



New and Revised Auditor Reporting Standards

Informative ISA audit reports



- **Changes to the auditor's report**
- **Changes to ISAs and how they affect reporting**
- **Description of Key Audit Matters (KAM)**
- **Going Concern (GC)**

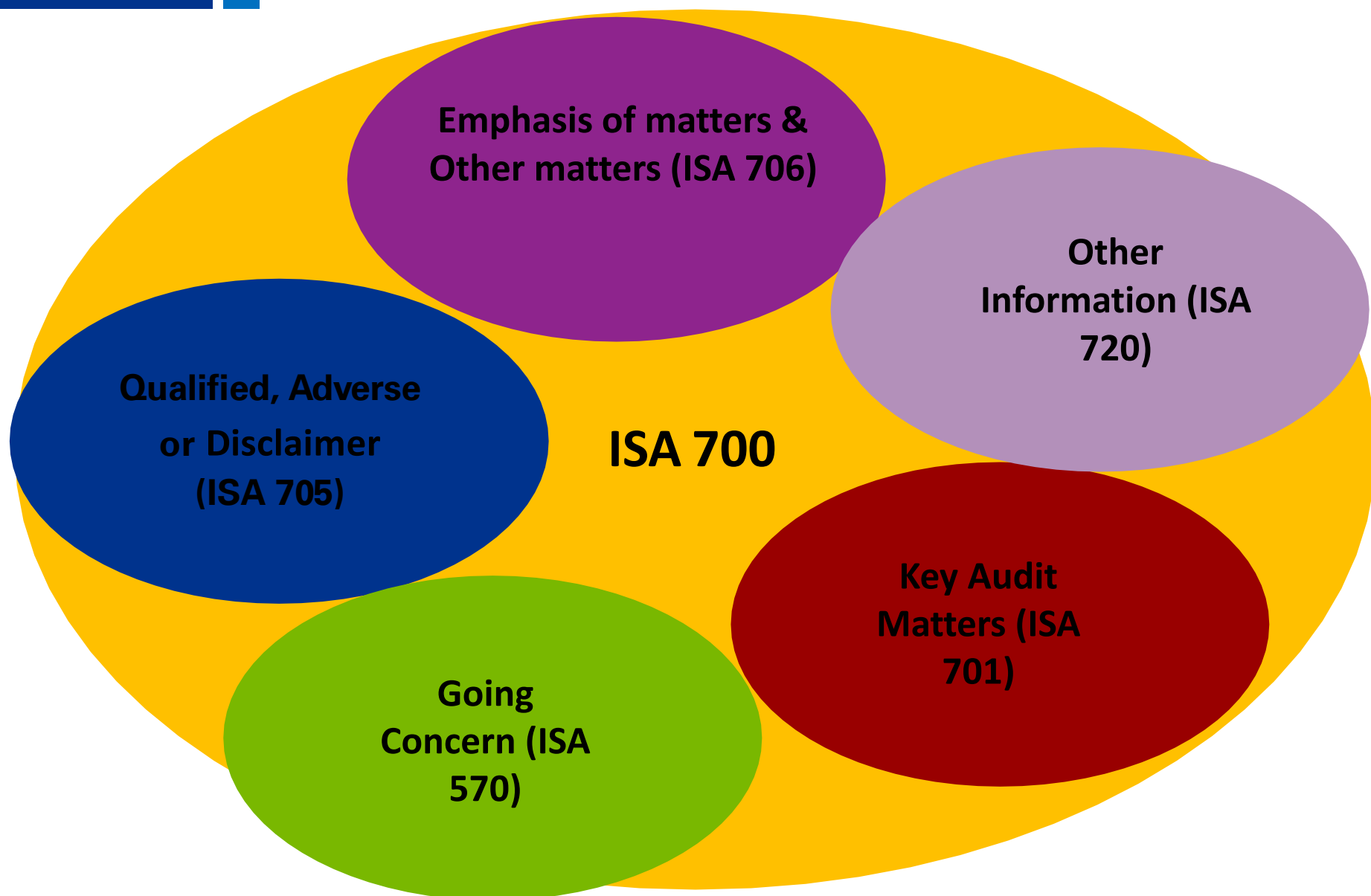
Summary of changes

New and revised ISAs	Description of changes
ISA 700 (Revised) <i>Forming an Opinion and Reporting on Financial Statements</i>	Revisions to establish new required reporting elements, and to illustrate these new elements in example auditor's reports.
ISA 701 (New) <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>	New standard to establish requirements and guidance for the auditor's determination and communication of key audit matters. Key audit matters, which are selected from matters communicated to those charged with governance, are required to be communicated in auditor's reports for audits of financial statements of listed entities.
ISA 260 (Revised) <i>Communications with Those Charged with Governance</i>	Required auditor communications with those charged with governance will now include the significant risks identified by the auditor and circumstances that required significant modification of the auditors planned approach to the audit.

Summary of changes

New and revised ISAs	Description of changes
ISA 570 (Revised) <i>Going Concern</i>	Amendments to auditor reporting requirements relating to going concern, and new requirements to evaluate the adequacy of disclosure if events or conditions cast doubt on going concern.
ISA 705 (Revised) <i>Modifications to the Opinion in the Independent Auditors Report</i>	Clarification of how the new reporting elements are affected when expressing a modified opinion.
ISA 706 (Revised) <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditors Report</i>	Clarification of the relationship between the 'emphasis of matter' and 'other matter' paragraphs and the key audit matter section of the auditors report.
ISA 720 (Revised) <i>Other information</i>	Clarification of the auditor's responsibilities with respect to other information, including a requirement to include a statement about work performed over other information.

New and revised ISAs and their interactions



Why change the auditor's report?

1

- The auditor's report is the auditor's key deliverable addressing the output of the audit process

2

- Users of financial statements indicated that the auditor's opinion on the financial statements is valued, but many called for the auditor's report to be more informative and relevant

3

- Enhanced auditor reporting is viewed as critical to the perceived value of the financial statement audit

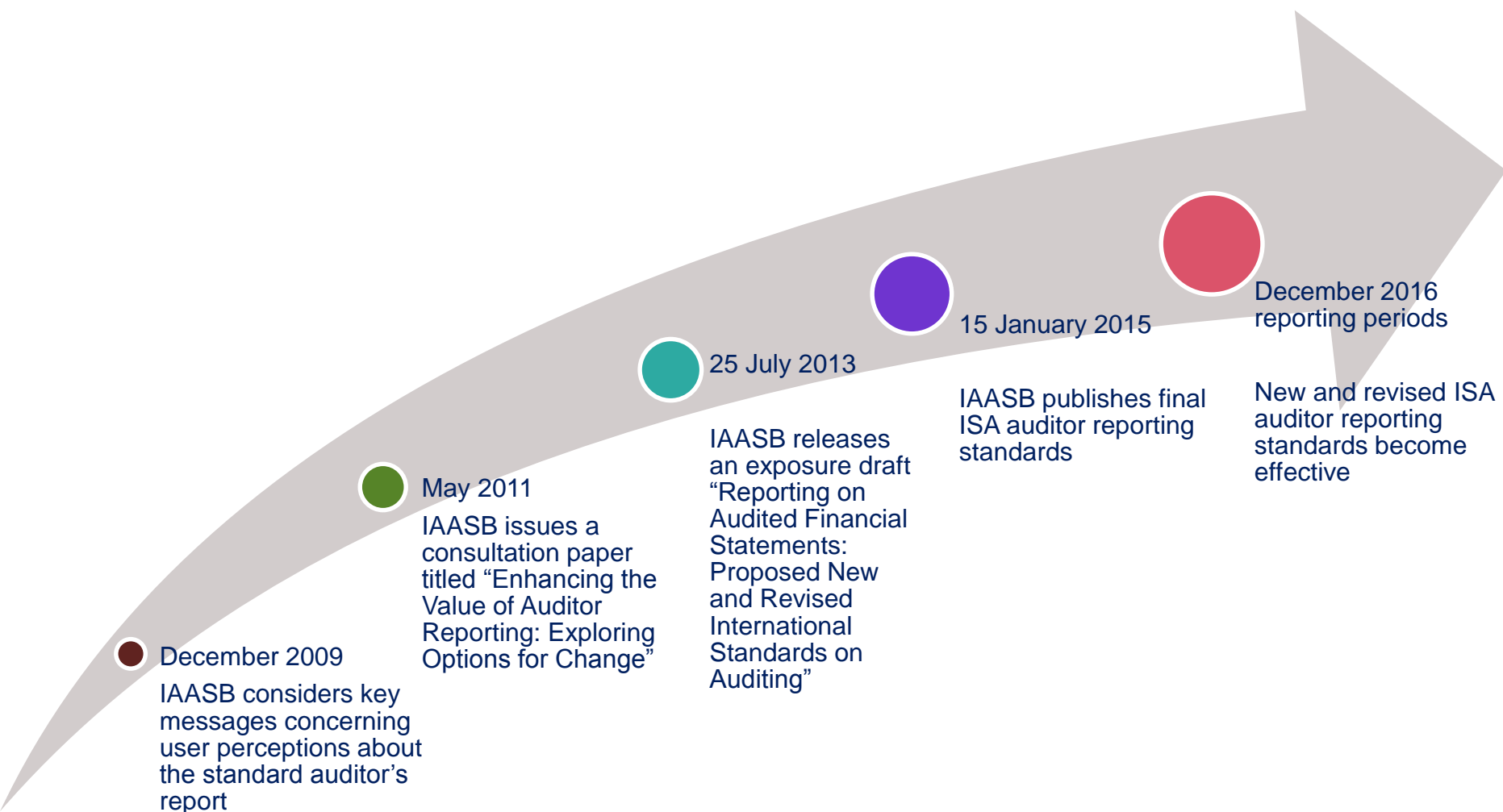
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- The new and revised auditor reporting standards lay the foundation for the future of global auditor reporting and improved auditor communications

5

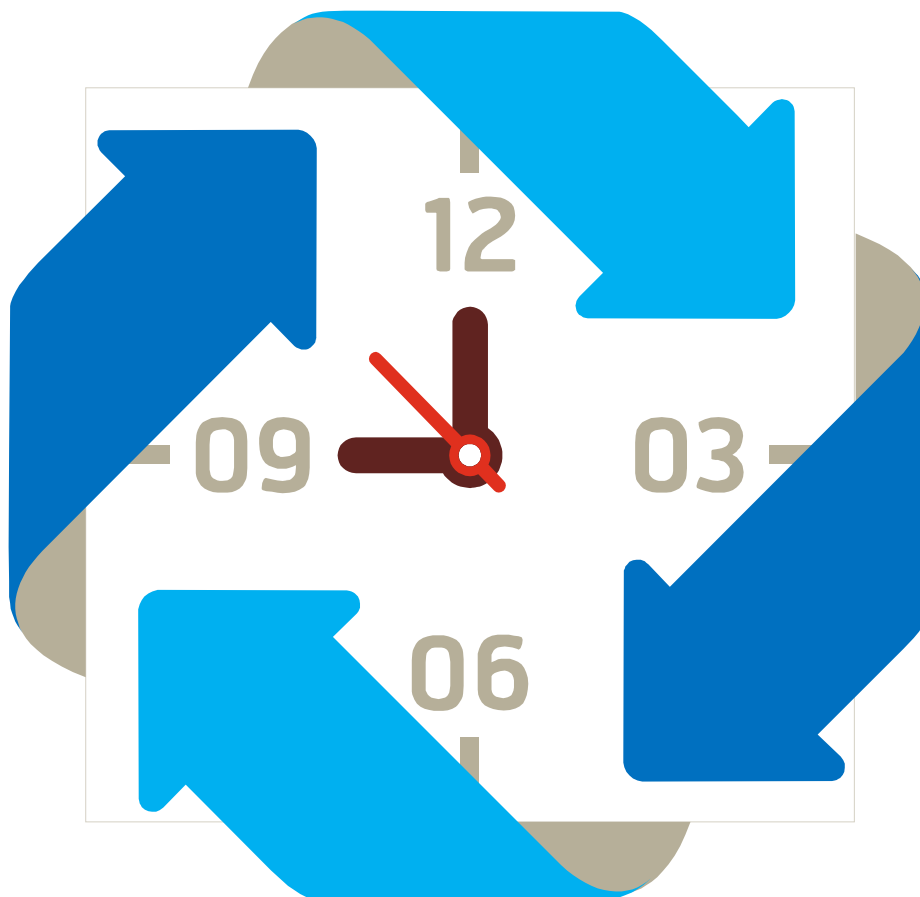
- The International Auditing and Assurance Standards (IAASB)'s deliberations were informed by international research, public consultation and stakeholder outreach

Timeline of the development of the new and revised International Standards on Auditing



When do the new and revised auditing standards become effective?

Effective for
audits of
financial
statements for
periods ending
on or after 15
December
2016



Therefore,
effective for
the first time
on the audit of
[insert name of
client]’s [insert
date] financial
statements

Which audit reports are affected?

All International Standards on Auditing (ISA) audit reports, not just those for listed entities, will look different compared to current audit reports, for example:

- Opinion first;
- Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities;
- Enhanced description of the responsibilities of the auditor and key features of an audit;
- Enhanced description of the respective responsibilities of management and the auditor regarding going concern;
- Material going concern uncertainty reported in a separate section in the audit report; and
- Revised reporting requirements relating to “other information” included in an entity's annual report

In addition, audit reports on **listed entity** financial statements will include “key audit matters” (KAMs) – a significant change

“An entity whose shares, stock or debt are quoted or listed on a recognised stock exchange, or are marketed under the regulations of a recognised stock exchange or other equivalent body”

- Entities with equities or debt instruments listed on the NSE = in scope of ISA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*

What are key audit matters (KAMs)?

Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements for the current period.

KAMs are selected from matters communicated with those charged with governance.

A large, solid blue double-headed arrow pointing horizontally in both directions, spanning the width of the lower half of the slide.

Key Audit Matters are not Management Letter issues

Describing the KAM



Tell the audit story



Make it about
this year's audit



Get to the heart of it
WHY this is a KAM?



Be client specific
referring to
products, %

How you addressed the KAM



Be consistent from
- KAM; to
- procedures.



Include only the *most*
relevant procedures

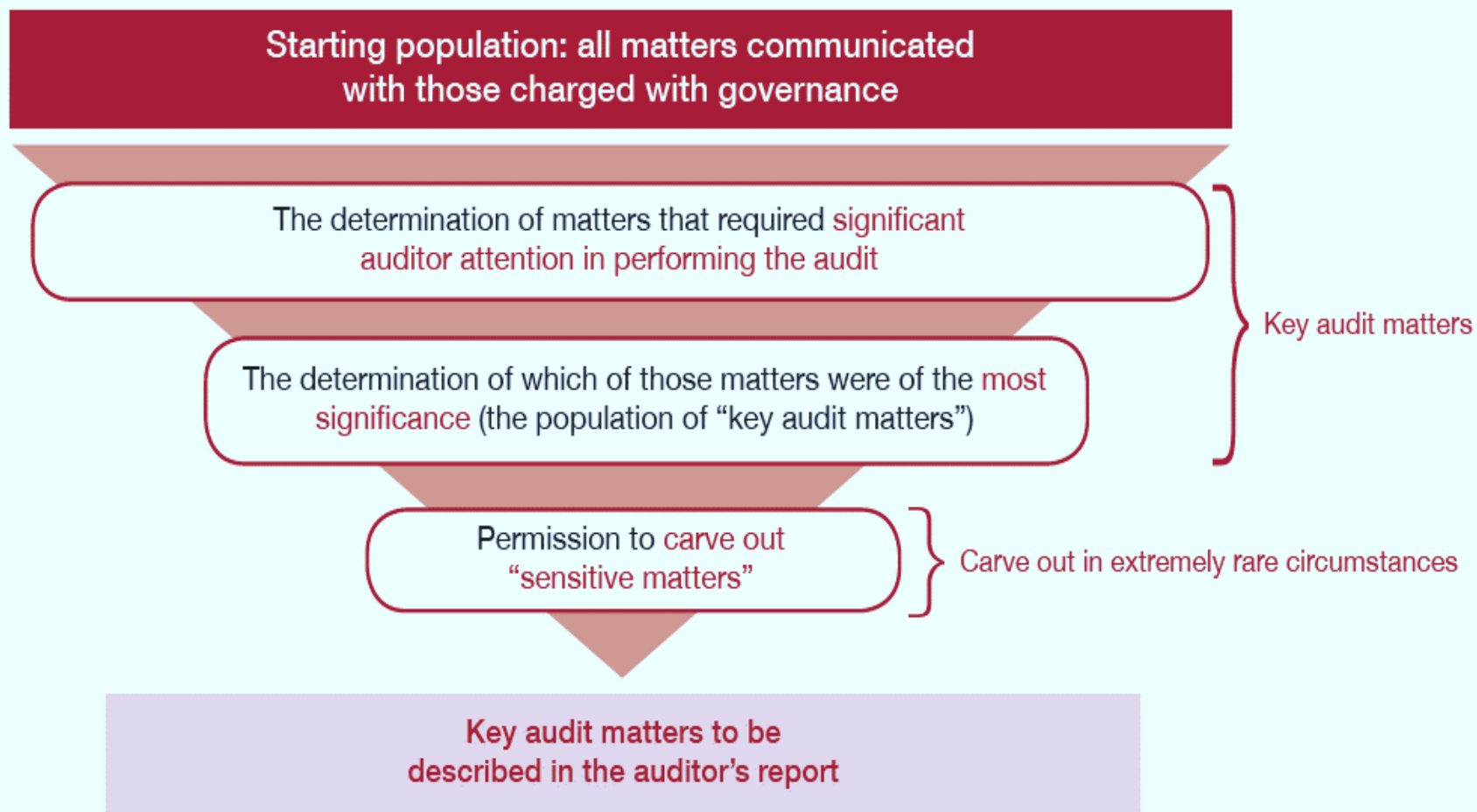


Reflect your
independence and
scepticism



Self review
- Jargon
- Tense
- Prohibited terms

How are KAMs determined?



The determination of those matters that required significant auditor attention

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First KAM "filter"

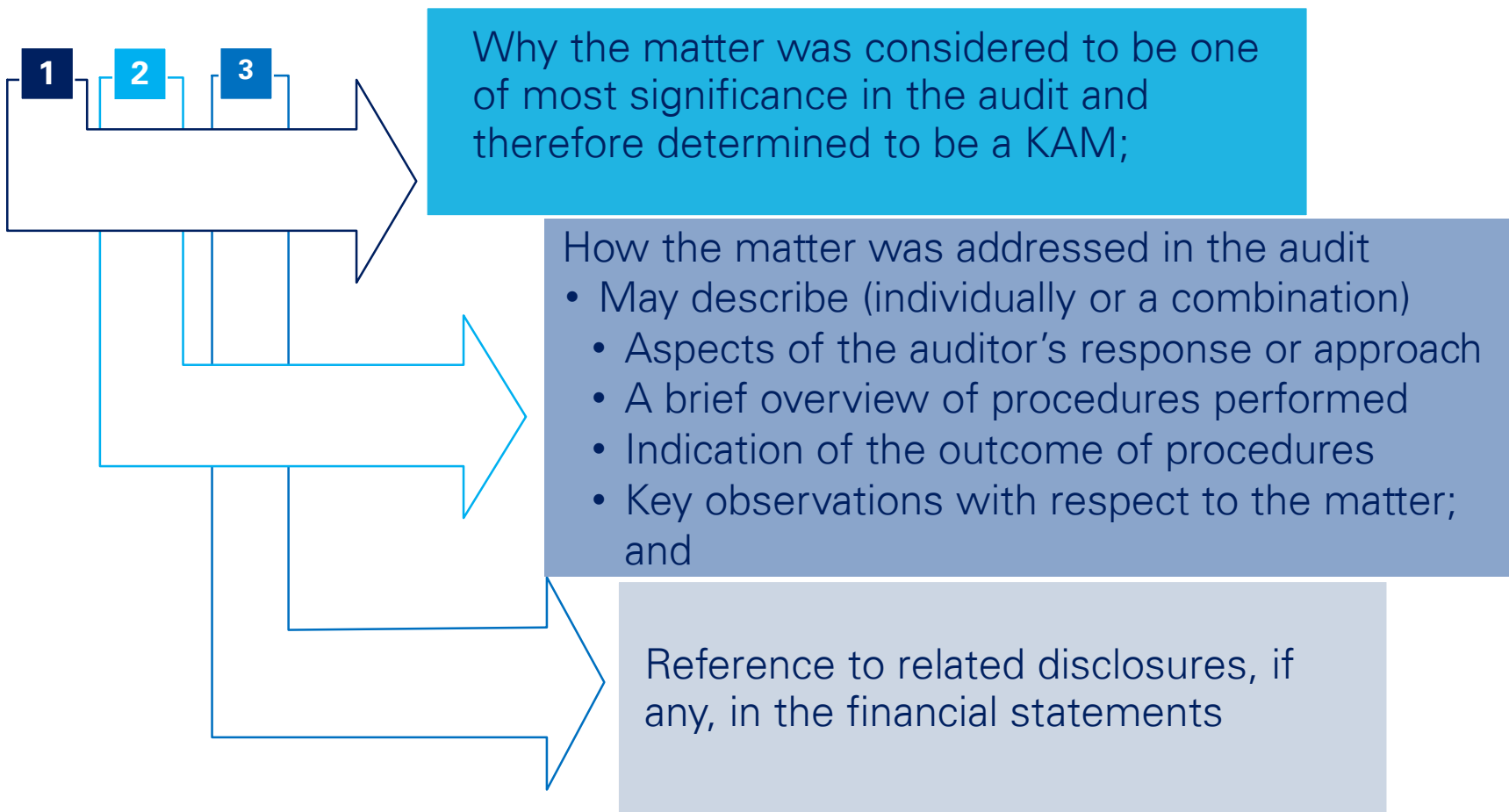
- Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with the auditing standards
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty
- The effect on the audit of significant events or transactions that occurred during the period.

Does the auditor have an option not to include identified KAMs in the audit report?

- There are some situations (for “sensitive matters”) in which the auditor would not be required to disclose a matter:
 - if law or regulation precludes it, or,
 - in extremely rare circumstances, where the adverse consequences of public communication of a matter would reasonably be expected to outweigh the public interest benefits
- The IAASB has been very clear that the provisions should not be abused to avoid disclosing matters that do not firmly fit these circumstances

Describing KAMs in the audit report

The description of a KAM in the audit report is required to include



Describing KAMs in the audit report

Guiding principles on the language used in the report



Relate the matter directly to the specific circumstances of the entity, while avoiding generic or standardized language

Take into account how the matter is addressed in the related disclosure(s) in the financial statements, if any

Imply that the matter has not been appropriately resolved by the auditor in forming the opinion

Contain or imply discrete opinions on separate elements of the financial statements

Describing the KAM



Tell the *audit* story

Write the KAM from the perspective of the audit challenge

What audit conditions made this challenging or complex to audit?

Don't write from the client risk perspective

Don't rewrite the client's accounting policy note




Make it about *this year's* audit

What did you focus on *most* in the current year

Describe any significant event or market condition that occurred during *this period* giving rise to your attention?

Even if it is prior to the year end, draft this section using past tense



Get to  WHY this is a KAM?

Focus on what led to us expending audit effort on this matter

Was it due to:
Size? Volume of activity? Risk (but why?)?
Specific prevalent or expected economic/market specific conditions?
Unique versus homogenous characteristics?
Specialist or complex auditor judgement (to challenge management judgements)?



Be client specific, referring to products, % etc

Being specific to THIS client's audit makes it less likely that our audit reports will be seen as boilerplate

Ask how your KAM would be any different to another client in the industry – it needs to read to be specific to THIS audit



Show the value of insights from within the audit

The whole purpose is to provide transparency about what mattered in the audit

We reference if we include specialists or had particular knowledge, skills, experience within the team (we may alternatively or additionally refer to this in the How we addressed it part of the report)

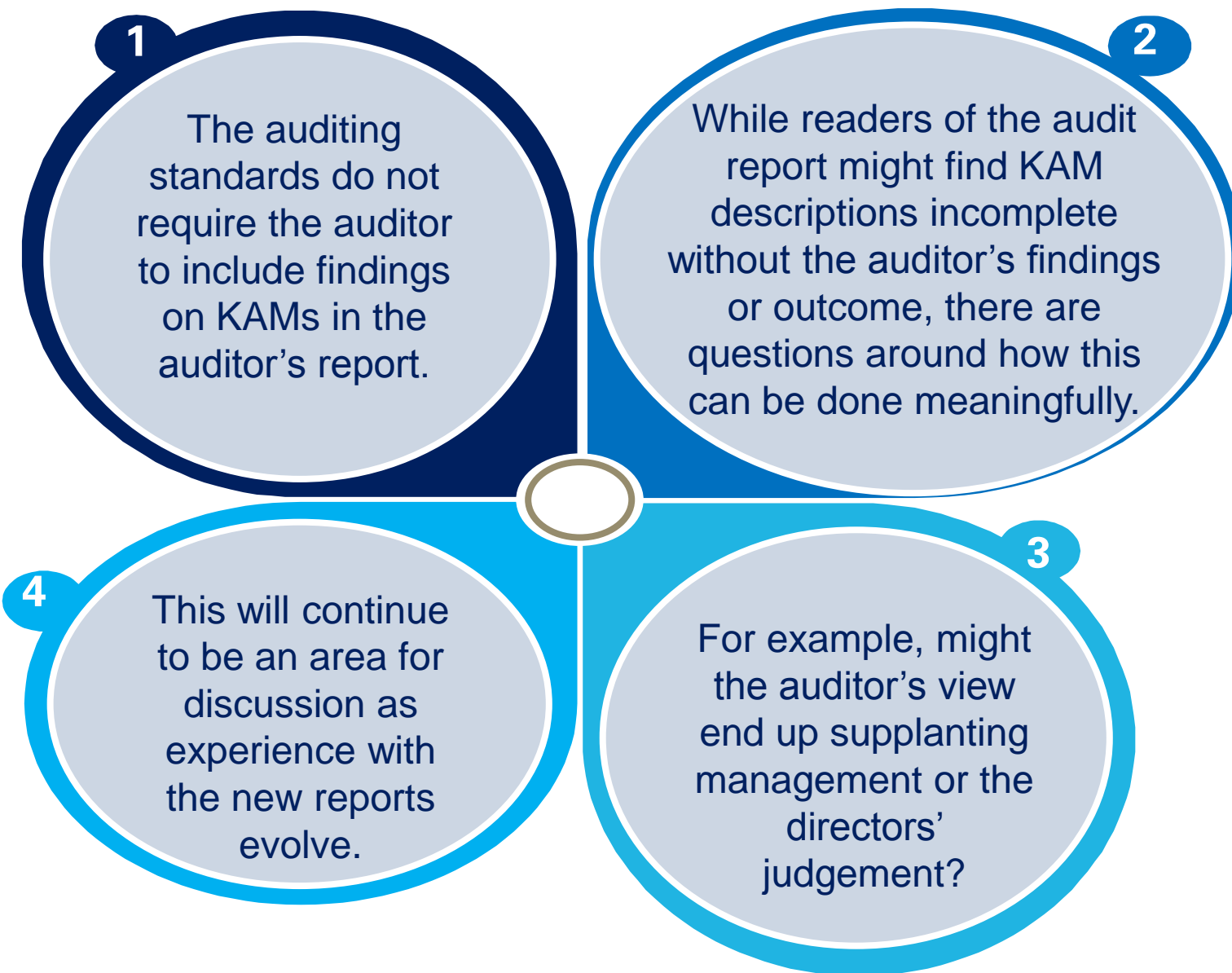


Be concise

The more specific you can be about what the KAM was, the clearer it will be to a reader

Edit ruthlessly

How far will auditors go in describing findings in the auditor's report?



How you addressed the KAM



Be consistent from

- KAM; to
- procedures



Include only the *most* relevant procedures



Eliminate jargon
Use past tense



Reflect your independence and scepticism



Refer to specialists



Explain what you did and check you actually performed that work

If your KAM is about valuation, include procedures that related to valuation – not existence or completeness

Use consistent term for the client

- Client name
- “Group”

Use consistent phrases and ordering of items in a list

- Growth rate
- Sales growth

Don’t include a shopping list!

Eg if determining CGUs is not an issue, don’t include the procedure

Eg if it wasn’t hard to check the mathematical accuracy of a valuation, then don’t refer to it

Stand back and read it!

Avoid client jargon

Avoid audit jargon – “completeness and accuracy; material, ensure”

Don’t use banned words – “verify, certify”

Don’t use misleading words – “supporting, expected, targeted” versus “underlying, estimated”

Refer to external independent sources

Use the phrases “We challenged/ questioned/ evaluated/ tested/ assessed/ analysed”
“Our view”

Don’t use “confirmed” or “agreed” or “discussed” or other phrases that sound like we are merely seeking to agree with the client via a chat

It’s good to show how we used our expertise

When you refer to specialists ensure it sounds as though they are part of the team

It’s OK to refer to “our tax specialists”, “corporate finance”, “KPMG valuation specialists”, “actuarial” etc

Explain what you did eg not just “we analysed” /assessed /challenged but “We analysed/ assessed/challenged X by ... (describe what you did)”

Cross reference back to the file

If you tested a sample or specific items, make sure you don’t imply you tested *all* items

If you tested specific items consider including how you selected them

How many KAMs will be reported in the audit report?

- The auditing standards neither prescribe the number of KAMs that should be reported nor provide a suggested range of number of KAMs
- KAMs are selected based on the auditor's professional judgment
- The standards state that the greater the number of KAMs that are initially determined, the more auditor should reconsider which of those matters were of **most significance** to the audit

What happens if the auditor does not identify any KAMs?

- The relevant auditing standard envisages that this will be rare: The determination of KAMs involves making a judgment about the ***relative importance*** of matters that required significant auditor attention
- The audit report must still contain a “Key audit matters” section which must state that the auditor has determined that there are no key audit matters
- Audit documentation must include the rationale for the auditor’s determination that there are no key audit matters to communicate in the auditor’s report

What is the effect of the new standards on the financial reporting process?

It remains management's responsibility, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Auditor's report should not be the original source of information about the entity

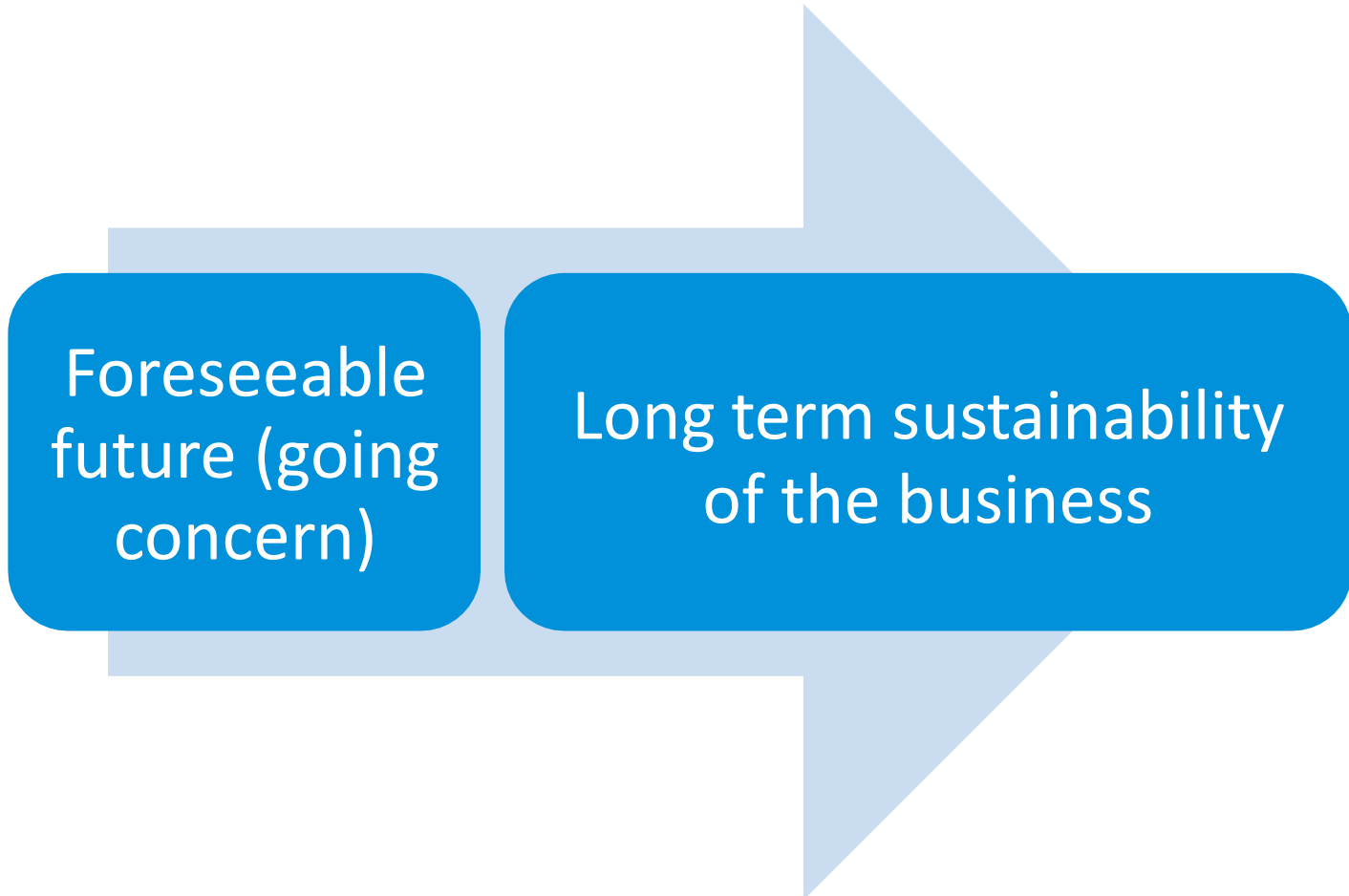
The new style auditor's reports may result in enhanced disclosure by management in the financial statements

What is the effect of the new standards on the audit process?

The changes to the auditing reporting standards do not change the underlying work effort required in an ISA audit, but rather focus on increased transparency about the audit that was performed

Time commitment will be required from senior members on the audit team and the firm's internal quality assurance functions with regard to the identification of KAMs and the articulation thereof in the auditor's report

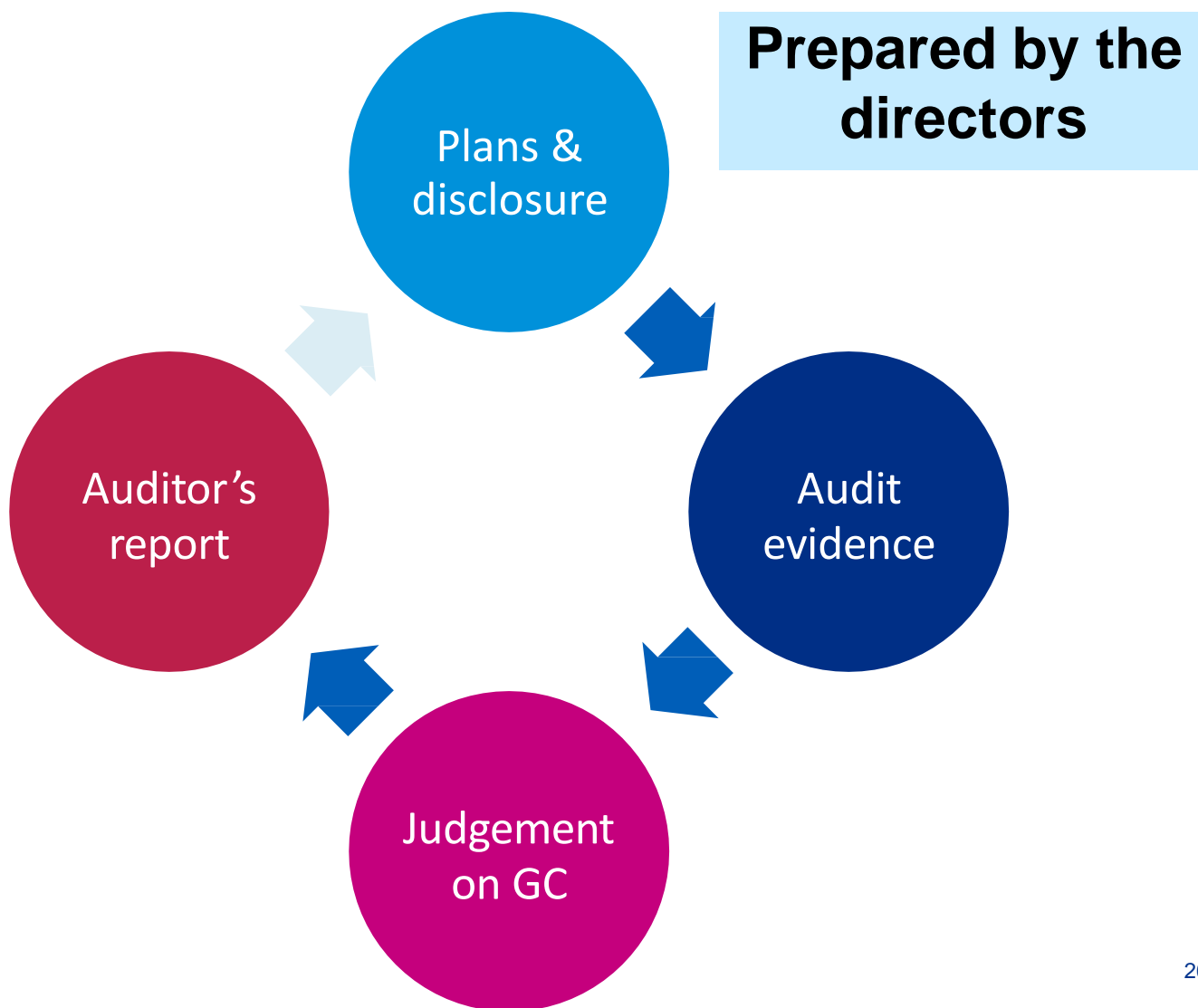
What is it?

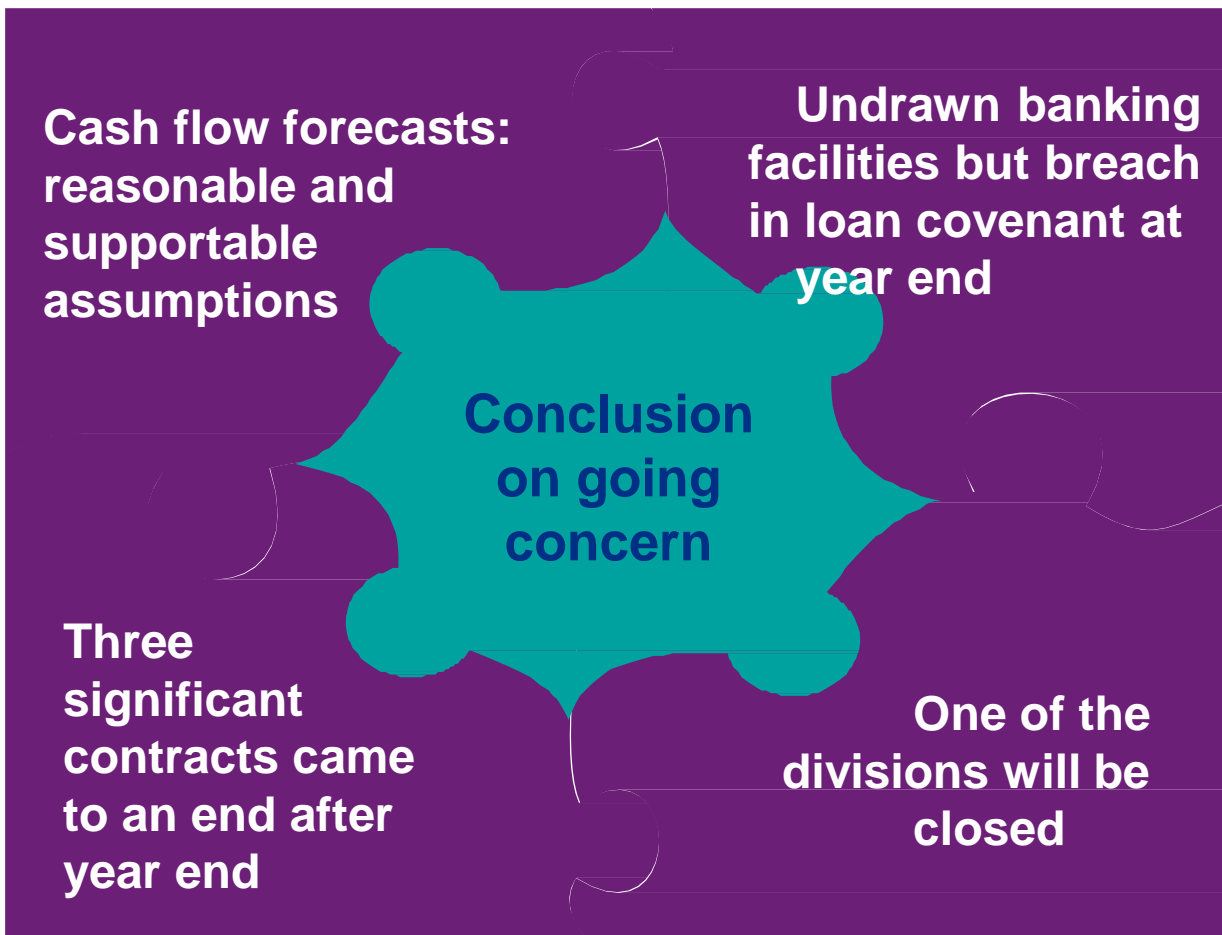
A large, light blue arrow pointing to the right, serving as a background for two blue rounded rectangular boxes. The first box on the left contains the text 'Foreseeable future (going concern)' and the second box on the right contains the text 'Long term sustainability of the business'.

Foreseeable
future (going
concern)

Long term sustainability
of the business

Audit evidence





IFRS- The financial statements need to fairly present the financial position, performance and cash flows – they need to tell the story of the business. Usually need additional disclosures, especially if technically or factually insolvent.

IAS 1:

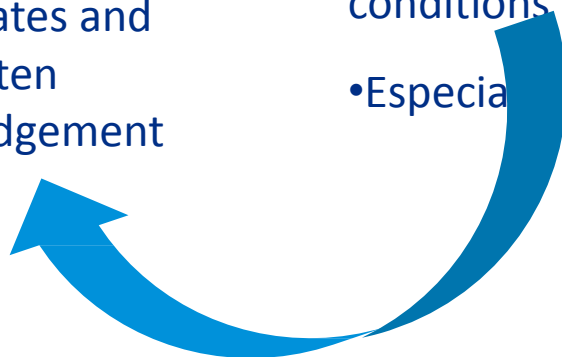
- FS preparers are required to make an assessment of going concern
- Additional disclosures required where there is a material uncertainty
- Disclosure of significant estimates and judgements – going concern often forgotten even though a key judgement

ISA 570 (Revised) -Material uncertainty – adequate disclosures mean (para 19):

- Facts and circumstances that gave rise to the material uncertainty
- Management's plans (audit evidence?)
- State clearly that there is material uncertainty and potential impact

Close call – no material uncertainty but:

- Do the financial statements provide adequate disclosure about these events and conditions (para 20)
- Especially if a key audit matter



What has changed regarding the auditor's consideration of going concern?

- Stakeholders have requested earlier warning of potential going concern issues
- The auditor's work effort on going concern has been enhanced:
 - ✓ New guidance was added to support the auditor's evaluation of disclosures when a material uncertainty exists;
 - ✓ A new requirement has been added for the auditor to evaluate the adequacy of disclosures in "close-call" situations
- All auditor's reports will include descriptions of the responsibilities of the auditor and management in relation to going concern to provide an additional focus on going concern

A word cloud featuring the word "Questions" in a large, dark blue font, oriented vertically. Surrounding it are various related terms in different sizes and colors (dark blue and grey). The words include: "Question", "Answers", "Ask", "Answer", "Apply", "Who", "Why", "Understand", "Query", "Where", "What", "How", and "When". The words are arranged in a circular pattern around the central "Questions".

Questions

Question
Answers
Ask
Answer
Apply
Who
Why
Understand
Query
Where
What
How
When



Thank you

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