

New and revised ISAs

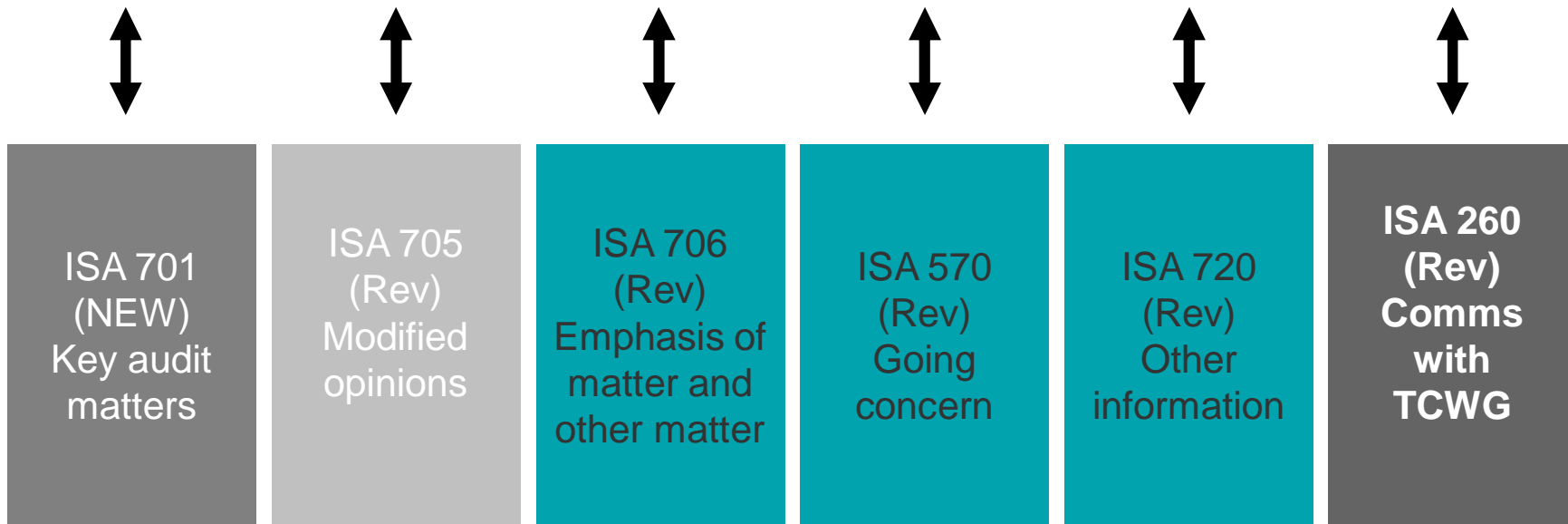
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Partner - Assurance



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New and revised auditor reporting ISAs

ISA 700 (Revised) – overarching standard for auditor reporting



All ISAs effective for audits of financial statement for periods ending on or after 15 December 2016

Why change the auditors' report now?

- ▶ Auditor reporting initiatives around the world were largely prompted by the global financial crisis
- ▶ Investors and other users of the auditors' report want more information about the audit
 - ▶ The “pass/fail” opinion is valued but the auditor’s report could be more informative
 - ▶ New and revised ISAs are the result of a multi-year effort that included extensive consultation and outreach
- ▶ Improved auditor reporting is viewed as essential to the continued relevance of the audit globally
 - ▶ Need for a new foundation of global auditor reporting and improved auditor communications

Expected benefits of the new auditors' report

- ▶ Enhanced value of the auditors' report
 - ▶ Overall improvement of the key deliverable of the audit
 - ▶ Greater transparency of the audit and its results
- ▶ Including information about areas of auditor focus in the auditors' report was designed to:
 - ▶ Increase audit quality, due to increased auditor focus on matters to be reported
 - ▶ Enhance financial statement disclosures, due to increased focus by management and those charged with governance on matters to be reported
 - ▶ Enhance communications between the auditor and those charged with governance

ISA 700 (Revised)

Forming an Opinion and Reporting on Financial Statements



Enhancements to the auditors' report

All entities

- ▶ Opinion first, followed by Basis for Opinion
- ▶ Affirmative statement of independence and fulfillment of relevant ethical responsibilities
- ▶ Going concern
 - ▶ Description of management and auditor responsibilities
 - ▶ Separate dedicated section to material uncertainty, when exists
- ▶ Identification of those charged with governance within management responsibilities section
- ▶ Expanded description of auditor responsibilities, including key features of an audit

Listed entities

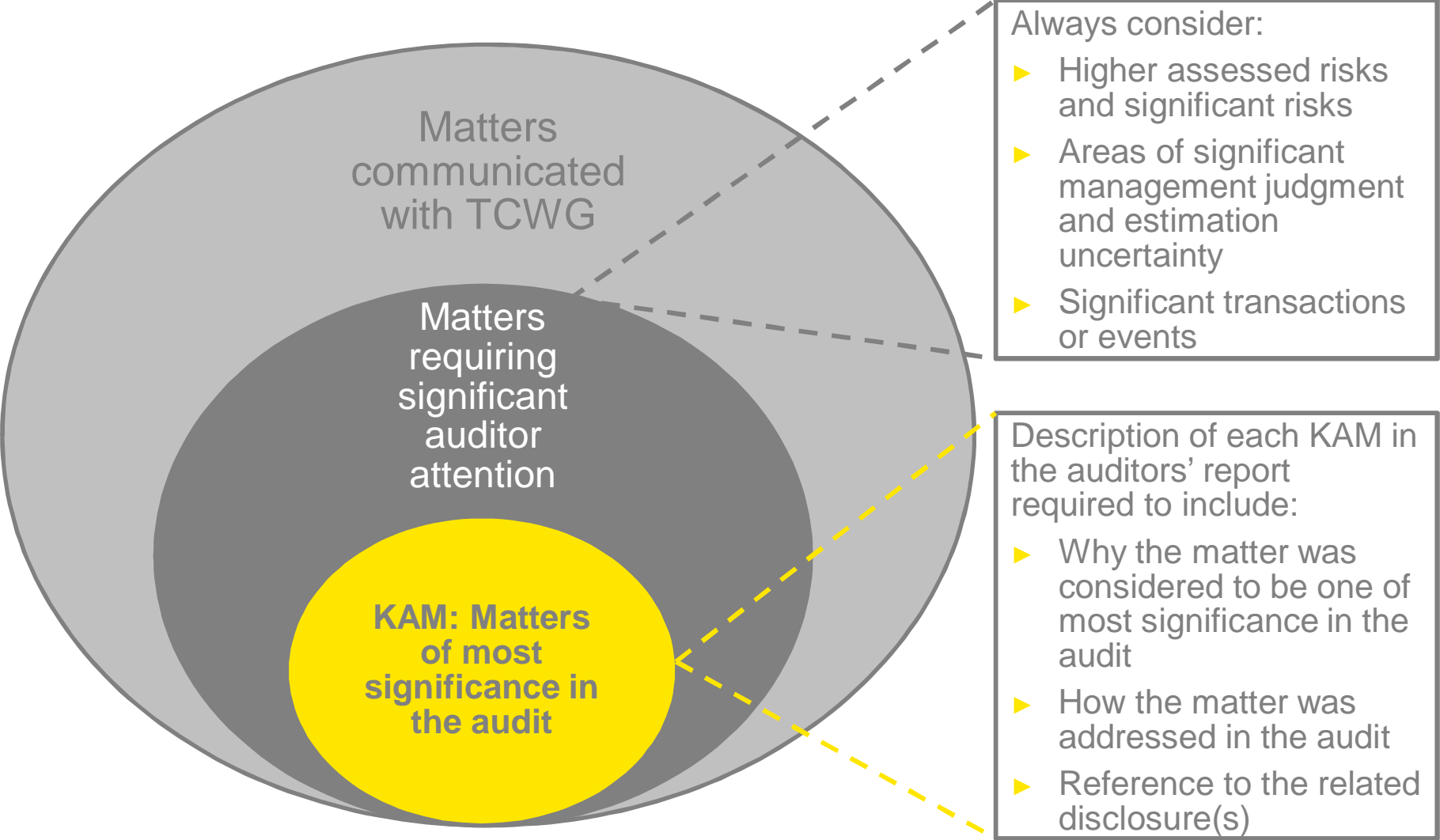
- ▶ New section addressing Key Audit Matters
 - ▶ Those matters that, in the auditor's judgment, were of most significance in the audit of the current period
- ▶ Disclosure of the name of the engagement partner

Auditor reporting on Other Information*

- Applicable for entities issuing annual reports
- Identification of documents that comprise annual report and description of auditor responsibilities (and statement of outcome if work performed prior to report date)
- No reporting for non-listed entities if annual report not available prior to auditor's report date

* ISA 720 approved by IAASB 12/2014; Scheduled for release 04/2015

Key Audit Matters: Centerpiece of the new auditors' report



Structure and elements of new auditor's report

1. Opinion section
2. Basis of opinion, including statement of independence and fulfillment of relevant ethical requirements
3. Material uncertainty related to going concern (when applicable)
 - ▶ No longer emphasis of matter, and new required wording
4. Key audit matters (listed entities only)
5. Other Information included in an entity's annual report

Structure and elements of new auditor's report (cont.)

6. Responsibilities of management and those charged with governance for the financial statements
 - ▶ Expanded to include responsibilities for assessing going concern
7. Our responsibility for the audit of the financial statements
 - ▶ Expanded description of the key features of an audit
8. Report on other legal and regulatory requirements
 - ▶ Where applicable
9. Name of the partner in charge of the audit (**listed entities only**)

Example

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Example

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Barbados and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of \$1 million during the year ended December 31, 2016 and, as of that date, the Company's current liabilities exceeded its total assets by \$2.5 million. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Example

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report:

Other Matter

The financial statements of the Company for the year ended December 31, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 2016.

Other Information (ISA 720)

Responsibilities of Management and Those Charged with Governance for the Financial Statements (ISA 700)

Example

Auditor's Responsibilities for the Audit of the Financial Statements (ISA 700)

Report on Other Legal and Regulatory Requirements (ISA 700)

Signature in the name of the audit firm

Auditor Address

Date

Group Audits

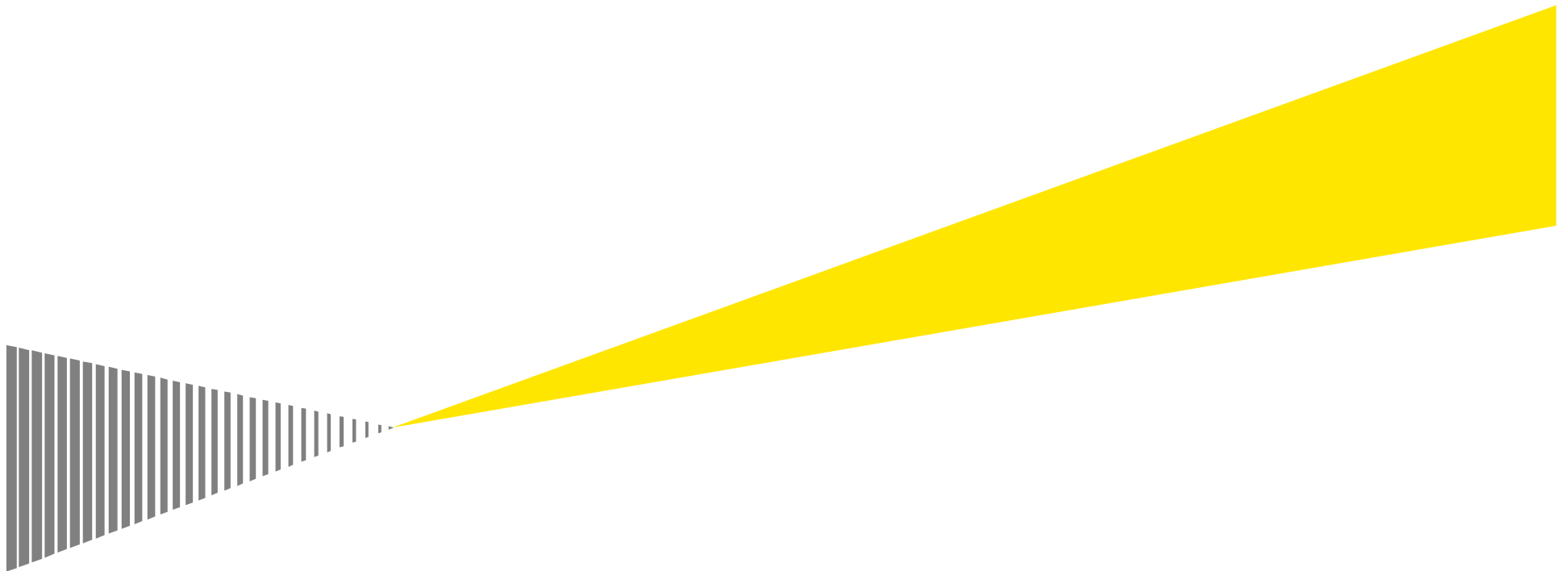
- ▶ For audits of group financial statements (i.e. when ISA 600 applies) further describe the auditor's responsibilities in a group audit by stating that:
 - (i) the auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;
 - (ii) The auditor is responsible for the direction, supervision and performance of the group audit; and
 - (iii) The auditor remains solely responsible for the auditor's opinion.

Group Audits – Illustrated wording

- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

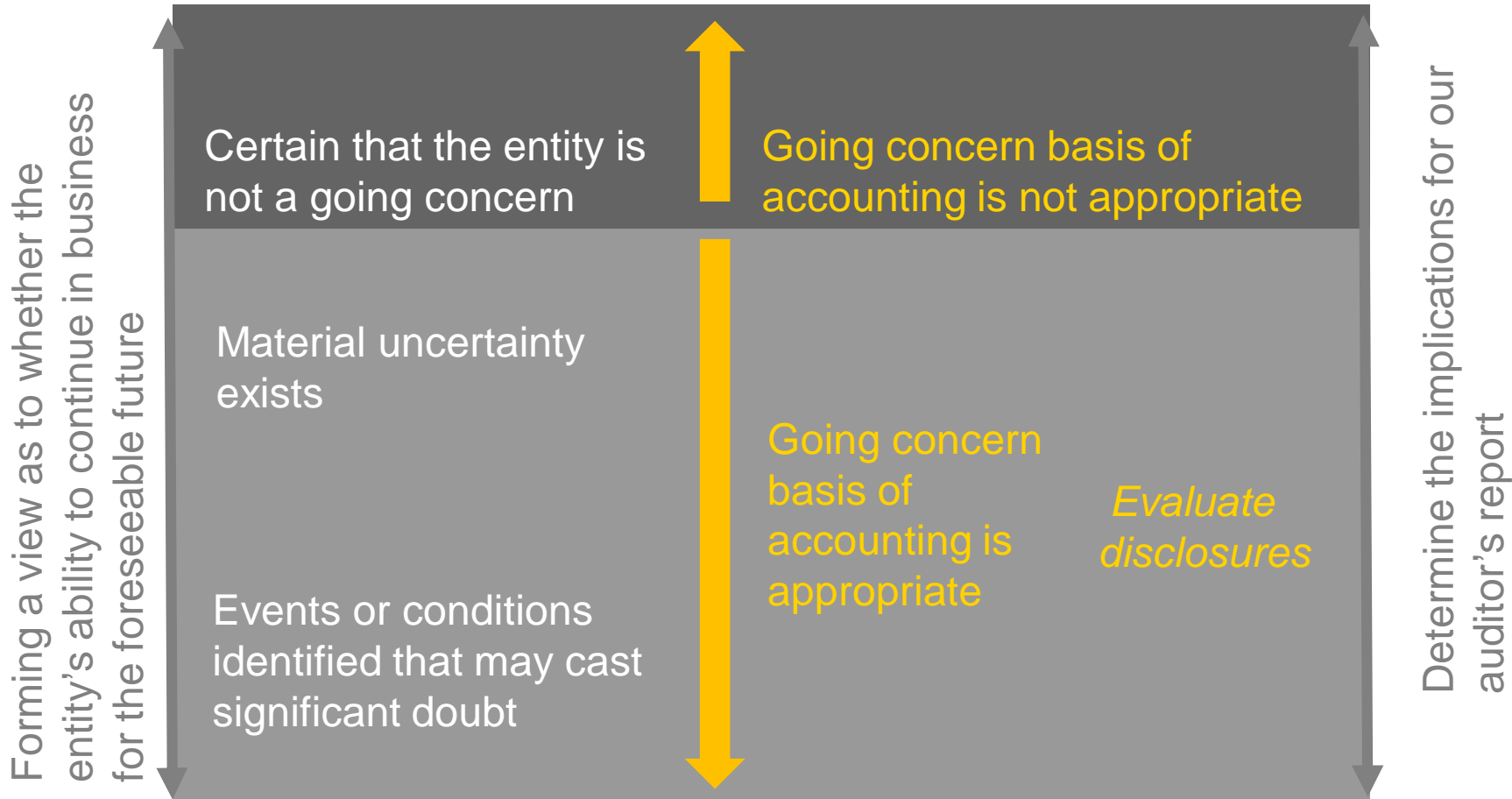
ISA 570 (Revised)

Going Concern

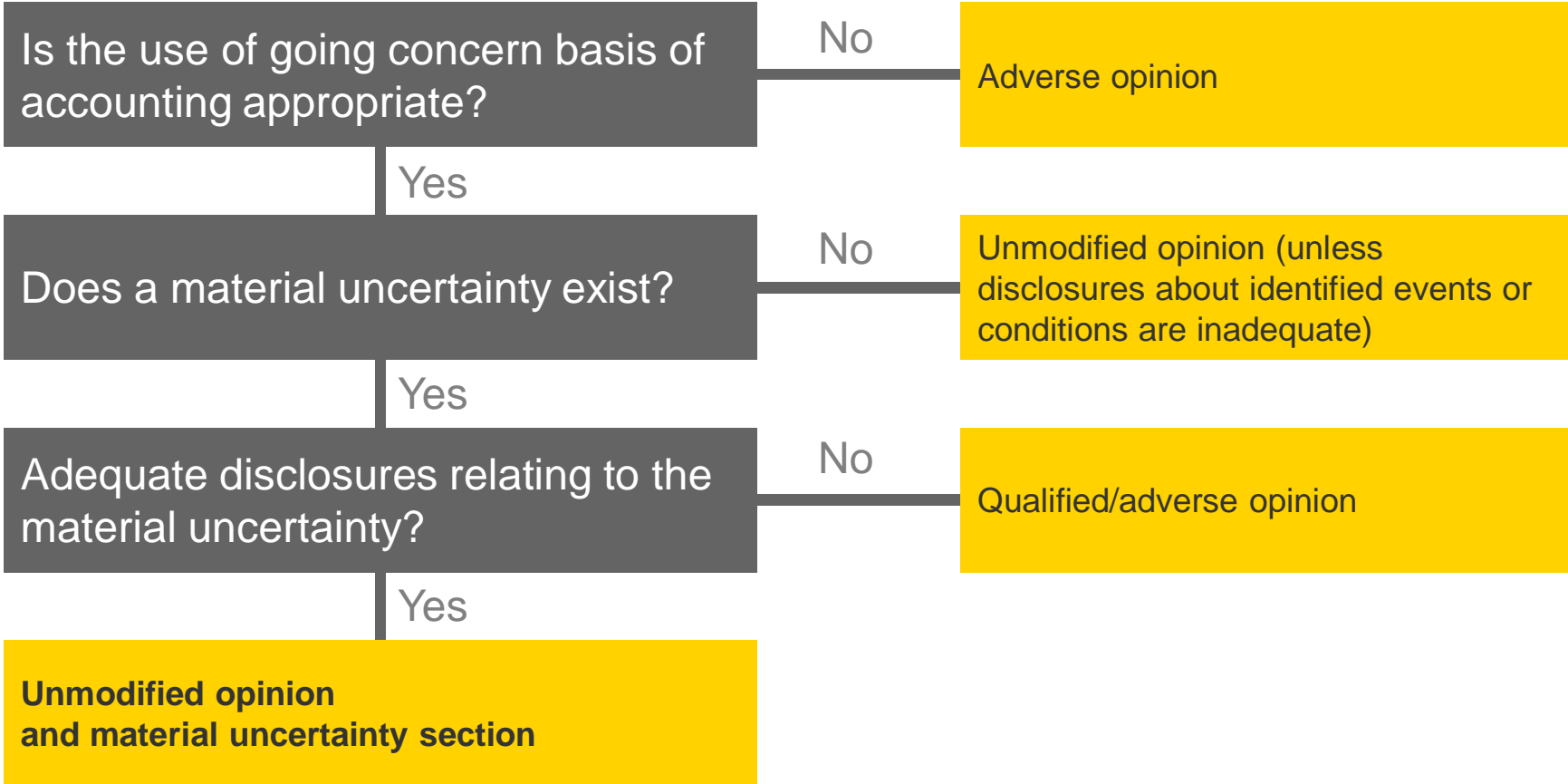


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Going concern assessment



Going concern: implications for our auditor's report



ISA 701 (New)

Communicating Key Audit Matters in the Independent Auditor's Report



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ISA 701 - Scope

- ▶ The purpose of communicating key audit matters (“KAM”) is to enhance the communicative value of the auditor’s report by providing greater transparency about the audit that was performed;
- ▶ Only applies to the audits of listed entities and circumstances where the auditor otherwise decides to communicate key audit matters in the auditor’s report;
- ▶ Not permitted when the auditor disclaims an opinion on the financial statements;*

KAM - Definition

- ▶ KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period;
- ▶ KAMs are selected from matters communicated with those charged with governance ("TCWG");

KAMs - Determination

In making the determination of what matters are KAMs, the auditor takes into account the following:

- ▶ Areas of higher assessed risk of material misstatement;
- ▶ Areas in the financial statements that involved significant auditor 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 period.

What does “Significant” mean?

- ▶ Significance can be described as the relative importance of a matter, taken in context;
- ▶ Significance of a matter is judged by the auditor in the context in which it is being considered;
- ▶ Significance can be considered in the context of quantitative and qualitative factors e.g. relative magnitude, nature & effect on the subject matter, and expressed interests of intended users or recipients.

KAM Examples

In a UK survey of more than 150 auditor's reports, it found that the top 5 most reported risks were:

- ▶ Impairment of assets;
- ▶ Tax;
- ▶ Goodwill impairment;
- ▶ Management override of controls;
- ▶ Fraud in revenue recognition;

Key audit matters – an illustration

Extracted from IAASB Auditor Reporting Toolkit – Illustrative Key Audit Matters

Goodwill

[Why a matter was determined to be a KAM]

Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of XX as of 31 December 20X6 is material to the financial statements. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically *[describe certain assumptions]*, which are affected by expected future market or economic conditions, particularly those in *[name of country or geographic area]*.

[How a KAM was addressed in the audit]

Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins for *[name of business line]*. We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.

[Refer to the related disclosures]

The Company's disclosures about goodwill are included in Note X, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.

Experiences to date – Implementation of new auditor’s report in UK and NL

- ▶ UK and Netherlands implemented revised auditor reporting standards for 2013 and 2014 audits, respectively
 - ▶ Both standards require reporting essentially equivalent to “key audit matters”
- ▶ UK’s Financial Reporting Council (FRC) conducted a post-implementation review during Jul-Sept 2014¹
 - ▶ Common matters reported: Impairment of assets, taxation, goodwill impairment, revenue recognition, provisions, pensions, acquisitions, investments, valuation of financial instruments/inventory
 - ▶ “In the main, investors have warmly welcomed the overall response by auditors to the extended auditor’s report requirements..” “Auditors have embraced the challenges of the new reporting requirements, experimenting with a number of innovative approaches and responding to feedback even within the reporting season.”

¹ UK FRC, *Extended auditor’s reports, A review of experience in the first year*, March 2015

KAM - Description

- ▶ The adequacy of description of a KAM is a matter of professional judgment;
- ▶ It is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significance in the audit and how it was addressed in the audit;
- ▶ The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties;

ISA 720 (Revised)

The Auditor's Responsibilities Relating to Other Information



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ISA 720 (Revised)

- ▶ Other information is financial or non-financial information (other than the audited F/S) included in an entity's annual report;
- ▶ An annual report is a document, the purpose of which is to provide owners with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements;
- ▶ Does not apply to preliminary announcements of financial information or securities offering documents (e.g. prospectuses);

Auditor's work effort

- ▶ No requirement for the other information to be audited;
- ▶ The auditor is required to read the other information and consider whether there is a material inconsistency between the other information and:
 - ▶ the audited financial statements; and
 - ▶ the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.
- ▶ Applies whether the other information is obtained prior to or after the date of the auditor's report.

Example of what will be communicated

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Expected benefits of the new auditor's report

- ▶ Overall improvement of the key deliverable of the audit
- ▶ Greater transparency of the audit and its results
- ▶ Including information about areas of auditor focus in the auditor's report expected to:
 - ▶ Increase audit quality, due to increased auditor focus on matters to be reported
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 - ▶ Enhance communications between the auditor and TCWG

Challenges of the new auditor's report

- ▶ Determining key audit matters and drafting engagement-specific content will required additional time*.
- ▶ Drafting the auditor's report needs to happen earlier in the process to allow adequate time for review.
- ▶ Considering these changes in our discussions with management and those charged with governance.
- ▶ Determining scope, timing and extent of procedures around other information.

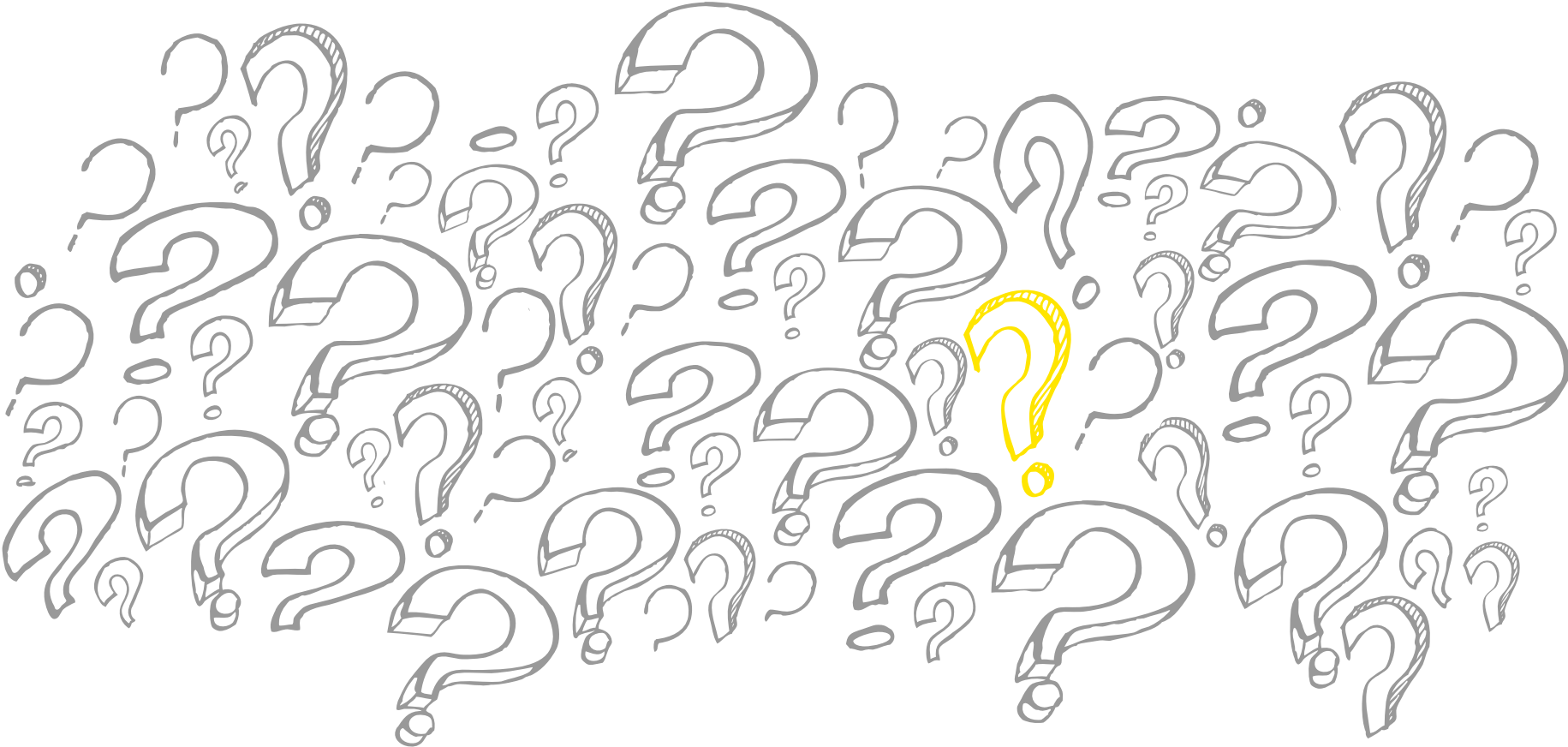
Next steps for audit teams

- ▶ Complete initial communications with management and TCWG regarding the new requirements as soon as possible and continue timely communication about auditor reporting matters as they arise
- ▶ Obtain updated engagement letters, as necessary
- ▶ Do not wait until the end of the audit to start drafting the new auditor's report or consider implications regarding KAM and other information
- ▶ Determine the effect on the audit process
- ▶ Consider audit documentation requirements for KAM and other information in your audit files
- ▶ Look for communications from local institutes for specific country guidance.

Resources

- ▶ New IAASB auditor reporting webpage:
www.iaasb.org/auditor-reporting
- ▶ *Reporting on Audited Financial Statements – New and Revised Auditor Reporting Standards and Related Conforming Amendments – January 2015, IAASB*

Questions



Thank You!

