



ICPAK AUDIT QUALITY ASSURANCE SEMINAR

THE NEW AUDITORS REPORT

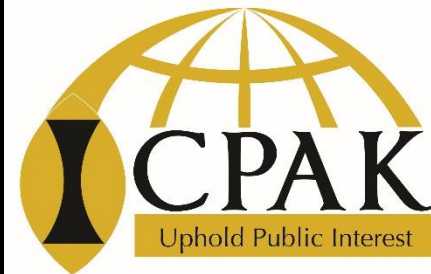
MT. KENYA REGION

Friday, 16th March 2018

Presented by CPA Georgina Malombe

MANAGING PARTNER: GEMAL & COMPANY

OUTLINE



? Why the changes?

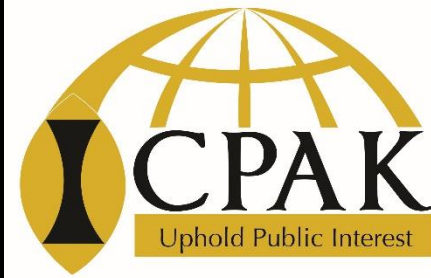
? Key Audit Matters (KAM) - (ISA 701)

? Going Concern (GC) – ISA 570

? Emphasis of Matter & Other Matter

? Other information accompanying the financial statements (ISA 720)

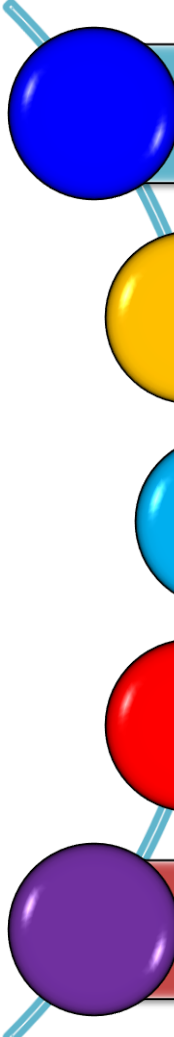
Why the changes



Strong drive from INVESTORS to enhance the auditor's report

- ❑ To gain insight into the company through the lens of the auditor
- ❑ Less boiler plate language – more entity specific information
- ❑ Interested in key areas and outcomes – not detailed audit procedures performed
- ❑ Greater transparency in auditor's report regarding name of engagement partner, ethics requirements
- ❑ Investor views strongly supported by regulators such as IOSCO and Basel

Why the changes



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

Users called for the auditor's report to be more informative and relevant

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

New reports lay foundation for the future of global auditor reporting and auditor communications

IAASB's deliberations were informed by international research, public consultation and stakeholder outreach

Which audit reports are affected?



■ All International Standards on Auditing (ISA) audit reports

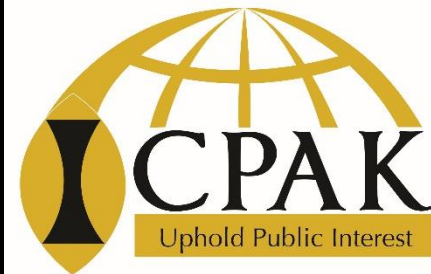
- Opinion first;
- ☐ Affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities;
- ☐ Enhanced description of the responsibilities of the auditor and key features of an audit;
- ☐ Enhanced description of the respective responsibilities of management and 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

New and revised auditor reporting standards



Overarching Standard for Auditor Reporting – ISA 700 (Revised)

New Key
Audit Matters
section ISA
701

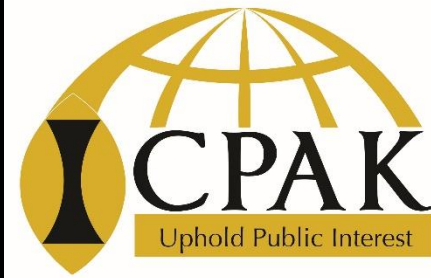
Modifications
to auditor's
Opinions
ISA705
(Revised)

Enhanced
reporting
related to
going
Concern
ISA570
(Revised)

New auditor
reporting on
other
Information
ISA720
(Revised)

Revisions to **ISAs 260 and 706** as a result of ISA 701, and related conforming amendments to **ISAs 210, 220, 230, 510, 540, 600, 710**

Key Audit Matters (KAMs): ISA 701



- Key Audit Matters are 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.:
 - ❑ Higher risk of material misstatement or significant risks
 - ❑ Significant judgment & high estimation uncertainty
 - ❑ Significant events and transactions during the period
 - ❑ KAM are not management letter issues.
 - ❑ KAMs are specific to the entity

Description Key Audit Matters: ISA 701



- ✓ For each key audit matter, the auditor should explain:
 - ❑ Why they consider that matter to be one of most significance; 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

Communicating Key audit matters

1. General purpose financial statements of listed entities- ISA 700.30
2. When we are otherwise required by law or regulation -ISA 700.31
3. When we otherwise decide to- ISA 700.31

Identifying Key audit matters -



❑ **Matters that required significant auditor attention**

In accordance with ISA 701.9. For example, consider significant risks or financial statement level risks, accounting estimates with a high estimation uncertainty, and the audit impact of significant events or transactions during the period.

- ❑ Unless required by law or regulation, when we **disclaim an opinion** on the financial statements, our report shall **not** include a Key Audit Matters section in accordance with this Chapter. [Source: ISA 705.29]

Determination of KAMs

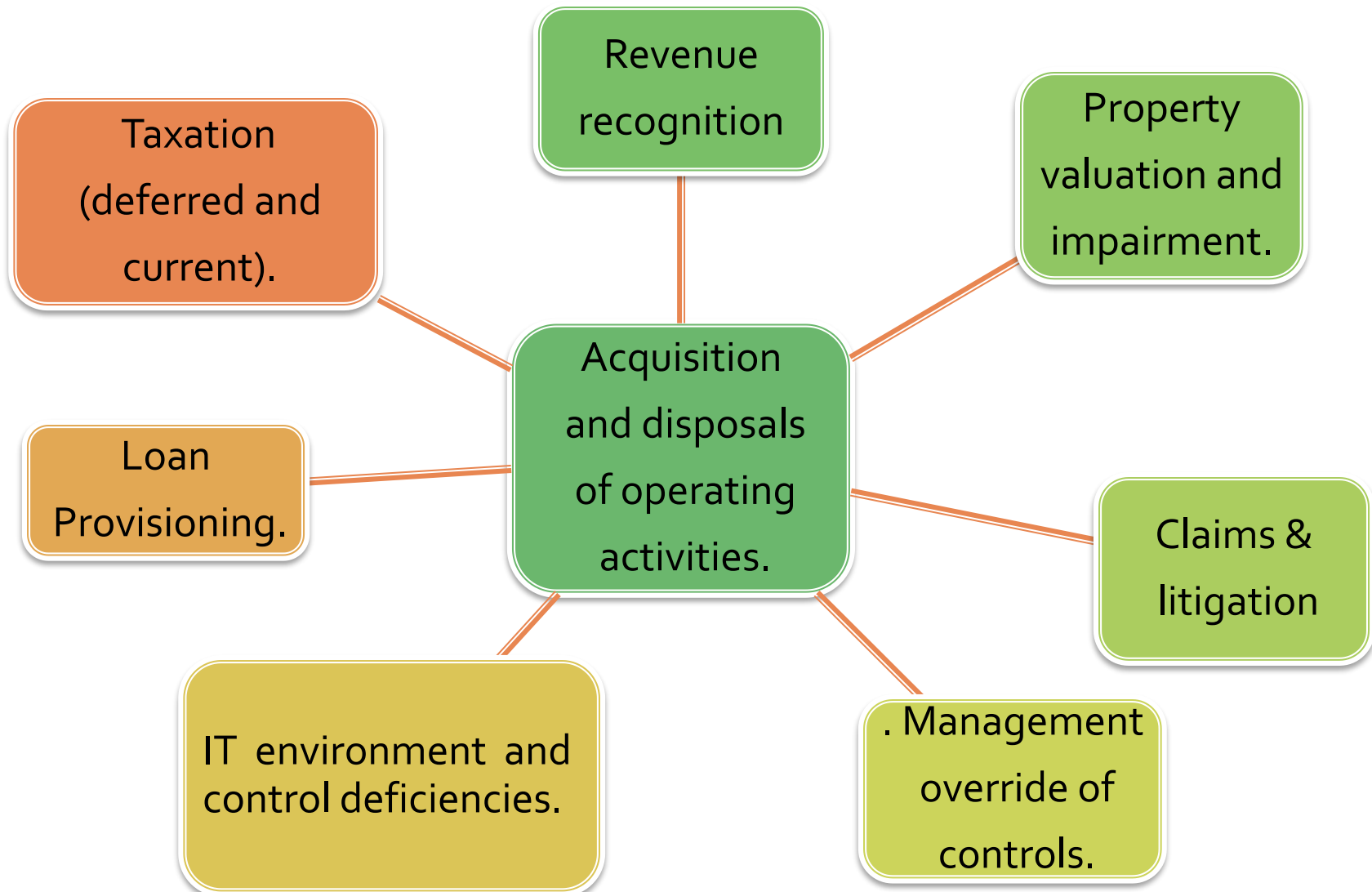
1st KAM “filter”

- ☐ Areas of higher assessed risk of material misstatement, or significant risks identified during the audit
- ☐ Areas that involved significant management judgment, including accounting estimates with a high estimation uncertainty
- ☐ The effect on the audit of significant events or transactions that occurred during the period.

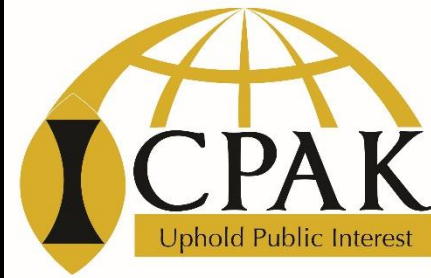
2nd KAM “filter”

- ☐ Matters that may have resulted in significant interaction with those charged with governance
- ☐ Importance of the matter to intended users’ understanding of the FS
- ☐ Nature and extent of audit effort needed to address the matter (e.g. specialist skill/knowledge needed)

Types of matters likely to be reported as KAMs



Communicating Key Audit Matters



We shall describe each key audit matter, using an appropriate subheading, in a separate section of the report under the Heading "Key Audit Matters,“. [ISA 701.11]

- The introductory section of the report shall state that:
 - a. Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements [of the current period]; and;
 - b. These matters were addressed in the context of the 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. [ISA 701.11(b)]

Describing Key Audit Matters



key audit matters are written such that they:

- ❑ are engagement specific and avoid generic or standardized language,
- ❑ are informative, concise and understandable to a non-auditor,
- ❑ do not inappropriately provide original information about the entity, and
- ❑ do not contain or imply discrete opinions on separate elements of the financial statements.

The description of each KAM shall include a reference to the related disclosure(s), if any, in the financial statements and shall address:

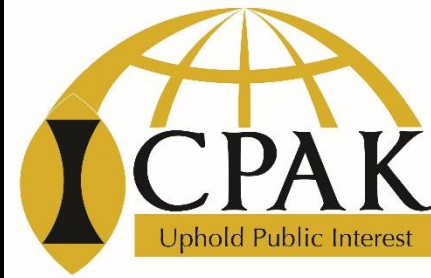
- i. Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and
- ii. How the matter was addressed in the audit.

Describing Key Audit Matters



Avoid	Because	Instead
We challenged the group's assumptions	We specify how and on what basis we challenged the client's assumptions.	<p>We challenged the group's assumptions based on:</p> <ul style="list-style-type: none"> ☐ our own expectations based on our knowledge of the client and experience in that industry; ☐ industry norms; ☐ specified external data sources.
We used an internal expert...	Not clear as to whether the individual is internal to the client or to us.	<p>We used our own [valuation] specialist ...</p> <p>The group's in-house lawyers...</p>
We relied on an external...	We remain responsible for our audit opinion	We used an external [metallurgist] to assist us in assessing...
Technical words -cut-off; we vouched ...; etc.	Our reporting should be written in plain English as far as possible	<p>Inclusion in the appropriate period" rather than "cut-off";</p> <p>"Agreed" instead of "vouched";</p>

When not to include KAM



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 communicating a KAM would reasonably 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
- KAM is prohibited for a disclaimer of opinion, but required for a qualified or adverse opinion

How many KAMs will be reported?



- The auditing standards neither prescribe the number of KAMs that should be reported nor provide a suggested range of number of KAMs
- 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 no KAM is identified?

- 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

Language use.....

DOs

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

DOs

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

DONTs

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

DONTs

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

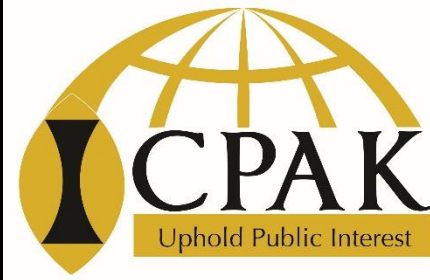
Effect on the Audit process



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

Changes about the auditors consideration of going concern



Need for earlier warning of potential issues that may exist with respect of an entity's going concern.

The auditor's work effort on going concern should focus on the following:-

- ✓ 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*

Emphasis of Matter (EOM) and Other Matter (OM) Paragraphs

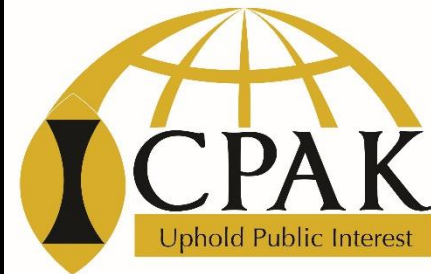


- ❑ Concepts of EOM and OM paragraphs are retained
- ❑ EOM and OM paragraphs cannot be used as a substitute for communicating a matter determined to be a KAM

New requirement to use the term “Emphasis of Matter” in the heading in the auditor’s report when an EOM paragraph is included.

NOTE: Modified opinion are KAM by their nature but are described in the Basis for Opinion section

Other information (ISA 720 Revised)



- This ISA provides for the auditor's work effort with respect to other information
- The auditor is required to read the other information and:-
 - i. consider whether there is a **material inconsistency** between the **other information** and the **financial statements**; and
 - i. consider whether there is a **material inconsistency** between the **other information** and the **auditor's knowledge** obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

Other information (ISA 720 Revised)



Using the heading “Other Information” or other appropriate heading, the auditor’s report will include:

- i. A statement that **management is responsible** for the other information.
- ii. **Identification** of the other information obtained prior to the date of the auditor’s report.
- iii. A statement that the auditor’s opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon.
- iv. A description of the auditor’s responsibilities relating to reading, considering and reporting on other information.

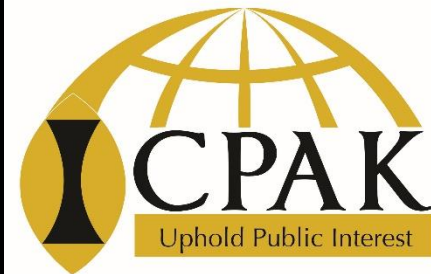
Other information (ISA 720 Revised)



When other information has been obtained prior to the date of the auditor's report, either :

- i. A statement that the auditor has nothing to report; or
- ii. If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information

Application of changes in Kenya



- ICPAK adopted the new and revised standards, in April 2015, *as issued by the IAASB with a provision to extend the scope of KAMs...*
- **Engagement with regulators**
 - ✓ CBK to issue circular for mandatory inclusion of KAM for banks
 - ✓ Insurance Regulatory Authority – engagements
 - ✓ Capital Markets Authority – extend KAM to all issuers of securities to the public and its licensees
 - ✓ OAG – phased approach with large state corporations to be included in phase I
 - ✓ SASRA – engagements to disclose KAMs



Facilitators Contacts

