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**Redaktor naczelna:** Prof. dr hab. Sławomir Górniak.

**Zespół redakcyjny:** dr hab. Jerzy Ciborowski (redaktor prowadzący), mgr inż. Piotr Jędrzejczyk, mgr inż. Zofia Przybylski, mgr inż. Dorota Michałowska, mgr inż. Elżbieta Zawadzki, Andrzej Smoluk, Mieczysław Luty, mgr inż. Andrzej Leśniak, Katarzyna Szuszkiewicz.

**Redakcja techniczna:** Irena Olszewska, Grażyna Klamut.

**Dział sprzedaży:** Zbigniew Targalski

**Adres wydawcy i redakcji:**

37-700 Przemyśl, ul. Łukasieńskiego 7

tel (0-16) 678 33 19

e-mail: [praha@rusnauka.com](mailto:praha@rusnauka.com)

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## EKONOMICZNE NAUKI

### OBLICZENIE I AUDYT

**Associate professor, Ph.D Pasko O.**

*Sumy National Agrarian University, Sumy, Ukraine*

#### **THE NEWLY INTRODUCED CONCEPT OF KEY AUDIT MATTERS IN INTERNATIONAL STANDARDS ON AUDITING**

The turning point in transformation of the International Standards on Auditing in truly global standards was so called Clarity Project. On February 27, 2009, the Clarity Project reached its completion when the Public Interest Oversight Board approved the due process for the last several clarified ISAs. Auditors worldwide will now have access to 36 newly updated and clarified ISAs and a clarified International Standard on Quality Control (ISQC)<sup>1</sup>. After its completion the IAASB decided for several years not to change pronouncements in order to secure adaption and implementation of newly clarified ISA's. Today we have 2013 AD and growing activities of IAASB toward improvements of its standards. In Handbook 2012 IAASB included two new revised standards, namely ISA 315 and ISA 610. These standards introduced some minor amendments relating to work of internal auditors. In active project IAASB by the time are changes to ISA 700 and new ISA 701. Among all mentioned standards the biggest changes is believed will be made to auditor's report, through ISA 700 (revised) and new ISA 701. In this paper we are going examine the newly introduced concept of key audit matters, previously known as auditor commentary.

Let's begin with the definition, given in proposed ISA 701: key audit matters – those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [1,c.3].

Users of the financial statements have indicated they have an interest in those matters about which the auditor and those charged with governance had the most robust dialogue as part of the two way communication required by proposed ISA 260 (Revised) and have called for additional transparency about those communications. Key audit matters are some kind of whistle-blowing of the matters which in the course of audit auditor discussed with THWG. Revealing such information «is intended to provide users of the financial statements with additional information to enhance their understanding of the audit» [1,c.2].

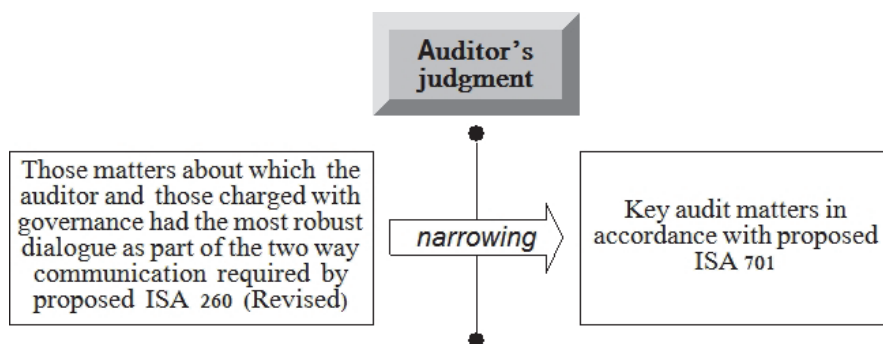
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<sup>1</sup> <http://www.ifac.org/auditing-assurance/clarity-center>

The auditor shall communicate those matters in a separate section of the auditor's report under the heading «Key Audit Matters», and include appropriate sub-headings for each of the key audit matters communicated.

ISA 701 emphasizes, what communicating key audit matters in the auditor's report is not intended to: (a) Express an opinion on individual accounts or disclosures; or (b) Be a substitute for the auditor expressing a qualified opinion or an adverse opinion when required by the circumstances of a specific audit engagement [1,c.6].

What is to be included in key audit matters? Proposed ISA 701 clearly states what key audit matters are, in all cases, a selection of matters communicated with those charged with governance [1,c.3]. «The auditor's decision-making process is therefore designed to narrow the matters discussed with those charged with governance to a smaller number of matters based on the auditor's judgment about which matters were of most significance in the audit» [1,c.6] (fig.1).



**Fig. 1. The Auditor's Process to Determine Key Audit Matters according to proposed ISA 701**

The matters to be communicated are based on the auditor's professional judgment and are influenced by the nature and extent of matters communicated with those charged with governance in accordance with proposed ISA 260 (Revised).

In determining whether a matter is communicated as a key audit matter, the auditor shall use professional judgment, taking into account the nature and extent of communications with those charged with governance, including, at a minimum: 1) Whether the matter was identified as, or is related to, a significant risk in accordance with ISA 315; 2) The degree of difficulty encountered in obtaining sufficient appropriate audit evidence about the matter; 3) The difficulty of the judgment involved relating to the matter; 4) Whether the auditor identified a significant deficiency in internal control relating to the matter (ISA 701.11) [1,c.3].

Notwithstanding ISA 701 applies to auditors of listed entities, it may be applied, adapted as necessary in the circumstances, for audits of entities other than listed enti-

ties. Auditors of entities other than listed entities may include a discussion of key audit matters in the auditor's report. In such circumstances, the auditor shall discuss doing so as part of agreeing the terms of the audit engagement in accordance with ISA 210. As states ISA 701: «Communication about the possibility of including a discussion of key audit matters in the auditor's report at the commencement of the audit ensures that management and those charged with governance are aware of the auditor's ability to do so» [1,c.14].

The number of matters to be included in the auditor's report is affected by the size and complexity of the entity, the nature and conditions of its business, and the facts and circumstances of the audit engagement. According to ISA 701 a range of two to seven matters may generally be appropriate.

### References

1. Proposed International Standard on Auditing (ISA) 701 Communicating Key Audit Matters in the Independent Auditor's Report [Electronic resource] // International Federation Of Accountants. – Mode of access: WWW.URL: [http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB-Agenda\\_Item\\_2C-Proposed\\_ISA\\_701-final.pdf](http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB-Agenda_Item_2C-Proposed_ISA_701-final.pdf). – Last access: 2013. – Title from the screen.