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تقييم أثر متطلبات معيار 700 في تعظيم قيمة تقرير المراجع
والحد من فجوة المعايير

**Evaluating the impact of ISA 700 requirements in
maximizing the audit report's value and minimizing
the standard's gap**

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Abstract:

The Objective of the study: the main aim of this study is to determine the requirements impact of the international auditing standard 700 in maximizing the audit report value and in reducing the related standards gap.

The Methodology of the study: in order to achieve this objective, the researcher used an experimental study to test the study's hypotheses, the researcher selected a sample of (63) specialists from different categories to explore their opinion about the researcher's subject including: External Auditors, Financial Analysts and Academics.

The findings of the study: the study's findings indicated that there are shortcomings and problems associated with the standard audit report, so the new audit report becomes imperative, in order to maximize the value of it for users and also applying or adopting the new form of audit report in Egypt will help in minimizing the standards gap in Egypt.

- **Keywords:** Standard audit report, ISA 700 (revised), Audit report value, Standards gap in Egypt.



الملخص:

الهدف الرئيسي لهذة الدراسة هو تقييم أثر متطلبات "تكوين رأي و التقرير عن القوائم المالية" في تعظيم قيمة تقرير المراجعة و تقليل فجوة المعايير ذات الصلة. وسعيًا لتحقيق هذا الهدف قام الباحث بإختيار عينة مكونة من (63) مفردة لإختيار آرائهم حول فروض الدراسة , وقد إشملت العينة علي: المراجعين الخارجيين, المحللين الإحصائيين في البنوك و الأكاديميين, و أهم ما توصلت إليه الدراسة هو أن هناك قصور في تقرير المراجعة بصورتها الحالية مما دعا إلي دراسة معيار المراجعة الدولي المعدل رقم 700 والذي يخص تغيير شكل ومحتوي تقرير المراجع, و أن هذا المعيار بصورته الجديدة أدى إلي تعظيم قيمة تقرير المراجعة من خلال جعله أكثر فائدة ويحتوي علي معلومات أكثر أهمية للمستخدمين وكذلك توصلت الدراسة إلي أن تطبيق المعايير الدولية في مصر أصبح أمر حتمي من أجل سد فجوة المعايير.

- الكلمات الدالة (المرشدة): تقرير المراجعة الحالي, معيار المراجعة الدول المعدل 700, قيمة تقرير المراجعة, فجوة المعايير في مصر.

Chapter One

1.1 The general framework of the Research

1.1.1: Introduction and problem of this research:

The need for changing auditor's report and auditing profession is a topic discussed and accepted by both accounting and auditing professionals and regulators, which is a result of many reasons such as the global financial crisis that led to the increasing need for more information regarding the auditor's work by the users. So, in an attempt to reverse the negative effects of the financial crisis on the auditing environment and the public interest and also to enhance the users of financial statements' trust, audit regulators and standard setters worldwide, including (IAASB) has put the change of audit report as a top priority on its agenda and introduced additions and amendments that dramatically changes the structure and content of the report and the work of auditors. Accordingly, this study includes two main issues related to the usefulness of the new requirements of ISA 700 Revised; the first one is related to the scope of information provided by an auditor in a standard audit report and the international initiatives to enhance auditor's report. The other path intends to evaluate, analyze and assess the amendments in the form and content of the report in align with the ISA 700 requirements and the extent to which these requirements contribute to maximize the audit report's value and reduce the related standards gap in Egypt.

1.2.1: Research Objective and Importance:

The importance of research comes from: Firstly, the paucity of scientific research and specialized studies in The Egyptian scientific research environment, which assess the impact of ISA 700 requirements to maximize the report's value and reduce the related standards gap. Second, the Egyptian environment should be aware of all developments in the international field of standards.

1.3.1: Research hypotheses:

The first null hypothesis H_1 : There is no significant relation that the requirements of ISA 700 help to maximize the value of the audit report.



The second null hypothesis H₂: There is no significant relation that the audit report in its current format meets the needs of the stakeholders.

The third null hypothesis H₀₃: There is no significant relation that the requirements of ISA 700 will reduce the gap of the related standards in Egypt.

1.4.1: Research Methodology:

To achieve the research objective both inductive and deductive approaches are used, where inductive approach will be employed to review the previous theoretical and empirical studies, and indicate the results, relying on the most related references interested in the subject of research.

Then the deductive approach will be used to formulate, and test the research hypotheses through a survey, which investigates the validity of hypotheses by using the appropriate statistical methods in order to reach the desired results.

1.1.5: Research Structure:

Chapter One: The General Framework of the Research

Chapter Two: The conceptual framework of ISA 700 "forming an Opinion and Reporting on financial statements"

Chapter Three: Implications of ISA 700 requirements on audit report's value and the standards' gap.

Chapter Four: The empirical study.

Conclusion, References

1.2: Literature Review

Introduction:

In this section, the researcher will discuss some of the literatures which are related to the research.

1.2.1: Nwaobia, A. (2016):

The main aim of this paper is to determine if the new auditor's reporting standards can provide an enough response to the audit expectation's gap. In doing this, the study tries to assess what is new in the revised auditor reporting standards and how they have attempted to reduce the audit expectation's gap. The results are: The new auditing standards will enhance user's confidence in auditor's reports and the F.Ss. It will result in an increase in transparency, improve audit quality, and enhance the value of information.

1.2.2: Alexandra, M. L. (2017):

The aim of this study is to determine the elements that have introduced improvements to the independent audit report and any negative aspects that could not be reduced, and these are being analyzed by using a SWOT analysis of the changes to the international auditing standards. The results were as follows: The format of the new Independent Audit Report's form is more difficult, and generates more transparency in the information introduced by the auditor. The purpose of changing the audit report's structure and content is to increase the F.S user's confidence in the auditor's work and to more clearly show the responsibilities of the auditor in an audit of the financial statements.

1.2.3: Mansour, A. m. (2017):

This research aims to assess the amendments made by IAASB to the audit report according to key audit parties (management, shareholders and external auditors), as the main amendments made by IAASB are: the addition of a new section on key audit matters, section



of opinion at the beginning of the report followed by a new section which is called "basis of opinion", and the addition of an independent paragraph with a title "Management Responsibilities for the Financial Statements".

This study based on analytical survey approach which is based on a sample of those parties, this study covered a sample of 300 persons, which are divided as follows: 100 represent shareholders, 100 represent management and 100 of external auditors. The researcher depended on personal interviews and questionnaire. The results were as follows:

- 1- The main benefits expected from the amendments of the audit report are: reducing the informational gap and increase the user's confidence in financial statements.

The most important challenges expected from the revision of audit report are: the delayed issuance of the report, the auditors' fear of potential accountability, and the increased costs of audit and the possible risk of being identified by the associate (Through mentioning name of the audit engagement partner).

Chapter Two: The conceptual framework of ISA 700 "forming an Opinion and Reporting on Financial Statements"

Introduction:

At present, the international auditing standard 700 is considered as the inspiration source for several national organizations of audit, as it guides the standardization of organizations and helps them in the modeling and the maintenance of the informational function of the system of auditing information. This standard also reports the recent results of the audit technology to the national auditing frames , which are consigned in the revised versions that result from the international normative amendments.

2.1: Requirements of the international auditing standard 700

- **Revises the structure order of the items of the audit report. Paragraph 23 requires the first paragraph of the audit report to include the auditor's opinion. Then the section which is called "The basis for opinion" will come after the auditor's opinion.**
- **describes the inclusion of key audit matters (KAM) in the audit report, and refers auditors to the new standard, ISA 701, for guidance on the disclosure of KAM (mandatory for the listed entities only, voluntary for others).**
- **improved description of the responsibilities of auditors for the audit of financial statements.**
- **Requires to name the engagement partner for audits of financial statements of listed companies.**
- **Requires for all auditor's reports an explicit statement includes the independency of the auditor from the entity in accordance with the relevant ethical requirements related to the audit, and that they have achieved all other ethical responsibilities.**

2.2: The relevant standards related to the ISA 700

2.2.1: The ISA 701 "Communicating Key Audit Matters in the independent auditor's report":

The new international standard 701, communicating the Key Audit Matters in the Audit Report, is a main development in the auditing field. The inclusion of KAM section in the auditor's report, according to ISA 701, presents a new conception in the auditor's report that increases the auditor's role and requires the inclusion of the most significant risks that meet the client, in the auditor's opinion (IAASB, 2015).



2.2.2: The ISA 706 (revised) "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report"

The ISA 706 (revised) indicates how to include the "emphasis of matter (EOM)" and "other matter (OM)" paragraphs, when the auditor considers after deducing his opinion on financial statements that it is essential to draw the attention of the F.S's users to a matter mentioned in the financial statements which, according to his judgments, is important and essential for user's understanding of the financial statements or when he considers that user's attention should be drawn to aspects that do not appear in the financial statements that may be important for users to understand the audit process and the audit report.

2.2.3: the ISA 705 "Modifications to the opinion in the independent auditor's report":

the ISA 705 "Modifications to the opinion in the independent auditor's report" outline the guidelines and instructions on the issuance of auditor's opinions. Auditors must use their judgment in order to reach to their final opinions. The ISA (705) deals with the responsibility of the auditor to provide an appropriate report in circumstances when the auditor finds that a modification to the opinion of the auditor on the financial statements is essential during formulating opinion in accordance with the ISA 700.

Chapter Three: Implications of the ISA 700 requirements on audit report's value and the standards gap:

Introduction:

The need for changing auditor's report and auditing profession is a topic discussed and accepted by both accounting and auditing professionals and regulators, which is a result of many reasons such as the global financial crisis that led to the increasing need for more information regarding the auditor's work by the users. So in a response

to these needs the IAASB has amended various changes to the audit report's standards, the process of discussion on the IAASB standards ended in 2015 and the revised ISA 700 series provide major critical changes in audit report formation and content, creating a new communication style between auditors and the intended users in order to maximize the audit report's value.

3.1: The role of the ISA 700 requirements in maximizing the audit report's value.

the ISA 700 requirements will affect positively as follows:

- 1- Remarkably enhancing the value and quality of auditor's report and increasing transparency.**
- 2- Changing the way that the auditors use to communicate their work through the reports.**
- 3- Increase the auditor's focus on the company's going concern and add more transparency to the auditor's report, by focusing on matters that can lead to increased professional skepticism.**
- 4- Communicating the Key matters related to the audit process in the audit report for listed companies in a separate paragraph.**
- 5- Improving the communications between auditors, users and investors as well as management.**
- 6- Increasing user's confidence in both audit reports and the financial statements.**
- 7- Increased the focus by management and financial statements' preparers for disclosures which will be used by the auditor and will be referred to in auditor's report.**
- 8- Strengthening financial reports for the public interest.**



3.2: The role of the ISA 700 requirements in minimizing the audit report standard's gap.

The failure of the audit report in its current form to meet the expectations of the financial statements' users, especially in Egypt. And after evaluating the differences between the Egyptian auditing standard 700 and the international auditing standard 700, the amendments included in the new report can be divided into: Amendments related to the form and the rearrangement of paragraphs such as: the movement of the opinion paragraph to the top of the report and there are amendments related to the information content of the report, for example the introduction of the key audit matters paragraph.

In order to minimize standards' gap in Egypt, these amendments should be recognized by the Egyptian auditors, since the Egyptian auditing standards are a translation of international standards which have not been amended since the ministerial Decree No. 166 of 2008.

The most important possible challenges resulting from the modifications to the audit report are: Delayed issuance of the audit report, the auditors' fear of accountability as a result of reporting on confidential information in the report and the increased audit costs.

The restructuring of format and content of the standard audit report, in accordance with the revised international auditing standard (700, 2015), requires a legislative mechanism for regulation which is based on properly basis, and an academic mechanism to help in training the accountants and increase awareness among accounting students and practitioners of the ongoing developments and its implications.

Chapter four: An empirical study

4.1: Introduction and the Objectives of the study:

In this chapter an empirical study was conducted to investigate the specialist's opinion in the Egyptian environment about all aspects which the researcher stated during the theoretical part by using a questionnaire to test the hypotheses of the study. The researcher selected a sample of (63) specialists to explore their opinion including: External auditors, financial analysts and Academics.

4.2: Hypotheses Testing and Discussion of the Findings.

The results of an empirical study provided the followings:

- 1- There is a statistically significant impact that using the revised ISA 700 requirements will help in maximizing the value of audit report.**
- 2- There is no statistically significant impact that the standard audit report meets the stakeholders' needs to make rational decisions.**
- 3- There is a statistically significant impact that using the revised ISA 700 requirements will help in reducing the standards gap in Egypt.**

Conclusions:

- 1- The auditing report is the key deliverable addressing the final information of the auditing process, as it is considered the main way to improve the credibility of the audited financial statements.**
- 2- The reforms of audit report resulted from a long debate on the content, structure and value of audit report. Such as: The standardized form and the restrictive content of the current audit report which limits its informational and communicative value, and poor audit methods because of using boilerplate language and the main stakeholders and the auditors view the standard audit report is not efficient, so more information should be included and mentioned in the revised audit report.**
- 3- An important way to enhance the current audit report's communicative value is to make modifications such that it is not boilerplate, this would introduce an audit report that reports specific information about the entity and about the conducted audit, without this basic amendment, it seems that users will continue not to be interested to read the auditor's report and this will lead to the continuing communication and information gap.**



- 4- To summarize in brie, it comes out that the revised and newly developed international auditing standards have increased: a) transparency of the information provided and the confidence of users in such information, b) communication as it enhances the communication level between management and consumers.
- 5- With no doubt, these changes were seen very positive in Egypt. The increased debates that will result from these amendments (both internally and externally) will lead to improved controls, an assertion on clearer responsibility and accountability- all of which should lead more sustainable businesses and economic success in Egypt.

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