



New and Revised Auditing Standards

Presentation by:

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Presentation agenda



- ☐ Overview of new changes
- ☐ ISA 700 – Forming Audit Opinion
- ☐ ISA 701- Key Audit matters
- ☐ ISA 570- Going Concern
- ☐ ISA 260- Communications with Those Charged with Governance

Summary of changes



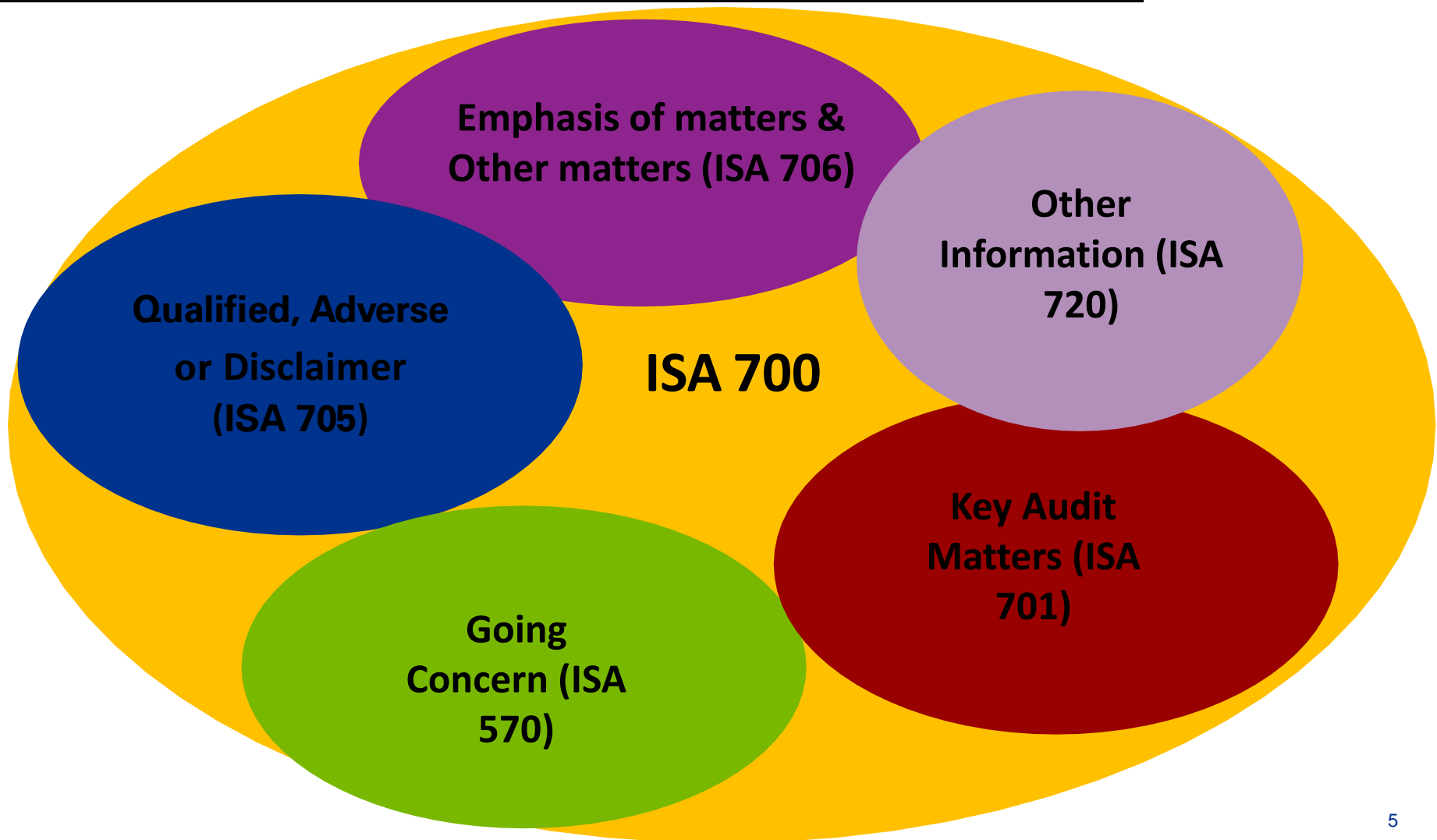
New and revised ISAs	Description of changes
ISA 700 (Revised) <i>Forming an Opinion and Reporting on Financial Statements</i>	Revisions to establish new required reporting elements, and to illustrate these new elements in example auditor's reports.
ISA 701 (New) <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>	Establish requirements for the auditor's determination and communication of key audit matters in auditor's reports for listed entities.
ISA 260 (Revised) <i>Communications with Those Charged with Governance</i>	Required auditor communications with those charged with governance to include 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>	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>	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

3

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

Why change the auditor's report?



4

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

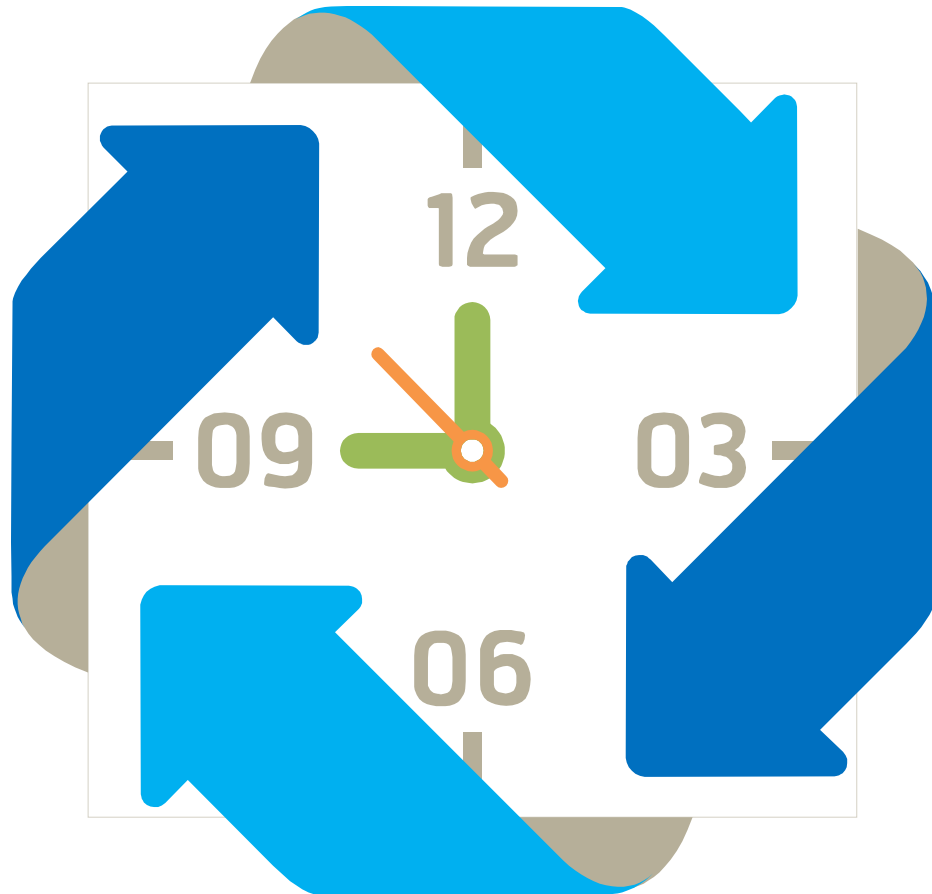
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- The International Auditing and Assurance Standards (IAASB)'s deliberations were informed by international research, public consultation and stakeholder outreach

When will new and revised ISAs become effective?



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



ISA 700

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

ISA 701 - Key Audit Matters



Those matters that the auditor judged were of the most significance to the audit of the current period financial statements, selected from matters communicated with those charged with governance.

Those matter that required significant auditor attention e.g. areas with:

- 1) Higher risk of material misstatement or significant risks
- 2) Significant management judgment
- 3) High estimation uncertainty
- 4) Significant events and transactions during the period

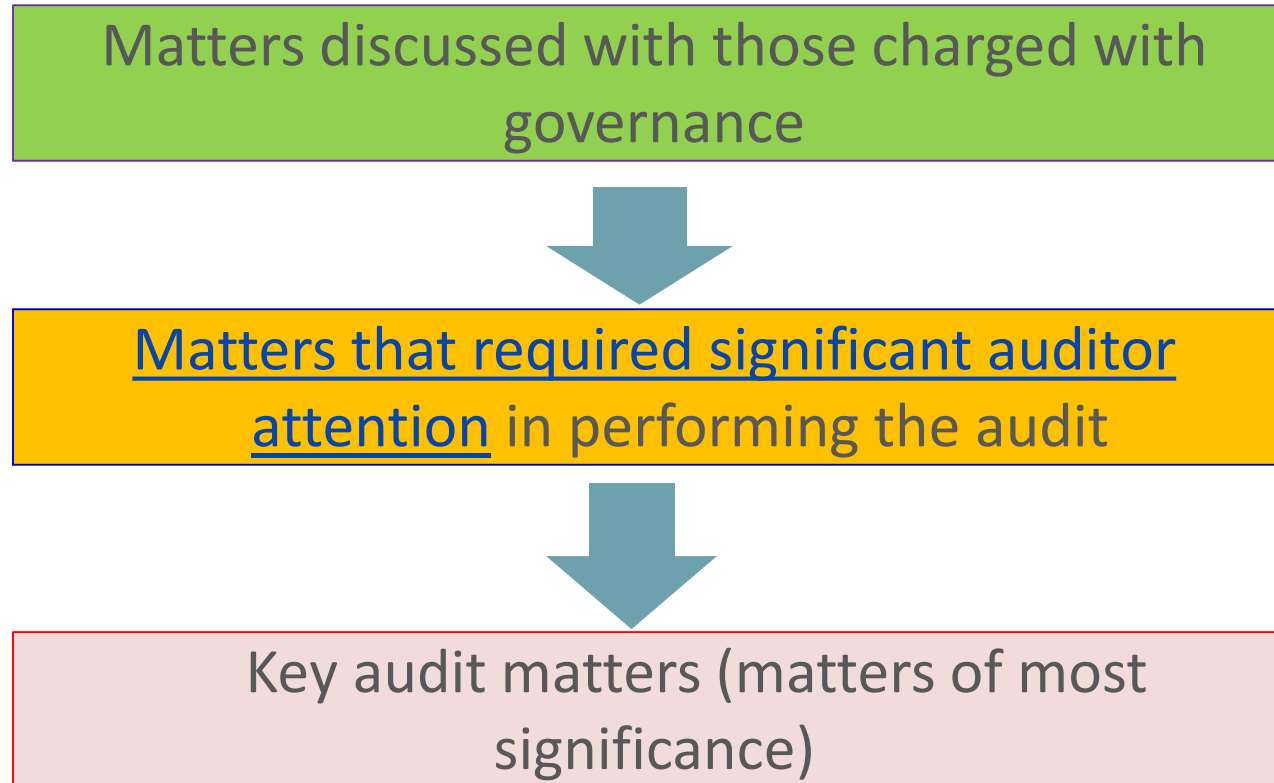
Specific to the entity

ISA 701 - Key Audit Matters



- For each key audit matter, the auditor should explain:
 - why they consider that matter to be a KAM; and
 - how the matter was addressed
- Cross reference to disclosures in financials
- The auditor should try to avoid providing original information about the company in the description of a KAM

Identification of Key Audit Matters



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

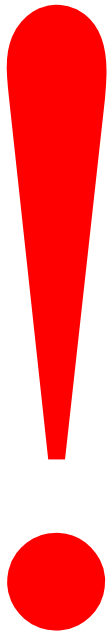
Imply that the matter has not been appropriately resolved by the auditor in forming the opinion

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

Audit evidence to support KAMs



REMEMBER:



The description of the work that you have undertaken in your report must be consistent with evidence of the work that you actually performed on your audit file.

KAMs are required for which reports?



Listed entities

- “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” (IAASB Glossary)

Others

- Entities for which the regulator requires KAMs to be reported

Practical session – KAMs

**Identification and reporting (At
least 2 per group)**

ISA 570- Going Concern

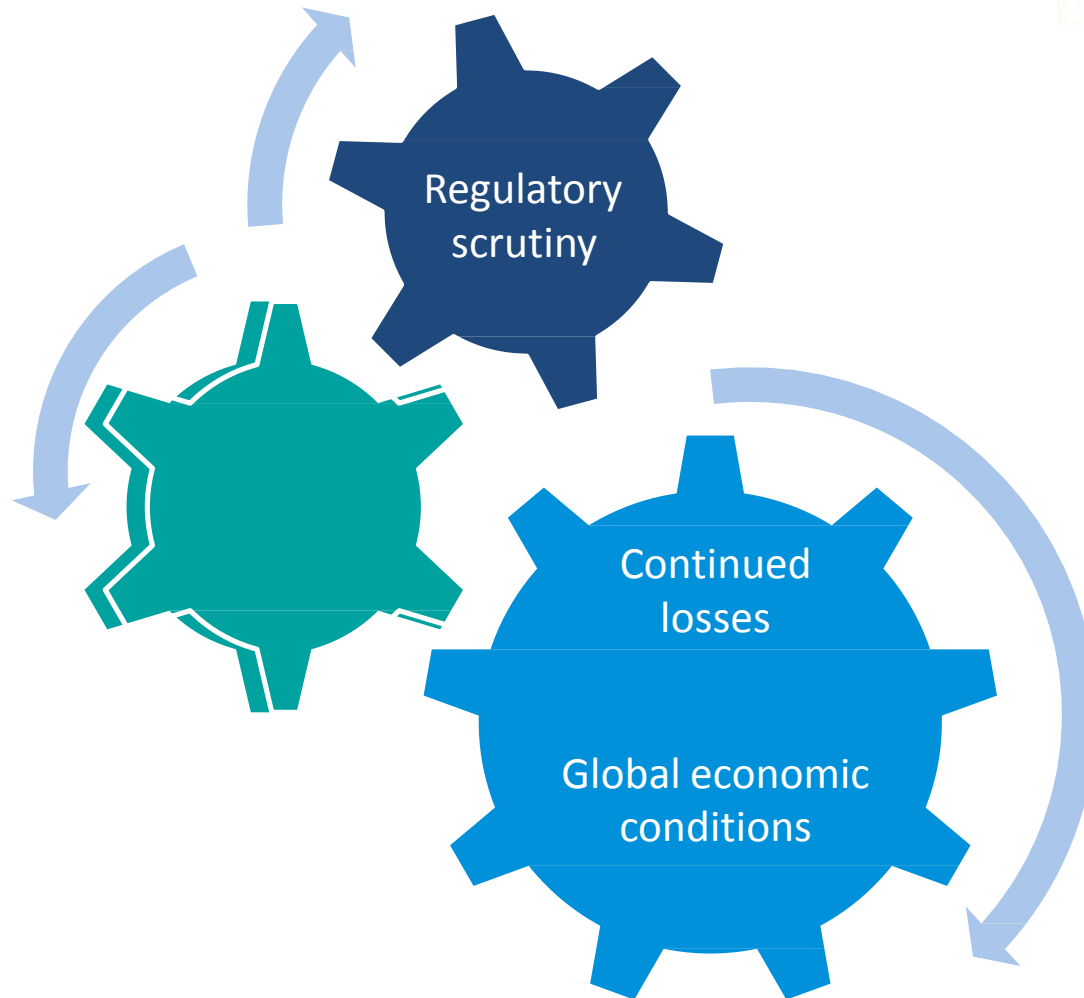


What is it?

Foreseeable
future (going
concern)

Long term sustainability
of the business

Need for professional scepticism



Audit evidence



Disclosures in the financial statements



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)

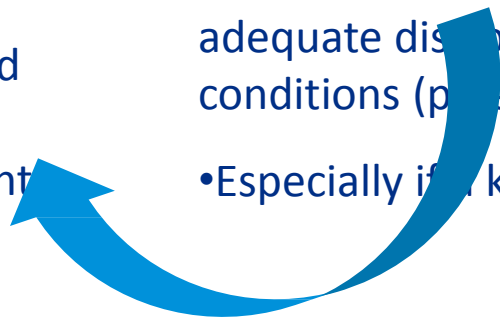
Material uncertainty – adequate disclosures mean (para 19):

- Facts and circumstances that gave rise to the material uncertainty
- Management's plans (audit evidence?)

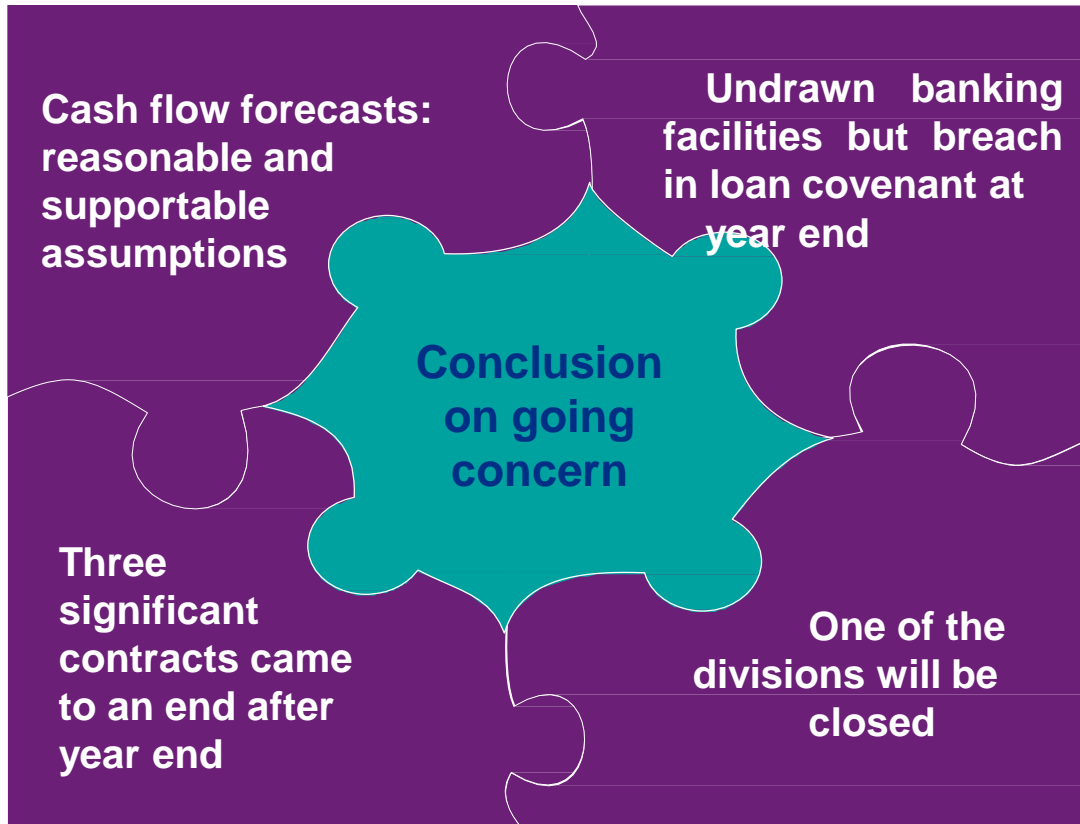
- State clearly that there is material uncertainty and potential impact

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



Audit evidence



What has changed regarding the auditor consideration of going concern?



- Stakeholders have requested earlier warning of potential issues that may exist with respect of an entity's ability to continue as a going concern
- The auditor's work effort on going concern has been enhanced as follows in the revised auditing standard on going concern:
 - 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

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



- When a material uncertainty related to going concern exists, and the auditor determines that the disclosures in the financial statements are adequate, the auditor's report will highlight this in a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern" (for listed entities: if this is determined to be a KAM, the KAM section of the audit report will cross refer to this section of the audit report)
- 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

ISA 260



ISA 260 (Revised) *Communications with Those Charged with Governance*

Previous communications

- Control weaknesses
- Significant deficiencies noted during the audit

New requirement

- to include significant risks identified by the auditor and circumstances that required significant modification of the auditors planned approach to the audit.
- KAMs

Interactive Session



Contacts



Thank you

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