



New Auditor's Report

January 2015

Monthly Newsletter

Investors and other stakeholders have been requesting that for the purpose of public interest auditors need to provide greater transparency about the audit. The IAASB have released new and revised Auditor Reporting Standards specifically designed to enhance audit reports.

What is the effect on the financial reporting process?

- The enhancements build upon the underlying concepts in an ISA audit which addresses how a risk-based audit is performed and what is required to be communicated with management.
- The focus is on increasing transparency about the audit and thus the underlying work required in an ISA audit is not affected.
- While the information reported in the Auditor Report is now expected to be more entity specific, it is still the responsibility of management to ensure that relevant information about the entity's financial performance is communicated.

New audit report format is effective for all audits of financial statements for periods ending on or after 15 December 2016

What are the key changes?

For all audits:

- Unless law or regulation provide otherwise, the **Opinion** section is required to be presented first, followed by the **Basis of Opinion** section.
- Enhanced auditor reporting on **going concern**.
- 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.

For listed entities (and voluntary application for unlisted entities):

- Additional section to communicate **key audit matters**, which are those matters that in the auditor's judgement were most significant.
- Disclosure of the **name** of the engagement partner, with a "harm's way" exemption.

In South Africa, the Code of Professional Conduct for Registered Auditors already stipulates a signing convention that requires the disclosure of the engagement partner's name for all entities and not just listed companies.

More on key audit matters:

The description of key audit matters is always required to include:

- Why the matter was considered to be one of most significance in the audit;
- How the matter was addressed in the audit; and
- Reference to the related disclosures.

There is a requirement to allow for the possibility that an auditor might not communicate a key audit matter for which information has not been publicly disclosed by the entity ("sensitive matters")

What International Standards on Auditing are also changing?

- ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*;
- New ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*;
- ISA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report*;
- ISA 706 (Revised) *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
- ISA 570 (Revised) *Going Concern*;
- ISA 260 (Revised) *Communication with Those Charged with Governance*; and
- Conforming Amendments to other ISA's.

ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* which was approved by the IAASB meeting in December 2014 includes new and revised reporting requirements relating to other information that is included in an entity's annual report.

Enhanced auditor reporting is critical to the perceived value of an audit of financial statements and thus to the continued relevance of the audit profession