

INTOSAI



Practice Note to ISA 700

Forming an Opinion and Reporting on Financial Statements

INTOSAI



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This Practice Note in combination with the International Standard on Auditing (ISA) 700 "Forming an Opinion and Reporting on Financial Statements" issued by the International Federation of Accountants (IFAC) constitute ISSAI 1700.

Practice Note to International Standard on Auditing (ISA) 700 (Revised)

Forming an Opinion and Reporting on Financial Statements

Background

This practice Note provides supplementary guidance on ISA 700 (Revised) – Forming an Opinion and Reporting on Financial Statements. It should be read together with the ISA. ISA 700 (Revised) is effective for audits of financial statements for periods ending on or after December 15, 2016. The Practice Note is effective the same date as the ISA.

Introduction to the ISA

ISA 700 (Revised) deals with the auditor’s responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor’s report issued as a result of an audit of financial statements.

ISA 701 (Revised) deals with the auditor’s responsibility to communicate key audit matters in the auditor’s report. ISA 705 (Revised)¹ and ISA 706 (Revised)² deal with how the form and content of the auditor’s report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor’s report. ISA 720 (Revised) deals with the auditor’s responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor’s report thereon), included in an entity’s annual report..

ISA 700 (Revised) is written in the context of a complete set of general purpose financial statements. ISA 800 (Revised)³ deals with special considerations when financial statements are prepared in accordance with a special purpose framework. ISA 805 (Revised)⁴ deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.

ISA 700 (Revised) promotes consistency in the auditor’s report but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor’s report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user’s understanding and to identify unusual circumstances when they occur.

1 ISA 705, “Modifications to the Opinion in the Independent Auditor’s Report.”

2 ISA 706, “Emphasis of Matter paragraphs and Other Matter paragraphs in the Independent Auditor’s Report.”

3 ISA 800, “Special Considerations – Audits of Financial Statements prepared in Accordance with Special purpose Frameworks.”

4 ISA 805, “Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

Content of the Practice Note

- P1. The Practice Note provides additional guidance for public sector auditors related to:
- (a) Overall considerations.
 - (b) Scope of the ISA
 - (c) Auditor's report.
 - (d) Disclosure of the effect of material transactions and events on the information conveyed in the financial statements.

Applicability of the ISA in Public Sector Auditing

- P2. ISA 700 (Revised) is applicable to auditors of public sector entities in their role as auditors of financial statements.

Additional Guidance on Public Sector Issues

Overall Considerations

- P3. ISA 700 (Revised) contains application and other explanatory material with considerations specific to public sector entities in paragraph A38 and A70 of the ISA.
- P4. The objectives of a financial audit in the public sector are often broader than expressing an opinion whether the financial statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework (i.e. the scope of the ISAs). The audit mandate, or obligations for public sector entities, arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature may result in additional objectives. These additional objectives, which may be of equal importance to the opinion on the financial statements, may include audit and reporting responsibilities, for example, relating to reporting whether public sector auditors found any instances of non-compliance with authorities including budgets and accountability frameworks, and/or reporting on the effectiveness of internal control. However, even when there are no such additional objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on effectiveness of internal control. Such additional responsibilities would be reported in a separate section of the auditor's report as further described in paragraph P6 below.

Scope of the ISA

- P5. Consistency in the auditor's report when the audit has been conducted in accordance with the ISAs, as stated in paragraph 4 of the ISA, promotes credibility in public sector environments as well as the global market place. For public sector entities, legislators and regulators are often the primary users of their financial statements. Legislators represent the citizens, who are the ultimate users of the financial statements.
- P6. In the public sector, laws and regulations or the audit mandate may lead public sector auditors to report findings in the auditor's report according to the ISAs. Additional findings, disclosures, conclusions, recommendations and management responses, may be reported in a separate report, if required or permitted under A54 of the ISA. This separate report could be issued together with the auditor's report or as prescribed by relevant laws or regulations.
- P7. Public sector auditors with responsibilities relating to reporting on compliance or non-compliance with authorities may consider the INTOSAI Compliance Audit Guidelines (ISSAI 4000⁶ and 4200⁷). Public sector auditors may apply ISAE 3000⁸ as well as ISSAI 4100⁹ for other assurance engagements.

Auditor's Report

- P8. In the public sector law or regulation may set out the responsibilities for the financial statements and the auditor should determine the responsibilities of management and those charged with governance (cf ISSAI 1260 concerning defining those charges with governance) that will be included in the auditor's report (ISA 700.A40 – A42).
- P9. As far as the ethical requirements referred to in the *Basis for Opinion* section of the report are concerned, other codes of ethics as restrictive as the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* may also be relevant. The INTOSAI Code of Ethics¹⁰ is a relevant ethical code in so far as paragraph 28 of the ISA is concerned. For audits of financial statements of listed entities, as stated in paragraph 39(b) of the ISA, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.
- P10. In cases where public sector auditors are required by laws or regulations to use specific layout or wording in the auditor's report, public sector auditors are required to evaluate whether such layout or wording contains the minimum elements, as described in paragraph 50 of the ISA. If such elements are not included, public sector auditors cannot state that the audit complies with the ISAs.
- P11. The illustrative examples provided in the ISA are, amended as necessary, applicable and relevant to the public sector.
- P12. When applying paragraph A16 of the ISA and when law, regulation or the terms of the engagement do not specify the addressee for the auditor's report, public sector auditors address the auditor's report to those charged with governance or relevant part of the legislature, as appropriate.

6 ISSAI 4000, "General Introduction to Guidelines on Compliance Audit."

7 ISSAI 4200, "Compliance Audit Guidelines Related to Audit of Financial Statements."

8 ISAE 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information."

9 ISSAI 4100, "Compliance Audit Guidelines for Audits Performed Separately from the Audit of Financial Statements."

10 ISSAI 30, "INTOSAI Code of Ethics."

11 ISSAI 4200, "Compliance Audit Guidelines Related To Audit of Financial Statements."

P13. Depending on the standards applied, the public sector auditors may refer to relevant auditing standards in one of the following ways: auditing

- (a) In accordance with [standards], which are based on [or consistent with] the Fundamental Auditing Principles (ISSAIs 100-999) of the International Standards of Supreme Audit Institutions (refer to ISSAI 200.12);
- (b) in accordance with International Standards of Supreme Audit Institutions 1000-1810 (refer to ISSAI 200.13a);
- (c) in accordance with International Standards on Auditing (refer to ISSAI 200.13b)

P14. Laws and regulations may establish deadlines for the date of the auditor's report. In circumstances where public sector auditors are unable to meet the deadline, public sector auditors may consider taking appropriate actions such as informing those charged with governance or the legislature.

Disclosure of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements

P15. A general purpose financial statement framework in the public sector may include additional reports such as a comparison of budget and actual amounts, reports on performance and appropriation reports to constitute a complete set of financial statements. In such circumstances public sector auditors evaluate those reports in accordance with the guidance provided in A6 of the ISA.