

NEW AND REVISED AUDITOR REPORTING



INTRODUCTION

The IRBA Board adopts the IAASB's new and revised Auditor Reporting Standards and related conforming amendments. The changes to the auditor's report was primarily driven by calls from investors and analysts, as far back as 2009, to find a way that they and other users of audited financial statements and the auditor's report thereon, may benefit from the considerable knowledge that the auditor has about the audited entity by reporting more entity-specific and audit-specific information in the auditor's report. This will provide additional insights into the financial statements and the audited entity 'through the eyes' of the auditor, resulting in an auditor report that is more relevant, more informative and more transparent about the audit that has been performed.

Implications for practice in South Africa

The following matters should be considered for implementation of the new and revised Auditor Reporting Standards in South Africa:

- **Effective date of the IAASB's new and revised Auditor Reporting Standards –** The effective date for the new and revised Auditor Reporting Standards should be the same as the effective date prescribed by the IAASB although early adoption of the entire suite of the new and revised Auditor Reporting Standards is permitted. Piecemeal adoption of the new and revised Auditor Reporting Standards is not permitted.
- **New requirement for listed entities to include the name of the engagement partner in the auditor's report –**The requirements of the IRBA Code will prevail and the individual Registered Auditor's full name shall be included in all auditor's reports.
- **Ability to include the auditor's responsibility paragraph on the website of an appropriate authority –**The close proximity of the auditor's responsibilities section of the auditor's report to the body of the auditor's report allows for users of the financial statements (and the auditor's report) to understand the value that an auditor brings to the financial reporting process.

SAAPS 3 (*Revised*): *Illustrative Reports* provides practical assistance to auditors when reporting on financial statements. SAAPS 3 (*Revised*) is in the process of being updated as a result of the issue of the new and revised Auditor Reporting Standards is expected to be issued on exposure later this year.

	<p>The following study material is applicable to this study unit:</p> <ul style="list-style-type: none"> • ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i>; • ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>; • ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i>; • ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i>; • ISA 570 (Revised), <i>Going Concern</i>; • ISA 260 (Revised), <i>Communication with Those Charged with Governance</i>; and • Related Conforming Amendments to other ISAs. <p>These are relevant ISA's for the new and revised auditor's reports. The Committee for Auditing Standards (the CFAS) of the Independent Regulatory Board for Auditors (the IRBA) is pleased to announce that the IRBA Board has approved for adoption, issue and prescription by Registered Auditors in South Africa the above IAASB pronouncements. These represent the new and revised Auditor Reporting Standards that are effective for audits of financial statements for periods ending on or after 15 December 2016.</p>
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	<p>COMMENT</p> <p><u>Students should take note of the following:</u></p> <p>The revised statements can be found in your SAICA Student Handbook 2015/16: Volume 2A(1) on pages 906 to 1097. Note that these are examinable as noted in the SAICA examinable pronouncements.</p> <p>The SAICA examinable pronouncements can be accessed online from the SAICA website using the following link: https://www.saica.co.za/LearnersStudents/Examinations/Informationonwhatwillbeexamined/ExaminablePronouncements/tabid/488/language/en-ZA/Default.aspx <i>(Accessed 23 March 2016, at 11h24am)</i></p> <p>Note that your 2014/15 handbooks are still relevant. Students still using the 2014/15 handbooks can download the revised statements from the IRBA website using the link: http://www.irba.co.za/index.php/audit-news-news-42/881-17-june-2015. <i>(Accessed 23 March 2016, at 11h25am)</i></p>
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DIFFERENCES BETWEEN ISA 700 (REVISED) AND ISA 700 (OLD)

The following section tabulates differences between auditor's reports under the *old* ISA 700 (*Forming an opinion and reporting on financial statements*) and the *revised* ISA 700 (*Forming an opinion and reporting on financial statements*).

ISA 700 (Revised): par 20 – par 49	ISA 700 (Old): par 20 – par 42
<p>1. Introductory paragraph:</p> <ul style="list-style-type: none"> • No introductory paragraph is included as noted in ISA 700 (Old). • Introduction is included as part of the succeeding “<i>Audit Opinion</i>” section. 	<p>1. Introductory paragraph:</p> <ul style="list-style-type: none"> • Introduction paragraph is included. • Introduction is separate from the “<i>Audit Opinion</i>” section.
<p>2. Auditor’s Opinion:</p> <ul style="list-style-type: none"> • This section is included at the top, immediately after the addressee. • Auditor’s opinion is expressed before the “<i>Basis for Opinion</i>” unlike in the ISA 700 (Old). • The “<i>Opinion</i>” section of the auditor’s report shall also: <ul style="list-style-type: none"> ○ Identify the entity whose AFS have been audited; ○ State that the AFS have been audited unless a disclaimer of opinion is expressed in which case it shall state that the auditor was engaged to audit, refer ISA 705 (Revised) par 19(b); ○ Identify the title of each statement comprising the AFS; ○ Refer to the notes, including summary of significant accounting policies; and ○ Specify the date covered by the AFS. 	<p>2. Auditor’s Opinion:</p> <ul style="list-style-type: none"> • This section is included within the body of the audit report. • Auditor’s opinion is expressed after the “<i>Basis for Opinion</i>” in case of a modified opinion or below “<i>Auditor’s Responsibility</i>” section in case of an unmodified opinion. • These requirements were not explicitly required under the opinion section. Most of these were noted in the introductory paragraph.
<p>3. Basis for Opinion:</p> <ul style="list-style-type: none"> • The “<i>Basis for Opinion</i>” section is included for all types of auditor’s opinions including the unmodified opinion. • This section is included after the “<i>Opinion</i>” section of the audit report. • The “<i>Basis for Opinion</i>” section shall state that: <ul style="list-style-type: none"> ○ The Audit was conducted in terms of IAS; ○ Refers to the section of the audit report that describes auditor’s responsibilities; ○ Includes a statement that the auditor has complied with all ethical requirements specifically stating the auditor’s independence; ○ Includes a statement that the auditor exercised professional skepticism throughout the audit; ○ State whether the auditor believes 	<p>3. Basis for Opinion:</p> <ul style="list-style-type: none"> • The “<i>Basis for Opinion</i>” section is not included for all types of auditor’s opinions but for modified opinions only. • This section is included before the “<i>Opinion</i>” section of the audit report. • These requirements were not explicitly required under this section. Most of these requirements were noted in other parts of the audit report and not specifically on this section.

audit evidence obtained is sufficient and appropriate to provide a basis for opinion.	
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ISA 700 (Revised): par 20 – par 49	ISA 700 (Old): par 20 – par 42
<p>4. Going Concern:</p> <ul style="list-style-type: none"> The <i>revised</i> ISA requires Going Concern to be reported in a separate section under a separate heading and paragraph. Where a material uncertainty (that casts doubt on the audited entity's ability to continue as a going concern) exists, the auditor shall include a separate section in the auditor's report under the heading "Material Uncertainty Related to Going Concern". Note that we no longer reporting this under an "<i>Emphasis of matter</i>" paragraph. It is important to note that ISA 701 (<i>new</i>) read in conjunction with ISA 706 (<i>revised</i>) states that the auditor shall include "<i>Emphasis of Matter</i>" paragraph (or "<i>Other Matter</i>" paragraph) in the audit report provided that the matter communicated has not been determined to be a key audit matter per requirements of ISA 701 (<i>new</i>). Such a matter will be disclosed under the "<i>Key Audit Matters</i>" section of the audit report. See below. 	<p>4. Going Concern:</p> <ul style="list-style-type: none"> In the <i>old</i> ISA, Going Concern reporting was intrinsic within the audit report. There was no separate section to report on Going Concern. Where a material uncertainty (that casts doubt on the audited entity's ability to continue as a going concern) exists, the auditor shall include an "Emphasis of Matter" paragraph. ISA 701 (<i>new</i>) is a new standard that is effective for audits of AFS for periods ending on or after 15 December 2016. Key audit matters were not specifically required to be reported on in a separate section of the audit report.
<p>5. Key Audit Matters:</p> <ul style="list-style-type: none"> ISA 701 (<i>new</i>) is a new standard that is effective for audits of AFS for periods ending on or after 15 December 2016. The audit shall include a separate section in the auditor's report under the heading "Key Audit Matters", as per the requirements of ISA 701(<i>new</i>). The "Key Audit Matters" section is placed in close proximity to the auditor's opinion to give appropriate prominence to the communicated information and to acknowledge the perceived value of engagement-specific information to intended users. It is important to note that ISA 705 (<i>revised</i>) prohibits a "Key Audit Matters" section (or "<i>Other Information</i>" section) from the auditor's report when the auditor disclaims an opinion. This is because communicating any key audit matters other than the ones giving rise to a disclaimer of opinion may suggest AFS are more credible in relation to 	<p>5. Key Audit Matters:</p> <ul style="list-style-type: none"> ISA 701 (<i>new</i>) is a new standard that is effective for audits of AFS for periods ending on or after 15 December 2016. Key audit matters were not specifically required to be reported on in a separate section of the audit report.

<p>those other matters. This will be inconsistent with the disclaimer of opinion. Therefore, there is no “<i>Key Audit Matters</i>” section (or “<i>Other Information</i>” section) in an audit report where there is a disclaimer of opinion.</p>	
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ISA 700 (Revised): par 20 – par 49	ISA 700 (Old): par 20 – par 42
<p>6. Other information:</p> <ul style="list-style-type: none"> This section is for reporting in accordance with the requirements of ISA 720 (<i>revised</i>) under the heading “<i>Other Information</i>”. This section is included immediately after the “<i>Key Audit Matters</i>” section in the audit report. 	<p>6. Other information:</p> <ul style="list-style-type: none"> This section was not explicitly required to be positioned here under the old ISA 700. The section was for reporting in accordance with the requirements of ISA 720 (<i>old</i>).
<p>7. Responsibilities for Financial Statements:</p> <ul style="list-style-type: none"> This section has now been positioned far below on the audit report, below the “<i>Opinion</i>” section in order to add value to the users of financial statements. The auditor shall explicitly communicate in this section that management is responsible for assessing the entity’s ability to continue as a going concern and whether the use of the going concern basis is appropriate. 	<p>7. Responsibilities for Financial Statements:</p> <ul style="list-style-type: none"> This section was positioned at the top of the audit report just below the “<i>Introductory</i>” section, before the “<i>Opinion</i>” section. The auditor was not explicitly required to communicate in this section of the audit report that management is responsible for assessing the entity’s ability to continue as a going concern and whether the use of the going concern basis is appropriate. This was done elsewhere in the audit report.
<p>8. Auditor’s Responsibilities:</p> <ul style="list-style-type: none"> This section has now been positioned within the body of the audit report, far below the “<i>Opinion</i>” section in order to add value to the users of financial statements. According to ISA 700 (<i>revised</i>) par 41, the description of the auditor’s responsibilities can be located either: <ul style="list-style-type: none"> (a) Within the body of the auditor’s reports; (b) As an appendix to the auditor’s report; or (c) On a website of the entity (an appropriate authority) where the law permits. This section shall explicitly state: <ul style="list-style-type: none"> (a) The objectives of the auditor; (b) That reasonable assurance is a high level assurance; (c) That misstatements can arise from fraud or error and describe that they are considered material. Provide a definition or description of materiality. (d) That key audit matters as per the requirements of ISA 701(<i>new</i>) are communicated to those charged with governance. 	<p>8. Auditor’s Responsibilities:</p> <ul style="list-style-type: none"> This section was positioned below the “<i>Management’s Responsibility</i>” section just before the “<i>Opinion</i>” section. The location of the auditor’s responsibilities was only within the body of the audit report This section did not explicitly state these requirements. Some of the requirements we stated elsewhere in the audit report, e.g. objectives of the auditor were normally stated in the “<i>Introductory</i>” section of the audit report. ISA 701 (<i>new</i>) is a new standard that is effective for audits of AFS for periods ending on or after 15 December 2016. Key audit matters were not specifically required to be reported on in this section.

ISA 700 (<i>Revised</i>): par 20 – par 49	ISA 700 (<i>Old</i>): par 20 – par 42
<p>9. Other Reporting Responsibilities:</p> <ul style="list-style-type: none"> There are no differences in this section. This section remains before the auditor's signature. 	<p>9. Other Reporting Responsibilities:</p> <ul style="list-style-type: none"> There are no differences in this section. This section remains before the auditor's signature.
<p>10. Name of the Engagement Partner:</p> <ul style="list-style-type: none"> Unlike in the old ISA 700 (<i>old</i>), the name of the engagement partner shall be explicitly included in the audit report for listed entities unless there is a significant personal security threat to the engagement partner. Signature and name of the firm alone is not sufficient. 	<p>10. Name of the Engagement Partner:</p> <ul style="list-style-type: none"> The name of the engagement partner was not specifically required to be included in the audit report. Signature and name of the firm alone was sufficient.

INTRODUCING THE NEW ISA 701 (COMMUNICATING KEY AUDIT MATTERS WITH THOSE CHARGED WITH GOVERNANCE) – AN OVERVIEW



BACKGROUND

- The ISA applies to audits of listed entities; and
- Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report; and
- Where the auditor is required by law or regulation,

Definition of Key Audit Matters:

Key audit matters are defined as those matters that, in the auditor's professional judgement, were **of most significance in the audit** of financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

Purpose of communicating key audit matters:

The purpose of communicating key audit matters is to:

- **To enhance the communicative value of the auditor's report** by providing greater transparency about the audit that was performed.
- **To provide additional information to the intended users of AFS** to assist them in understanding those matters that in, the auditor's professional judgement were of the most significance in the audit of financial statements in the current period
- **To assist intended users in understanding the entity and areas of significant management judgement** in the audited AFS.

Determining which matters are key audit matters:

The auditor shall take the following into account when determining which matters are key audit matters:

- Matters which *required significant auditor attention* in performing the audit.
- Areas of *higher assessed risk* of material misstatement or *significant risks* identified.
- Matters which *required significant auditor judgement* that also involved *significant management judgement*, including *accounting estimates*.
- *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.
- Based on the auditor's judgement about which *matters were of most significance* in the audit.
- Matters that *pose challenge to the auditor* in obtaining sufficient appropriate audit evidence.
- Areas of complexity and significant management judgement (accounting estimates) may need to *involve experts*.

NOTE: *Significant risks are often areas that require significant auditor attention.*

Communicating key audit matters to the users of AFS:

- Key audit matters shall be **communicated in a separate section in the audit report** under the heading "*Key Audit Matters*". Reference shall be made to where the matter is being discussed in the AFS. The auditor shall define what key audit matters are, in the introduction of this section. This section is **not** a substitute for the audit opinion and accordingly the **auditor shall disclose that a separate opinion is not expressed** on the key audit matters.
- The auditor shall **not** communicate a matter in the "*Key Audit Matters*" section when the auditor would be required to modify the audit opinion as a result of the matter. The following discussion example illustrates this:

Discussion example:

A material uncertainty that casts doubt on the ability of an entity to continue as a going concern is by its nature a key audit matter. However it shall **not be disclosed** in the "*Key Audit Matters*" section of the audit report. The auditors shall **include only a reference** to the "*Basis for Qualification (adverse) opinion*" or "*Material Uncertainty Related to Going Concern*" section, in the key audit matter section of the audit report.

NOTE: The matter shall **only** be stated in the "*Basis for opinion*" paragraph. Only a reference to the "*Basis for opinion*" section shall be included in the "*Key Audit Matters*" section of the audit report. Such separation gives the matter prominence in the audit report.

NOTE: *Where there are no key audit matters to communicate, the auditor shall include a statement to this effect under the "Key Audit Matters" section of the audit report. Refer to ISA 701 (revised) par A58 for an illustration example.*

Instances where "Key Audit Matters" section will not be included in the audit report:

- There are instances where the "*Key Audit Matters*" section or an "*Other Information*" section will **not be included in the audit report**. ISA 705 (revised) par 29 and par A26 prohibits a "*Key Audit Matters*" section or an "*Other Information*" section from being included in the auditor's report **when the auditor disclaims an opinion**. This is because communication of any key audit matters other than to one giving rise to a disclaimer of opinion may suggest AFSs are more credible in relation to those other matters. This will be inconsistent with the disclaimer opinion.

Emphasis of matter:

- It is important to note that according to ISA 701 (*new*) par A8 and ISA 706 (*revised*) par 8(b) and par 10(b) the auditor shall include “*Emphasis of Matter*” paragraph and “*Other Matters*” paragraph in the auditor’s report **provided that the matter communicated has not been determined to be a key audit matter**. Such a matter would obviously be disclosed under the “*Key Audit Matters*” section of the audit report. There are circumstances (events) where a matter is not considered a key audit matter but the auditor wishes to draw the user’s attention to that particular matter. The following discussion example illustrates this:

Discussion example:

Subsequent events are a great example of this. When facts become known to the auditor after the date of the auditor’s report and the auditor provides a new amended auditor’s report. Such a matter may not be determined as a key audit matter but can be communicated under “*Emphasis of Matter*” paragraph.

Key audit matters shall also be communicated to those charges with governance as per the requirements of ISA 260 (*revised*).

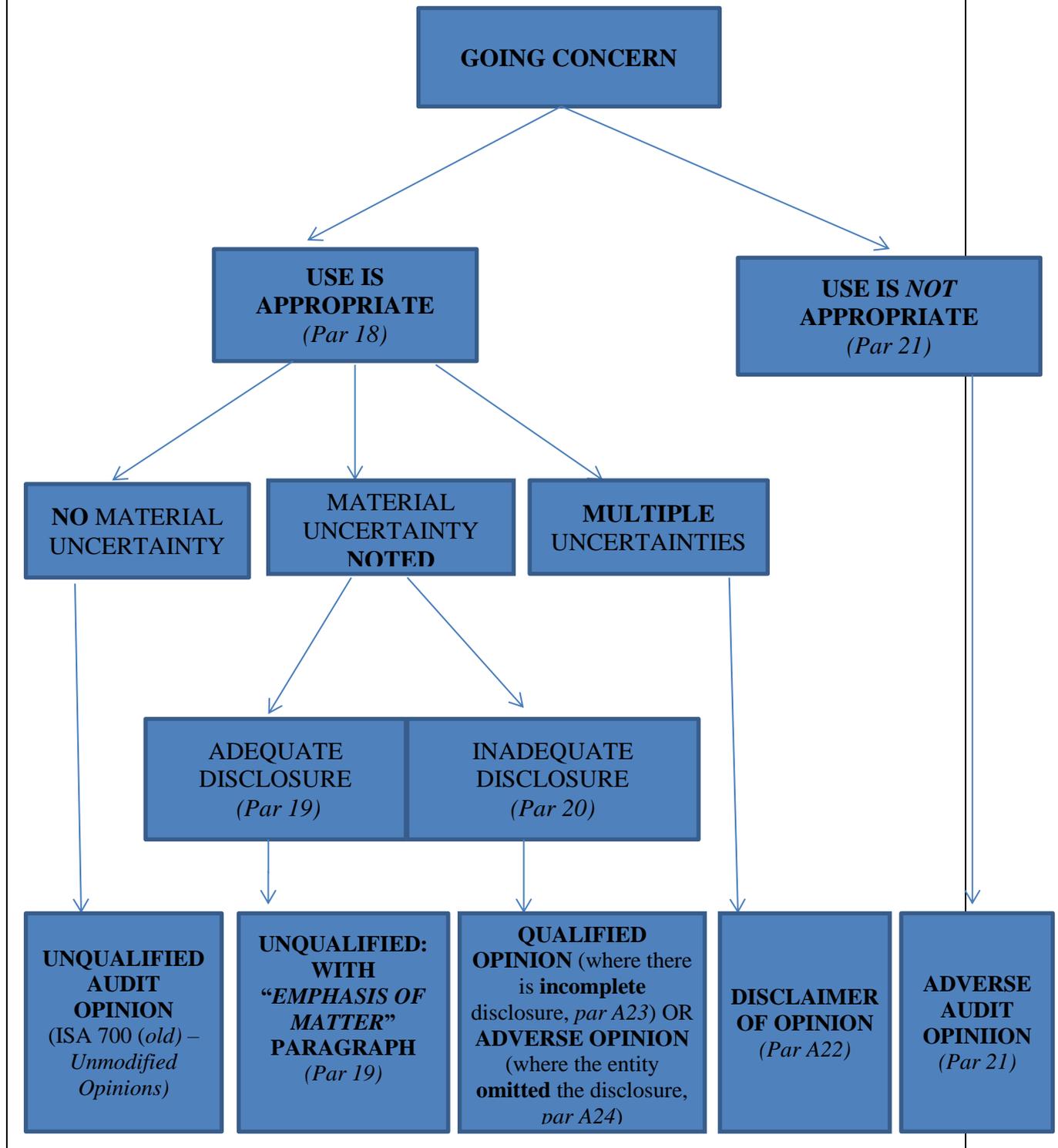
15.4 DIFFERENCES BETWEEN ISA 570 (REVISED) AND ISA 570 (OLD) – GOING CONCERN

The following section tabulates differences between ‘going concern and the effect on auditor’s reports’ under the *old* ISA 570 (*Going Concern*) and the *revised* ISA 570 (*Going Concern*).

ISA 570 (<i>old</i>)	ISA 570 (<i>Revised</i>)
<p>1. Use of Going Concern Assumption is Inappropriate:</p> <ul style="list-style-type: none"> • Par 21: express an adverse audit opinion; or • Par A26: prepare on another basis such as liquidation basis. The auditor can now express an unmodified opinion (with Emphasis of Matter) provided that adequate disclosure is made of the new basis. 	<p>1. Use of Going Concern Assumption is Inappropriate:</p> <ul style="list-style-type: none"> • Par 21: express an adverse audit opinion; or • Par A27: prepare on another basis such as liquidation basis. The auditor can now express an unmodified opinion provided that adequate disclosure is made of the new basis.
<p>2. Use of the Going Concern Assumption is Appropriate but a Material Uncertainty exist and adequate disclosure is made:</p> <ul style="list-style-type: none"> • Par 19: express an unmodified opinion and in the auditor’s report and include an Emphasis of Matter paragraph. <i>Note that the entity has to disclose in this paragraph that a material uncertainty exists.</i> 	<p>2. Use of the Going Concern Assumption is Appropriate but a Material Uncertainty exist and adequate disclosure is made:</p> <ul style="list-style-type: none"> • Par 22: express an unmodified opinion and in the auditor’s report and include a separate section under the heading “Material Uncertainty Related to Going Concern”. See (<i>Illustration Example 1</i>) <ul style="list-style-type: none"> – <i>Note that the entity has to disclose in this paragraph that a material uncertainty exists.</i> – <i>Note also the Basis for Opinion paragraph even though we express an unmodified opinion.</i>
<p>3. Use of the Going Concern Assumption is Appropriate but a Material Uncertainty exist and adequate disclosure is <i>not</i> made:</p> <ul style="list-style-type: none"> • Par 20: Express a: <ul style="list-style-type: none"> • Qualified opinion (where there is incomplete disclosure, par A23); OR • Adverse opinion (where the entity omitted the disclosure, par A24) 	<p>3. Use of the Going Concern Assumption is Appropriate but a Material Uncertainty exist and adequate disclosure is <i>not</i> made:</p> <ul style="list-style-type: none"> • Par 23: Express a: <ul style="list-style-type: none"> – Qualified opinion (where there is inadequate disclosure, par A32 (<i>Illustration Example 2</i>); OR – Adverse opinion (where the entity did not disclose, par A32 (<i>Illustration Example 3</i>)). <p>Note that the entity has to disclose in the “Basis for Opinion” paragraph that a material uncertainty exists.</p>
<p>4. Use of Going Concern is appropriate but there are multiple uncertainties:</p> <ul style="list-style-type: none"> • Par A22: Express a disclaimer of opinion 	<p>4. Use of Going Concern is appropriate but there are multiple uncertainties:</p> <ul style="list-style-type: none"> • This revised ISA is silent with regards to the opinion that should be expressed where there are multiple

	<p>uncertainties.</p> <ul style="list-style-type: none">• ISA 705 (revised): <i>Illustration Example 5</i> notes that a disclaimer of opinion should be communicated.
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ISA 570 (old): GOING CONCERN AND THE EFFECT ON AUDIT REPORTS - SIMPLIFIED



**ISA 570 (Revised): GOING CONCERN AND THE EFFECT ON AUDIT REPORTS -
SIMPLIFIED:**

