

PKF Malta



INTERNATIONAL STANDARDS ON AUDITING.

MR. GEORGE MANGION

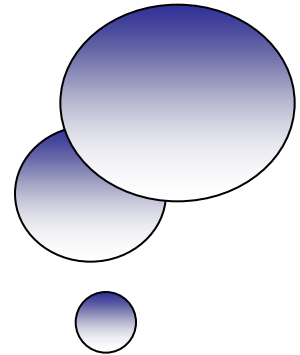
Agenda

- **Clarity Project**
- **Organizational Chart**
 - **ISA 700**
 - **ISA 705**
 - **ISA 706**
 - **ISA 800**

Clarity project

To be implemented effectively, auditing standards must be:

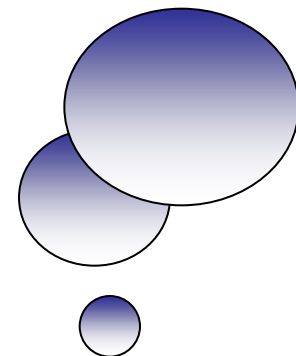
- Comprehensible
- Unambiguous and capable of consistent application
- Applicable independently of size
- Understandable by regulators all over the world



Goals of Clarity Project

Improve the clarity of ISAs by:

- Setting standards on objectives
- Making clearer auditors obligations
- Improving readability



ISA's

General Principles and Responsibilities

- ISA 200
- ISA 210
- ISA 220
- ISA 230
- ISA 240
- ISA 250
- ISA 260
- ISA 265

Risk Assessment and Response to Assessed Risks

- ISA 300
- ISA 315
- ISA 320
- ISA 330
- ISA 402
- ISA 450

Audit Evidence

- ISA 500
- ISA 501
- ISA 505
- ISA 510
- ISA 520
- ISA 530
- ISA 540
- ISA 550
- ISA 560
- ISA 570
- ISA 580

Using Work of Others

- ISA 600
- ISA 610
- ISA 620

Audit Conclusions and Reporting

- ISA 700
- ISA 705
- ISA 706
- ISA 710
- ISA 720

Specialized Areas

- ISA 800
- ISA 805
- ISA 810

Objectives and overarching responsibilities

ISA 200—Overall Objectives and Conduct of ISA Audit

ISA 320 - Materiality

ISA 450 – Evaluation of Misstatements

Risk assessment and evidence gathering in riskier areas

ISA 402 – Service Organizations

ISA 505 – External Confirmations

ISA 540 – Estimates and Fair Values

ISA 550 – Related Parties

Quality of audit evidence, and basis for reliance on others

ISA 580 – Written Representations

ISA 600 – Group Audits

ISA 620 – Using Work of Experts

Auditor communications

ISA 280 – Communication with TCWG

ISA 265 – Communicating Deficiencies in I/C

ISA 705 - Modifications

ISA 706 – EOM / Other Matter Paragraphs

ISA 800 series – Special purpose reporting

ISA 700: THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

- ▶ Scope

This International Standard on Auditing (ISA) deals with the auditor's responsibility to form an opinion on the financial statements.

- ▶ Effective Date

This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

- ▶ Objectives

To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained;

To express clearly that opinion through a written report that also describes the basis for that opinion.



ISA 700: Requirements

▶ **Forming an Opinion on the Financial Statements**

The auditor's report on the financial statements shall contain a clear written expression of opinion on the financial statements taken as a whole, based on the auditor evaluating the conclusions drawn from the audit evidence obtained, including evaluating whether:

- ✓ Sufficient appropriate audit evidence as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error has been obtained.
- ✓ Uncorrected misstatements are material, individually or in aggregate. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices.

ISA 700: Requirements

▶ **Forming an Opinion on the Financial Statements**

In particular, the auditor shall evaluate whether:

- ✓ The financial statements adequately disclose the significant accounting policies selected and applied;
- ✓ The accounting policies selected and applied are consistent with the applicable financial reporting framework, and are appropriate in the circumstances;
- ✓ Accounting estimates are reasonable;
- ✓ The information presented in the financial statements is relevant, reliable, comparable and understandable;
- ✓ The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.

ISA 700: Auditor's Report

Title

Indicates that it is the report of an independent auditor.

Address

The auditor's report shall be addressed as required by the circumstances of the engagement.

Introductory Paragraph

The auditor's report shall identify the financial statements of the entity that have been audited, including the date of, and period covered by, the financial statements.

Management's Responsibility for the Financial Statements

This section of the auditor's report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements.

ISA 700: Auditor's Report

Responsibility

The auditor's report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit

The auditor's report shall state that the audit was conducted in accordance with International Standards on Auditing

Auditor's Opinion

The auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

- The financial statements present fairly, in all material respects ... in accordance with [the applicable financial reporting framework];
- The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].

ISA 700: Auditor's Report

Auditor's Opinion

- ▶ If financial statements do not achieve fair presentation, the auditor shall discuss the matter with management and, determine whether it is necessary to modify the opinion in the auditor's report in accordance with ISA 705.
- ▶ When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation.



ISA 705: MODIFICATION TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

▶ Scope

This International Standard on Auditing (ISA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with ISA 700, the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

➤ Types of Modified Opinions

This ISA establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion.

▶ Effective Date

This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.



ISA 705: THE AUDITOR'S REPORT ON FINANCIAL STATEMENTS

▶ Objective

The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

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



ISA 705: Determining the type of Modification to the Auditor's Opinion

Qualified Opinion

- ▶ When the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statement; or
- ▶ When 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

- 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, the auditor shall express an adverse opinion.

ISA 705: Determining the type of Modification to the Auditor's Opinion

Disclaimer of 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.
- ▶ When in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

ISA 705: Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence

- If the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements,
 - The auditor shall request that management remove the limitation.

- If management refuses to remove the limitation,
 - The auditor shall communicate the matter to those charged with governance,
and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

ISA 705: Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence

- If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
 1. If the auditor concludes that the possible effects could be material but not pervasive
 - The auditor shall qualify the opinion; or
 2. If the auditor concludes that the possible effects could be both material and pervasive
 - The auditor shall:
 - Withdraw from the audit, where practicable and possible under applicable law or regulation; or
 - If withdrawal is not practicable or possible, disclaim an opinion on the financial Statements.

ISA 706: EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

► Scope

This International Standard on Auditing (ISA) deals with additional communication in the auditor's report when the auditor considers it necessary to:

- a) Draw user's attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
- a) Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

ISA 706: EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

▶ Effective Date

This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

➤ Objective

The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgement it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements ; or
- b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

ISA 706: Requirements Emphasis of Matter Paragraphs in the Auditor's Report

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

- a) Include it immediately after the Opinion paragraph in the auditor's report ;
- b) Use the heading " Emphasis of Matter, " or other appropriate heading ;
- c) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements ; and
- d) Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

ISA 706: Requirements Other Matter Paragraphs in the Auditor's Report

If the auditor considers it is necessary to communicate the matter other than those that are presented in the financial statements, he / she shall do so in a paragraph in the auditor's report, with the heading "Other Matter."

ISA 800: SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

▶ **Scope**

This ISA is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework.

▶ **Effective Date**

This ISA is effective for audits of financial statements for periods beginning on or after December 15, 2009.

▶ **Objective**

The objective of the auditor, when applying ISAs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

- (a) The acceptance of the engagement;
- (b) The planning and performance of that engagement; and
- (c) Forming an opinion and reporting on the financial statements.

ISA 800: Requirements

- ▶ Considerations When Planning and Performing the Audit

ISA 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.

In an audit of special purpose financial statements, the auditor shall obtain an understanding of:

- (a) The purpose for which the financial statements are prepared;
- (b) The intended users;
- (c) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

- ▶ Considerations When Accepting the Engagement

ISA 200 requires the auditor to comply with all ISAs relevant to the audit

ISA 315 requires the auditor to obtain an understanding of the entity's selection and application of accounting policies

ISA 800: Requirements

Forming an Opinion and Reporting Considerations

- When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in ISA 700.

Description of the Applicable Financial Reporting Framework

- ISA 700 requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework
- ISA 700 deals with the form and content of the auditor's report. In the case of an auditor's report on special purpose financial statements:
 - ▶ The auditor's report shall also describe the purpose for which the financial statements are prepared
 - ▶ The explanation of management's responsibility for the financial statements

ISA 800: Requirements

Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework

- The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework.

Thank you for your time & attention.

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