Audit reports and the impact on users of financial statements

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Auditor’s Report

- Auditors report today;
  - Generally a short, standardized report that describes the financial statements subject to audit, the audit itself, and the respective responsibilities of management and the auditor.
  - An opinion either a “clean” (unmodified) opinion or a modified report with an explanation of the basis for such.
Opinion

- **Wording of opinion**
  - If true and fair frameworks;
    - Presents fairly, in all material respects,... in accordance with...
    - Gives a true and fair view of... in accordance with...
  - If compliance framework;
    - ..are prepared, in all material respects, in accordance with..
  - ...unless otherwise required by law or regulation
Auditor’s Report IAASB

• Users of audited financial statements are calling for additional, and more pertinent, information for their decision making in today’s global environment with increasingly complex financial reporting requirements.
• Users want to know more about individual audits and to gain further insights into the audited entity and its financial statements.
• Regulators in certain jurisdictions require more information.
• Therefore, change is essential.
Auditor Reporting IAASB

• A need for an informative auditor’s report that delivers value to the stakeholders
• IAASB project to enhance auditors reporting
• Exposure planned June 2013
• New standards expected June 2014
• ITC on a proposal deadline October 8
Proposed changes in the ITC

• The most relevant information to the user, the auditor’s opinion, is positioned first.
• A new section referred to as “Auditor Commentary” included. Such a section would have the auditor communicate matters that, in the auditor’s judgment, are most important to users’ understanding of the audited financial statements and/or the audit.
• New communication on Going Concern
Proposed changes in the ITC

• New communication on Other Information
• Improvements to better explain an audit of financial statements and enhance transparency.
• Common elements that would be required in all auditors’ reports identified, while providing the flexibility for jurisdictions to further tailor auditors’ reports, if appropriate.
Relevance for the INTOSAI

- A new ISA 700 will be included in ISSAI 1700
- The flexible approach may allow for public sector tailoring
- SAIs often have the ability to provide additional information
Audit Evidence-

- Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information.
- The practitioner plans and performs an assurance engagement with an attitude of professional skepticism to obtain sufficient appropriate evidence about whether the subject matter information is free of material misstatement.
Audit Evidence

- Information that supports and corroborates management’s assertions,
- Information that contradicts such assertions.
- Absence of information may also be used by the auditor, and therefore, also constitutes audit evidence.
Reasonable conclusions based on evidence gathered by the auditor

Sufficient evidence
Enough to be representative

Appropriate Evidence

Relevant evidence
Pertinent to the matter being tested

Reliable evidence
Trustworthy and persuasive
Sampling

- ISSAI 1530- No requirement on the auditor to use audit sampling
- The auditor shall;
  - When designing an audit sample, consider the purpose of the audit procedure and the characteristics of the population from which the sample will be drawn.
  - determine a sample size sufficient to reduce sampling risk to an acceptably low level.
  - Select items for the sample in such a way that each sampling unit in the population has a chance of selection.
Sampling – cont.

- Investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the purpose of the audit procedure and on other areas of the audit.
- For tests of details, project misstatements found in the sample to the population
- Evaluate the result of the sample
Use of sampling techniques in SNAO

- Used for all larger agencies
- Non-statistical sampling (random sampling most common)
- Audit tools used