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Reporting on audited financial statements

ISA 700, ISA705 & ISA 706 - Revised

Nada Maalouf

Beirut - September 15 and 28, 2015

Tripoli - October 3, 2015

Beirut – February 3, 2016

Beirut - November 1, 2016



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ISA 700 (Revised) Forming an Opinion and Reporting on Financial Statements

ISA 700 Forming an Opinion and Reporting on FS

Scope and effective date

Scope of ISA 700

- Deals with the auditor's responsibility to form an opinion on the financial statements
- Deals with the form and content of the auditor's report issued as a result of an audit of financial statements
- Applies to an audit of a complete set of general purpose financial statements and is written in that context
- Requirements of this ISA aim at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of the auditor reporting by making the information provided in the auditor's report more relevant to users.

Effective date

- Audits of financial statements for periods ending on or after December 15, 2016

ISA 700 Forming an Opinion and Reporting on FS

Objectives and requirements

Objectives are to:

- Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence; and
- Express clearly that opinion through a written report.

Requirements - Forming an Opinion on financial statements (FS):

- Conclude as to whether the auditor has obtained reasonable assurance about whether the FS as a whole are free from material misstatement, whether due to fraud or error, taking into account:
 - Conclusion about sufficiency and appropriateness of audit evidence
 - Conclusion whether misstatements, individually or in aggregate, are material
 - Evaluation of other matters (prepared in accordance with financial reporting framework, adequate and consistent accounting policies, reasonableness of accounting estimates, adequate disclosures, terminology, information is relevant, reliable, comparable and understandable)
 - Evaluation of overall presentation, structure and content of FS
 - Evaluation whether the FS adequately refer to the applicable financial reporting framework

ISA 700 Forming an Opinion and Reporting on FS Requirements

Form of opinion

- Express an unmodified opinion when the auditor concludes that the FS are prepared, in all material respects, in accordance with the applicable financial reporting framework
- Express a modified opinion in accordance with ISA 705 when the auditor concludes:
 - That, based on audit evidence, the FS taken as a whole are not free from material misstatement; or
 - That the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the FS taken as a whole are free from material misstatement

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA

- Title: clearly indicate that it is the report of an “independent auditor”
- Addressee: as appropriate, normally to shareholders of the entity
- Auditor's opinion: This has now become the first section of the auditor's report and shall have the header “Opinion”. The Opinion section shall also:
 - Identify the entity
 - State that the FS have been audited
 - Identify the title of each statement comprising the financial statements
 - Refer to the notes, including the summary of significant accounting policies; and
 - Specify the date of, or period covered by, each financial statement comprising the financial statements
- When expressing an unmodified opinion the auditor can say either:
 - Present fairly, in all material respects
 - Give a true and fair view
- When expressing an unmodified opinion the auditor should indicate that the financial statements are presented in accordance with the applicable financial reporting framework, in all material respects.
- If not IFRS, indicate jurisdiction of financial reporting framework

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA (Cont'd)

- Basis of opinion: This section follows the Opinion section, has a heading, and:
 - States that the audit was conducted in accordance with ISA
 - Refers to the section of the report that describes the auditor's responsibilities under ISA
 - Includes a statement that the auditor is independent of the entity in accordance with relevant ethical requirements relating to the audit mentioning jurisdiction or refer to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code)
 - States whether the auditor believes the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
- Going concern: Where applicable, the auditor shall report in accordance with ISA 570 (revised).
- Key audit matters: For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in accordance with ISA 701. This applies if the auditor is required by law or regulation or otherwise decides to communicate key audit matters.

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Management's responsibilities

- Responsibilities of management for the financial statements: This is the heading of the section and it describes management's (and those charged with governance, as applicable) responsibility for:
 - Preparing the FS in accordance with the applicable financial reporting framework, and for such internal control as management determine is necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error,
 - Assessing the entity's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation for management's responsibility for this assessment shall include a description of when the use of the going concern of accounting is appropriate.
- This section should also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfil the responsibilities described above.
- This section should refer to “the preparation and fair presentation of these financial statements”

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Auditor's responsibilities (Cont'd)

- Auditor's responsibilities for the audit of the Financial Statements: This is the heading of the section and it shall:
 - State that the objectives of the auditor are to (i) obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error; and (ii) issue an auditor's report that includes the auditor's opinion.
 - State 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, and
 - State that misstatements can arise from fraud or error and either (i) describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of these financial statements, or (ii) provide a definition or description of materiality in accordance with the applicable financial reporting framework.
 - State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Auditor's responsibilities

- Describe an audit by stating that the auditor's responsibilities are to
 - Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; to design and perform audit procedures responsive to those risks and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
 - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
 - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Auditor's responsibilities (Cont'd)

- Evaluate the overall presentation, structure and content of the FS, including disclosures, and whether FS represent underlying transactions and events and achieve fair presentation.

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Auditor's responsibilities (cont'd)

- When ISA 600 applies, describe the auditor's responsibility in a group audit engagement:
 - Obtain sufficient appropriate audit evidence regarding the FS of the entities or business activities within the group to express an opinion on the group FS
 - Responsible for the direction, supervision and performance of the group audit and
 - Auditor remains sole responsible for the auditor's report
- State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;
- For audits of FS of listed entities, 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; and

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Auditor's responsibilities (Cont'd)

- For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. This is done within the report unless precluded by law or regulation or if the auditor determines that a matter should not be communicated because adverse consequences of doing so would outweigh the public interest benefits of such communication.
- Location of the description of the auditor's responsibilities for the audit of the financial statements:
 - Within the body of the auditor's report
 - Within an appendix to the auditor's report
 - By specific reference within the auditor's report to the location of such description on a website of an appropriate authority, in jurisdictions that allow this expressly.
- Other Reporting Responsibilities: if these are addressed in the auditor's report on FS in accordance with ISAs, they should be addressed separately in a section called "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content.

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report in accordance with ISA – Auditor's responsibilities (Cont'd)

- Name of the Engagement Partner should be included (listed entities) unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
- Signature of the Auditor: Audit report should be signed,
- Auditor's address
- Date of the Auditor's Report: no earlier than the date on which the auditor has obtained sufficient and appropriate audit evidence on which to base the auditor's opinion

ISA 700 Forming an Opinion and Reporting on FS

Auditor's report prescribed by other than ISAs

- If an auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to ISAs if, at a minimum, the requirements for an auditor's report are not inconsistent with the requirements of ISA 700 and related ISAs 570, 705, 706 and 701.
- If the audit is conducted in accordance with both ISA and standards of a specific jurisdiction then the auditor's report shall refer to ISA if and only if:
 - There is no conflict in the requirements of both standards that would lead to a different opinion or not to include an Emphasis of Matter or Other Matter paragraph
 - The auditor's report includes, at a minimum, the elements set out as requirements when the auditor is required by law or regulation to use a specific layout or wording specified by national auditing standards.
 - The auditor's report should identify the jurisdiction of origin of the national standards

ISA 700 Forming an Opinion and Reporting on FS

Supplementary information presented with the FS

- Evaluate whether, in the auditor's professional judgment, supplementary information is an integral part of the FS due to its nature or how it is presented. If judged to be integral, the supplementary information will be covered by the auditor's opinion.
- If supplementary information is not judged integral, the auditor evaluates whether it is adequately differentiated and separated from the audited FS.

ISA 705 Modifications to the Opinion in the Independent Auditor's Report

ISA 705 Modifications to the Opinion

Scope and effective date

Scope

- Deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion, the auditor concludes that a modification is necessary.
- Deals with how the form and content of the auditor's report issued is affected when the auditor expresses a modified opinion.

Effective date

- Audits of financial statements for periods ending on or after December 15, 2016

ISA 705 Modifications to the Opinion Objective

Is to express a clearly and appropriately modified opinion on the FS that is necessary when:

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

ISA 705 Modifications to the Opinion

Definitions

Pervasive – term used to describe the effects on the FS of misstatements or possible effects, if any, that are undetected due to inability to obtain sufficient appropriate audit evidence. Pervasive effects are those that:

- Are not confined to specific elements, accounts or items of the FS
- 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.

ISA 705 Modifications to the Opinion Requirements

Circumstances when a Modification to the Auditor's Opinion is required:

- FS as a whole are not free from material misstatement – based on audit evidence
- Inability to obtain sufficient appropriate audit evidence to conclude that FS as a whole are free from material misstatement

Determining the Type of Modification to the Auditor's Opinion

- Qualified opinion
- Adverse Opinion
- Disclaimer of Opinion

ISA 705 Modifications to the Opinion

Qualified opinion

Auditor shall express a 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 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 FS of undetected misstatements, if any, could be material but not pervasive

ISA 705 Modifications to the Opinion

Adverse opinion & disclaimer of opinion

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 FS of undetected misstatements, if any, could be both material and pervasive.
- The auditor shall disclaim an opinion 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 FS due to the potential interaction of the uncertainties and their possible cumulative effect on the FS.

ISA 705 Modifications to the Opinion

Consequences of management imposed limitation

If, after accepting an engagement, the auditor becomes aware of a management imposed limitation on the scope of the audit, the auditor shall:

- Request that the limitation be removed and if management refuses communicate with those charged with governance unless they are all involved

If unable to obtain sufficient appropriate audit evidence, determine the implications:

- If possible effects are material but not pervasive, qualify the opinion, or
- If possible effects are both material and pervasive, either withdraw if allowed by law or regulation or if not allowed, disclaim the opinion.
- If the auditor withdraws from the engagement, the auditor shall communicate any matters regarding misstatements that could have given rise to a modification of the opinion to those charged with governance before withdrawing.

ISA 705 Modifications to the Opinion

Form & content of auditor's report

Opinion section title should be modified

Qualified opinion

- Except for the effects of the matter(s) described in the Basis For Qualified Opinion section
- Except for the possible effects of the matter(s) described in the Basis For Qualified Opinion section

The accompanying FS present fairly, in all material respects, the in accordance with

Adverse opinion

- State in the opinion that because of the significance of the matter(s) described in the Basis of Adverse Opinion section

The accompanying FS do not present fairly, in all material respects, the in accordance with

Disclaimer of opinion

- State that the auditor does not express an opinion on the accompanying FS
- State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FS
- Amend the statement which indicates that the FS have been audited, to state that the auditor was engaged to audit the FS

ISA 705 Modifications to the Opinion

Form & content of auditor's report (Cont'd)

Basis of opinion:

- Change the name of the section as necessary.
- Include a description of the matter(s) giving rise to the modification.
- If there is a material misstatement that relates to specific amounts in the FS (including quantitative disclosures in the notes), include a description and quantification of the financial effects unless impracticable and in that case indicate so.
- If there is a material misstatement that relates to narrative disclosures, include an explanation of how the disclosures are misstated.
- If there is a material misstatement that relates to non-disclosure of information required to be disclosed:
 - Discuss with those charged with governance
 - Describe in the Basis of Opinion the nature of the omitted information
 - Unless prohibited, include the omitted disclosure if practicable and the auditor has obtained sufficient appropriate audit evidence

ISA 705 Modifications to the Opinion

Form & content of auditor's report (Cont'd)

Basis of opinion:

- If sufficient appropriate audit evidence could not be obtained, the reasons should be stated.
- When the auditor expresses a qualified or an adverse opinion, amend the statement about whether the audit evidence is sufficient and appropriate to include the word “qualified” or “adverse” as applicable.
- When the auditor disclaims an opinion, the auditor's report shall not include the elements required by ISA which are:
 - A reference to the auditor's responsibilities section
 - A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.
- Even when the auditor has expressed an adverse opinion or disclaimed an opinion, the auditor will describe in the Basis of opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion and the effects thereof.

ISA 705 Modifications to the Opinion

Form & content of auditor's report (Cont'd)

Description of auditor's responsibilities when an auditor disclaims an opinion:

- When the auditor disclaims an opinion due to inability to obtain sufficient appropriate audit evidence, amend the description of the auditor's responsibilities to include only the following:
 - A statement that the auditor's responsibility is to conduct an audit in accordance with ISA and to issue an auditor's report
 - A statement that, however, because of the matter(s) described in the Basis of Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the FS
- When a disclaimer of opinion is issued, the auditor's report shall not include a Key Audit Matters section, unless required by law or regulation.
- Communication of the circumstances that led to the expected modification of opinion and the wording of the modification to those charged with governance should be made.

ISA 706 Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

ISA 706 Emphasis and Other Matter paragraphs

Scope and effective date

Scope

- Draws users' attention to a matter or matters presented or disclosed in the FS that are of such importance that they are fundamental to the users' understanding of the FS, or
- Draws users' attention to any matter or matters other than those presented or disclosed in the FS that are relevant to the users' understanding of the audit, auditor's responsibilities or the auditor's report.
- Addresses the relationship between key audit matters (ISA701) and any additional communication in the auditor's report.

Effective date

- Audits of financial statements for periods ending on or after December 15, 2016

ISA 706 Emphasis and Other Matter paragraphs

Emphasis of matter paragraphs

- A matter disclosed in the FS and is considered fundamental to understanding of the FS:
 - Would not be required to modify the opinion in accordance with ISA 705
 - Has not been determined to be a key audit matter to be communicated in the auditor's report as per ISA 701 requirements
- Included in a separate paragraph titled "Emphasis of a Matter"
- Clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the FS.
- Indicate that the auditor's report is not modified in respect of the matter emphasized.

ISA 706 Emphasis and Other Matter paragraphs

Other matter paragraphs

- A matter not disclosed in the FS and is considered relevant to the understanding of the audit, the auditor's responsibilities or the auditor's report:
 - Not prohibited by law or regulation, and
 - Has not been determined to be a key audit matter to be communicated in the auditor's report as per ISA 701 requirements
- Included in a separate paragraph titled "Other Matter"

ISA 706 Emphasis and Other Matter paragraphs

Communication with those charged with governance

If either an “emphasis of a matter” or an “other matter” paragraph is expected to be included, the auditor shall communicate with those charged with governance regarding the expectation and the wording of the paragraph.



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