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Long form audit report implementation

ICAZ CPD

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Long form audit report implementation

Background

Public Accountants and Auditors Board adoption and customization

Key audit matters

Practical implementation matters

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

4

- 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

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

When do the new and revised auditing standards become effective?

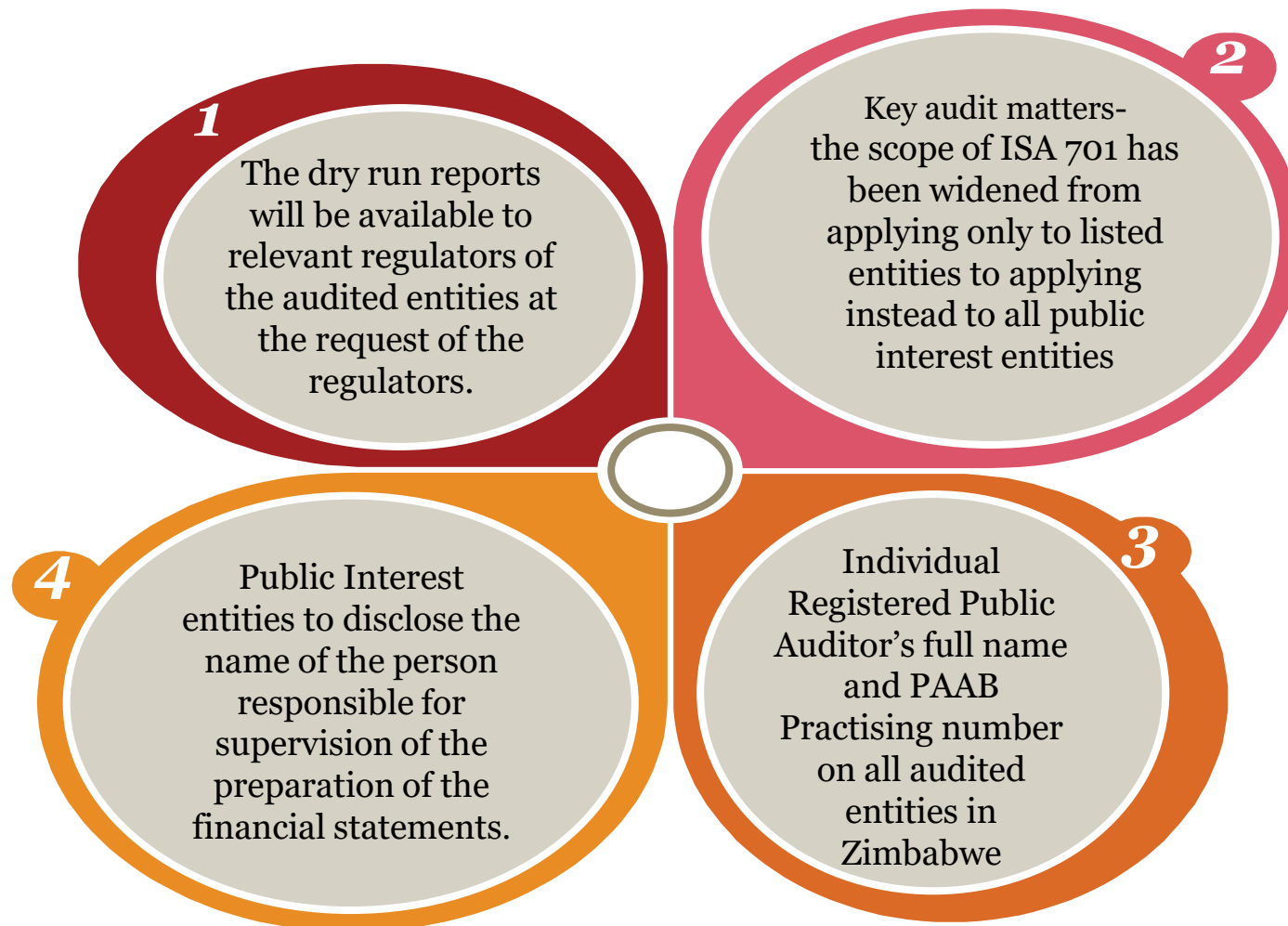
STANDARD
Effective for audits of financial statements for periods ending on or after 15 December 2016



PAAB
Prescribed dry run for years ending on or after 31 December 2015 for all

- listed companies
- banking institutions (including building societies),
- insurance and assurance companies and
- any audit done on behalf of the Comptroller and Auditor General (including all parastatals and local authorities).

PAAB Adoption and customization

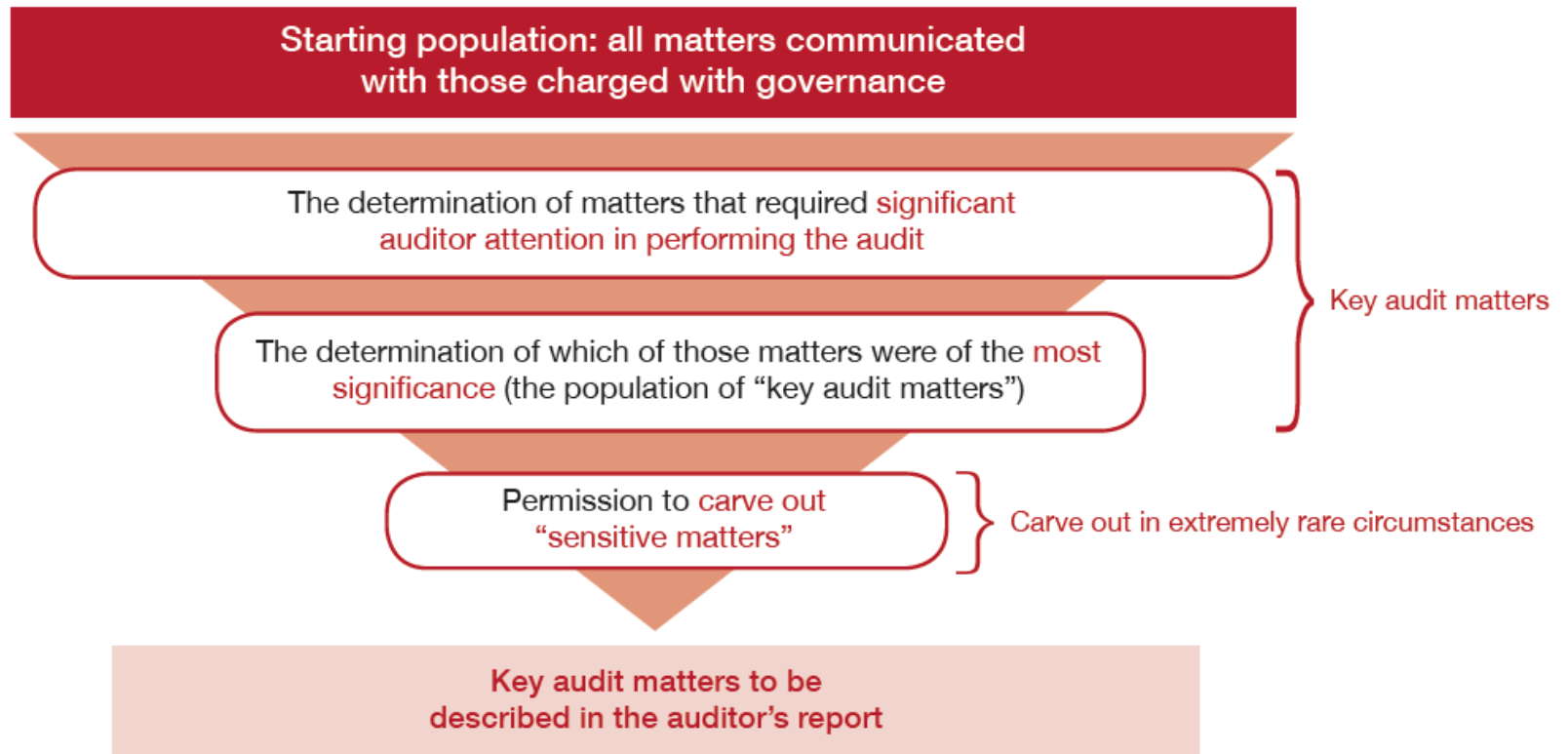


What are key audit matters (KAMs)?

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.

How are KAMs determined?



The determination of those matters that required significant auditor attention



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.

The determination of KAMs



Second KAM “filter”

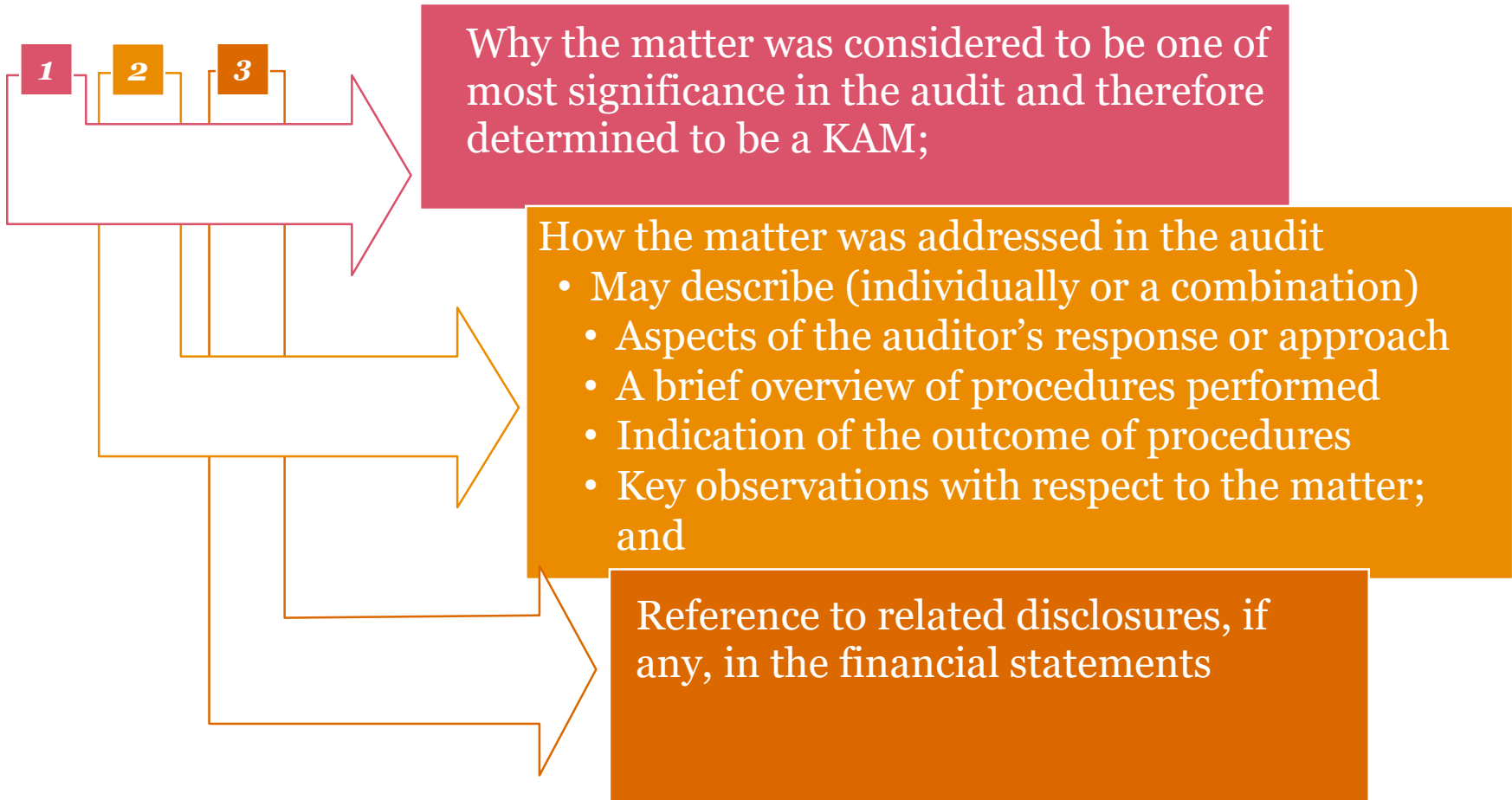
- Matters that may have resulted in significant interaction with those charged with governance
- Relative importance of the matter to other matters in the audit
- Importance of the matter to intended users’ understanding of the financial statements
- Nature and extent of audit effort needed to address the matter (e.g. specialist skill/knowledge needed; nature of consultations outside audit team; nature and severity of difficulties in applying audit procedures; severity of relevant control deficiencies; whether the matter involved a number of separate but related auditing considerations)

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

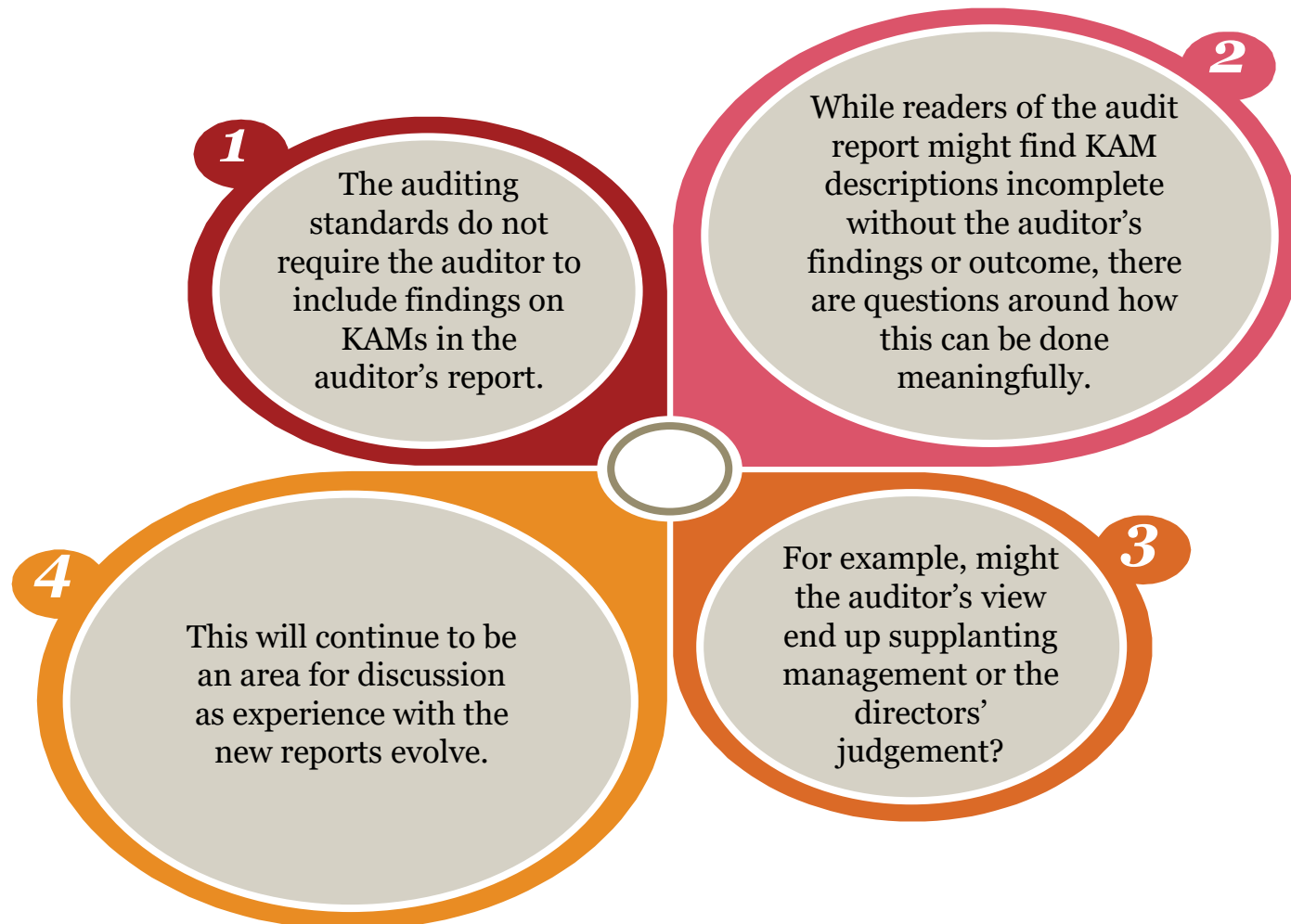


Imply that the matter has not been appropriately resolved by the auditor in forming the opinion



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

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



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

Practical implementation matters

- Judgement
- Confidentiality
- Comparability
- Confusion
- Conclusions
- Pervasive issues
- Uncertain tax positions
- Regulatory compliance
- Going concern
- Timing

How the reporting models compare

	IAASB	US PCAOB	UK FRC	EU audit regulation
Stage of development	December 2014 standard	August 2013 proposed standard	June 2013 standard in effect	Final approved requirements
Auditor's report element (for listed company audits,)				
Prominent placement of the auditor's opinion and other entity-specific information	✓		✓	
Key audit matters/critical audit matters/audit risks:				
• Identification of the matters/risks	✓	✓	✓	✓
• Description of how the audit responded to those matters/risks	✓		✓	✓
• Description of the outcomes/findings	<i>Guidance suggests they may be included</i>		<i>Not required but has been included in a few reports</i>	<i>Required where relevant</i>
Key audit input judgments, including materiality and group scoping			✓	
Conclusions regarding going concern	<i>Enhanced descriptions of responsibilities</i>	<i>No change to extant model</i>	<i>Not required but have been included by some firms</i>	<i>No change to extant model</i>
Statement regarding the outcome of auditor's consideration of 'other information' (e.g., the front half of the annual report)	✓	✓	✓	✓
Statement regarding the auditor's independence	✓	✓	<i>Reference to the requirement to be independent</i>	✓
Disclosure of the year the auditor began consecutively serving as the company's auditor		✓	<i>Not in the auditor's report but included in the report by the audit committee on its work</i>	✓
Identification of the engagement partner's name	<i>For listed companies</i>	<i>Being addressed in a separate project</i>	✓	✓

Questions?

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