Background Information

- These slides have been prepared by the IAASB’s Auditor Reporting Implementation Working Group
  - They form part of the Auditor Reporting Toolkit, and are intended to assist IAASB members, national standard setters, auditors and others in promoting the new and revised Auditor Reporting standards within their respective jurisdictions.

- The IAASB staff-prepared At a Glance publication complements this slide presentation, includes an illustration of the new auditor’s report and is available at www.iaasb.org/auditor-reporting.
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- Key Audit Matters (KAM)
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Overview of the IAASB’s Auditor Reporting Project

Research & Consultation
- Consultation Paper: Enhancing the Value of Auditor Reporting (May 2011)

Commencement of Standard Setting
- Project Proposal (December 2011)
- Task Force and Drafting Teams (January 2012)

Public Consultation
- Invitation to Comment: Improving the Auditor’s Report (June 2012)
- Outreach and Roundtables
- Exposure Draft (June 2013)

Released **new and revised Auditor Reporting ISAs in Jan 2015**

**Effective Date** – Periods ending on or after December 15, 2016
Why Change the Auditor’s Report Now?

• Foundation for the future of global auditor reporting and improved auditor communications
• Essential to the continued relevance of the audit profession globally
  – Audit opinion is valued, but could be more informative
  – Users want more relevant and decision-useful information about the entity and the financial statement audit
Expected Benefits of the New Auditor’s Report

- Enhanced communicative value to users
- More robust interactions and communication among users, auditors and those charged with governance (TCWG)
- Increased attention by management and TCWC to the disclosures referred to in the KAM section of the auditor’s report
- Increased professional skepticism in areas where KAM are identified
- Increased audit quality or users’ perception of audit quality
New and Revised Auditor Reporting Standards

Overarching Standard for Auditor Reporting – ISA 700 (Revised)

- Now Key Audit Matters section ISA701
- Modifications to auditor’s opinions ISA705 (Revised)
- Enhanced auditor reporting related to going concern ISA570 (Revised)
- New other information section ISA720 (Revised) Coming soon

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
What Are KAM?

KAM are defined as those matters that, in the auditor’s professional judgment, 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 Reports Will Include a KAM Section?

- **KAM is required** to be communicated in the auditor’s report for audits of financial statements of listed entities in accordance with new ISA 701
  - Law or regulation may require KAM for audits of entities other than listed entities (e.g., “public interest entities”, or public sector entities)
  - Auditors may voluntarily, or at the request of management or TCWG, communicate KAM in the auditor’s report for entities other than listed entities
**Are KAM Always Communicated in the 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
    - Adverse consequences of communicating the KAM would reasonably be expected to outweigh the public interest benefits of such communication
- 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 auditor’s decision-making process is a two-step process, beginning first with the narrowing of matters to those that required **significant auditor attention** and then a further narrowing of matters to those matters to the **matters of most significance**.
As an initial step in determining KAM, ISA 701 requires the auditor to determine, from the **matters that were communicated with TCWG**, those matters that required **significant auditor attention**.

The three bullets on this slide are the considerations for the auditor in determining matters requiring significant auditor attention.
Determination of Matters of Most Significance in the Audit – KAM

- KAM is determined by the auditor’s consideration of the
  - Nature and extent of communication with TCWG
  - Importance to intended users’ understanding of the fi/s
  - Nature and extent of audit effort needed to address
  - 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)
  - 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
KAM – What Is Included in the Description?

- The description always includes
  - Why the matter was considered to be a 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 financial statements
  - Contain or imply discrete opinions on separate elements of the financial statements (a "piecemeal opinion")
- The framework in ISA 701 provides auditors with a decision-making process to determine KAM. It builds on, and is conditioned on, the auditor’s application of a risk-based approach in conducting the ISA audit. Therefore, while entities themselves may have similar sets of facts and circumstances, audits of similar entities may not be conducted in the same way.

- The manner in which ISA 701 is drafted achieves an appropriate balance between prescription to promote consistency in which matters are determined and communicated as KAM. It also provides guidance to auditors to describe KAM in a manner that is specific to the particular entity and the audit engagement that was performed, thereby making it most useful and relevant to investors and other users.

- The description of a KAM will naturally refer to any related disclosures in the financial statements. However, the level of detail for each individual KAM description is a matter of professional judgment, and may vary depending on the specific facts and circumstances of the particular engagement.

- The flexibility that ISA 701 allows is intended to enable auditors to be as entity-specific and audit-specific as possible in describing each KAM so that they continue to be relevant and useful to investors and other users.
KAM – Relationship to Emphasis of Matter (EOM) and Other Matter (OM) Paragraphs and Modified Opinions

• 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
• Matters that give rise to a modified opinion are, by their nature, KAM
In accordance with ISA 230, ISA 701 requires the auditor to document the professional judgments 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.

More information about KAM is available in the Auditor Reporting Toolkit at: [www.iaasb.org/auditor-reporting](http://www.iaasb.org/auditor-reporting).
Enhanced Auditor Reporting on GC

- Changes to ISAs and the auditor’s report to focus more on GC
  - Explicit description of the respective responsibilities of management and the auditor in all auditor’s 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”
Interaction Between KAM and GC

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

More Information about GC is available in the Auditor Reporting Toolkit at: www.iaasb.org/auditor-reporting.
ED responses indicated strong support for a holistic approach to reporting on GC, and encouraged the IAASB to work with the IASB and others

IASB decided not to pursue revisions to IAS 1

IFRIC agenda decision (July 2014) provided a "hook" for consideration of adequacy of GC disclosures in "close call" situations

IAASB continues to believe that auditor reporting on GC is in the public interest, but to provide explicit statements in the auditor’s report may expand the expectation gap if users do not understand that such statements are not a guarantee as to the entity’s future viability, or if the meaning of the term “material uncertainty” and the requirements for disclosure of such uncertainties are not clearly defined across different financial reporting frameworks.

Emphasis on GC in final auditor reporting standards

Description of respective responsibilities of management and auditor in all auditor’s reports

New requirement to challenge adequacy of disclosures for "close calls”
Other Changes to the Auditor’s Report

- Auditor’s opinion required to be presented first
- Required Basis for Opinion section for unmodified opinions
- Statement about independence and other ethical responsibilities
- Naming of the engagement partner (listed entities only)
- Enhanced description of auditor responsibilities and key features of the audit
- Required identification section when TCWG are separate from management

- Auditor’s opinion required to be presented first, but **law or regulation may prescribe alternate presentation provided certain requirements are met**

- Statement about independence and other ethical responsibilities – Either (i) Disclosure of the sources of relevant ethical requirements; (ii) Jurisdiction of origin; or (iii) Reference to the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code)

- Enhanced description of auditor responsibilities and key features of the audit – **may be placed in appendix or where law or regulation permits, on a website of appropriate authority**
Paragraph 49 in ISA 700 (Revised) requires an ISA auditor’s report to include certain minimum elements, if the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor’s report.

**Additional flexibility for auditors to address similar topics** in the same section as the related ISA elements
Auditor Reporting Implementation Support

• IAASB-supported “roll-out plan” with objectives of
  – Promoting awareness
  – Informing and educating users
  – Learning about experiences of those responsible for adopting and implementing the standards
  – Preparing for post-implementation review

• Planned activities
  – Outreach and other communications
  – Auditor Reporting Toolkit
Resources – Auditor Reporting Toolkit

• New auditor reporting webpage: www.iaasb.org/auditor-reporting

• Available now
  – Auditor Reporting Fact Sheet
  – Basis for Conclusions
  – “At a Glance” publication
  – Publications on GC and KAM

• Coming soon
  – Illustrative KAM examples
  – Listings and extracts of illustrative auditor’s reports
  – Webcast and podcasts