

NEW & REVISED AUDIT REPORTING STANDARDS AN OVERVIEW

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What ISAs are changing?

- **ISA 700 (Revised)** *Forming an Opinion and Reporting on Financial Statements*
- **ISA 701** *Communicating Key Audit Matters in the Independent Auditor's Report*
- **ISA 705 (Revised)** *Modifications to the Opinion in the Independent Auditor's Report*
- **ISA 706 (Revised)** *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- **ISA 260 (Revised)** *Communication with Those Charged with Governance*
- **ISA 570 (Revised)** *Going Concern*

Expected Benefits of the Changes to the ISAs and the Auditor's Report

- **Increased transparency and enhanced informational value.**
- **Enhanced communications between the auditor and investors as well as between auditor and those charged with governance.**
- **Increased attention by management and those charged with governance to the disclosures in the financial statements.**
- **Renewed focus of the auditor on matters to be reported, which could indirectly result in an increase in professional skepticism.**

Effect on the Financial Reporting Process

- **Build upon the underlying concepts in an ISA audit addressing how a risk-based audit is performed and what is required to be communicated.**
- **Focus on increasing transparency about the audit that was performed.**
- **Emphasize the responsibilities of management to communicate relevant information to users.**

Revisions to ISA 700

- **New section “Basis for Opinion” that includes a statement that the auditor is independent of the entity within the meaning of the relevant ethical requirements or applicable law or regulation and has fulfilled the auditor’s other ethical responsibilities under those ethical requirements.**
- **New heading “Responsibilities for the Financial Statements”.**

Revisions to ISA 700

■ Auditor's Responsibilities for the Audit of the Financial Statements section to now include:

- **Statement that the objectives of the audit are to issue an auditor's report that includes an opinion.**
- **A statement that 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 could reasonably be expected to influence the economic decisions of users taken on the basis of these F/S.**

Revisions to ISA 700

- **New content to describe an audit by stating the auditor's responsibilities (*in appendix or refer to the website*)**
- **Inclusion of the name of the engagement partner for listed entities only**

New sections for:

- **Going concern (report in accordance with ISA 570)**
- **Key Audit Matters (report in accordance with ISA 701)**
- **Other Information (report in accordance with proposed ISA 720)**

ISA 705 Revised

Modified Opinions

- **The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and**
- **The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.**

ISA 705 Revised - Objective

- **The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or**
- **The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.**

Pervasive

The effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence:

- **Are not confined to specific elements, accounts or items of the financial statements.**
- **If so confined, represent or could represent a substantial proportion of the financial statements; or**
- **In relation to disclosures, are fundamental to users' understanding of the financial statements.**

Qualified Opinion

- **The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or**
- **The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.**

Adverse Opinion

The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Disclaimer of Opinion

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

ISA 706 Revised – Emphasis of Matter and Other Matter Paragraphs in Auditor’s Report

- **Emphasis of Matter paragraph-** A paragraph included in the auditor’s report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that is fundamental to user’s understanding of the financial statements.
- **Other Matter Paragraph-** A paragraph in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to user’s understanding of the audit, the auditor’s responsibilities or the auditor’s report.

ISA 706 Revised – Emphasis of Matter Paragraphs in Auditor’s Report

- **Include the paragraph within a separate section of the auditor’s report with an appropriate heading that includes the term “Emphasis of Matter”.**
- **Include in the paragraph a clear reference of the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.**
- **Indicate that the auditor’s opinion is not modified in respect of the matter emphasized.**

ISA 706 Revised – Examples of Circumstances that include Emphasis of Matter

- **An uncertainty relating to the future outcome of exceptional litigation or regulatory action.**
- **A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.**
- **Early application of a new accounting standard.**
- **A major catastrophe that has had , or continues to have a significant effect on the entity's financial position.**
- **To alert users that the financial statements are prepared in accordance with a special purpose framework.**

Going Concern (GC) – ISA 570

The Auditor’s report is required to highlight the existence of any materiality uncertainties and will either include:

- If the disclosures are adequate, a separate section under the heading “ Material Uncertainly Related to Going Concern” drawing attention to those disclosures; or**
- If the disclosures are inadequate , a modified opinion as the first section of the auditor’s report.**
- Descriptions of the responsibilities of the auditor and management in relation to GC.**

THANK YOU !

