

Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.



Audit reports get relevant

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History

Close to a decade in the making – this is one of those once in a lifetime experiences. The International Auditing and Assurance Standards Board (IAASB) commissioned international academic research on user perceptions of the standard audit report all the way back in 2006. A breadth of consultation activity ensued with the final package of [new and revised auditor reporting standards](#) being issued in January 2015. This package has recently been exposed for comment in both Australia and New Zealand.

The changes were mainly driven by the research findings which highlighted that users were calling for more information about individual audits. This was amplified in the GFC as users sought to gain further insights into the audited entity and its financial statements.

What's changing?

The combined effect of the changes to the audit report is substantial. The most revolutionary change is the introduction of key audit matters (KAM), initially for “listed entities”¹ in Australia and “listed issuers”² in New Zealand with further roll-out expected later.

Key audit matters

KAM are described as those matters that were of most significance in the audit of a particular set of financial statements for the particular year. KAM are selected from matters communicated with those charged with governance and comprise of:

- Significant risks of material misstatement; or
- Areas involving significant judgments or estimations; or
- Significant events or transactions that occurred during the year.

¹ Defined as per [AUASB glossary of terms](#)

² Proposed to be defined as per [section 6\(1\) of the Financial Markets Conduct Act 2013](#)

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KAM should be specific to the entity, avoid technical or standardised language and include the following elements:

- Why the matter was determined to be a KAM;
- How the matter was addressed in the audit (provides flexibility to describe more broadly, rather than specifically requiring a description of the auditor's response, findings, or procedures); and
- Reference to the related disclosure(s) in the financial statements (if any)

Going concern

The audit report will emphasise going concern in two ways:

- There will be a new paragraph which describes management's responsibility to assess the entity's ability to continue as a going concern and whether use of the going concern basis of accounting is appropriate.
- If a material uncertainty relating to going concern exists and is adequately disclosed in the financial statements, there will be a new section in the audit report explicitly on this matter (instead of being in an Emphasis of Matter paragraph).

Aside from the changes to the audit report itself, there are also proposals relating to the audit work effort around going concern. Most significantly the auditor must challenge the adequacy of disclosures when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern but the final decision is that there is no significant doubt (a "close call").

Other information

There will be an enhanced explanation of what "reading" entails in relation to the requirement for the auditor to read other information. "Other information" is clarified to be financial or non-financial information included in an entity's annual report other than financial statements and the audit report thereon. In relation to this information, the auditor must:

- Consider whether there is a material inconsistency between the other information and the financial statements; and
- Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

Most controversially, there will be a new section in the audit report which sets out what "other information" has been read by the auditor. In addition, for listed entities in Australia, any "other information" due to be obtained after the date of the audit report must be noted in the audit report. In New Zealand this additional reporting is proposed to apply to financial market conduct (FMC) reporting entities considered to have higher public accountability.



Other changes

In recognising its importance to users, the audit opinion will take a more prominent position at the start of the report. The basis for the opinion will follow and include an explicit statement of independence and compliance with relevant ethical requirements, with identification of the standards followed. There will be an enhanced description of the audit responsibilities, including for going concern, and the key features of an audit. Finally, for some entities the name of the engagement partner will be included in the audit report. For a summary of all the proposals, see Table 1 *Changes at a Glance*.

What are we doing?

We published a *future[inc]* paper in April; [Revolutionising Reporting, Why Care?](#) This was informed by in depth discussions we held with those overseas who have already gone through the adoption and implementation process. We also held stakeholder exchanges in Australia and New Zealand to discuss the opportunities and challenges of the introduction of KAM which provided valuable insights.

We will be undertaking a number of other initiatives over the next year. For example, there will be a complementary webinar which explores the package of changes to auditor reporting and how these will affect practitioners. Plus we are using the lessons learned from the many UK examples to produce guidance to assist practitioners with the practical implications of adoption of KAM.

The local consultation

We participated in the IAASB consultation process which enabled us to influence the proposals at an international level prior to the changes being introduced locally. We are now advocating for these proposals to be applied appropriately in the Australian and New Zealand markets. Some of the specific points the Australian and New Zealand boards are consulting on are:

- The roll-out of KAM – what entities and when.
- The length of the “relevant period” for assessing going concern.
- The location of certain elements of the auditor’s responsibilities (as an appendix to the audit report or on a suitable website).
- The removal of references to the Corporations Act 2001 in the Australian standards.
- The entities that should include the name of the engagement partner.

If you have any feedback, thoughts or comments on the package of exposure drafts, please [share them with us](#).

Next steps

Both the AUASB and NZAuASB meet in September 2015 to finalise the new and revised auditor reporting standards. We anticipate the final standards will be issued shortly after with an effective date of periods ending on or after 15 December 2016. This may seem a long way off, but it is timely to start planning now.



Table 1: Changes at a glance

Area	Main impact	Entities affected ³
<i>Opinion</i> section presented first, followed by <i>Basis for Opinion</i> section	700 series	All
Explicit statement of independence and compliance with relevant ethical requirements, plus identification of which standards were followed	700 series	All
Enhanced description of the auditor's responsibilities, including for going concern, and the key features of an audit	700 series	All
Inclusion of the name of the engagement partner	700 series	NZ – All Aus – Where required by law or regulation
New paragraph describing management's responsibility for going concern	700 series	All
Exception based reporting in a new section of a material uncertainty relating to going concern if it is adequately disclosed in the financial statements	570	All
Inclusion of a new section for key audit matters (KAM) which are those matters that, in the auditor's judgements, were of most significance in the audit of the current period financial statements	New standard; 701	Aus - listed entities NZ - listed issuers
New section commenting on the other information included in the annual report	720	All, but more for some types of entities
All of the above, except KAM, for audits of financial statements prepared in accordance with special purpose frameworks	800	All
All of the above, except KAM ⁴ , for audits of single financial statements and specific elements, accounts or items of a financial statement	805	All

Note: Proposed standards 800 and 805 (revised) are not expected to be exposed in Australia until early next year.

³ Subject to consultation

⁴ If the audit report on the complete set of financial statements communicates KAM then this should be referenced by means of an Other Matter paragraph.

