a fair presentation framework and those prepared in accordance with a compliance framework.
- Table C sets out specific circumstances when the auditor’s opinion is to be modified, and the types of opinions expressed in those circumstances based on the nature of the matter giving rise to the modification (see Table A). Table C is not an exhaustive list of all circumstances when the auditor’s opinion is to be modified.

Nature of Material Misstatements

A material misstatement of the financial statements, resulting in either a qualified opinion or an adverse opinion, may arise in relation to:

- The appropriateness of the selected accounting policies.

This may be the case, for example, when:

- The selected accounting policies are not consistent with the applicable financial reporting framework; or

- The financial statements do not represent the underlying transactions and events in a manner that achieves fair presentation.
- The application of the selected accounting policies.
This may be the case, for example, when management does not:
 - Appropriately apply the accounting policy as intended by the financial reporting framework (i.e., misapplies the selected accounting policy); or
 - Apply the selected accounting policy consistently between periods or to similar transactions and events.
- The appropriateness or adequacy of disclosures in the financial statements.
This may be the case, for example, when:
 - The financial statements do not include all of the disclosures required by the applicable financial reporting framework;
 - The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or
 - The financial statements do not provide the disclosures necessary to achieve fair presentation.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence

The auditor's inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit), resulting in either a qualified opinion or a disclaimer of opinion, may arise from:

- Circumstances beyond the control of the entity.
This may be the case, for example, when:
 - The entity's accounting records have been destroyed.
 - The accounting records of a significant component have been seized indefinitely by governmental authorities.
- Circumstances relating to the nature or timing of the auditor's work.
This may be the case, for example, when:
 - The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
 - The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
 - The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.
- Limitations imposed by management.
This may be the case, for example, when:
 - Management prevents the auditor from observing the counting of the physical inventory.

- Management prevents the auditor from requesting external confirmation of specific account balances.

Qualified Opinion

Paragraph 9.5.3. specifies the modification to be made to the wording for a qualified opinion for both a fair presentation framework and a compliance framework as follows: "...expect for the [effects or possible effects] of the matter(s) described in the Basis for Qualified Opinion section...". The auditor uses:

- "Effects" when there is a material misstatement in the financial statements.
- "Possible effects" when there is an inability to obtain sufficient appropriate audit evidence.

Basis for Opinion

As described in Paragraph 9.5.2.(b) of the ISA for LCE, when the auditor modifies the audit opinion, the auditor shall, within the Basis for Opinion section, include a description of the matter giving rise to the modification and amend the heading as set out in Tables A–C in Part 9 of the ISA for LCE.

Illustrative Reports

Illustrative Report 1 in the Appendix provides an illustration of a qualified opinion due to financial statements that are materially misstated.

Illustrative Report 2 in the Appendix provides an illustration of a qualified opinion due to inability to obtain sufficient appropriate audit evidence in a group audit.

Illustrative Report 3 in the Appendix provides an illustration of an adverse opinion due to financial statements that are materially misstated.

Illustrative Report 4 in the Appendix provides an illustration of a disclaimer of opinion due to the inability to obtain sufficient appropriate audit evidence.

IV. Emphasis of Matter Paragraphs (Part 9.6.)

As described in paragraph 9.6.1. of the ISA for LCE, the auditor may consider it necessary to draw users' attention to a matter appropriately presented or disclosed in the financial statements that, in the auditor's professional judgment, is of such importance that it is fundamental to users' understanding of the financial statements, and the auditor would not be required to modify the opinion as a result of that matter. In these circumstances, the ISA for LCE requires the auditor's report to include an Emphasis of Matter paragraph within a separate section with an appropriate heading that includes "Emphasis of Matter" (see paragraphs 9.6.1., 9.6.3., 9.6.4. and 9.6.7. of the ISA for LCE).

A widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters. In considering the need for an Emphasis of Matter paragraph the auditor uses professional judgment.

Examples where the auditor may consider it necessary to include an Emphasis of Matter paragraph to draw attention to matters appropriately presented or disclosed in the financial statements:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.

- When facts become known to the auditor after the date of the auditor’s report and the auditor provides a new or amended auditor’s report (i.e., subsequent events).
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor’s report.
- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity’s financial position.

Illustrative Report

Illustrative Report 1 in the Appendix provides an illustration of an Emphasis of Matter paragraph.

V. Other Matter Paragraphs (*Parts 9.6. and 9.7.*)

As described in paragraph 9.6.2. of the ISA for LCE, the auditor may consider it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor’s professional judgment, is relevant to the users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report. In these circumstances, the ISA for LCE requires the auditor’s report to include an Other Matter paragraph (unless prohibited by law or regulation) within a separate section with an appropriate heading that includes “Other Matter” (see paragraphs 9.6.2., 9.6.3., 9.6.5., 9.6.7., 9.7.3., 9.7.4., 9.7.5. and 9.7.8. of the ISA for LCE).

When an Other Matter paragraph is included to draw users’ attention to a matter relating to Other Reporting Responsibilities addressed in the auditor’s report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section (see Part II. 4. above). When relevant to all the auditor’s responsibilities or users’ understanding of the auditor’s report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

Illustrative Report

Illustrative Report 4 in the Appendix provides an illustration of an Other Matter paragraph.

VI. Other Information (*Parts 9.8. and 9.9.*)

“Other information” by definition is financial or non-financial information (other than financial statements and the auditor’s report thereon) included in an entity’s annual report. Law, regulation or custom may define the content of an annual report (which also is a defined term in the ISA for LCE), and the name by which it is to be referred, and the content and name may vary within, and between, jurisdictions. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.

In some cases, an entity’s annual report may be a single document and referred to by the title “annual report” or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example,

depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:

- Management report.
- Management commentary.
- Operating and financial review.
- Similar reports by those charged with governance (for example, a directors’ report or chairman’s statement).

As described in paragraph 9.8.1., the auditor is required to determine, through discussion with management, which document(s) comprises the annual report. In this way the auditor may identify a document(s) that meet the definition of “other information” contained in an annual report.

If the auditor identifies ‘other information,’ the auditor has a responsibility to undertake work in relation to such ‘other information’ (see Parts 9.8. and 9.9.).

Illustrative Report

Illustrative Report 5 in the Appendix provides an illustration of circumstances where there is ‘other information.’

VII. Material Uncertainty Related to Going Concern (Parts 9.5. and 9.6.)

The potential implications for the auditors’ report, based on the auditor’s professional judgment, where the facts and circumstances result in the auditor having concerns about the entity’s ability to continue as a going concern are summarized in the table below. This table also assists in contextualizing a material uncertainty related to going concern relative to other concerns about going concern the auditor may have.

Auditor’s Conclusion (in the Auditor’s Professional Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor’s Report	Reference to the ISA for LCE
<ul style="list-style-type: none"> • Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have been made 	<ul style="list-style-type: none"> • An unmodified opinion is expressed • A separate section is included under the heading “Material Uncertainty Related to Going Concern,” which also draws attention to the relevant disclosures within the financial statements 	9.6.6.

Auditor’s Conclusion (in the Auditor’s Professional Judgment, based on the Audit Evidence Obtained)	Impact on the Auditor’s Report	Reference to the ISA for LCE
<ul style="list-style-type: none"> • Financial statements have been appropriately prepared on a going concern basis • A material uncertainty has been identified • Appropriate disclosures have NOT been made 	<ul style="list-style-type: none"> • A qualified or adverse opinion is expressed, as appropriate • State in the “Basis for Qualified (Adverse) Opinion” section of the report that a material uncertainty exists that may cast significant doubt on the entity’s ability to continue as a going concern and that the matter is not appropriately disclosed in the entity’s financial statements 	<p>9.5.18. 9.5.19.</p>
<ul style="list-style-type: none"> • Financial statements have been prepared on a going concern basis • The use of the going concern basis of accounting is inappropriate 	<ul style="list-style-type: none"> • An adverse opinion is expressed 	<p>9.5.17.</p>
<ul style="list-style-type: none"> • The entity is not a going concern • The financial statements have been appropriately prepared on a basis other than going concern • The alternative basis of accounting is appropriate in the circumstances 	<ul style="list-style-type: none"> • An unmodified opinion may be able to be expressed if there is adequate disclosure about the basis of accounting on which the financial statements are prepared • It may be considered appropriate to include an Emphasis of Matter paragraph drawing the user’s attention to the alternative basis of accounting and the reasons for its use 	<p>N/A</p>

Illustrative Reports

Illustrative Report 6 in the Appendix provides an illustration of an unmodified report with a material uncertainty related to going concern.

Illustrative Report 7 in the Appendix provides an illustration of a qualified opinion based on a material uncertainty related to going concern.

Illustrative Report 8 in the Appendix provides an illustration of an adverse opinion based on a material uncertainty related to going concern.

Illustrative Auditor’s Reports²

1. Qualified Opinion, Emphasis of Matter and Reporting on Other Legal and Regulatory Requirements

(see Parts II. 4., III and IV)

Qualified Opinion due to a Material Misstatement of the Financial Statements, an Emphasis of Matter and Reporting on Other Legal and Regulatory Requirements

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate). It is practicable to quantify the financial effects of the misstatements.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (See Part 8.5. of the ISA for LCE).
- Between the date of the financial statements and the date of the auditor’s report, there was a fire in the entity’s production facilities, which was disclosed by the entity as a subsequent event. In the auditor’s professional judgment, the matter is of such importance that it is fundamental to users’ understanding of the financial statements (i.e., an Emphasis of Matter paragraph is needed).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

² All the illustrative auditor’s reports in this Appendix assume that the audit is performed in relation to the financial statements of an entity that has appropriately been determined to be a less complex entity as contemplated in Part A of the ISA for LCE.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements³

Qualified Opinion

We have audited the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Entity as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Qualified Opinion

The Entity's inventories are carried in the statement of financial position at [amount]. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from [applicable financial reporting framework]. The Entity's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of [amount] would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by [amount], and income tax, net income and shareholders' equity would have been reduced by [amount], [amount] and [amount], respectively.

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Entity's production facilities. Our opinion is not modified in respect of this matter.

³ The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable (see Part II. 4.).

Responsibilities of Management for the Financial Statements⁴

Management is responsible for the preparation and fair presentation of the financial statements in accordance with [applicable financial reporting framework],⁵ and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements⁶

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

⁴ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁵ Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

⁶ The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor's report.

conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management, and where appropriate, those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISA for LCE as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISA for LCE may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISA for LCE where such a difference exists.]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

2. Qualified Opinion, Inability to Obtain Sufficient Appropriate Audit Evidence

(see Part III)

Qualified Opinion due to the Group Auditor’s Inability to Obtain Sufficient Audit Evidence on Which to Base the Group Audit Opinion

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- **Audit of a complete set of consolidated financial statements of an entity using a fair presentation framework. The audit is a group audit (i.e., Part 10 of the ISA for LCE applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management’s responsibility for the consolidated financial statements in Part 4.4. of the ISA for LCE.**
- **The group auditor was unable to obtain sufficient appropriate audit evidence regarding the inventory at a component. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).**
- **The IESBA Code comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (See Part 8.5. of the ISA for LCE).**
- **There is no other information reported in an annual report.**
- **Those responsible for oversight of the consolidated financial statements are the same as those responsible for the preparation of the consolidated financial statements.**
- **The auditor has no other reporting responsibilities required under local law.**

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Qualified Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Qualified Opinion

In the consolidated statement of financial position as at December 31, 20X1, the Group's inventories are carried at [amount] and comprise the inventories of Component XYZ. Because of the timing of our appointment as the auditor of the Group, we were unable to observe the counting of the physical inventories at Component XYZ as at December 31, 20X1. We also were unable to obtain sufficient appropriate audit evidence regarding the existence and condition of the inventories by performing alternative audit procedures. Consequently, we were unable to determine whether any adjustments to the carrying amount of the inventories were necessary.

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management for the Consolidated Financial Statements⁷

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with [applicable financial reporting framework],⁸ and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements⁹

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISA for LCE will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the

⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁸ Where management's responsibility is to prepare consolidated financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with [applicable financial reporting framework], and for such ..."

⁹ The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor's report.

aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISA for LCE, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with management, and where appropriate, those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

3. Adverse Opinion

(see Part III)

Adverse Opinion due to a Material Misstatement of the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- The financial statements are materially misstated due to an impairment not being recognized on land which comprises over 80% of the entity's assets and so the auditor has concluded that this is material and pervasive to the financial statements as a whole (i.e., an adverse opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (See Part 8.5. of the ISA for LCE).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Adverse Opinion

We have audited the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*) the financial position of the Entity as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Adverse Opinion

As explained in Note X to the financial statements, the Entity did not perform an impairment review of land at the reporting date in accordance with [applicable financial reporting framework]. An independent valuer has assessed the recoverable value of the land included in Note X to the financial statements, is less than the carrying amount by an amount of [amount]. Consequently, assets are overstated by [amount], while income tax, net income and shareholders' equity is overstated by an amount of [amount], [amount], and [amount] respectively. These required adjustments are considered material and pervasive to the financial statements as a whole.

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE is further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Responsibilities of Management for the Financial Statements¹⁰

[See *Illustration 1 above*]

Auditor's Responsibilities for the Audit of the Financial Statements¹¹

[See *Illustration 1 above*]

[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]

[*Auditor Address*]

[*Date*]

¹⁰ Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹¹ The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor's report.

4. Disclaimer of Opinion and an Other Matter Paragraph

(see Parts III and V)

Disclaimer of Opinion Due to the Auditor’s Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements and an Other Matter Paragraph

For purposes of this illustrative auditor’s report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity’s inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements (i.e., a disclaimer of opinion is appropriate).
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- The prior period financial statements were audited by another auditor who expressed an unmodified opinion on those financial statements.
- There is no other information reported in an annual report.
- Owing to the disclaimer of opinion, a more limited description of the auditor’s responsibilities section is required.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Entity. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

We were not appointed as auditors of the Entity until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statements of financial position at [amount] and [amount], respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of [amount] as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

Other Matter

The financial statements for the year ended [end of prior reporting period] were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

Responsibilities of Management and Those Charged with Governance for the Financial Statements¹²

[See Illustration 1 above]

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Entity's financial statements in accordance with the ISA for LCE and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

¹² Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

5. Unmodified Opinion and Other Information section

(see Part VI)

Unmodified Opinion and the Auditor has Obtained All of the Other Information Prior to the Date of the Auditor's Report and Has Not identified a Material Misstatement of the Other Information

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (See Part 8.5. of the ISA for LCE).
- The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [*or Other Appropriate Addressee*]

Opinion

We have audited the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of the Entity as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Opinion

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial

Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management¹³ is responsible for the other information. The other information comprises the [information included in the X report,¹⁴ but does not include the financial statements and our auditor’s report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements¹⁵

[See Illustration 1 above]

Auditor’s Responsibilities for the Audit of the Financial Statements¹⁶

[See Illustration 1 above]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

¹³ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

¹⁴ A more specific description of the other information, such as “the management report and five-year financial review,” may be used to identify the other information.

¹⁵ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to “Those Charged with Governance” or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁶ The description of the auditor’s responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor’s report.

6. Unmodified Opinion and a Material Uncertainty Related to Going Concern

(see Part VII)

Unmodified Opinion and a Material Uncertainty Related to Going Concern Exists that is adequately Disclosed in the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate (See Part 8.5. of the ISA for LCE).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

[See Illustration 5 above]

Basis for Opinion

[See Illustration 5 above]

Material Uncertainty Related to Going Concern

We draw attention to Note X in the financial statements, which indicates that the Entity incurred a net loss of [amount] during the year ended December 31, 20X1 and, as of that date, the Entity's current liabilities exceeded its total assets by [amount]. As stated in Note X, these events or conditions, along with other matters as set forth in Note X, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of Management for the Financial Statements¹⁷

[See *Illustration 1 above*]

Auditor's Responsibilities for the Audit of the Financial Statements¹⁸

[See *Illustration 1 above*]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

¹⁷ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

¹⁸ The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor's report.

7. Qualified Opinion Based on a Material Uncertainty Related to Going Concern

(see Part VII)

Qualified Opinion Due to a Material Uncertainty Related to Going Concern That Is Not Adequately Disclosed in the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.
- The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements. (See Part 8.5. of the ISA for LCE).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Qualified Opinion

We have audited the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Entity as at December 31, 20X1, and (of) its

financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Qualified Opinion

As discussed in Note yy, the Entity’s financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Entity has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Entity’s ability to continue as a going concern. The financial statements do not adequately disclose this matter.

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Responsibilities of Management for the Financial Statements¹⁹

[See Illustration 1 above]

Auditor’s Responsibilities for the Audit of the Financial Statements²⁰

[See Illustration 1 above]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

¹⁹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to “Those Charged with Governance” or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

²⁰ The description of the auditor’s responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor’s report.

8. Adverse Opinion Based on a Material Uncertainty Related to Going Concern

(see Part VII)

Adverse Opinion Due to a Material Uncertainty Related to Going Concern That Is Not Disclosed in the Financial Statements

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of an entity using a fair presentation framework. The audit is not a group audit (i.e., Part 10 of the ISA for LCE does not apply).
- The financial statements are prepared by management of the entity in accordance with the [applicable financial reporting framework] (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in Part 4.4. of the ISA for LCE.
- The relevant ethical requirements that apply to the audit are those of the jurisdiction.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern, and the Entity is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive. (See Part 8.5. of the ISA for LCE).
- There is no other information reported in an annual report.
- Those responsible for oversight of the financial statements are the same as those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Adverse Opinion

We have audited the financial statements of ABC Company (the Entity), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly (or *do not give a true and fair view of*), the financial position of the Entity as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with [applicable financial reporting framework].

Basis for Adverse Opinion

The Entity's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Entity has been unable to conclude re-negotiations or obtain replacement financing and is considering filing

for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (the ISA for LCE). Our responsibilities under the ISA for LCE is further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Responsibilities of Management for the Financial Statements²¹

[See *Illustration 1 above*]

Auditor's Responsibilities for the Audit of the Financial Statements²²

[See *Illustration 1 above*]

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

²¹ Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction. When those responsible for oversight of the financial reporting process differ from management, the heading of this section also refers to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction.

²² The description of the auditor's responsibilities may also be included within an appendix, or where law, regulation or national auditing standards expressly permit, as a description on a website of an appropriate authority when the description addresses, and is not inconsistent with, this ISA for LCE. In such cases, a reference to the location of the appendix or description shall be included within the auditor's report.

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