



ICPAK AUDIT QUALITY ASSURANCE SEMINAR

MT. KENYA REGION

Thursday, 23rd to 24th March 2017

Presented by CPA Georgina Malombe
MANAGING PARTNER: GEMAL & COMPANY

OUTLINE



Changes to the Auditor's report and the potential effects on investors, audit committees and preparers

Changes to ISAs and how they affect reporting

What is included in the description on Key Audit Matters (KAM)

How has the IAASB addressed the topic of Going Concern (GC)

Changes to ISAs and how they reporting



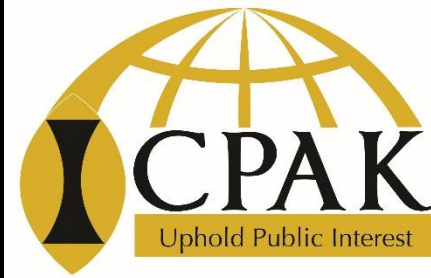
New and Revised Auditor Reporting Standards

Overarching standards for Auditor Reporting- ISA 700 (Revised)-Forming an opinion and Reporting on Financial Statements

New Key Audit Matters section- ISA 701 (New)-Communicating Key Audit Matters in the Independent Auditor's Report

Modifications to auditor's opinions- ISA 705 (Revised)-Modifications to the Opinion in the Independent Auditor's Report

Changes to ISAs and how they Reporting



Enhanced auditor reporting related to going concern- ISA 570 (Revised)

New other information section- ISA 720 (Revised)

Revisions to ISA 260- Communication with Those Charged With Governance

ISA 706 (Revised)- Emphasis of Matter paragraphs and Other Matter paragraphs in the Independent Auditor's Report.

Conforming Amendments

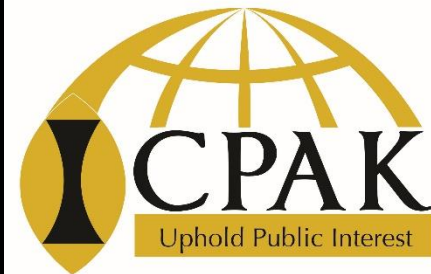
In addition conforming amendments have been made to the following ISAs:

- ❖ ISA 200: Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
- ❖ ISA 210: Agreeing the Terms of Audit Engagement
- ❖ ISA 220: Quality Control for an Audit of Financial Statements
- ❖ ISA 230: Audit Documentation

Conforming Amendments Forming

- ❖ **ISA 230:** Audit Documentation
- ❖ **ISA 510:** Initial Audit Engagements- Opening Balances
- ❖ **ISA 540:** Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
- ❖ **ISA 580:** Written Representations
- ❖ **ISA 600:** Special Considerations-Audits of Group Financial Statements (Including the work of component Auditors)
- ❖ **ISA 710:** Comparative Information- Corresponding Figures and Comparative Financial Statements

What is included in description on KAM



What is KAM

Those matters that, in the **auditor's professional judgement**, 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 report will include KAM Section

Auditor's Report –
Listed Companies



Law or regulation
(May Require)
Public Interest Entities ,
Public Sector Entities



Voluntarily- On Request by
those charged with
Governance (TCWG)

Are KAM Always Communicated in 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.

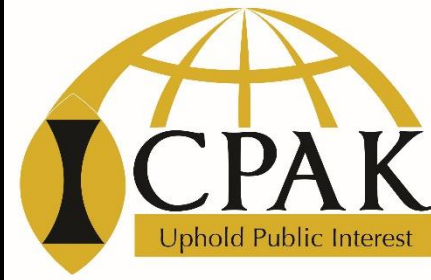
Consequences of communicating the KAM



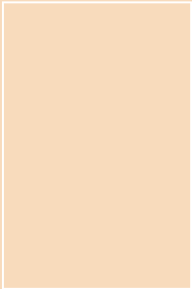
If it will reasonably be expected to outweigh the public interest benefits of such communication, then it will be necessary to report

- ❖ 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



Matters that were communicated with TCWG

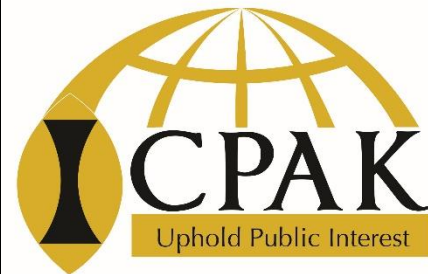


Matters that required significant auditor attention



Matters of most significance in audit

Initial Steps in Determining KAM



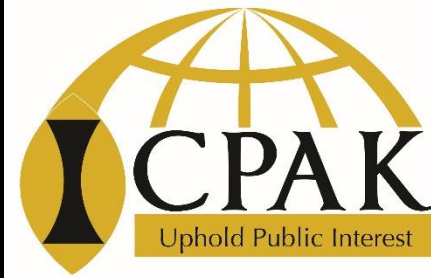
The Auditor will always consider;

Areas of higher assessed risks of material misstatements or significant risks (i.e. risk requiring special audit consideration)

Significant auditor judgement relating to areas of significant management judgement (e.g. complex accounting estimates)

Effect on the audit of significant events or transactions

Determination of Matters of Most Significance in the Audit-KAM



- Nature and extent of communication with TCWG
- 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.
- Importance of intended users' understanding of f/s
- 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.
- Nature and extent of audit effort needed to address

KAM- What is included in the Description



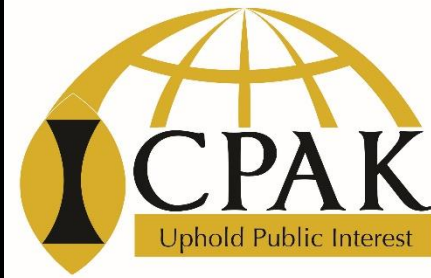
The description always includes:

- ❖ Why the matter was considered to be 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



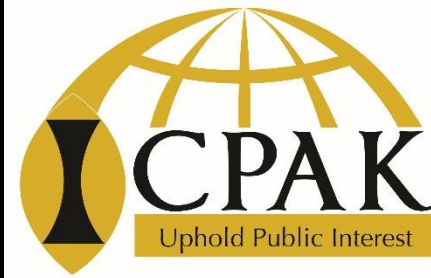
- ❖ KAM should be entity-specific and avoid standardized or overly technical language.
- ❖ Description of a KAM should not
 - ✓ Imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the f/s
 - ✓ Contain or imply discrete opinion on separate elements of the f/s (a peace meal opinion)

KAM- Relationship to Emphasis of Matter (EOM) and Other Matter (OM) Paragraphs and Modified Opinion



- ❑ Concept 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 judgements 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.

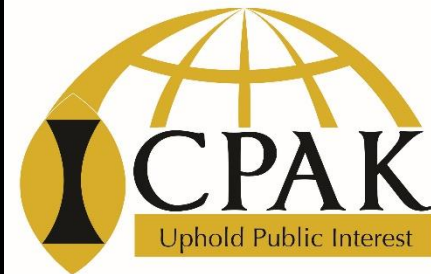
Enhanced Auditor Reporting on Going Concern



Changes in ISAs and the auditor's report to focus more on going concern;

- ❑ Explicit description of the respective responsibilities of management and auditor in all auditors 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" i.e. no material uncertainty exists

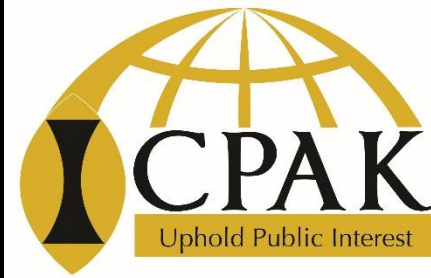
Convergence of KAM and GC



Matters relating to G.C. 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 relating to G.C. exists, it is by nature a KAM, but is reported separately in the “Material Uncertainty Related to Going Concern” section of the auditor report.

Other Changes to the Auditor's Report



Auditors' opinion required to be present first

Required basis for opinion section for unmodified opinion

Statement about independence and other ethical responsibilities

Naming of the engagement partner, listed entities only

Enhanced description of auditor's responsibilities and key features of the audit

Required identification section when TCWG are separate from the management

Auditor Reporting and Law or Regulation



New and Revised Auditor reporting standard continue to allow for;

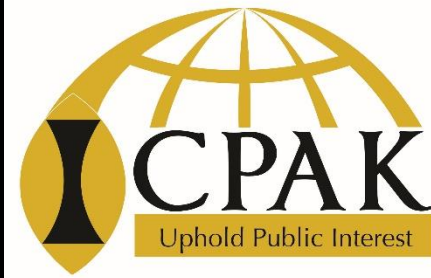
- ❑ Reference to ISA pronouncements in the auditor's report when law or regulation in a jurisdiction specify the layout or wording of the auditor's report, provided that certain requirements are met
- ❑ Any other reporting responsibilities (ORR) presented by law or regulation in addition to those required by the ISA pronouncements, reported either:
 - ❑ In a separate section in the auditor's report
 - ❑ If addressing the same topic 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

SAMPLE AUDITORS REPORT



REFER TO WORD !

What are the differences between the old report and the revised report



Old Report	New Report

