

New and revised Auditor Reporting Standards

The auditor's report is the key tangible deliverable of the audit process. While users of the financial statements have signaled that the auditor's opinion on the financial statements is valued, many have called for the auditor's report to be more informative and relevant.

In January, the International Auditing and Assurance Standards Board issued the following new and revised Auditor Reporting Standards (including conforming amendments to various International Standards on Auditing), which will significantly enhance the usefulness of auditor's reports for investors and other users of financial statements:

- ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*
- New ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
- ISA 570 (Revised) *Going Concern*
- ISA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*
- ISA 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
- ISA 260 (Revised) *Communication with Those Charged with Governance*
- Conforming amendments to ISAs 210, 220, 230, 510, 540, 580, 600 and 710

The key changes in and expected benefits of the new and revised Auditor Reporting Standards are highlighted in the following:

Key enhancements to the auditor's report

The following enhancements are mandatory for audits of financial statements of listed entities, while they can be applied on a voluntary basis for any other entities:

- A new section to communicate key audit matters. Such matters are those that, in the auditor's judgment, were of most significance in the audit of the current-period financial statements.
- The name of the engagement partner is

required to be disclosed, with a "harm's way" exemption.

The following new requirements are also introduced with respect to the auditor's report for all audits of financial statements:

- The opinion section is required to be presented first, followed by the basis for opinion section (unless law or regulation prescribe otherwise).
- Auditor reporting on going concern will require:
 - A description of the respective responsibilities of management and the auditor in respect of going concern;
 - When a material uncertainty exists, and is adequately disclosed in the financial statements, the auditor's report must include a separate section titled "Material Uncertainty Related to Going Concern"; and
 - A new requirement to challenge the adequacy of disclosures for "close calls" in respect of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern.
- An affirmative statement is required about the auditor's independence and fulfilment of relevant ethical responsibilities, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*.
- An enhanced description of the responsibilities of the auditor and key features of an audit. There is a provision that certain components of this description may be presented in an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority.

Key audit matters

As mentioned previously, one of the major enhancements is the introduction of key audit matters. The purpose of communicating key audit matters is to improve the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Key audit matters provide intended users of the financial statements with additional information about matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. The communication of key audit matters may also provide intended users with a basis to further engage with management and those charged with governance.

The IAASB acknowledged the importance of achieving an appropriate balance between the need of prescription in the standard to promote consistency in which matters are determined and communicated as key audit matters, with the need to allow for auditor judgment to ensure that the key audit matters communicated in the auditor's report are as entity-specific and relevant as possible. Accordingly, ISA 701 sets out a decision framework for auditors using communications with those charged with governance as a starting point. From the matters communicated with those charged with governance, the auditor determines the matters that required significant auditor attention. In fulfilling this requirement, the auditor is always required to explicitly consider:

- Areas of higher assessed risks of material

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misstatement, or significant risks identified in accordance with ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*;

- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and
- The effect on the audit of significant events or transactions that occurred during the year.

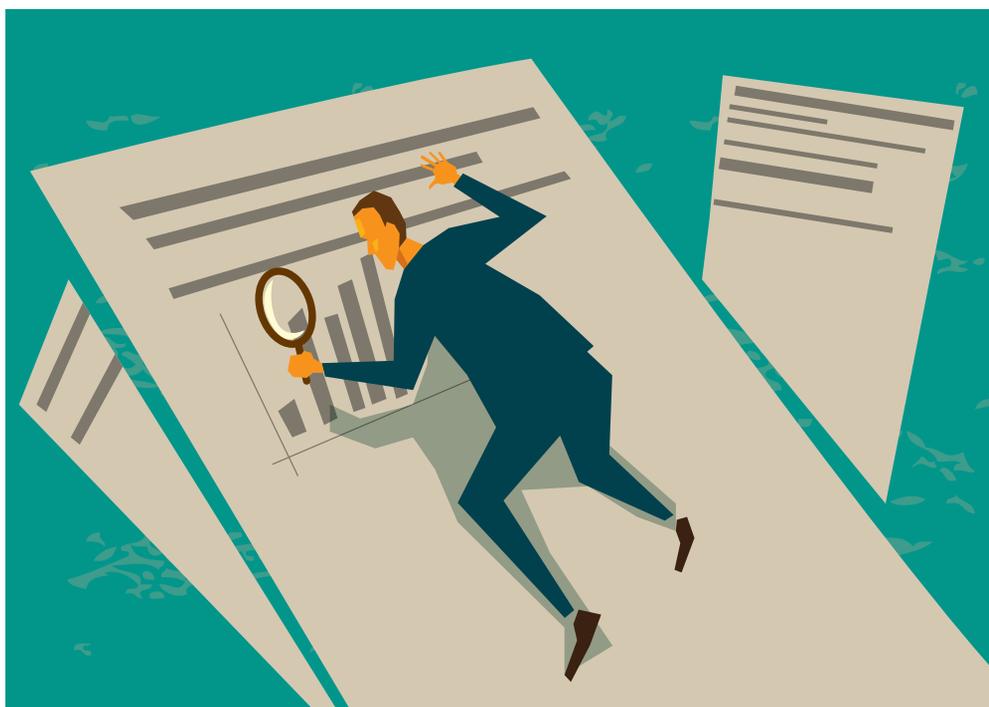
From the matters that required significant auditor attention, the auditor determines which were of the most significance in the audit of the financial statements of the current period and therefore are key audit matters.

If the key audit matters reporting requirements result in the auditor communicating information, which has not been publicly disclosed by the entity, ISA 701 allows for the possibility, in extremely rare circumstances, that the auditor might decide not to communicate a matter determined to be a key audit matter because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The description of a key audit matter is always required to include:

- Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter;
- How the matter was addressed in the audit; and
- Reference to the related disclosure(s).

The auditor may include in the description of a key audit matter:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
- A brief overview of procedures performed;
- An indication of the outcome of the audi-



tor's procedures; or

- Key observations with respect to the matter, or some combination of these elements.

Should the auditor determine that there are no key audit matters to communicate, the auditor's report would still include a key audit matters section, but specifically highlight that the auditor has determined that there are no key audit matters. Emphasis of matter and other matter paragraphs in the auditor's report cannot be used as a substitute for communicating a matter determined to be a key audit matter.

Effective date

The IAASB's new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016. The Institute will adopt the IAASB's Auditor Reporting Standards with the same effective date.

Benefits of changes

In addition to the increased transparency and enhanced informational value of the auditor's report, changes to auditor reporting will also have the benefit of:

- Enhancing communications between the auditor and investors as well as

between auditors and those charged with governance;

- Increasing attention paid by management and those charged with governance (e.g. the audit committee) to the disclosures in the financial statements to which reference is made in the auditor's report; and
- Renewing the focus of the auditor on matters to be reported, which may indirectly increase professional scepticism.

Coming activities

To help raise awareness, understanding and effective implementation of the Auditor Reporting Standards, the IAASB has a dedicated website at www.ifac.org/auditing-assurance/new-auditors-report with useful information.

Locally, the Institute plans to organize forums for members and key stakeholders to help explain the key changes. Members will be kept informed of events.



This article is contributed by the Institute's Standard Setting Department.