GETTING TO GRIPS

The new and revised Auditor Reporting Standards

With only three months to go until the new and revised auditor reporting standards become effective, are you ready to be part of a change that has been dubbed as the most significant and visible change in auditing in recent history?

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In January 2015 the International Auditing and Assurance Standards Board (IAASB) released its suite of new and revised auditor reporting standards, after six years of development.

At the time of their release, Professor Arnold Schilder (chairman of the IAASB) remarked that 'these changes will reinvigorate the audit, as auditors substantively change their behaviour and how they communicate about their work.'

The aim is that these standards will significantly improve the relevance and value of the auditor's report for shareholders and investors, and other users of financial statements.

A number of countries that have already been issuing more informative auditor's report, such as the United Kingdom (UK) and the Netherlands, have seen positive reaction from all parties.

There have also been some instances of early adoption of the IAASB's auditor reporting standards in South Africa over the past year, with an equally positive reception. We are aware of at least eight companies listed on the JSE (as at June 2016) where their auditors have issued the new format auditor's report.

The aim of this article is to again alert all SAICA members regarding these important developments, dubbed the most significant and most visible changes in auditing in recent history, and to provide an overview of key resources that are available to assist in understanding and implementing the new and revised auditor reporting standards.

THE NEED FOR CHANGE

The need for reforms to auditor reporting was identified by the IAASB through various research, information-gathering and outreach activities.

It was clear that the auditor's opinion on financial statements is valued, but that there were also calls (primarily from investors and analysts) for an auditor's report that provides more entity-specific and more relevant information, and that is more informative about the audit that has been performed.

Furthermore, the auditor's report is the means by which the auditor communicates the outcome of the auditing process to the users of financial statements and other stakeholders, and enhanced auditor reporting was identified as key to increasing the perceived value of the financial statement audit. It was essential to respond to the calls for change in the interest of the continued relevance and value of the external audit.

Other benefits envisaged by the IAASB include:

- Enhanced communications between the auditor and other stakeholders including investors and those charged with governance
- Increased attention by preparers of financial statements on those disclosures to which reference is made in the auditor's report, and
- Renewed focus of the auditor on matters to be reported as this will now be within the public domain

EFFECTIVE DATE AND ADOPTION IN SOUTH AFRICA

The suite of new and revised auditor reporting standards comprise the following International Standards on Auditing (ISAs), as well as some conforming amendments to a number of other ISAs:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- 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*, and
- ISA 260 (Revised), *Communication with Those Charged with Governance*

Furthermore, ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information,* which complements the changes arising from the above standards, was issued by the IAASB in April 2015. All of these standards are effective for audits of financial statements for periods ending on or after 15 December 2016 (with early adoption being allowed).

The Independent Regulatory Board for Auditors (IRBA) approved for adoption, issue and prescription by Registered Auditors (RAs) in South Africa the above IAASB pronouncements in June 2015 (and ISA 720 (Revised) in September 2015), with the same effective date.

In March 2016, the IRBA's Committee for Auditing Standards (CFAS) issued the South African Auditing Practice Statement (SAAPS) 3 (Revised November 2015), Illustrative Reports. The aim of SAAPS 3 is to provide practical guidance to RAs in complying with the International Standards and legal and regulatory requirements applicable to auditors and auditor reporting in South Africa; in particular, requirements in terms of the Auditing Profession Act 2005, the Companies Act 2008, and the Public Audit Act 2004. If an RA has decided to early adopt the new and revised auditor reporting and related auditing standards, then the early adoption of SAAPS 3 is also required.

MOST NOTABLE CHANGES TO THE AUDITOR'S REPORT

All auditors' reports issued by all RAs will be affected by the auditor reporting standards concerned. Seven primary changes can be identified:

Those changes applicable to all audits:

- The report has a new form and layout, including that the auditor's opinion (that is, the opinion section) is required to be presented first, followed by the Basis for Opinion (and then the other elements of the report).
- Enhanced auditor reporting on going concern is to be under a separate heading 'material uncertainties related to going concern'.
- Reporting on other information will be in a separate section of the auditor's report (that is, financial or non-financial information other than the financial statements and the auditor's report thereon included in an entity's annual report).
- There will be an affirmative statement about the auditor's independence and compliance with other ethical requirements.
- Description of the responsibilities of the auditor will be enhanced.

Those changes that are mandatory for auditor reports of listed entities are:

- The inclusion of a new section to communicate key audit matters (KAM). KAM are those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period.
- Disclosure of the name of the engagement partner (although the Code of Professional Conduct for RAs in South Africa stipulates a signing convention that already requires the disclosure of the engagement partner's name).

It should be noted that the communication of KAM could also be applicable to entities other than listed entities, namely when required by law or regulation, or when the auditor voluntarily elects to communicate KAM. In South Africa (as at June 2016), two regulators have already announced the requirement for auditors to communicate KAM, namely the Council for Medical Schemes and the Registrar of Collective Investment Schemes under the Financial Services Board.

HOW WILL THE CHANGES AFFECT YOU?

The enhancements to the auditor's report build on the fundamental underlying concept of the ISAs, being a risk-based approach. The revision of the auditor reporting standards therefore does not change the auditing process but rather increases the transparency about it. Especially in those instances where KAM are communicated, the audit process will be affected from the planning stage throughout, up to drawing conclusions, forming an audit opinion and writing the auditor' report. It would be important from the outset to have a good anticipation of those matters that may eventually represent KAM and plan the audit accordingly, including discussions with those charged with governance, that will generally be expected to be more frequent, more focused