



# Navigating your auditor reporting journey

Forging your own path in a world of change



In this publication, we outline how the changes to auditor reporting can improve the information provided to you as part of your audit. In whatever enterprise you operate - from start-up to multi-national corporation – or whether you fulfil the role of ‘management’ or ‘those charged with governance’, **auditor reporting** changes will affect the style, format and content of the auditor’s report provided to you. Click on each icon below to find out more.



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# The path ahead

*Establishing the main changes of the new approach to auditor reporting*



## Headline Changes

The recently revised International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) herald the dawn of a new era of auditor reporting. This new regime has been designed to provide you and other stakeholders with more transparent and useful information – by focusing on the key output from the audit process – the auditor’s report.

Headline changes which will help improve the communicative value of the auditor’s report, include:

- Placing the **opinion section** at the beginning.
- Revised format and structure of the **auditor’s report**.
- Enhanced reporting on **going concern** matters – including a separate section when there is a material uncertainty relating to going concern.
- Emphasizing the **nature of the audit** and the role and responsibilities of your **auditors**.
- Including an affirmative statement about your auditor’s **Independence** in accordance with relevant ethical standards.
- Emphasizing the importance of the annual report and your auditor’s work performed on **other information**.
- Providing enhanced descriptions about your responsibilities as **management** or **those charged with governance** as well as your **auditor’s responsibilities**.

Specifically for listed entities, there are new requirements in respect of:

- **Key Audit Matters** - those matters in your auditor’s professional judgment that were of most significance during the audit of your current period financial statements, and
- Disclosure of the name of your **engagement partner**.

## Why Change Now?

For stakeholders, investors and other users of the financial statements, the planned changes to the auditor's report represent an opportunity to increase confidence in the audit process and the financial statements. Benefits to you and others could include:

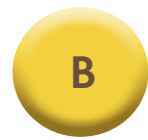
### Potential benefits of change

- Increased transparency of the audit process.
- Improved clarity of communications between auditors and investors as well as those charged with governance.
- A greater focus by management and those charged with governance on the other information provided in the annual report alongside the financial statements.
- Highlighting to users those Key Audit Matters that had a significant impact on the audit.
- Enhanced quality and value of the audit through more focused professional skepticism.

Globally, the new requirements become effective 15 December, 2016. Innovation has been experienced in those jurisdictions where these reforms have been adopted early. In some jurisdictions, investors have given awards to auditors on their innovations in auditor reporting. As a consequence, the demands of stakeholders, investors and other users of the financial statements with respect to the format, layout and level of detail in auditor's reports may ultimately lead to more innovation in terms of how information is presented by audit firms.

While the ISAs are prescriptive about the layout of the new auditor's report, these reforms have been designed to move auditors away from providing a 'boilerplate' approach to auditor reporting, and have instead encouraged a drive towards greater transparency, specificity and relevance in terms of how auditor's views are presented.

At BDO we support this new approach to auditor reporting in order to highlight the value associated with an audit. By sharing our collective know-how, particularly from our member firms that have already experienced the transition to the new auditor reporting concepts, we will be in a position to work closely with you during this period of change.



# Your personal journey

Explaining how the new approach to auditor reporting could benefit you and your business



## How will the immediate changes to auditor reporting help you?

If you are managing the entity...

Area of auditor reporting	Potential benefits for management
Going concern	Your auditor's report will now include a more detailed description of your responsibilities relating to going concern which will help provide transparency about the extent of your role in comparison to your auditors and those charged with governance.
Communication of Key Audit Matters	<p>The requirement to communicate Key Audit Matters in the auditor's report provides you and your auditors the opportunity to engage in discussions at an earlier stage of the audit so that you can gain insight into how your auditor will be approaching these matters. Having this dialogue, from the preliminary planning stages of the audit onwards, will help reduce surprises in terms of the explanations and evidence likely to be requested by your auditors as well as provide greater transparency about areas of focus for those charged with governance.</p> <p>There may be also be on-going opportunities to engage in challenging and robust discussions on complex and judgmental areas combined with greater focus on related disclosures in the financial statements.</p>
Other information	The new requirements relating to other information will provide an opportunity for you to have greater clarity about the documents (such as the annual report) included within the scope of 'other information'. Your auditors will be on hand to discuss the exact timing of the process for reviewing other information in order to make this a well-planned part of the audit process.

If you are one of the individuals charged with governance of an entity...

Area of auditor reporting	Potential benefits for those charged with governance
Auditor independence	<p>One change that should provide you with greater insight and access to information when performing your oversight of auditor independence role is the new requirement in ISA 700 for all auditor's reports to contain an affirmative statement about the auditor's independence and fulfilment of relevant ethical responsibilities. This will also include disclosure of the jurisdiction of origin of these requirements or reference to the International Ethics Standards Board for Accountants - Code of Ethics for Professional Accountants.</p> <p>Where your role includes determining annually or regularly whether your auditor is independent in line with relevant codes and local laws and regulations, this change may provide you with further opportunities to monitor, assess and (where relevant) pre-approve:</p> <ul style="list-style-type: none"> <li>• Non-audit services provided by your entity's auditors or other firms in their network.</li> <li>• Non-audit services provided by other audit firms due to the potential impact of auditor rotation requirements in certain jurisdictions (for example, in the European Union).</li> <li>• Independence of your auditor when nominating auditors for appointment or re-appointment.</li> </ul>
Going concern	<p>The main changes clarified management's responsibilities in relation to going concern; however this should mean that you will be in a position to benefit from greater transparency in relation to:</p> <ul style="list-style-type: none"> <li>• Management's assessment about the entity's ability to continue as a going concern. This is not a new responsibility but there is increased focus on this in the revised ISAs which means that your auditors will certainly be looking at this more closely and will give you greater insight into this area.</li> <li>• The qualitative nature of going concern disclosures provided by management in the financial statements (particularly when 'close call' situations exist in the entity).</li> </ul>
Communication of Key Audit Matters	<p>The communication of Key Audit Matters, and their identification throughout the audit, should also provide you with an early indication of areas of focus by your auditors. This will enable you to benefit from timely and more regular discussions about Key Audit Matters with both auditors and management - which will ultimately improve your ability to provide oversight of the entity.</p> <p>While this may mean that you need to build-in more time to review information about Key Audit Matters, it also provides you with an opportunity to gain an insight into the more judgmental and challenging parts of the financial reporting process while at the same time better understanding how your entity's auditors plan to tackle these specific areas.</p>



# Navigating **your** auditor's report

*Highlighting the key changes in the format of your auditor's report*



## Changes in the ISAs

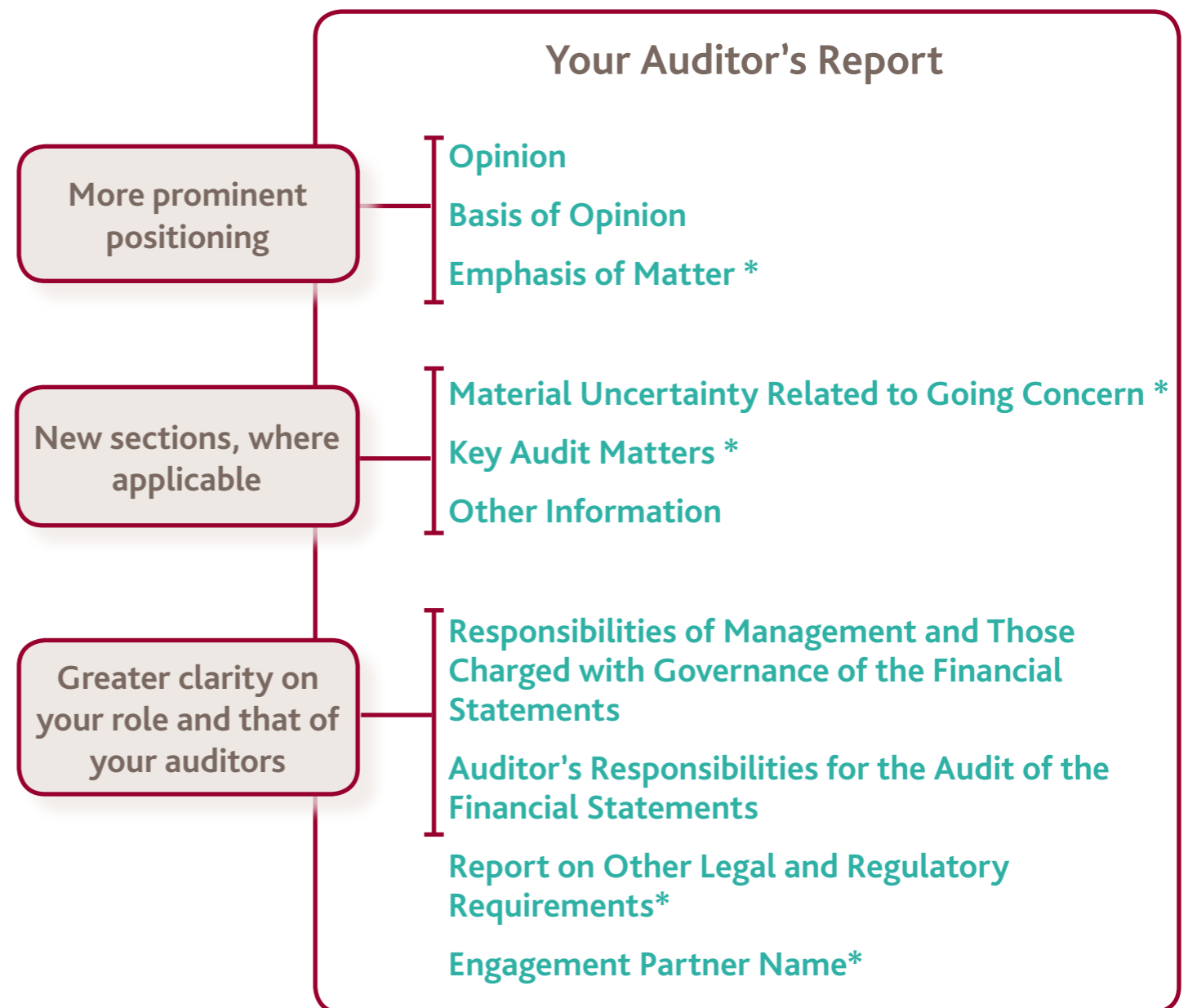
During the IAASB's auditor reporting project, a number of ISAs were revised. These revised ISAs become effective for periods ending on or after 15 December, 2016 and most of these changes will affect all entities. Further details on the ISA changes can be found in the IAASB's dedicated [auditor reporting pages](#).

## Auditor's Report Structure

One of the key changes brought about by the new auditor reporting approach is the layout of your auditor's report and more prominent positioning of the opinion and basis of opinion sections.

To help support consistency, yet allow for specificity, auditor's reports will likely have the layout shown here. Items marked with \* are only included where applicable.

The revised ISAs have a direct impact on how your auditor's report is going to be presented but have also been designed to enable greater innovation (for example, allowing some of the content to be displayed online).



## Going concern

Standard-setters and regulators have been considering how to support investors and other users of the financial statements by providing more information about going concern within the auditor's report.

The changes brought about by revisions to ISA 570 *Going Concern*, include:

- A more explicit description concerning the responsibilities of management and auditors - to be provided within the relevant section of your auditor's report. In this extract we highlight management's responsibilities in relation to going concern.
- When there is a material uncertainty – a new and separate section is included within your auditor's report called '*Material Uncertainty Related to Going Concern*'. Your auditors are also required to consider whether disclosures are appropriate when such a material uncertainty exists.
- A new requirement for your auditors to challenge the adequacy of disclosures for going concern particularly when 'close call' situations exist – these are likely to be those occasions when events or conditions are identified that may cast significant doubt on your entity's ability to continue as a going concern.

### Auditor's Report - Extract

#### 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.



## Other information

A number of changes have been observed in recent years in relation to financial reporting, such as:

- an increase in the volume of information and amount of detail in annual reports;
- more narrative and qualitative information contained within annual reports; and
- increased and more diverse use of documents other than the annual report.

ISA 720 - *The Auditor's Responsibilities Relating to Other Information* introduces some significant changes that could impact you. This ISA was revised by the IAASB in order to clarify and increase auditor involvement with respect to 'other information'. The ISA defines other information as being:

*'Financial and non-financial information (other than the audited financial statements and the auditor's report thereon) included in an entity's annual report.'*

One of the major changes undertaken by the IAASB has been to clarify the scope of ISA 720 by linking it to the concept of an 'annual report'. As a consequence of the new changes, your auditors will be required to:

Read other information.

Evaluate consistency and compare selected amounts between other information and the financial statements.

- Consider whether there is a material inconsistency between the other information and their knowledge obtained during the audit.
- Remain alert for indications that the other information appears to be materially misstated.

The major impact on your audit is that your engagement team will need to have more clarity about the identification of the information that comprises the annual report and when they will be able to obtain this information in order to perform their audit procedures on a timely basis.

# D Reflections on Key Audit Matters

*Considering the impact of Key Audit Matters on your auditor's report*



## What are Key Audit Matters?

The definition of a Key Audit Matter is:

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

## Why do auditors need to communicate Key Audit Matters?

After consultation with investors, audit firms, regulators and other stakeholders, there was widespread support for providing greater transparency on important issues that had been identified and tackled by audit teams.

## What is required?

It is important to recognize that although the Key Audit Matters requirements have been designed to apply to listed entities, the application of Key Audit Matters may broaden to encompass a range of other entities. For example, in some jurisdictions:

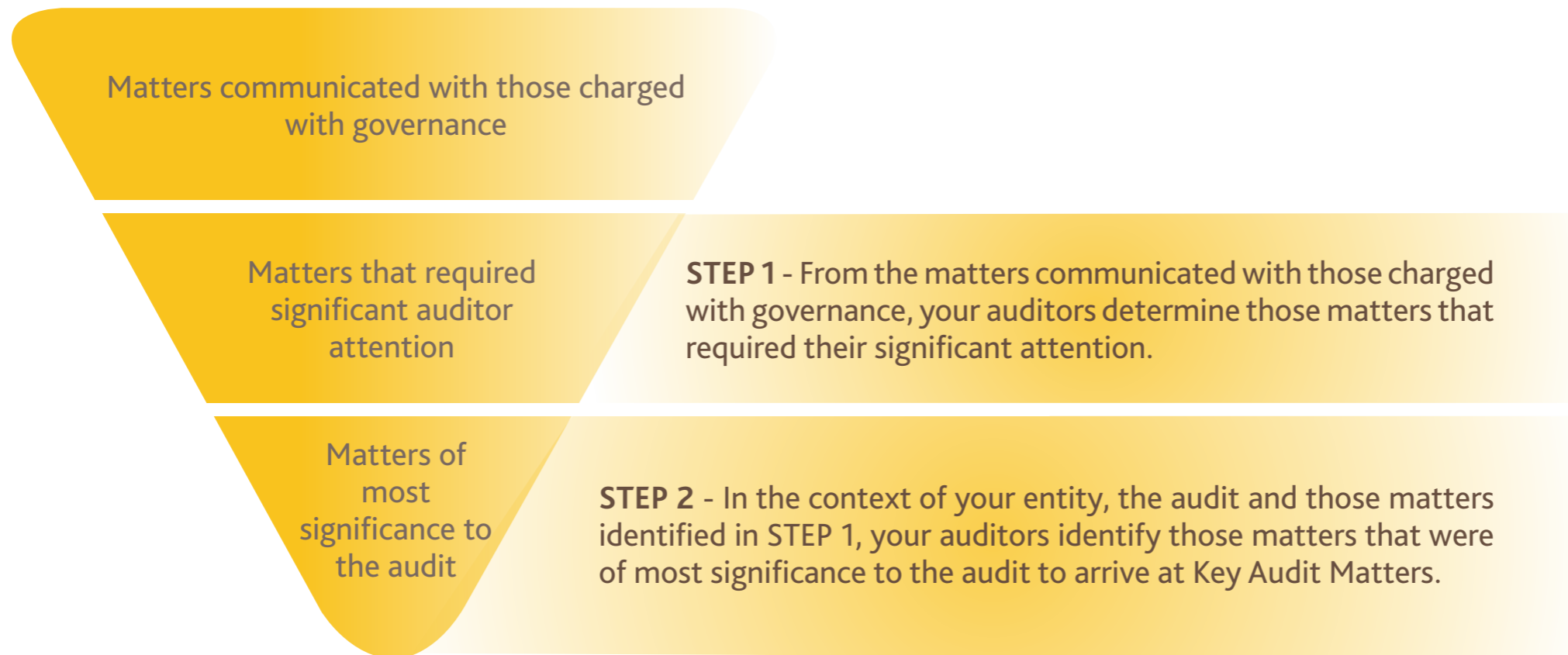
- Local or regional regulators may determine that Key Audit Matters should be extended to include public interest entities that are not listed, or
- National standard setting bodies may determine that the use of Key Audit Matters should be extended to other types of entities (for example, healthcare, housing, or governmental entities).

Even if your auditor's report is not subject to the above criteria, in consultation with your auditors, you may discuss with them how to explore a Key Audit Matters approach to auditor reporting.

## How do your auditors identify Key Audit Matters?

Your auditors will start by specifically considering matters that have already been communicated to those charged with governance. They will then filter these matters to those that required significant auditor attention, such as:

- Areas of **higher assessed risks of material misstatements** or **significant risks**;
- **Significant auditor judgments** relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and
- **Significant events or transactions** that occurred during the period that had a significant effect on the audit.



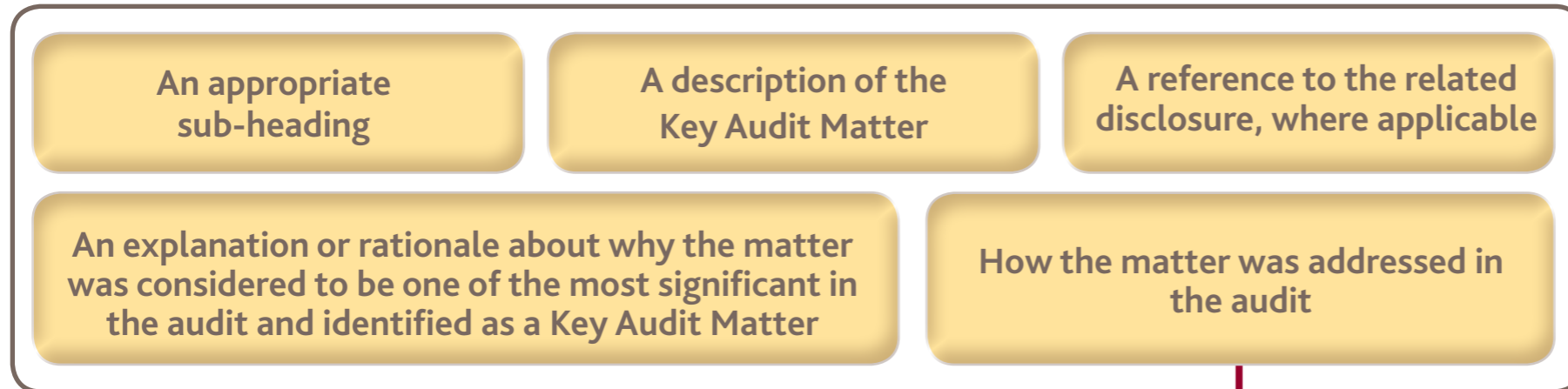
Factors that your auditors would consider when determining those matters that in their judgment were of most significance to the audit could include:

- **Significance of interactions** between your auditors, management and those charged with governance (for example, this might include those matters which required frequent, in-depth or challenging discussions).
- **Importance** of the matter **to understanding the financial statements** as a whole (particularly the impact on investors' and other users' understanding).
- **Materiality** of the matter.
- Nature and extent of **corrected and uncorrected misstatements** associated with the matter.
- **Complexity of the accounting policy** (for example, subjectivity involved in management's selection of a particular accounting policy when compared to other industry or sector norms).
- Nature and extent of your auditor's **audit effort** to address a particular matter (for example, this could be highlighted by the extent to which your auditors had to make use of experts as part of the audit).
- **Difficulty of performing audit procedures**, including matters relating to:
  - obtaining audit evidence
  - evaluating results
  - challenging subjective judgments.
- Existence of **severe control deficiencies** related to the matter.

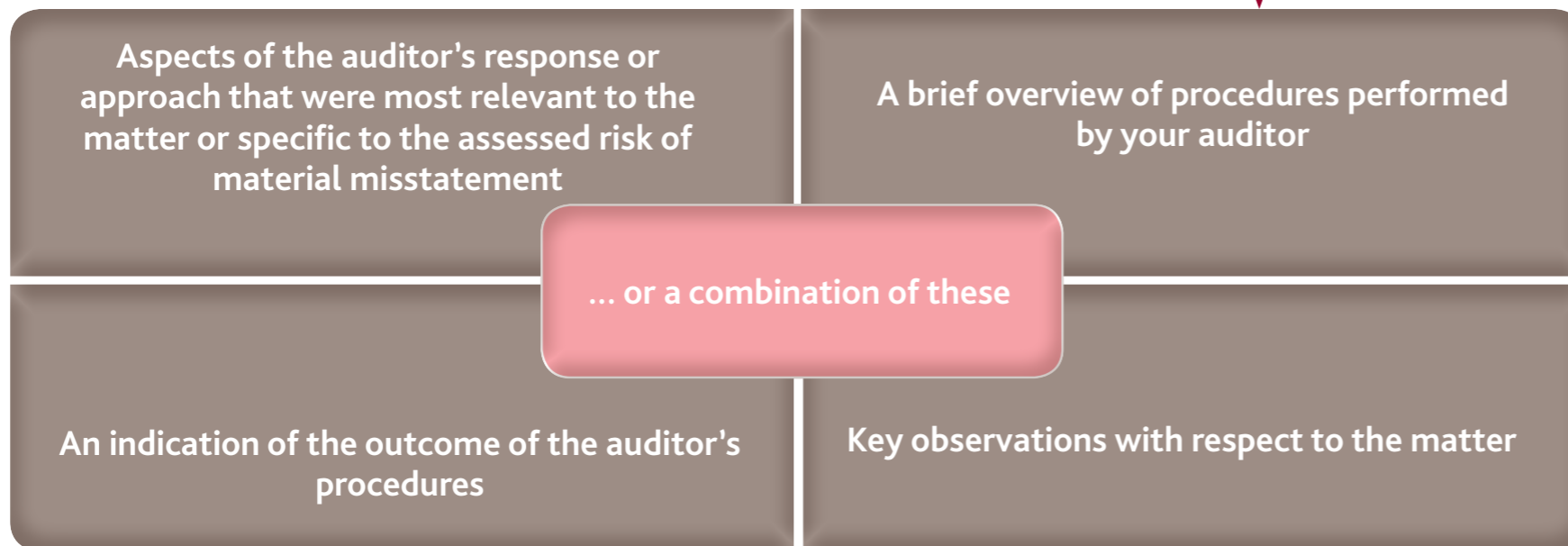


## What are your auditors required to communicate in the Key Audit Matters section?

Each Key Audit Matter has to include:



The description of how each matter was addressed in the audit could include:



ISA 701 makes it clear that your auditors are not expected to provide original information within the Key Audit Matters section of your auditor's report. This would be information about your entity that has not otherwise been made publicly available.

In the auditor's report, your auditors will also need to make it clear that the Key Audit Matters were '*... addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor **does not provide a separate opinion on these matters.***'

# E Examining the EU perspective

*Looking at key changes affecting EU auditor reporting*



## Who will this affect?

New EU directives and regulations became effective from 17 June, 2016 and as a result, will likely affect audits of EU entities for fiscal periods ending 30 June, 2017. Practically this means that there is a difference in timing between the ISA effective date (accounting periods ending on or after 15 December, 2016) and the new EU requirements. If this is the case for your audit, your BDO audit team can work with you to determine a way forward. The new EU changes will have an impact on all audits, with additional requirements affecting all Public Interest Entities (PIEs).

PIEs in the EU definition comprise:

- All entities that are listed on a EU regulated market.
- All credit institutions in the EU, irrespective of whether they are listed.
- All insurance undertakings in the EU, irrespective of whether they are listed.
- Entities defined by the Member State to be a PIE (for example, housing associations, government agencies or healthcare providers, which due to size, nature or significance are of importance to the public interest).

## What are the new requirements for your EU audit reports?

For all EU audits (including PIEs)	Additional requirements for all EU PIE audits
<p>To provide a statement on any material uncertainty relating to events or conditions that may cast significant doubt about your entity's ability to continue as a going concern.</p>	<p>To include in your auditor's audit opinion:</p> <ul style="list-style-type: none"> <li>• A description of the most significant assessed risks of material misstatement, including assessed risks of material misstatement due to fraud;</li> <li>• A summary of your auditor's responses to those risks;</li> <li>• Where relevant, key observations arising with respect to those risks; and</li> <li>• Where relevant, a link to the related disclosure.</li> </ul>
	<p>The auditor's report must confirm that your auditor's opinion is consistent with the additional report provided to the audit committee.</p>

## What are the major differences between the ISA and EU auditor's reports?

Comparison Category	IAASB - ISAs	EU - Directive and Regulations
Effective date	<ul style="list-style-type: none"> <li>Periods ending on or after 15 December, 2016.</li> </ul>	<ul style="list-style-type: none"> <li>The changes became effective from 17 June, 2016 (practically, this means fiscal periods ending 30 June, 2017).</li> </ul>
Audited entity differences	<ul style="list-style-type: none"> <li>ISA requirements apply to all audits of entities.</li> <li>Key Audit Matters and engagement partner name requirements only apply to listed entities (unless required by law or regulation).</li> </ul>	<ul style="list-style-type: none"> <li>Directive applies to all audits in the EU.</li> <li>EU Regulation to report on significant risks of material misstatement applies only to PIEs.</li> <li>Inclusion of engagement partner name is already a requirement.</li> </ul>
Format of auditor's report	<ul style="list-style-type: none"> <li>Specific changes for all audits requiring Opinion paragraph to be the first section of the auditor's report.</li> <li>Provision to allow auditors to document the section on auditor's responsibilities in an appendix or to make use of a website.</li> </ul>	<ul style="list-style-type: none"> <li>No changes specified.</li> </ul>
Key Audit Matters or EU equivalent	<ul style="list-style-type: none"> <li>'Key Audit Matters' – those matters that are of most significance in the audit, determined from the matters communicated to those charged with governance and that required significant auditor attention.</li> <li>Your auditors will need to communicate: <ul style="list-style-type: none"> <li>Rationale for identifying Key Audit Matters.</li> <li>Information about how the audit addressed the Key Audit Matters.</li> <li>Where appropriate, include links to the related disclosures in the financial statements.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Similar to the ISAs, auditors are required to provide a description of the most significant assessed risks of material misstatement, including assessed risks due to fraud. In addition, they will need to communicate: <ul style="list-style-type: none"> <li>A summary of their response to those risks.</li> <li>Where relevant, key observations arising with respect to those risks.</li> <li>Where appropriate, links to the related disclosures in the financial statements.</li> </ul> </li> </ul>
Independence and non-audit services	<ul style="list-style-type: none"> <li>Includes an affirmative statement in your auditor's report about their independence and other relevant ethical requirements.</li> </ul>	<ul style="list-style-type: none"> <li>Requires a declaration from your auditor or other firms in their network that no prohibited non-audit services have been provided and that they have remained independent of your entity.</li> </ul>
Audit tenure	<ul style="list-style-type: none"> <li>Not covered by the ISAs.</li> </ul>	<ul style="list-style-type: none"> <li>Need to provide: <ul style="list-style-type: none"> <li>The date your auditor was appointed; and</li> <li>Their period of tenure.</li> </ul> </li> </ul>

Comparison Category	IAASB - ISAs	EU - Directive and Regulations
Going concern	<ul style="list-style-type: none"> <li>• Statement required when a material uncertainty exists relating to your entity's ability to continue as a going concern.</li> <li>• New and enhanced description of auditor and management responsibilities relating to going concern.</li> </ul>	<ul style="list-style-type: none"> <li>• Same as the ISA requirements, except the requirement about respective responsibilities of auditors and management is not specified.</li> </ul>

The EU changes also have an impact on requirements relating to the additional report to the audit committee and reporting to a supervisory authority. Further information on these matters, as well as an overall comparison between the new ISA and EU requirements, can be found in a briefing paper issued by the Federation of European Accountants (FEE) *Recent Developments in Auditor Communication*.

Additional EU changes that affect independence and non-audit services, audit fees and auditor rotation, engagement quality control review and transparency reporting became effective from 17 June, 2016. Client publications on aspects of these changes will be made available on the [bdo.global](http://bdo.global) web site shortly.

## What can you do to plan for the auditor reporting changes?

With the new auditor reporting changes becoming effective for financial statement periods ending on or after 15 December, 2016 and the EU changes becoming effective for 30 June, 2017 fiscal period ends, it is important that you plan ahead. Our approach when working with you is to provide you with transparency, clarity and confidence that we will support you during this period of change.

Regardless of your jurisdiction, early engagement between all of us will lead to successful implementation of these new auditor reporting requirements.

Please let us know your views and share your questions with us by talking to your BDO engagement team contact. You can also contact your local BDO member firm for further information and find out more about BDO on our [bdo.global](http://bdo.global) web site.





Forging your own path in a world of change

