

ISA 700: THEORETICAL ASPECTS AND MAIN CONCEPTS OF UPDATED STRUCTURE OF AUDITOR'S REPORT

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Abstract

The auditor's report is an important document reflecting the audit results of the financial statements and a final result of the audit. But, nevertheless, it is a standard report compiled based on the compliance / non-compliance principle. The auditor's report formulated under this principle, covers the information of a minimal volume regarding both an audited organization and the auditing processes. Due to a scarce informativeness of the existing report, a demand insisting to introduce more transparent and informative report about the audited object, increased towards the auditors. Increase of interest of the users of financial reporting towards the information was conditioned also by a circumstance that the auditors' reports were often vague for the users, while the auditor's opinion on where the risks of the financial reports were hidden, remained unclear. This factor was lowering considerably the users' confidence to reliability of the auditor's report. Because of the above mentioned the auditors' reports formulated in a standard style, have recently become a subject of criticism by a wide circle stakeholders and users of the financial reporting. Thus, an inevitable agenda occurred, requiring to reflect in the auditor's report with a maximally permitted wide ranges the peculiarities and individual features of the organizations. Such a requirement, if taken into account, could improve considerably a level of both the transparency and the informativeness of the auditor's report. A growing interest of the users to the transparency and informativeness of the auditor's report was conditioned by the scale and deepness of the global economic crisis. Just because of scandals cascade and financial crises in major international companies a style and a textual structure of the auditor's report has attracted a particular attention.

Key words: *Auditor's Report; Main issues of audit; Substantial uncertainty; Fair presentation framework; Compliance framework*

I. INTRODUCTION

Increase of the levels of transparency and informativeness of the auditor's report is certainly important for the users of financial statements, because, an independent auditor's report is a reliable source indicating the threats, which may hinder a sustainable development of organizations and/or worsen their financial state. Besides, a financial accounting of entities at the current stage became rather complicated. These complications are conditioned by material changes of attitudes towards the following circumstances:

The scopes of the use of professional judgment have been expanded;

A considerable increase of the requirements to the level of expertise applied in the accounting measurements

Increase of the levels of uncertainties involved in the preparation of financial reporting;

A considerable increase of requirements towards the content and volume of the information which should be introduced in the financial statements in a form of explanatory notes

Considering all the above stating, revision of the ISA has become inevitable necessary, with occurring a need of making certain changes in the regulations of auditing the financial information of previous periods. The important changes made recently by the International Auditing and Assurance Standards Board, (IAASB) regarding the International Standards of Auditing (ISA), were developed in 2015. As a result of the revision, considerable changes are established for almost all standards of the section of "Auditor's Report and Forming the Report" Besides, a new ISA 701 –"Key Audit Matters in the Independent Auditor's Report" came into the forces. As a result of revising the ISA by the IAASB a format, a structure, and a content of an independent auditor's report have been changed. IAASB believes that these changes will contribute to increase a quality communication between the auditor and the investors on one hand, and between the auditor and the governmental authorities, on the other hand. The new, revised ISA is applied for those auditors' reports on the financial statements, which were developed after December 15th 2016. As recommended by the revised standards, the paragraphs in the independent auditor's report should be introduced in the following sequence:

I. The first paragraph shall include an address to the shareholders, to underline a fact that the report is destined for the use by them, first of all

II. The auditor's opinion should be provided in the introduction of the report. just this is the important change entered into the auditor's report. earlier, the auditor's opinion was placed at the end of the report, however, since the opinion is the most important part of the report, it should be placed in the most visible part of the report, according to the new approach

III. The grounds of opinion should be introduced after the auditor's opinion

IV. Then comes the paragraph “Key matters of audit” where those main circumstances are discussed, which have determined a formulation of the auditor’s opinion. This paragraph contains also an approach chosen by auditor, which is adapted to a given audit

V. The paragraphs followed to the above, formulate clearly the liabilities of the auditor and the management. In the revise version, the auditor’s activity s discussed in a more detailed manner

Thus, until the changes, the Independent Auditor's opinion was introduced in the last paragraph of the auditor's report, but, after changes, it, as the most important part of the report, is moved to the starting section of the report . This change is reflected in the comprehensive standard of ISA 700 for preparing the auditor’s report and opinion – “Forming an Opinion and Reporting on Financial Statements”

The Auditor’s Report is a clearly and evidently expressed written opinion of an auditor regarding the financial statements of a general purpose, and:

It should be consistent, of a typical shape, standardized;

It should apply uniform formulations;

It should be free of any ambiguity and obscurity;

It should be independent, impartial, and constructive.

Uniformity of the structure of the auditor's report and a consistency of reasoning, increase its reliability and makes it easily identifiable, which helps the customer to perceive extraordinary details. Informativeness of the auditor’s report is increased as a result of the amendments to the ISA 700, namely:

The report is added by a new point (paragraph) which introduces widely the issues related to the organization and the processes of its auditing

Sequence of the comprising paragraphs (elements) is changed;

Volume of content of the paragraphs (elements) is increased;

Format of the paragraphs related to liability of the auditor and other key matters, became much wider

Financial statements should be prepared according to relevant framework. The financial statements prepared and submitted according to the relevant framework, are called as General purpose financial statements. Frameworks for submitting the general purpose financial statements may be one of the two listed below

Fair presentation framework, or

Compliance framework

Fair presentation framework implies a presentation of the financial statements by standards of an organization which empowered to issue standards for preparation of General purpose financial statements.

Compliance framework implies the grounds for presentation op financial statements which are not required to observe the Fair presentation framework Auditor’s opinion on the general purpose financial statements, refers to the following two issues

Whether the financial statement is prepared according to the relevant presentation framework; and

whether the financial statement is submitted fairly, with considering all substantial aspects; or, whether the financial statement reflects a true and fair opinion

Formulation of the auditor’s opinion is determined by the frameworks of submitting the financial statements. Namely, if the framework for submitting the general purpose financial statement is the “Fair presentation framework”, then the auditor’s opinion on the financial statement demonstrates:

Whether the financial statement is submitted fairly, with considering all substantial aspects; or

Whether the financial statement reflects a true and fair opinion

But, if the framework for submitting the general purpose financial statement is “Compliance framework: then the auditor’s opinion on the financial statement demonstrates:

Whether the financial statement is submitted with considering all substantial aspects; according to the “Compliance framework”

The Standard deals with a model of structure of the auditor’s report. Auditor’s report on the “General purpose financial statement” includes the following key elements placed in a sequential order:

1. Title

The title should indicate clearly that it is the report of an independent auditor. For making difference between this Report and the ones drafted by other persons, in must be indicated in the Report that it refers to the financial statement

2. Addressee

The report shall specify an addressee – a person for whom the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited, as defined by the terms and conditions of a relevant deal

3. Opinion

In this section of the auditor’s report an audited economic entity should be indicated (Data: organizational-and-legal form, name, number and date of the state registration, place of business). It must indicate also that the General purpose financial statement is audited; It must list each component of the financial

statement with their names and periods covered or a deadline of reporting'; Besides, it must contain remarks to the financial statement and a brief overview of all important accounting policies; And, expression of the unconditional, "net", i.e. unmodified opinion regarding the financial statement according to the Fair presentation framework.

4. Basis for Opinion

After the section "Opinion". the Report should provide the section subtitled as "Basis for Opinion.

5. Going Concern

When compiling the report, an auditor must envisage the requirements set forth in ISAS 570 - "Going Concern" If the financial statement is prepared under the principle of assumption of the going concern and there are no problems regarding such an assumption, then the auditor is not requested to mention this fact in the report. If the auditor obtains sufficient and appropriate evidences then he/she must express opinion on the going concern depending upon how adequately this is information disclosed in the explanatory notes.

6. Key Audit Matters

This element of the auditor's report is a new paragraph which is governed by the new ISA 701, saying that Key audit matters which in the auditor's professional judgment, were of most significance in the audit of the financial statements are introduced in a separate paragraph (Key audit matters). The information about the key audit matters is targeted at securing higher transparency on the audit conducted and increasing the communicative value of the auditor's report According to this Standard, availability of this element is required for those entrepreneurial subjects only which are quoted on the stock exchange. The auditor should describe each "Key audit matter", with indicating the appropriate explanatory notes, reasons for acknowledging this or that matter as "key" and, how these matters are resolved in the course of audit. The auditor should indicate the reasons by which the key matters were identified. As a result of introduction of a new approach for disclosure of information in the auditor's report, an obscurity of the report has weakened considerably and correspondingly, increased its reliability.

7. Other Information

Other information refers to either financial or non-financial information reflected in the annual reports of an enterprise. the enterprise may, in line with the financial reporting submitted as per the legal requirements or by initiation of the enterprise, submit also the other information, which is not required by frameworks of presentation of the financial statements.

8. Responsibilities of Managers and controlling-reliable Persons for the Financial Statements

In this section of the report, the managers responsibility for preparation and presentation of the enclosed financial statements according to the relevant framework should be described, in line with the responsibility for the internal control, if the managers consider it necessary for drafting the financial statements and which should not contain material mistakes caused by negligence of fraudulent.

9. Auditor's Responsibilities for the Audit of the Financial Statements

This section of the report shall state that The objectives of the audit 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, Issue an auditor's report that includes an opinion. This is a difference between the responsibilities of an auditor and a management

10. Other Reporting Responsibilities

This paragraph of the report shall reflect other reporting responsibilities of the auditor which are vested on him/her reflect according to the applicable laws. The report "On legislative and other regulations "must be placed after the paragraph titled "Report on Financial statements"

11. Name of the Engagement Partner

After auditing a full package of the General Purpose Financial Statement of a company quoted on the stock exchange, the report shall always indicate name of the engagement partner, except for the case where it is reasonably expected that disclosure of the information will be threatening to his/her security

12. Auditor's signature: Auditors Report must be signed. The auditor must sign the report on behalf of the audit company, or on his/her name, or for both According to the applicable laws, the auditor may be required to indicate his/her professional title or status, as well.

13. Auditor's address: The auditor's report shall name the location (city) in the jurisdiction where the auditor is serving for a company responsible for the audit

14. Date of the Auditor's Report: The Date of the Auditor's Report informs the user that the auditor has envisaged an effect of the events and transactions which had taken place before the mentioned date

II. CONCLUSION

To summarize in brief, it comes out that the revised and newly developed International Standards on Auditing, have increased:

Transparency of the information provided in the auditor's report and a confidence of users to such information

Compliance and reliability – compliance of the process of audit, specificity of operations of an audited subject are underlined, which, in its turn, increase reliability of the auditor's report

Comparability – disclosure of key issues used in the course of audit of each subject, will facilitate to increase of comparability of subjects of this or that branches

Communication- communication level with the management of individuals and consumers has been increased, that facilitates maintaining the general level financial audits and general purpose financial statements at the higher level;

The quality of audit of the General Purpose Financial Statements and the General Purpose Financial Statements has been increased despite a complexity of the work performed and a constant nature of such complexity

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