



THE AUDITOR'S REPORT IS IN ACCORDANCE WITH ISA 700 FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS" AND THE REQUIREMENTS OF ISA 705-706

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Abstract

This scientific article examines the main aspects of forming an audit opinion and reporting under the International Standards on Auditing (ISA) framework. The article analyzes the formation of an unmodified opinion under ISA 700 “Forming an Opinion and Reporting on Financial Statements”, the cases of issuing a qualified, adverse opinion and disclaimer of opinion under ISA 705 “Modification of an Audit Opinion”, as well as the importance of ISA 706 “Enhancing Reporting – Matters of Interest and Other Matters”. The specific features of each standard, its practical application, their interrelationships and the information value for users of financial statements are examined in depth. The article also touches on the development and future prospects of the audit opinion.

Keywords: Auditor's Report, ISA 700, ISA 705, ISA 706, Unmodified Report, Modified Report, Highlights, Financial Statements.

Introduction

Financial statements are an integral part of capital markets in a modern economy and serve as a key source of information for investors, creditors, regulators and other stakeholders in making important decisions. The reliability and fairness of these reports are crucial in ensuring economic stability. Auditing is an independent examination process that increases confidence in financial statements. The main task of the auditor is to express an independent opinion on whether the financial statements of an organization are prepared, in all material respects, in accordance with applicable financial reporting frameworks. This opinion is formed and presented through an audit report.



The audit opinion is the most important outcome of the audit process, which is issued on the basis of the evidence gathered by the auditor and reflects the degree of fairness of the financial statements. In order to ensure that this opinion is clear, understandable and consistent, International Standards on Auditing (ISA) have been developed. ISAs are developed by the International Auditing and Assurance Standards Board (IAASB) within the framework of the International Federation of Accountants (IFAC) and serve to ensure high quality and consistency in auditing activities worldwide. For example, in the United Kingdom, the ISA (UK) standards adopted by the FRC (Financial Reporting Council) are also based on IAASB standards and work together with the ISQM (UK) standards on quality control [1].

The purpose of this article is to comprehensively analyze the requirements of the main standards for forming an auditor's opinion and reporting in the ISA system - ISA 700 "Forming an Opinion and Reporting on Financial Statements", ISA 705 "Modification of the Auditor's Opinion" and ISA 706 "Enhancing the Report - Emphasis of Matter and Other Matter Items". By highlighting their content, practical application and importance for users of financial statements, an attempt is made to better understand the interrelationships of these standards and their role in increasing confidence in financial statements.

Main part

The audit opinion is an important element of corporate governance, providing external stakeholders with an objective assessment of the reliability of financial statements. This opinion helps reduce financial information asymmetry and provides the transparency necessary for the effective functioning of capital markets. ISAs provide auditors with a common set of guidelines on how to plan, perform, and report on audits. In particular, the 700 series of standards establish mechanisms for the auditor to form an opinion on financial statements and communicate that opinion in a clear and consistent manner. These standards facilitate international investment and trade by ensuring that audit reports around the world have the same structure, content, and meaning.

ISA 700 sets out the requirements for the auditor to form and report an unmodified opinion on financial statements. The auditor expresses an unmodified opinion, that is, an opinion that the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, when:



When the auditor has obtained sufficient and appropriate audit evidence to be satisfied that the financial statements are free from material misstatement.

The financial statements are prepared in accordance with the applicable financial reporting framework.

According to ISA 700, an unmodified audit report must have a clearly defined structure. This structure usually includes the following sections:

Conclusion (Opinion) section: Here the auditor expresses his/her positive opinion on the fairness of the financial statements.

Basis for Opinion section: Confirms that the audit was conducted in accordance with ISA standards, that the auditor is independent, and that sufficient audit evidence was obtained.

Going Concern Uncertainty Section: If any, this aspect is addressed.

Key Audit Matters (KAM) section: Explains the most important aspects of auditing for listed companies.

Responsibilities of Management for Financial Reporting Section.

Auditor's Responsibilities for Financial Statements section.

Other Information section.

Other Reporting Responsibilities section.

Auditor's signature, date and address.

This structure provides users of financial statements with complete information about the scope, results, and responsibilities of the audit. An unmodified opinion expresses a high level of confidence in the financial statements.

ISA 705 sets out when and how the auditor should issue a modified opinion on financial statements. The auditor modifies the opinion for two main reasons:

The presence of material misstatements in the financial statements.

The auditor's inability to obtain sufficient and appropriate audit evidence (audit scope limitation).

Qualified Opinion: An auditor's opinion is expressed when there are material misstatements or limitations in the scope of the audit, but the effect of these matters on the financial statements is not pervasive. That is, these matters relate to a specific section or information and do not completely undermine the overall fairness of the financial statements. A qualified opinion uses the phrase "... except for...", for example, "Subject to the above effect, the financial statements are... fair."



Adverse Opinion: Issued when the auditor is satisfied that the financial statements contain misstatements that are both material and pervasive. This indicates that the financial statements have not been prepared in accordance with an applicable financial reporting framework and are not generally fair. An adverse opinion indicates the lowest level of confidence in the financial statements and is considered a rare, serious condition in auditing.

Disclaimer of Opinion: This is issued when the auditor is unable to obtain sufficient appropriate audit evidence and the effect of this inability on the financial statements is both material and pervasive. In this case, the auditor is unable to express an opinion on the financial statements at all. This is usually due to very significant limitations in the scope of the audit (for example, lack of access to information on significant accounts). This type of opinion is also a rare situation in auditing practice, but the consequences are serious.

ISA 706 regulates Emphasis-of-Matter and Other Matter paragraphs in the auditor's report, which allow users of the information to draw attention to significant matters. These paragraphs serve to enhance the understandability of the report without changing the auditor's conclusion [2].

Emphasis-of-Matter (EOM) paragraph: Used to emphasize a matter that, in the auditor's opinion, is presented or disclosed in the financial statements but is fundamental to the understanding of users of the financial statements. An EOM paragraph does not modify the auditor's conclusion, but rather draws users' attention to the information in the financial statements. Examples [2]:

Material uncertainties about the entity's ability to continue as a going concern.

Important events after the acquisition.

Significant changes in accounting principles.

Uncertainties associated with large-scale litigation.

The EOM paragraph is usually placed after the Opinion and Basis for Opinion sections in the auditor's report [2].

Other Matter Paragraph: Used to highlight a matter that, in the auditor's opinion, is not presented or disclosed in the financial statements but is relevant to users of the financial statements' understanding of the audit, the auditor's responsibilities, or the auditor's report. For example, this paragraph may include information about the scope of the report or previous auditors. [2] An Other Matter paragraph does not affect the auditor's opinion but rather provides additional clarification.



ISAs 700, 705 and 706 are closely related to the process of forming an auditor's opinion and reporting it. The auditor's process of expressing an opinion on financial statements follows the following logical sequence:

The auditor initially seeks to satisfy himself that the financial statements are free from material misstatement and that sufficient evidence has been obtained, in accordance with the requirements of ISA 700. If these conditions are met, an unmodified opinion is issued.

If, during the audit, a material misstatement of the financial statements is identified or the auditor encounters limitations in obtaining sufficient appropriate audit evidence, ISA 705 applies. The auditor evaluates the nature of the misstatement or limitation and the extent of its effect on the financial statements and, accordingly, expresses a qualified, adverse, or disclaimer of opinion. This determination is made based on professional judgment and ethical principles.

After an unmodified opinion has been issued, or in some cases, along with a modified opinion, if it is considered important to users of the audit report to highlight certain matters in the financial statements, ISA 706 applies. Emphasis of Matter or Other Matter paragraphs do not change the auditor's opinion, but they enhance the informative value of the report by drawing users' attention to important matters.

For example, if a company has a material uncertainty about its ability to continue as a going concern and this is properly disclosed in the financial statements, the auditor may express an unmodified opinion under ISA 700, but at the same time highlight this uncertainty in an Emphasis of Matter paragraph under ISA 706. If this uncertainty is not properly disclosed in the financial statements, then this is a material misstatement and may lead to a qualified or adverse opinion under ISA 705.

The effective application of these standards ensures the transparency, completeness and reliability of audit reports, which play an important role in the decision-making process of users of financial statements.

Conclusion

The audit opinion is an important pillar of corporate governance and capital markets, strengthening confidence in financial information. In the International Standards on Auditing (ISA) system, ISA 700, ISA 705 and ISA 706 standards set out the basic rules for forming and reporting an audit opinion. ISA 700 sets out the conditions for issuing an unmodified opinion, the structure of the report and the most common form



of the audit opinion. ISA 705 explains the circumstances in which it is necessary to modify the audit opinion, that is, to issue a qualified, adverse or disclaimer of opinion, their types and consequences. ISA 706, on the other hand, serves to increase the informative value of the audit report through the Emphasis of Matter and Other Matter paragraphs, and to draw users' attention to important matters without modifying the audit opinion.

The interdependence and consistent application of these standards ensure that financial statements provide clear and understandable information about the truth and reliability of financial statements. The evolution of the audit opinion, for example, through the introduction of Key Audit Matters for listed companies, is continuously increasing the transparency and information value of reports. In the future, it is expected that the development of digitalization, big data and artificial intelligence will have an even greater impact on audit processes and reporting formats, while at the same time changing the way these core standards are applied, while maintaining their relevance. As a result, these standards will continue to play an important role in ensuring confidence in the economy and strengthening financial stability.

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