

PICPA ANNUAL NATIONAL CONVENTION
Philippine Standards on Auditing
Updates

IAASB Clarity Project

- In March 2009, IAASB completed its comprehensive review on all of its ISAs and International Standards on Quality Control (ISQCs)
 - The improvements go beyond the enhancement of the understandability of the ISAs through the application of the new clarity conventions, they also include changes to requirements under certain auditing standards.

IAASB Clarity Project

- 1 new standard
- 16 standards containing revised requirements; and
- 19 standards that have been redrafted to apply the new conventions and reflect matters of general clarity

New PSA

1. PSA 265- Communicating deficiencies to those Charged with Governance and Management

Revised and Redrafted PSAs

1. PSA 200 - Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
2. PSA 260 - Communication with Those Charged with Governance
3. PSA 320 - Materiality in Planning and Performing an Audit
4. PSA 402 - Audit Considerations Relating to an Entity Using a Service Organization
5. PSA 450- Evaluation of Misstatements Identified during the Audit
6. PSA 505 – External Confirmation
7. PSA 540 – Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
8. PSA 550 – Related Parties

Revised and Redrafted PSAs-Cont.

9. PSA 580 – Written Representation
10. PSA 600 – Audit of Group Financial Statements
11. PSA 620 – Using the Work of an Auditor’s Expert
12. PSA 705 – Modification to the Opinion
13. PSA 706 – Emphasis of a Matter Paragraphs and Other Matter Paragraphs
14. PSA 800 – Audit of FS Prepared in Accordance with Special Purpose Framework
15. PSA 805- Audit of Single FS or Specific Elements of FS
16. PSA 810- Engagements to Report on Summary FS

Redrafted PSAs

1. PSA 210- Agreeing the Terms of Audit Engagement
2. PSA 220- Quality Control for an Audit of FS
3. PSA 230- Audit Documentation
4. PSA 240- The Auditor's Responsibilities Relating to Fraud
5. PSA 250- Consideration of Laws and Regulations
6. PSA 300- Planning an Audit
7. PSA 315- Identifying and Assessing the Risk of Material Misstatements
8. PSA 330- Auditor's Responses to Assessed Risks
9. PSA 500- Audit Evidence
10. PSA 501- Audit Evidence- Specific Considerations

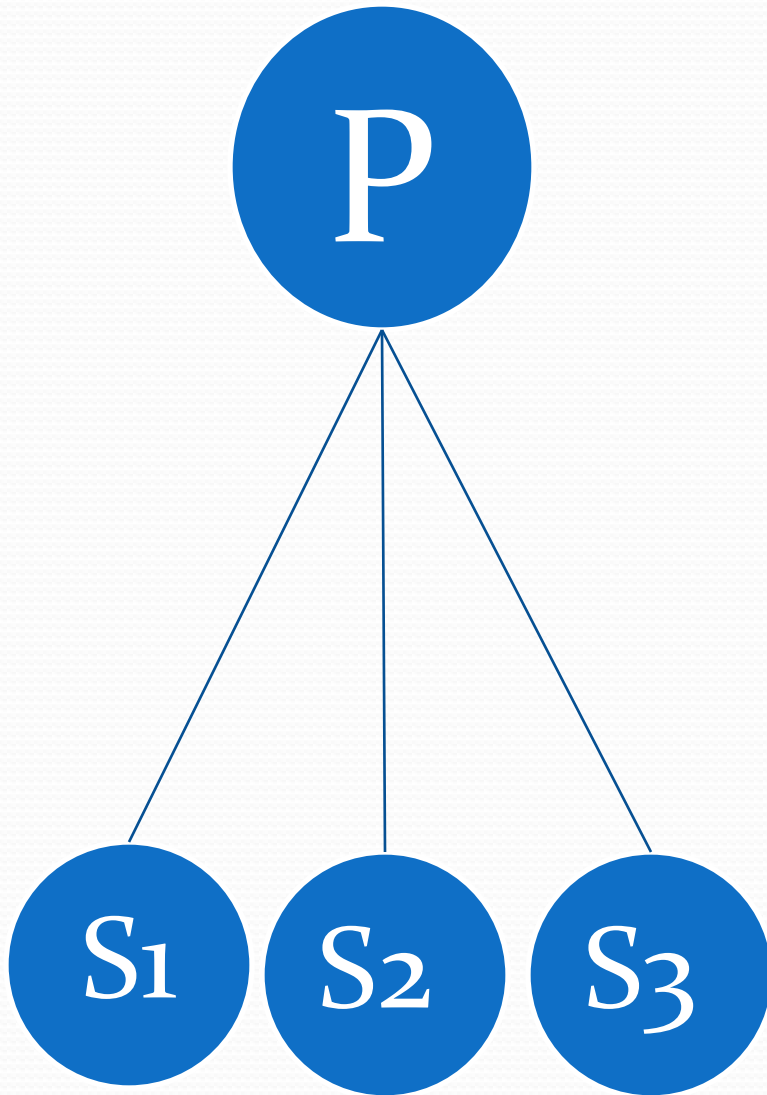
Redrafted PSAs

11. PSA 510- Initial Audit Engagements
12. PSA 520- Analytical Procedures
13. PSA 530- Audit Sampling
14. PSA 560- Subsequent Events
15. PSA 570- Going Concern
16. PSA 610- Using the Work of Internal Auditors
17. PSA 700- Forming an Opinion and Reporting on FS
18. PSA 710- Comparative Information
19. PSA 720- Auditor's Responsibility in Relation to Other Information

PSA 600

Special Consideration – Audit of Group Financial Statements (Including the Work of Component Auditors)

- PSA 600 apply to group audits and deals with special consideration that apply to group audits, in particular those that involve component auditor.
- The group engagement partner is responsible for the direction, supervision, and performance of the group audit engagement.
- The auditor's report on the group financial statements shall **not refer** to a component auditor.



Consolidated
FS

*Division of
Responsibility*

*Assumption of
Responsibility*

PSA 700

Forming an Opinion and Reporting on Financial Statements

- Emphasizes the Independence of the Auditor in the title of the audit report
- Emphasizes the use of appropriate headings within the report
- Revised the wording of the Management's Responsibility for the Financial Statements
- Prefers the use of the term unmodified over unqualified

PSA 700- Redrafted

Management's Responsibility for the Financial Statement

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 internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

PSA 700- Revised

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; **selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.**

PSA 705

Modification to the Opinion in the Independent Auditor's Report

- PSA 705 deals with the auditor's responsibility to issue an appropriate report in circumstances when a modification to the auditor's opinion is necessary.
- The modification to the opinion in the independent auditor's report was previously under PSA 701.
- Prohibition on issuing a piecemeal opinion
- Provided a detailed guidelines when modifying an opinion

PSA 705

Modification to the Opinion

Nature of matter giving rise to the modification	<i>Auditor's judgment about the effects on financial statements</i>	
	<u><i>Material but not pervasive</i></u>	<u><i>Material and pervasive</i></u>
Material misstatements	Qualified Opinion	Adverse Opinion
Scope limitations	Qualified Opinion	Disclaimer of Opinion

PSA 705

Modification to the Report

	<u><i>Qualified or Adverse Opinion</i></u>	<u><i>Disclaimer of Opinion</i></u>
Introductory paragraph	None	Modified
Management's Responsibility	None	None
Auditor's Responsibility	Modified	Modified
Opinion paragraph	Modified	Modified

PSA 706

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

- PSA 706 deals with additional communication in the auditor's report when the auditor considers it necessary to draw user's attention to:
 - Matter or matters presented or disclosed in the financial statements
 - Any matter or matters other than those presented or disclosed in the financial statements that are of such importance that they are fundamentals to users' understanding of the auditor's responsibility
- "Emphasis of Matter" was previously dealt with by PSA 701
- Introduces the use of "Other Matter" paragraph

PSA 706 - cont

- PSA 706 requires the auditor's report to include an **emphasis of matter** paragraph under the following circumstances:
 1. Early application of new accounting standard
 2. A major catastrophe with significant effect on the entity's financial position
 3. Going concern uncertainty and other uncertainties relating to exceptional litigation or regulatory action (PSA 570)
 4. Financial statements prepared using Special Purpose Financial Reporting Frameworks (PSA 800)

PSA 706 - cont

- PSA 706 requires the auditor's report to include an **other matter** paragraph under the following:
 1. Reporting on comparatives (PSA 710)
 2. Material inconsistency exists between other information and the audited financial statements (PSA 720)
 3. Restriction on distribution or use of the auditor's report (PSA 800, 805 and 810)
 4. Reporting on financial statements prepared using more than one financial reporting frameworks

PSA 706

Modification to the Report

	<u><i>Emphasis of Matter</i></u>	<u><i>Other Matter</i></u>
Introductory paragraph	None	None
Management's Responsibility	None	None
Auditor's Responsibility	None	None
Opinion paragraph	None	None

PSA 710

Comparative Information

- Clarifies the auditor's responsibility when reporting on comparatives when the prior year's financial statements were
 - Audited by a continuing auditor
 - Audited by a predecessor auditor
 - Not audited
- Requires the use of "Other Matter" paragraph

2009

FS

2010

FS

Predecessor
Auditor

Continuing
Auditor

Unaudited

PSA 720

Other information

- Clarifies the auditor's responsibility when reporting on financial statements included in a document that contains other information
- Requires the use of "Other Matter" paragraph when there is a material inconsistency between the financial statements audited and the other information

PSA 800, 805 and 810

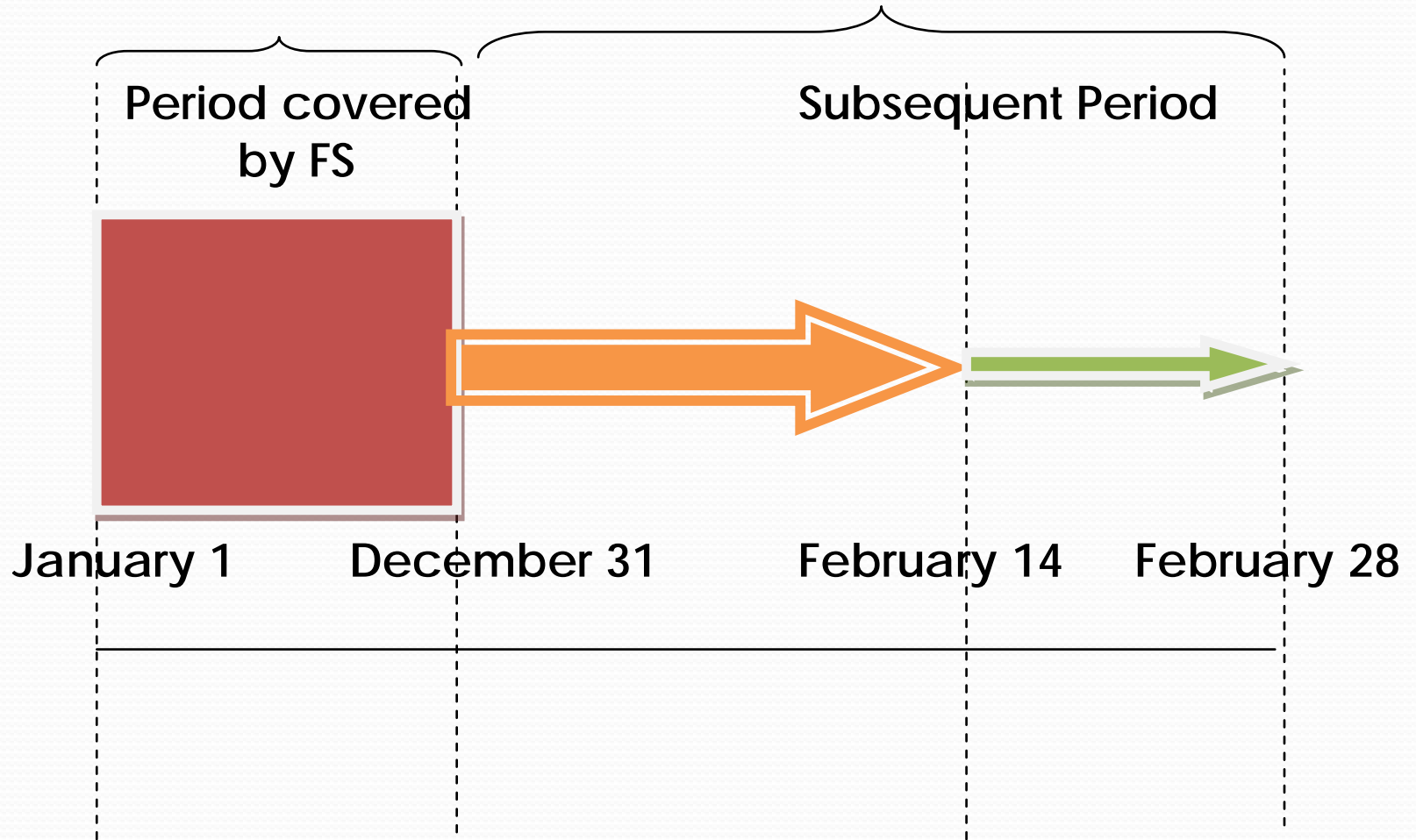
Special Purpose Financial Statements

- PSA 800 (old) applies to special purpose audit engagements
- PSA 800 was redrafted to include only audit of financial statements prepared using special purpose financial frameworks
- PSA 805 deals with audit of single FS or specific elements of a financial statement
- PSA 810 deals with the auditor's report on summary FS

PSA 560

Subsequent Events

- Expanded definition of subsequent events
- Redrafted to clarify the auditor's responsibilities for subsequent events that occur
 1. After the balance sheet date but before the date of the report;
 2. After the date of the report but before FS are issued; and
 3. After the FS are issued
- The use of dual-dating was illustrated



PSA 320

Materiality in Planning and Performing an Audit

The revised PSA 320 includes a requirement for the auditor to determine the following:

- Materiality level for the financial statement as a whole.
- Materiality level(s) for one or more particular classes of transactions, account balances or disclosures (if required by considering the specific circumstances of the entity).
- Performance materiality for the purposes of assessing the risk of material misstatement and determining the nature, timing, and extent of further audit procedures.

PSA 450

Evaluation of Misstatements Identified during the Audit

- This was previously covered by PSA 320
- Requires the auditor to accumulate misstatements identified during the audit, other than those clearly trivial
- Requires the auditor to consider the effect of uncorrected misstatements related to prior periods on the current year's financial statements

PSA 540

Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

- These topics were previously covered in PSA 540 and PSA 545
- PSA 540 requires the auditor to obtain an understanding of the following:
 - Requirements of the applicable financial reporting framework
 - How management identifies conditions that may give rise to the need for accounting estimates
 - How management makes the accounting estimates
 - Outcome of accounting estimates included in the prior period financial statements

PSA 580

Written Representation

- The standard is revised to address concern that the auditor may be over-relying on written representations
- The revised PSA 580 requires an auditor to obtain a **representation letter** from the management

PSA 260

Communication with Those Charged with Governance

- The standard is revised to enhance the two-way communication in an audit of financial statements by providing a framework for the auditor's communication with those charged with governance
- Identifies some specific matters to be communicated with those charged with governance.
- Requires the auditor to communicate in writing with those charged with governance regarding significant findings from audit

PSA 265

Communicating Deficiencies in Internal Control to Those Charged with Governance and Management

- Does not impose additional responsibilities on the auditor when considering the client's internal control
- Requires **written communication** of significant deficiencies to those charged with governance and appropriate level of management
- Does not require written communication of other deficiencies
- Enumerated matters to be included in written communication of significant deficiencies

Effective Date

- Revised and Redrafted PSAs shall be applied for audits of financial statements for periods beginning on or after December 15, 2009



Thank You!!!

Questions and Answers