



AASC Alert

Series 001 of 2011

March 2011

Revisions to the Standard Auditor's Report on Financial Statements

What is the issue?

The standard auditor's report on financial statements under PSA 700 (Redrafted), "Forming Opinion and Reporting on Financial Statements," has been revised as a result of conforming amendments to the International Standard on Auditing (ISA) 210 (Redrafted), "Agreeing the Terms of Audit Engagements," on which PSA 210 (Redrafted) was based. ISA 210 (Redrafted) contained a number of conforming amendments to certain auditing standards that were already released at the time ISA 210 (Redrafted) was issued by the International Auditing and Assurance Standards Board (IAASB). One of the conforming amendments is the revision of certain wordings in the Management Responsibility for the Financial Statements section of the standard auditor's report on financial statements included in ISA 700 (Redrafted), on which PSA 700 (Redrafted) was based.

Consequently, the standard auditor's report included in PSA 700 (Redrafted) released by the AASC has been effectively revised as a result of the adoption of the conforming amendments included in PSA 210 (Redrafted).

As a background, when the exposure draft on ISA 210 (Redrafted) was released for comment, several respondents to the exposure draft were concerned with the articulation in the auditor's report of management's responsibilities, particularly for "the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error." They expressed the view that it was not appropriate for an auditing standard to set any corporate responsibilities for the design, implementation or maintenance of internal control. Those respondents were of the view that this should be left to parliaments and governments in jurisdictions where such responsibilities are specified externally, and to management and those charged with governance where this is not the case. In consideration of such views, the IAASB agreed that the description of management's responsibility for internal control should be amended to clarify that management is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Accordingly, the paragraph on management's responsibility in the auditor's report was revised.

What are the changes?

Following are the revisions to the standard auditor's reports contained in PSA 700 (Redrafted) as a result of the conforming amendments under PSA 210 (Redrafted). Revisions are crossed out, while additional wordings are highlighted.

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards, ~~this includes the design, implementation and maintenance of~~ and for such internal control ~~relevant to the preparation and fair presentation~~ as management determines is necessary to enable the ~~preparation~~ of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1, and its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

What do we need to do?

PSA 700 (Redrafted) and the conforming amendments in PSA 210 (Redrafted) are effective for audits of financial statements for periods beginning on or after December 15, 2009. Auditors, therefore, should already use the revised wordings as shown above in the standard auditor's reports to accompany audited financial statements for the year ended December 31, 2010.

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The principles and requirements set out in this alert follow the applicable provisions under PSA 700 (Redrafted), Forming an Opinion and Reporting on Financial Statements, which can be accessed at <http://www.aasc.org.ph/downloads/PSA/PSA.php>. This AASC Alert is not a substitute to reading the standard.

AASC Alert is a technical paper issued by the Auditing and Assurance Standards Council of the Philippines to provide guidance to auditors in the application of Philippine Standards on Auditing (PSA). The AASC Alert is not part of PSAs and it does not change the requirements of the relevant PSAs.