Illustration of a Possible Enhanced Auditor’s Report

INDEPENDENT AUDITOR’S REPORT

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

Report on the Financial Statements

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of ABC Company (the Company) as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs). The financial statements comprise the statement of financial position as at December 31, 20X1, 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 and other explanatory information.

Basis for Opinion

We have audited the accompanying financial statements in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibility section of our report. In performing our audit, we complied with relevant ethical requirements applicable to financial statement audits, including independence requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Auditor Commentary

In connection with our audit and without modifying our opinion, we highlight the following matters that we have judged are likely to be most important to users’ understanding of the financial statements and our audit, and which may be relevant to their economic decisions taken on the basis of these financial statements. We have discussed these matters with those charged with governance as required by the ISAs. Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole based on our overall assessment of the risks of material misstatement and our determination of appropriate responses to risks, and not to express an opinion on individual accounts or disclosures. Our auditor’s report and this commentary in particular is intended to be read in conjunction with the audited financial statements and identify specific other information if considered necessary or relevant to a proper understanding of auditor commentary.

Going Concern

Use of the Going Concern Assumption

1 For purposes of this illustration, this auditor’s report has been prepared assuming IFRSs is the applicable financial reporting framework. All references to IFRSs (or requirements under IFRSs) would need to be tailored to reflect the application of a different financial reporting framework.
As part of our audit of the financial statements, we have concluded that management’s use of the going concern assumption in the preparation of the financial statements is appropriate.

Material Uncertainties Related to Events or Conditions that May Cast Significant Doubt on the Company’s Ability to Continue as a Going Concern

Based on the work we have performed, we have not identified material uncertainties related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern that we believe would need to be disclosed for the fair presentation of the financial statements. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company’s ability to continue as a going concern.

Other Information* [Section to be included when applicable] [See paragraph ]

As part of our audit, we have read [clearly identify the specific other information read, e.g., the Chairman’s Statement, the Business Review, etc.] contained in [specify the document containing the other information, e.g., the annual report], for the purpose of identifying whether there are material inconsistencies with the audited financial statements. Based upon reading it, we have not identified material inconsistencies between this information and the audited financial statements. However, we have not audited this information and accordingly do not express an opinion on it.

[The following shaded sections constitute additional entity-specific auditor commentary, required for public interest entities only. The specific topics and content presented here are purely for illustrative purposes. As further discussed at paragraphs xxx, these sections would be tailored to the facts and circumstances of the individual audit engagement and the entity, and therefore will vary in terms of topics addressed and the nature in which they may be described.]

Goodwill

In recent years, the Company has acquired operations in several countries. Goodwill attributable to these acquisitions is XXX, which is material to the financial statements as a whole. As disclosed in Note 3, the Company performed its annual impairment testing as at [date] and determined goodwill was not impaired. As disclosed in Note 3, the Company recognizes that, due to the current economic conditions particularly in Continental Europe, there is inherent uncertainty embedded in the five-year cash flow projections. The Company has disclosed that a decline of Y% in the fair value of these units would, all other things being equal, give rise to an impairment of the goodwill in the future and such an impairment would have a material negative effect on the company’s statement of financial position and statement of comprehensive income, but would not impact its cash flow from operations. Goodwill impairment testing is a complex calculation. Accordingly, our audit engagement team included industry specialists within our firm who planned and performed audit procedures relating to it, in particular evaluating the cash flow projections.

Valuation of Financial Instruments

We draw your attention to management’s discussion of its Sources of Estimation Uncertainty in Note 1, in particular the Company’s processes to value its structured financial instruments. Due to the significant measurement uncertainty, we determined that there was a high risk of material misstatement relating to the valuation of these financial instruments and planned our audit procedures to respond to this risk. Management had previously valued these instruments using quoted market prices. However, in light of current market conditions, management believed it necessary to use a model to estimate the fair value of these instruments as of December 31, 20X1 and consulted with [name of the body designated with those charged with governance] about this change in accounting policy. The Company’s sensitivity analysis
indicates that the valuation of these structured financial instruments would change significantly with an X% change in the assumptions used in the model. Because of management’s use of a model to value these instruments, our audit engagement team included valuation specialists within our firm, who planned who evaluated the reasonableness of management’s use of the model. Further, as part of our audit, we independently developed a range against which to compare management’s estimate of the value of its structured financial instruments.

Credit Facilities

As described in Note 7, a significant portion of the Company’s long-term debt matures in June 30, 20X3. As part of our audit procedures, we discussed this matter with management and noted that as of December 31, 20X1 [or the date of our report] that the Company is in the process of refinancing these notes with new long-term notes. The Company may not be able to obtain new financing with terms as favorable as its current long-term debt. The outcome of these negotiations could impact future financing costs that would be recognized in the Company’s statement of comprehensive income over the terms of the credit facilities. If refinancing is not agreed by June 30, 20X2, these notes will be classified as short term in the Company’s statement of financial position and this classification could result in a violation of covenants contained in the Company’s bank financing.

Revenue Recognition

The nature of the Company’s business is customized software development, implementation and support. Such activities give rise to both customized and standardized contracts. As disclosed in Note 2, the terms and conditions of these contracts determine the revenue that the Company recognizes in a period. The process to measure the amount to recognize in a period is subject to significant management judgment. We planned and performed our audit procedures based on our assessment that there was a high risk of material misstatement in the financial statements due to error. As required by the ISAs, we also performed procedures to identify and assess the risks of material misstatement due to fraud.

Deficiency in Internal Control Relating to Revenue Transactions

Our assessment of risks of material misstatement relating to revenue recognition included an expectation that certain controls were operating effectively. In testing the operating effectiveness of these controls, we noted that the processes for authorizing changes to the stated credit terms and policies for new customers were not followed in respect of a significant new customer, discussed in Management’s Report [i.e., “other information”] as accounting for 5% of annual sales. The payment terms granted to this customer were longer than the Company’s stated credit terms and policies. Due to the magnitude of the sales to this customer, we discussed this deficiency with management and those charged with governance. We also expanded our sample to test additional authorizations and found no exceptions. The Company had no past due receivables from this customer as of December 31, 20X1 for which an allowance would otherwise be recorded in accordance with the Company’s policy for bad debts.

Outstanding Litigation

The Company is exposed to various claims and contingencies in the normal course of business. We note two significant matters outstanding as of December 31, 20X1. We draw attention to Note 9, which describes the uncertainty relating to the Company’s involvement in a patent claim that has been ongoing for several years, and the uncertainty relating to the Company’s liability for an environmental claim.
relating to a business that was sold in 20X0. The Company expects to finalize its negotiations with respect to these matters during 20X2, and may need to fund the costs of doing so with a draw-down from its credit facilities.]

Respective Responsibilities of [Appropriate Title for Those Charged with Governance,] Management and the Auditor*

[Appropriate Title for Those Charged with Governance] and Management’s Responsibility for the Financial Statements [See paragraph x]

[Name of body designated as those charged with governance] is responsible for overseeing the strategic direction of the Company and overseeing the financial reporting process. The [audit committee or other appropriate title] is directly responsible for our appointment, compensation, and the oversight of our work, including resolution of any disagreements with management regarding financial reporting [or other tailored language on the responsibility of TCWG that is appropriate for the jurisdiction and entity].

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs, 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.

Going Concern Assumption [See paragraph x]

Under IFRS, management is responsible for making an assessment of the Company’s ability to continue as a going concern when preparing the financial statements. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company’s financial statements are prepared on a going concern basis, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Material Uncertainties Relating to Going Concern [See paragraph x]

Also, IFRSs require that, when management is aware of material uncertainties related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern, management disclose those uncertainties in the financial statements.

Auditor’s Responsibility [See paragraph x]

The purposes of our audit are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 would influence economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism through the planning and performance of an audit and to:

- Identify, assess and respond to the risks of material misstatement in the financial statements, including selecting audit procedures to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. This responsibility includes designing and performing procedures to
identify and assess the risk of material misstatement due to fraud, and obtain audit evidence in response to that risk.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- 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.

- Consider 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 company's internal control. We are required to communicate to management and those charged with governance deficiencies in internal control that we identified that, in our professional judgment, are of sufficient importance to merit their respective attentions.

- Obtain sufficient appropriate audit evidence regarding the financial information of all entities and business activities within the group to express an opinion on the group financial statements. To this end, we requested other auditors to perform work on certain entities or business activities within the group. We are responsible for the direction, supervision and performance of the group audit engagement and remain solely responsible for this audit report. [Bullet applicable for group audits only]

We are required to comply with relevant ethical requirements applicable to financial statement audits, including independence requirements. We maintain a system of quality control to provide us with reasonable assurance that we comply with professional standards and applicable legal and regulatory requirements and that audit reports issued are appropriate in the circumstances. We provided a statement to those charged with governance that we complied with relevant ethical requirements relating to independence and communicated with them regarding all relationships and other matters that we believe may reasonably be thought to bear on our independence. [Last sentence for listed entities only]

Report on Other Legal and Regulatory Requirements [See paragraph X]

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. Depending on the matters addressed by other law, regulation or national auditing standards, NSS may choose to group reporting on these matters with reporting as required by the ISAs (shown in the Report on the Financial Statements section).

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

The engagement partner responsible for the audit resulting in this report is [name].* [See paragraph X]

[Address]*

[Date]*

Note: Sections with headings indicated with an asterisk \* would be required. As further discussed at paragraph X, the specific words used to describe the matters within these paragraphs could be tailored to the particular jurisdiction based on local laws and regulations, and the activities of the NSS.