

**CA**



**THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA**



# Changes to Independent Auditors' Report

# Scope

- Case for a new auditors' report
- IAASB effort to develop new auditors' report
- Areas to improve in auditors' report
- Key changes to auditing standards
- Key changes in auditors' report
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  - Key audit matters
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- New auditors' report
- Benefits of new auditors' report
- Impact on audit committee & management
- Effective dates

# Current Auditors' Report

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Report on the Financial Statements<sup>1</sup>

We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Board's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,<sup>2</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation<sup>4</sup> of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control.<sup>3</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, (*or give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

# Case For A New Auditors' Report

- **Global financial crisis**
- **High profile corporate failures**
- **Advancement in information and communication technology**
- **Complex business models**
- **Change in regulators perceptions**

# IAASB'S Effort To Develop New Auditors' Report

- **Jointly commissioned international academic research on user perceptions**
- **Public consultations in May 2011, June 2012 and July 2013**
- **Global roundtables and additional outreach activities**
- **Continuing monitoring and interactions with policy makers and national standard setters.**

**(IAASB – International Accounting and Auditing Standards Board)**

# Areas To Improve In Auditors' Report

- **Clarification of the scope of the financial statement audit, independence, ethics and language in the audit report**
- **Information on the audit team and engagement statistics**
- **Information on the audit process**
- **Further information on the results of the auditor's evaluation of the financial statements**
- **Disclosures beyond the scope of the financial statement audit**

# Key Changes To Auditing Standards

- **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



# Key Changes In Auditors' Report

Mandatory for audits of financial statements of listed entities,

- New section to communicate **key audit matters (KAM)**.
- Disclosure of the **name of the engagement partner**

For all audits:

- **Opinion section required to be presented first**, followed by the Basis for Opinion section, unless law or regulation prescribe otherwise
- Enhanced auditor reporting on **going concern**, including:
  - Description of the respective responsibilities of management and the auditor for going concern
  - A separate section when a material uncertainty exists and is adequately disclosed, under the heading “Material Uncertainty Related to Going Concern”
  - New requirement to challenge adequacy of disclosures for “close calls” in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity’s ability to continue as a going concern

# Key Changes In Auditors' Report Cont...

- Affirmative **statement about the auditor's independence** and fulfillment of relevant **ethical responsibilities**, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants.
- **Enhanced description of the auditor's responsibilities** and key features of an audit. Certain components of the description of the auditor's responsibilities may be presented in an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority



# Key Changes In Auditors' Report Cont... - New Format



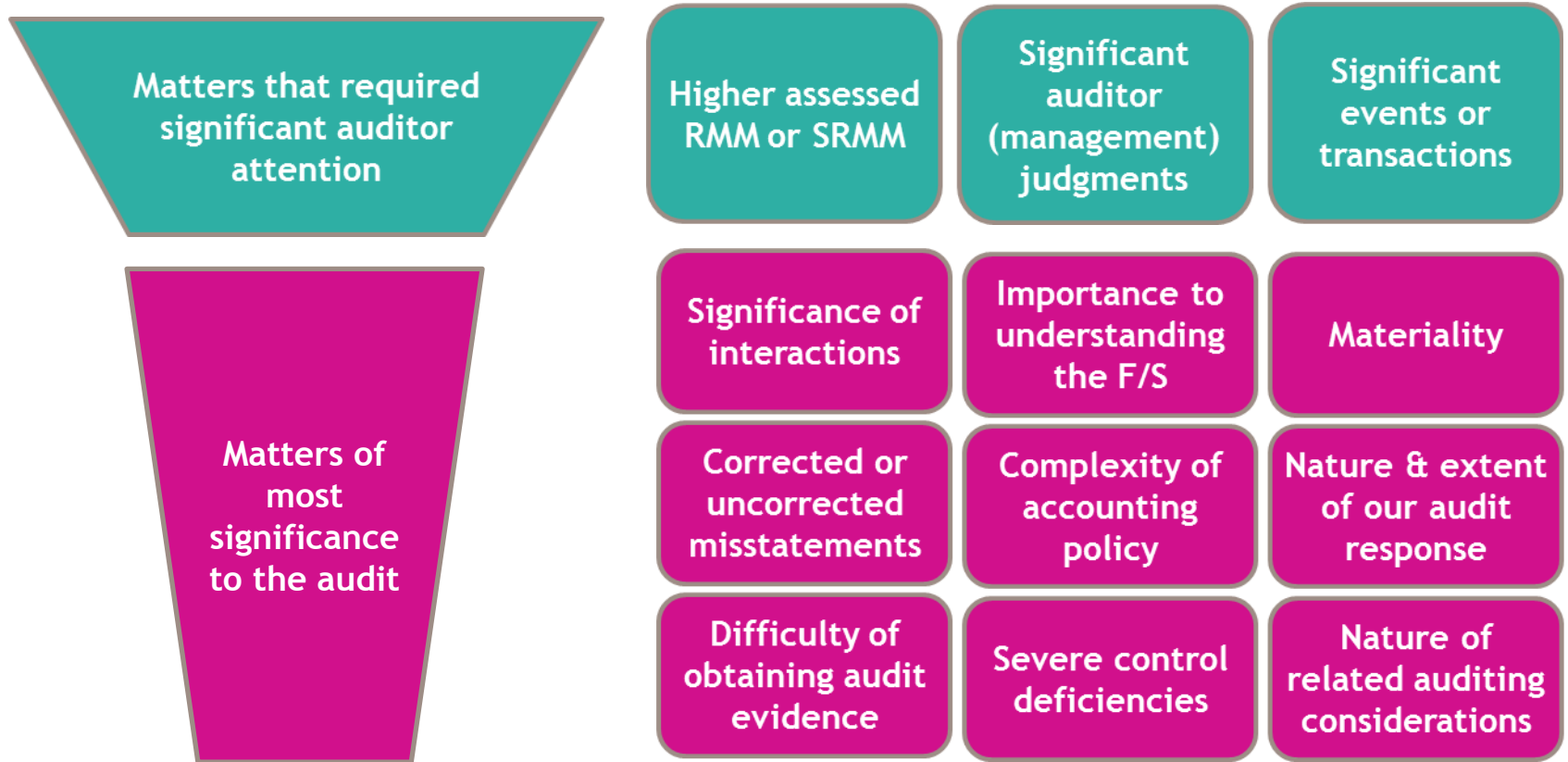


# Key Changes In Auditors' Report Cont... Key Audit Matters



# Key Changes In Auditors' Report Cont..

## Key Audit Matters



# Key Changes In Auditors' Report Cont... Key Audit Matters - Example

## RISK IDENTIFIED

### Taxation claims

As detailed in notes 3 and 19, the group's Malian operations are subject to historic taxation claims by the State of Mali totalling \$280.0 million. No new claims were made by the State of Mali in the year.

The group has taken professional advice with regards to the claims and commenced international arbitration proceedings during 2013 against the State of Mali, which remain ongoing, disputing the validity of certain of the claims. Given the material nature of the claims and ongoing nature of the disputes and international arbitration proceedings, the recognition and presentation of any liabilities or contingent liabilities arising as a result of the taxation claims represent key judgements and was a risk for our audit.

A

What is the  
description of the  
Key Audit Matter?

B

Why did the audit  
focus on this  
matter?

C

What is the  
reference to  
the related  
disclosure?

# Key Changes In Auditors' Report Cont... Key Audit Matters - Example

D

Audit  
Response

## Audit Response

We critically reviewed the group's mining conventions, arbitration submissions for the relevant claims and correspondence with the State of Mali to consider the extent to which the directors' assessment that any contingent liabilities associated with the material previously existing taxation claims are remote remains appropriate.

We verified the completeness and accuracy of the claim values to the group's tax correspondence.

We have discussed and critically assessed management's assessment of the status of each significant element of the claims with the group's local and international tax advisors.

We have obtained confirmations from local and international legal and tax advisors which supported the directors' assessment that the material claims were without legal merit and assessed as remote under IFRS. In relying upon the assessments made by such experts, we evaluated the competence and objectivity of professional advisors relied upon by management.

# Key Changes In Auditors' Report Cont... Auditor's Role

## Appendix to the Auditor's Report Detailed Description of our Responsibilities

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.



# Key Changes In Auditors' Report Cont... Auditor's Role

## Appendix to the Auditor's Report Detailed Description of our Responsibilities

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# Key Changes In Auditors' Report Cont... Management Role

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

# Key Changes In Auditors' Report Cont... Ethics

We are **independent** of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the **ethical requirements** that are relevant to our audit of the financial statements in [*jurisdiction*], and we have **fulfilled our other ethical responsibilities** in accordance with these requirements and the IESBA Code.

# Key Changes In Auditors' Report Cont... Signature

The engagement partner on the audit resulting in this independent auditor's report is  
**Donald J Trump**



**Ordit & Co Partnership**

**1 Trump Towers  
Trumpville**

**7 November, 2016**



# New Auditors' Report

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements<sup>37</sup>

#### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities

under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our 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.

[Description of each key audit matter in accordance with ISA 701.]

#### Responsibilities of Management and Those Charged with Governance for the Financial Statements<sup>38</sup>

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs,<sup>39</sup> and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### Appendix

### Report on Other Legal and Regulatory Requirements

*[The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the ISAs may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the ISAs where such a difference exists.]*

The engagement partner on the audit resulting in this independent auditor's report is [name].

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

# New Auditors' Report Cont... Appendix

Paragraph 40(b) of this ISA explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 40(c) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.<sup>44</sup>
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of

# Benefits Of New Auditors' Report

- **Enhanced communication between auditors and investors, as well as those charged with corporate governance**
- **Increased user confidence in audit reports and financial statements**
- **Increased transparency, audit quality, and enhanced information value**
- **Increased attention by management and financial statement preparers to disclosures referencing the auditor's report**
- **Renewed auditor focus on matters to be reported that could result in an increase in professional skepticism**
- **Enhanced financial reporting in the public interest**

# Impact On Audit Committee & Management

## Key Audit Matters

- A. The audit committee should consider the timing of meetings of the audit committee and management and whether these will accommodate the audit process and reporting time frame. The timing and methods of communications with the auditor will be affected since:
- Key audit matters are derived from matters communicated with the audit committee, therefore **early communication of all relevant matters affecting the audit are critical**.
  - The audit committee should **challenge the auditor** as early as possible on the auditor's responses to the key audit matters and whether these are appropriate.
  - The audit committee will want to **review an early draft of the auditor's report** in order to be able to understand which key audit matters are being reported.
  - The report is likely to go through rigorous review processes within the entity and the audit firm and therefore **time frames need** to be carefully considered to accommodate this.



# Impact On Audit Committee & Management Contd..

## Key Audit Matters

- B. The audit committee should question disclosures in the financial statements and the annual report:
- Whether the **disclosures adequately and fairly describe the matters** to which the key audit matters pertain in accordance with the financial reporting framework.
  - Whether **additional disclosures or commentary beyond those required by the financial reporting framework are necessary** in order for users to fully understand the key audit matters identified by the auditor, and to ensure the auditor is not the original provider of information. (Such disclosures may be in the financial statements or the annual report.)
  - The audit committee should **question management's response to the key audit matters** – although not disclosed by the auditor or in the financial statements, the audit committee may want to question how management manages and responds to the key audit matters and whether this is appropriate.

# Impact On Audit Committee & Management Contd..

## Independence & Ethics

The audit committee should annually or regularly evaluate whether the auditor is independent in terms of the relevant codes and the Companies Act by:

- **Monitoring and pre-approving all non-audit services** provided by the audit firm
- Monitoring non-audit services provided by other auditing firms due to the **potential impact of rotation requirement**, particularly for entities with affiliations in the UK and Europe.
- Assessing the **independence of the auditor**, both the firm and the individual engagement partner, when nominating the auditor for Appointment

# Impact On Audit Committee & Management Contd..

## Going Concern/ Responsibility of Auditor , Management and Those Charged with Governance

- The audit committee should **scrutinise management's process** for assessing the entity's ability to continue as a going concern. Although these responsibilities are not new, there is increased focus on going concern and the related disclosures. Therefore, it is a good opportunity to evaluate these processes.
- The audit committee should **examine the relevance and completeness of the entity's disclosures in the financial statements related to going concern, particularly for entities who have "close call" situations** (i.e. where there are events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, but management has mitigating plans, and the conclusion is that no material uncertainty exists)

# Effective Dates

- **Internationally - Effective for audits of financial statements for periods ending on or after December 15, 2016**
- **Locally - Effective for audits of financial statements for periods ending on or after March 31, 2018**

# Recap

- **Case For a New Auditors' Report**
- **IAASB Effort to Develop New Auditors' Report**
- **Areas to Improve in Auditors' Report**
- **Key Changes to Auditing Standards**
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**Thank You**