

The New Auditor's Report

Overview of the New and Revised Auditor Reporting Standards and Related Conforming Amendments

March 2015

Background Information

- These slides have been prepared by the IAASB's Auditor Reporting Implementation Working Group
 - They form part of the Auditor Reporting Toolkit, and are intended to assist IAASB members, national standard setters, auditors and others in promoting the new and revised Auditor Reporting standards within their respective jurisdictions.
- The IAASB staff-prepared At a Glance publication complements this slide presentation, includes an illustration of the new auditor's report and is available at www.iaasb.org/auditor-reporting.

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- Project Overview and Introduction
- Key Audit Matters (KAM)
- Going Concern (GC)
- Other Changes to the Auditor's Report
- Auditor Reporting Implementation

Overview of the IAASB's Auditor Reporting Project

Research & Consultation

Academic Research
(2006 – 2009)

Review of National
Developments / Initiatives
(2009-2010)

Consultation Paper: **Enhancing the
Value of Auditor Reporting**
(May 2011)

Commencement of Standard Setting

Project Proposal
(December 2011)

Task Force and Drafting
Teams
(January 2012)

Public Consultation

Invitation to Comment:
**Improving the Auditor's
Report**
(June 2012)

Outreach and Roundtables

Exposure Draft
(June 2013)

Released new and revised Auditor Reporting ISA™ in Jan 2015
Effective Date – Periods ending on or after December 15, 2016

Why Change the Auditor's Report Now?

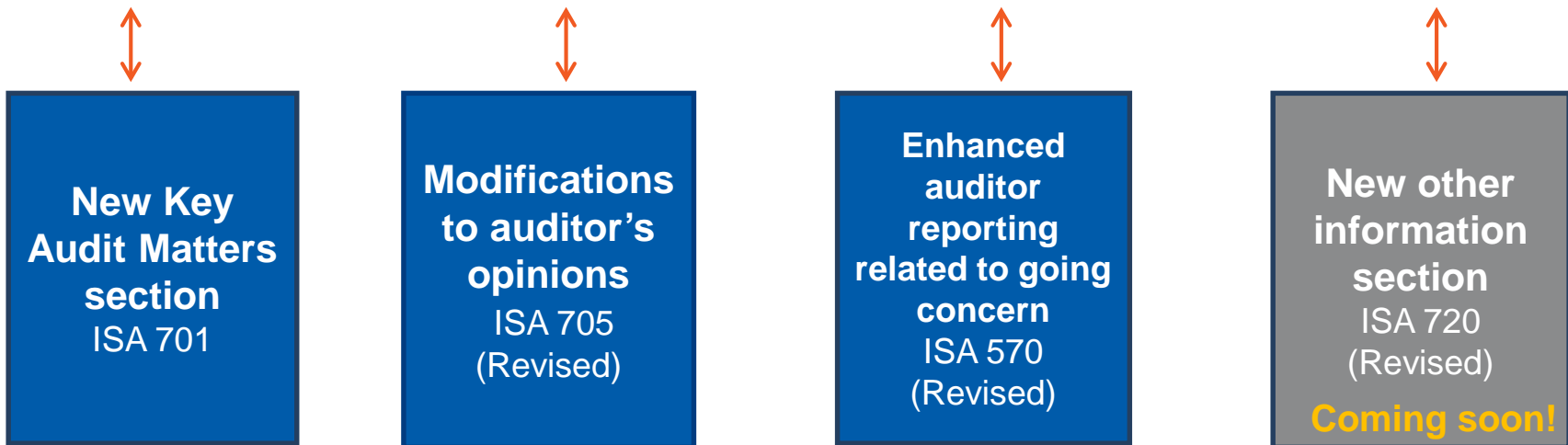
- Foundation for the future of global auditor reporting and improved auditor communications
- Essential to the continued relevance of the audit profession globally
 - Audit opinion is valued, but could be more informative
 - Users want more relevant and decision-useful information about the entity and the financial statement audit

Expected Benefits of the New Auditor's Report

- Enhanced communicative value to users
- More robust interactions and communication among users, auditors and those charged with governance (TCWG)
- Increased attention by management and TCWG to the disclosures referred to in the KAM section of the auditor's report
- Increased professional skepticism in areas where KAM are identified
- Increased audit quality or users' perception of audit quality

New and Revised Auditor Reporting Standards

Overarching Standard for Auditor Reporting – ISA 700 (Revised)



Revisions to **ISA 260 and 706** as a result of ISA 701, and related conforming amendments to **ISA 210, 220, 230, 510, 540, 600, 710**

What Are KAM?

KAM are defined as those matters that, in the **auditor's professional judgment**, were of **most significance** in the audit of the financial statements of the current period

KAM are **selected from matters communicated with TCWG**

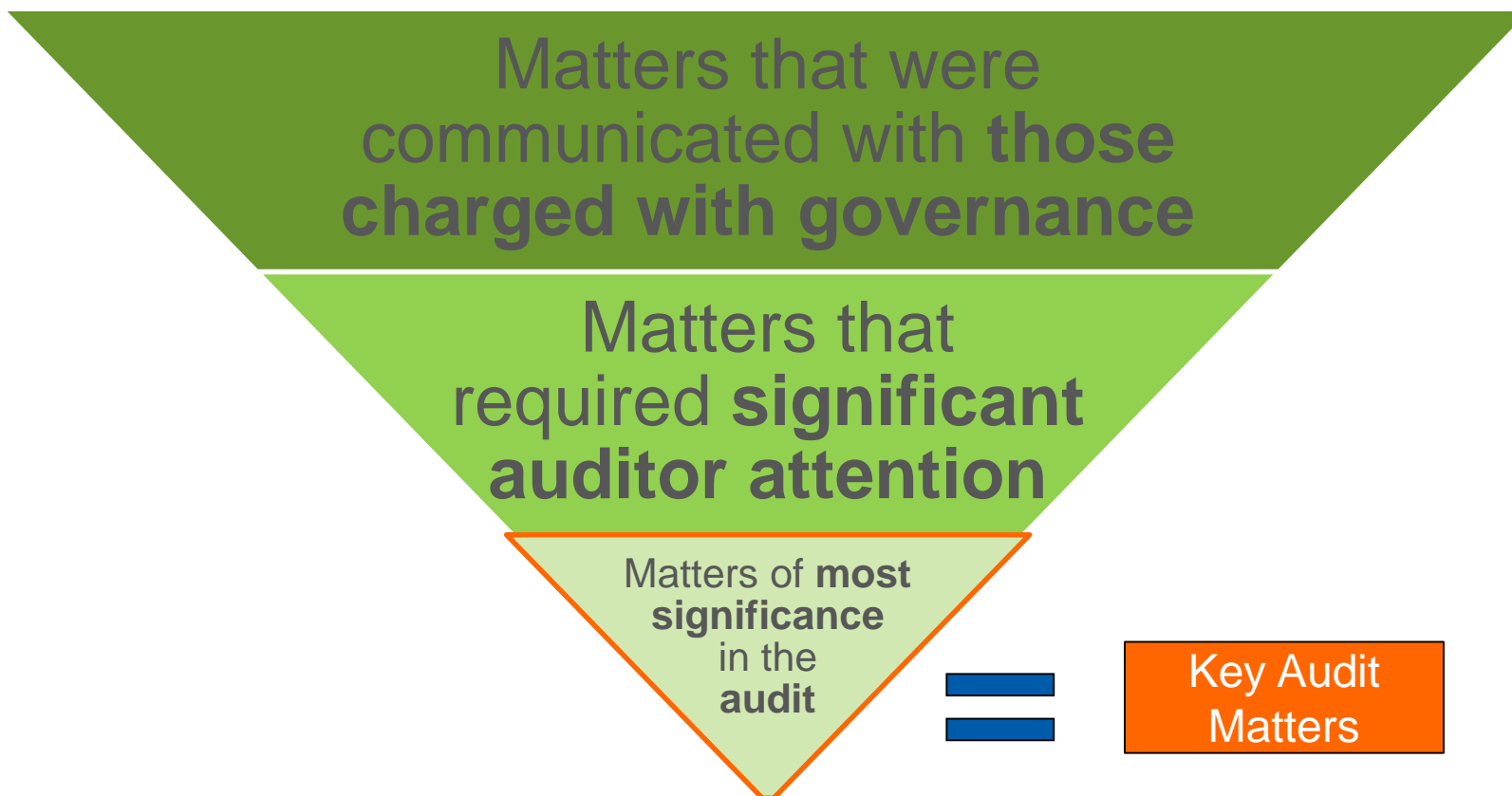
Which Auditor's Reports Will Include a KAM Section?

- **KAM is required** to be communicated in the auditor's report **for audits of financial statements of listed entities** in accordance with new ISA 701
 - **Law or regulation may require KAM** for audits of entities other than listed entities (e.g., “public interest entities”, or public sector entities)
 - **Auditors may voluntarily, or at the request of management or TCWG, communicate KAM** in the auditor's report for entities other than listed entities

Are KAM Always Communicated in the Auditor's Report?

- Auditor is required to include each KAM unless
 - Law or regulation precludes disclosure
 - In *extremely rare circumstances*, the auditor determines that the matter should not be communicated
 - Adverse consequences of communicating the KAM would reasonably be expected to outweigh the public interest benefits of such communication
- KAM is prohibited for a disclaimer of opinion, but required for a qualified or adverse opinion
- In certain *limited* circumstances, there may be no KAM to be communicated

The Decision-Making Framework for KAM



Initial Step in Determining KAM

Matters that were communicated with **TCWG**



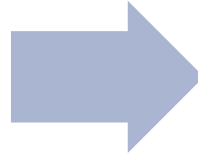
Matters that required **significant auditor attention**

The auditor will always consider

- Areas of higher assessed risks of material misstatements or significant risks (i.e., risks requiring special audit consideration)
- Significant auditor judgments relating to areas of significant management judgment (e.g., complex accounting estimates)
- Effect on the audit of significant events or transactions

Determination of Matters of Most Significance in the Audit – KAM

Matters that required **significant auditor attention**



Matters of **most significance** in the audit

- KAM is determined by the auditor's consideration of the
 - Nature and extent of communication with TCWG
 - Importance to intended users' understanding of the f/s
 - Nature and extent of audit effort needed to address
 - Nature of the underlying accounting policy, its complexity or subjectivity
 - Nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error (if any)
 - Severity of any control deficiencies identified relevant to the matter (if any)
 - Nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence

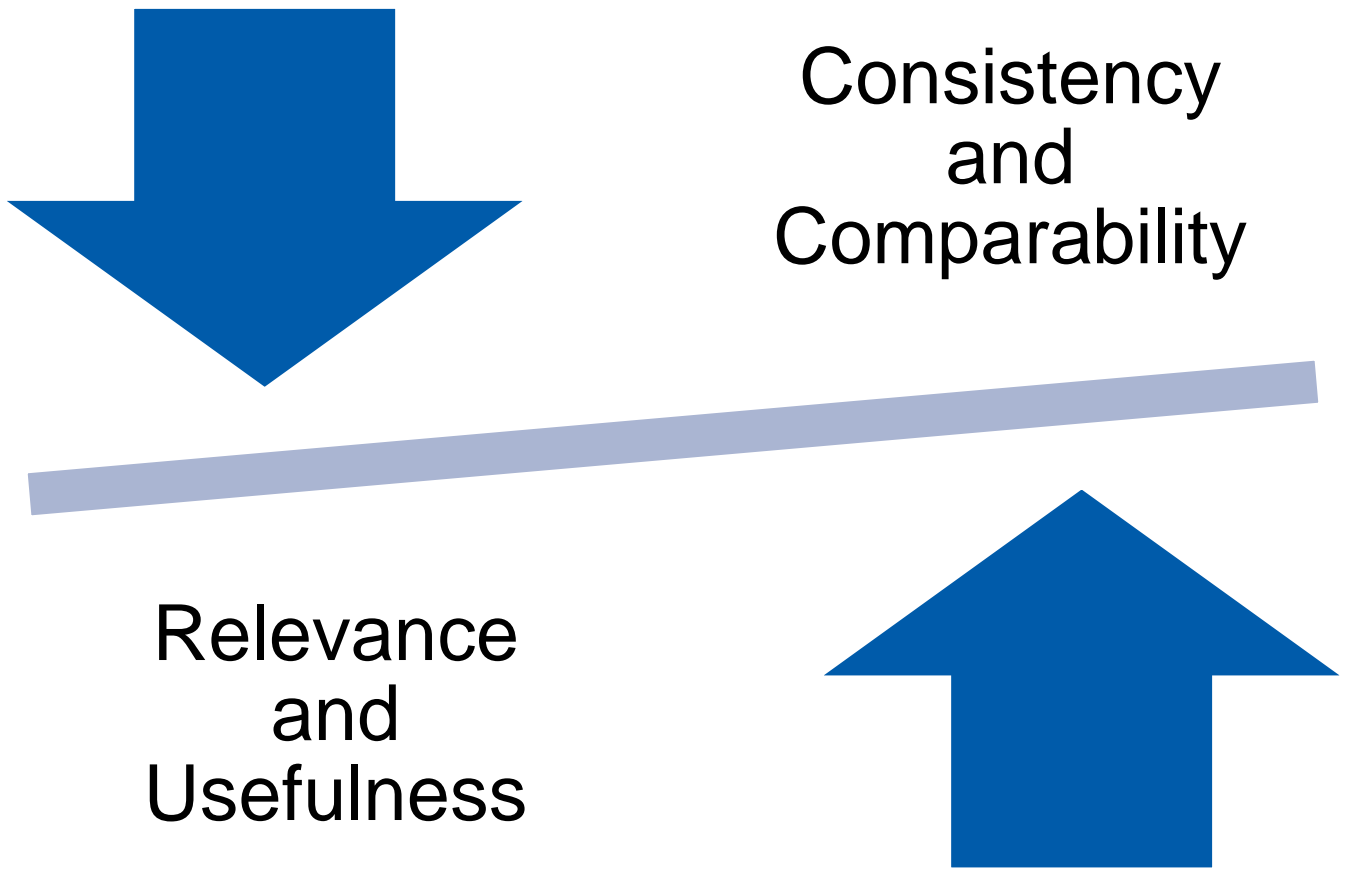
KAM – What Is Included in the Description?

- The description always includes
 - Why the matter was considered to be a KAM
 - How the matter was addressed in the audit
 - Reference to the related disclosure(s), if any
- The description of how the matter was addressed in the audit may include
 - Aspects of the auditor's response or approach
 - Brief overview of procedures performed
 - Indication of the outcome of the auditor's procedures
 - Key observations with respect to the matter

Considerations in Describing KAM

- KAM should be entity-specific and avoid standardized or overly technical language
- Description of a KAM should not
 - Imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements
 - Contain or imply discrete opinions on separate elements of the financial statements (a “piecemeal opinion”)

KAM – Delivering Entity-Specific Information to Users



KAM – Relationship to Emphasis of Matter (EOM) and Other Matter (OM) Paragraphs and Modified Opinions

- Concepts of EOM and OM paragraphs are retained
- EOM and OM paragraphs cannot be used as a substitute for communicating a matter determined to be a KAM
- New requirement to use the term “Emphasis of Matter” in the heading in the auditor’s report when an EOM paragraph is included
- Matters that give rise to a modified opinion are, by their nature, KAM

KAM – What Are the Documentation Requirements?

- In accordance with ISA 230, ISA 701 requires the auditor to document the professional judgments made about
 - Why a matter that required significant auditor attention is or is not a KAM
 - If there are no KAM, the rationale why
 - Why a matter determined to be a KAM is not communicated
- No requirement to document the rationale for why matters communicated to TCWG were not matters that required significant auditor attention

More information about KAM is available in the Auditor Reporting Toolkit at: www.iaasb.org/auditor-reporting.

Enhanced Auditor Reporting on GC

- Changes to ISAs and the auditor's report to focus more on GC
 - Explicit description of the respective responsibilities of management and the auditor in all auditor's reports
 - Separate GC section required when material uncertainty exists, with a heading "Material Uncertainty Related to Going Concern"
 - New requirement to challenge adequacy of disclosures for GC "close calls"

Interaction Between KAM and GC

- Matters relating to GC, including “close calls”, may be determined to be KAM and communicated in the auditor’s report in accordance with new ISA 701
- When a material uncertainty related to GC exists, it is by nature a KAM, but is reported separately in the “Material Uncertainty Related to Going Concern” section of the auditor’s report

More information about GC is available in the Auditor Reporting Toolkit at: www.iaasb.org/auditor-reporting.

GC – Next Steps



- Further work on the topic of GC by both accounting and auditing standard setters
 - Possible opportunity for research?
 - IAASB to continue to monitor GC developments and, as appropriate, engage in discussions with the International Accounting Standards Board
 - Consider whether further work in the area of auditor reporting on GC is needed as part of the planned post-implementation review of the new and revised Auditor Reporting standards

Other Changes to the Auditor's Report

- Auditor's opinion required to be presented first
- Required Basis for Opinion section for unmodified opinions
- Statement about independence and other ethical responsibilities
- Naming of the engagement partner (listed entities only)
- Enhanced description of auditor responsibilities and key features of the audit
- Required identification section when TCWG are separate from management

Auditor Reporting and Law or Regulation

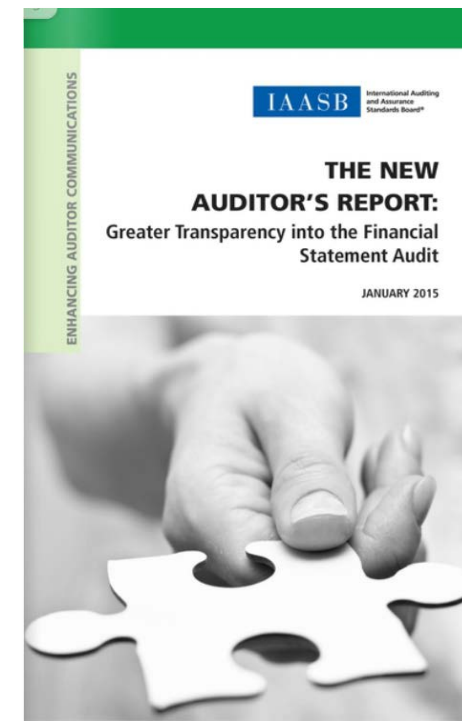
- New and revised Auditor Reporting standards continue to allow for
 - **Reference to the ISA pronouncements in the auditor's report when law or regulation** in a jurisdiction **specify the layout or wording of the auditor's report**, provided that certain requirements are met
 - **Any other reporting responsibilities** (ORR) prescribed by law or regulation in addition to those required by the ISA pronouncements, reported either
 - In a separate section in the auditor's report; or
 - If addressing the same topics required by ISA pronouncements, in the same section, provided the auditor's report clearly differentiates the ORR from the reporting required by the ISA pronouncements

Auditor Reporting Implementation Support

- IAASB-supported “roll-out plan” with objectives of
 - Promoting awareness
 - Informing and educating users
 - Learning about experiences of those responsible for adopting and implementing the standards
 - Preparing for post-implementation review
- Planned activities
 - Outreach and other communications
 - Auditor Reporting Toolkit

Resources – Auditor Reporting Toolkit

- New auditor reporting webpage:
www.iaasb.org/auditor-reporting
- **Available now**
 - Auditor Reporting Fact Sheet
 - Basis for Conclusions
 - “At a Glance” publication
 - Publications on GC and KAM
- **Coming soon**
 - Illustrative KAM examples
 - Listings and extracts of illustrative auditor’s reports
 - Webcast and podcasts





www.iaasb.org
