

Audit Report - New & Revised SA Background

CA Naysar Parekh
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Background:

Reasons: Changes in Auditor's Report

- Global Financial Crisis – prompted Auditor reporting initiatives around the world
- Expectations of Investors & Other Users from Audit Report:
 - More than the pass / fail option
 - Relevant & informative
- Improved reporting – essential for continued relevance of Audit function globally

Background:

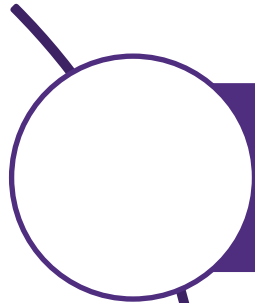
Expected Benefits : New Audit Report

- Enhanced Value through:
 - Overall improvement in key deliverable of audit
 - Increased transparency in Audit & its results
- Audit report to include information about areas of Auditor's focus with a view to:
 - Increase audit quality, due to increased auditor focus on matters to be reported
 - Enhance financial statement disclosures, due to increased focus by management and those charged with governance on matters to be reported
 - Enhance communications between the auditor and those charged with governance

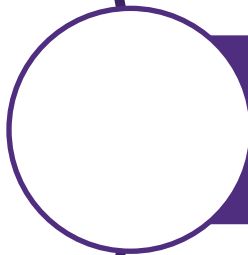
Audit Reporting: New & Revised SA

SA No.	SA Name
SA 700 (Revised)	Forming an Opinion and Reporting on Financial Statements
SA 701	Communicating Key Audit Matters in the Independent Auditor's Report
SA 705 (Revised)	Modifications to the Opinion in the Independent Auditor's Report
SA 706 (Revised)	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
SA 720 (Revised)	The Auditor's Responsibilities relating to Other Information

Enhancements to Auditor's Report



Opinion first, followed by Basis for Opinion



Affirmative statement of independence and fulfillment of relevant ethical responsibilities



Going concern
Description of management and auditor responsibilities
Separate dedicated section to material uncertainty, when exists

Enhancements to Auditor's Report



Identification of those charged with governance within management responsibilities section

Expanded description of auditor responsibilities, including key features of an audit

New section addressing Key Audit Matters

- Those matters, in the auditor's judgment, were of most significance in the audit of the current period

Audit Report: Changes in Structure

Parameters / Structure	<u>Report on the Financial Statements (Earlier)</u>	<u>Report on Audit of Financial Statements (Revised)</u>
Title:	Independent Auditor's Report	Independent Auditor's Report
Addressee	As per Engagement terms	As per Engagement terms
Subtitle	Report on the FS	Report on the Audit of the FS
Introductory Paragraph	<ul style="list-style-type: none"> - Whose FS are audited and period covered - Title of each statement in FS - Refer summary of significant accounting policies and explanatory information 	No Introductory Paragraph <ul style="list-style-type: none"> • Opinion: Including information to be mentioned in introductory paragraph before • Basis for Opinion • Material Uncertainty, if applicable • Key Audit Matters • Emphasis on Matter (EOM)

Audit Report: Changes in Structure

Parameters / Structure	<u>Report on the Financial Statements (Earlier)</u>	<u>Report on Audit of Financial Statements (Revised)</u>
	Management's Responsibility for the Financial Statements	Responsibilities of Management and Those Charged with Governance for the Financial Statements
	Auditor's Responsibility	Auditor's Responsibilities for the Audit of the Financial Statements
	Basis for modified opinion, if any	Covered in Opinion
	Auditor's Opinion	Covered in Opinion
	Emphasis on Matter	
	Other Matters	Other matter (OM)
	Subtitle: Report on Other Legal and Regulatory Requirements	Subtitle: Report on Other Legal and Regulatory Requirements
	Signature / Date / Place	Signature / Date / Place

SA 701

Communicating Key Audit Matters in the Independent Auditor's Report



Introduction

The purpose of communicating key audit matters:



to enhance the communicative value of the auditor's report



providing greater transparency about the audit that was performed.

Introduction

- 
- This SA applies to audits of

- Complete sets of general purpose financial statements **of listed entities**
- Circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report and

- When the auditor is required by law or regulation to communicate key audit matters in the auditor's report

Quiz Time

Does SA 701 apply for audits of interim financial statements or audit of financial results in accordance with the SEBI LODR requirements?

NO

The status of listing is to be determined as of which date?

Reporting Date

Whether SA 701 applies to the entities which are in the process of getting listed as at the reporting date ?

NO

If a company has its securities listed on a foreign stock exchange, is the auditor required to communicate key audit matters as per SA 701?

YES

The Securities include shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature. – True or false.

TRUE

Questions

What is a KAM?

How do we identify
KAM?

Where do we
report?

Documentation?



What is KAM?

Definition

- 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.
 - (SA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*)

Determining Key Audit Matters

The auditor shall consider the following;

- Areas of higher assessed risk of material misstatement;
- Areas in the financial statements that involved significant management judgment, including accounting estimates;
and
- Significant events or transactions that occurred during the period

Matters that required significant auditor's attention

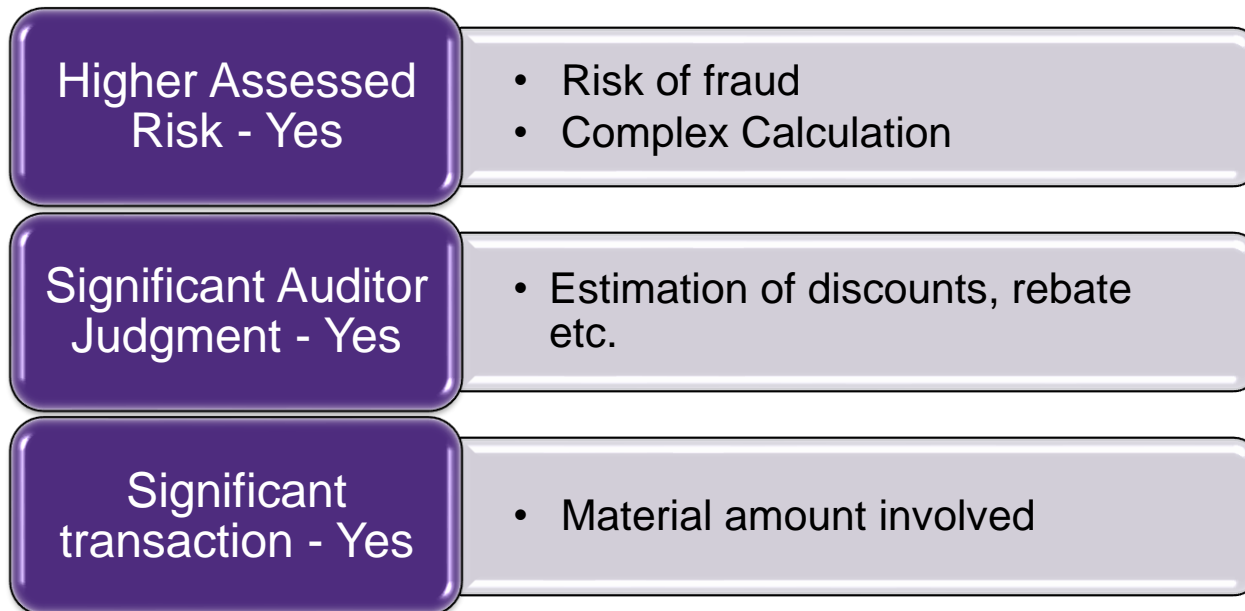
- Significant Judgment Involved
- Sufficiency and appropriateness of audit evidence available
- Reliance on management assumptions
- Experts needed
- High risk areas
- Risk of fraud
- Complex calculation

Key Audit Matters:

- Nature of accounting policy – if it is complex;
- Significant adjustments – corrected or uncorrected misstatements;
- Significant control deficiencies;
- judgments or estimates;

Examples

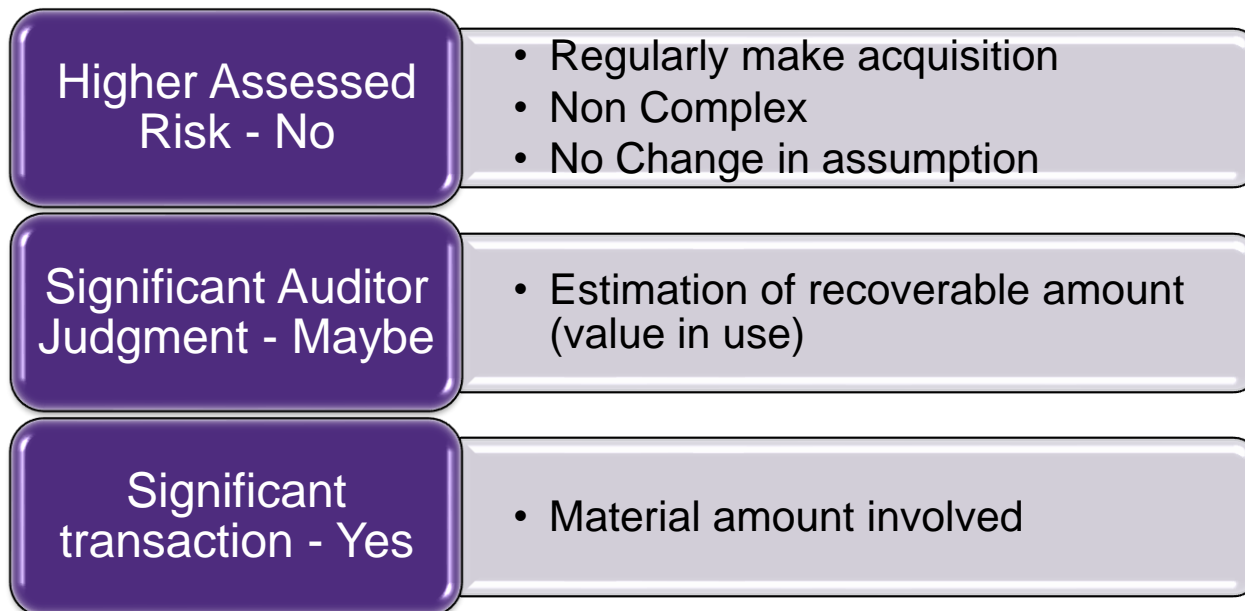
1. Revenue is measured net of discounts, incentives and rebates on the Group's sales. The estimation of discounts, incentives and rebates recognised based on sales made during the year is material and considered to be complex and judgemental. Therefore, there is a risk, revenue is misstated. There is also a risk that revenue may be overstated due to fraud through manipulation of the discounts, incentives and rebates recognised resulting from the pressure local management may feel to achieve performance targets.
- Is it a Key Audit Matter?



Y
E
S

Examples

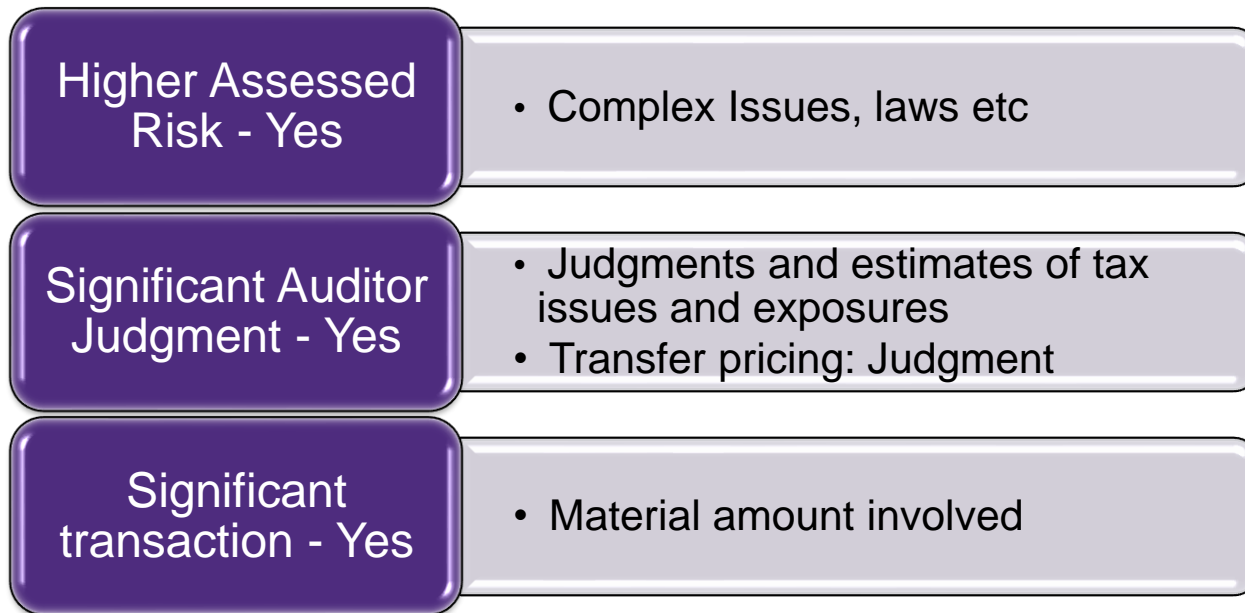
2. During the year the Group made three acquisitions which resulted in Rs. 10.5 millions (material to the group) of goodwill and intangibles recognised in the Group accounts. Goodwill is allocated to its four cash generating units (CGU) which are expected to benefit from the synergies of the acquisitions. Goodwill is measured at cost less accumulated impairments. The recoverable amount was based on its value in use. Sensitivity analyses were performed around the base assumptions and there are no reasonably possible changes in a key assumption. Therefore no impairments were identified in the year. These assets are not amortised but are subject to a review for impairment annually.
- Is it a Key Audit Matter?



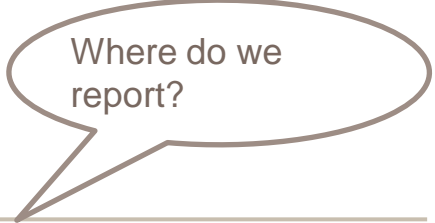
N
O

Examples

3. The Group has extensive international operations and exposure to direct and indirect taxes. Provisions for indirect tax require the Directors to make judgements and estimates in relation to the issues and exposures. In Brazil, one of the Group's largest markets, the complex nature of the local tax regulations make this a particular area of significant judgement. This is also a key judgement due to the Group operating in a number of tax jurisdictions, the complexities of transfer pricing and other tax legislation.
- Is it a Key Audit Matter?



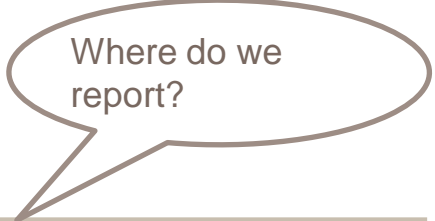
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Where do we report?

Communicating Key Audit Matters

- Describe each key audit matter, using an appropriate subheading, under the heading “Key Audit Matters”.
- **Placement:** Should below the “Basis for Opinion” para.
- The introductory language in this section of the auditor’s report shall state that;
 - a) Key audit matters are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements
 - b) These 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



Where do we report?

Communicating Key Audit Matters

- The description of each key audit matter shall include a reference to the related disclosure(s), if any, in the financial statements and shall address
 - Why the matter determined to be key audit matter
 - How the matter was addressed in the audit
- Below are by their nature key audit matters:
 - A matter giving rise to a modified opinion in accordance with SA 705 (Revised), or
 - A material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SA 570 (Revised),

Communicating Key Audit Matters

- SA 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements
- **Exceptions in reporting of KAM;**
 - a) Law or regulation precludes public disclosure about the matter; or
 - b) Auditor determines that the matter should not be communicated in the auditor's report because the adverse consequence of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Documentation

The auditor shall document;

- The matters that required significant auditor attention, and the rationale for the auditor's determination as to whether or not each of these matter is a key audit matter;
- Where applicable, the rationale for the auditor's determination that there are no key audit matter to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed separately under basis for qualified opinion or material uncertainty related to going concern;
- Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter

Points to be kept in mind

- Determination of Key audit matter is subject matter of professional judgment;
- When giving the key audit matters use lucid language as technical jargon may not be necessarily understood by all stakeholders;
- Draft the key audit matters with utmost caution as it should clearly convey it's meaning and intent;
- EOM/OM paragraph cannot be used as a substitute for key audit matter. SA 706 (Revised) expressly prohibits including under EOM/OM paragraph, a matter that has been determined as key audit matter;

Points to be kept in mind

- KAM of unlisted subsidiary companies!!!

In case of Consolidated Financial Statements, Key Audit Matters need to be included for subsidiary company as well.

This may be obtained from the subsidiary auditors in their report or via the Group Audit Instructions.

Impact of COVID 19

- Exercise Professional Skepticism
- Impact on Operations of Entity
- Consequential impact on FS
- Determine if the same is a Key Audit Matter

SA 720

Auditor's Responsibilities Relating to Other Information



Objectives

Why is the need for standard?

- To maintain the credibility of the financial statements

What is the requirement?

- Read and determine whether financial statements and other information is consistent

How are auditors expected to comply?

- Agree with management
- Document the procedures performed
- Obtain Representation from Management

What is the requirement?

- Auditor to read and consider whether there is material inconsistency between the
 - other information and the FS
 - other information and the auditor's knowledge obtained in the audit
- Respond / perform additional procedures if there is material inconsistency
- Report as required by SA

	Listed entities	Unlisted corporate entities	Unlisted noncorporate entities
All Requirements except reporting requirements	Applicable	Applicable	Applicable
Reporting requirements	Applicable	Applicable	Not applicable

How are auditors expected to comply?

Agree with management

- ❑ **Timely availability** of the draft of Other Information – *ideally before audit report is finalised*
 - Include clauses in the engagement letter for timely provision
 - In case not available prior to the date of financial statements, the engagement letter must require management to provide a copy when ready

How are auditors expected to comply?

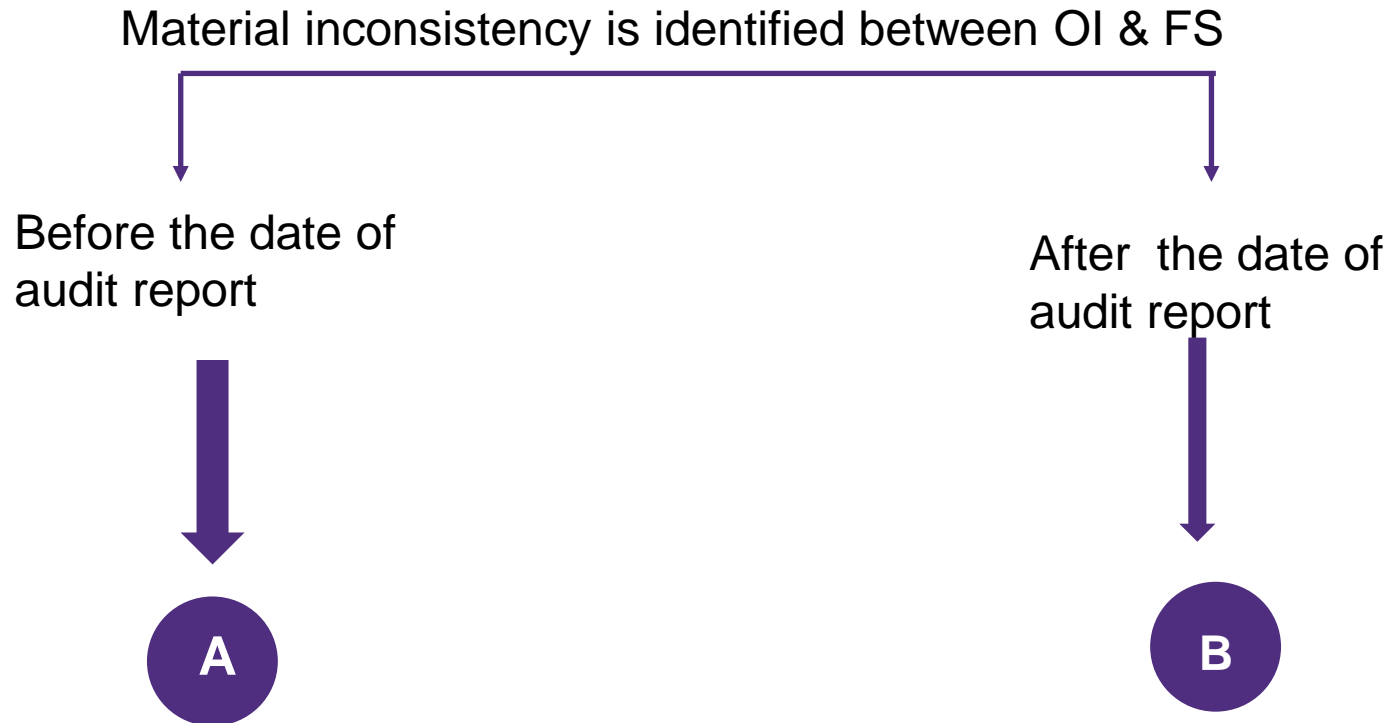
Agree with management

- ❑ **Constituents of Other Information** – this may include
 - Director’s Report (with annexures – Annual Return extracts, Secretarial audit report, annual report on CSR, etc.),
 - Management Discussion & Analysis
 - Corporate Governance Report
 - Business Responsibility Report
 - Shareholder information
 - Any other information/report forming part of the annual report
 - Also, refer to Regulation 34 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 specifying the contents of the annual report.

Questions

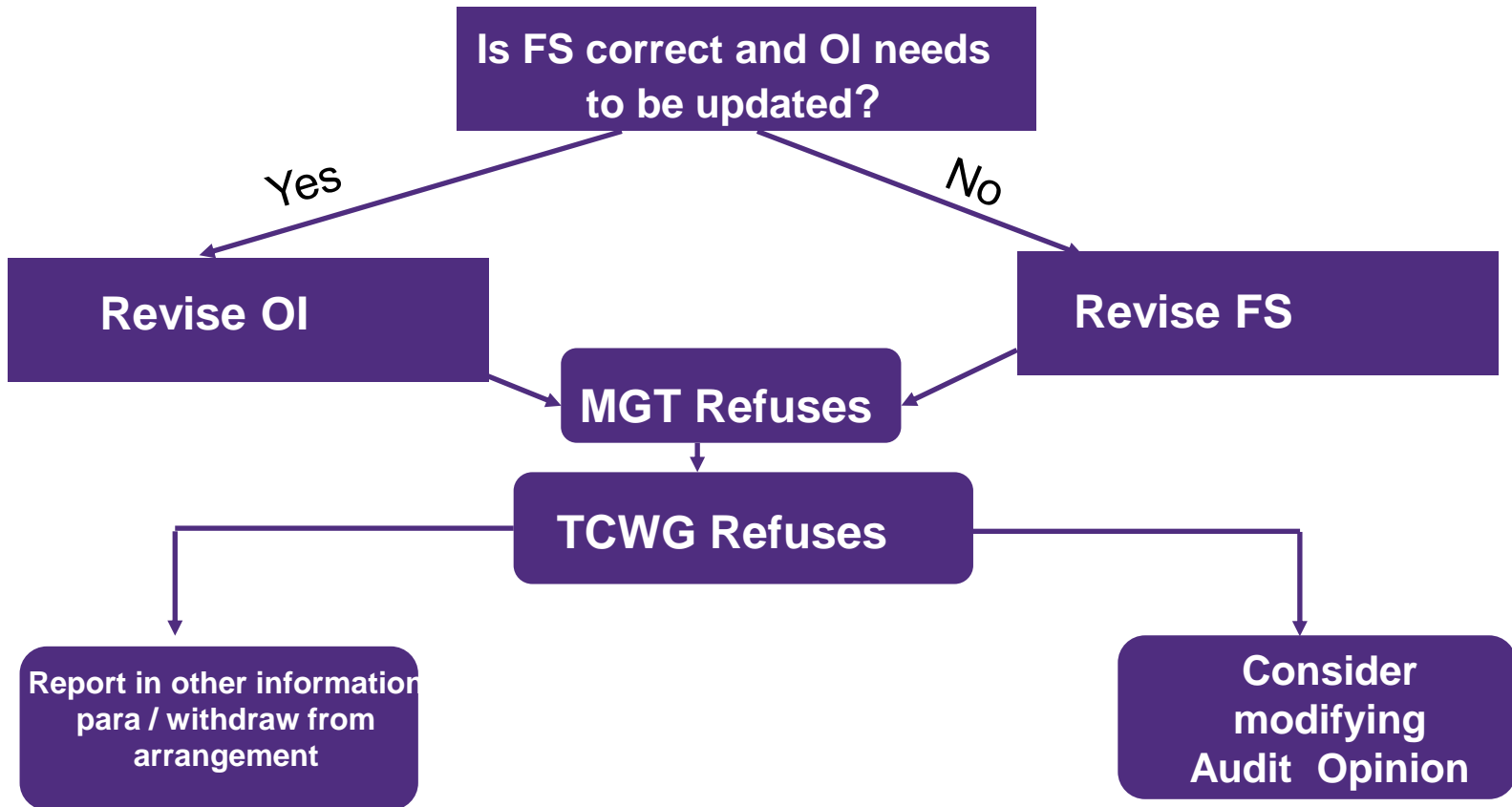
- Is the auditor required to audit 'Other Information' for purpose of expressing an opinion on true and fair view of the financial information?
- What could be possible instances of material misstatement of facts, which the auditor may become aware of while reading other information?

How are auditors expected to comply?



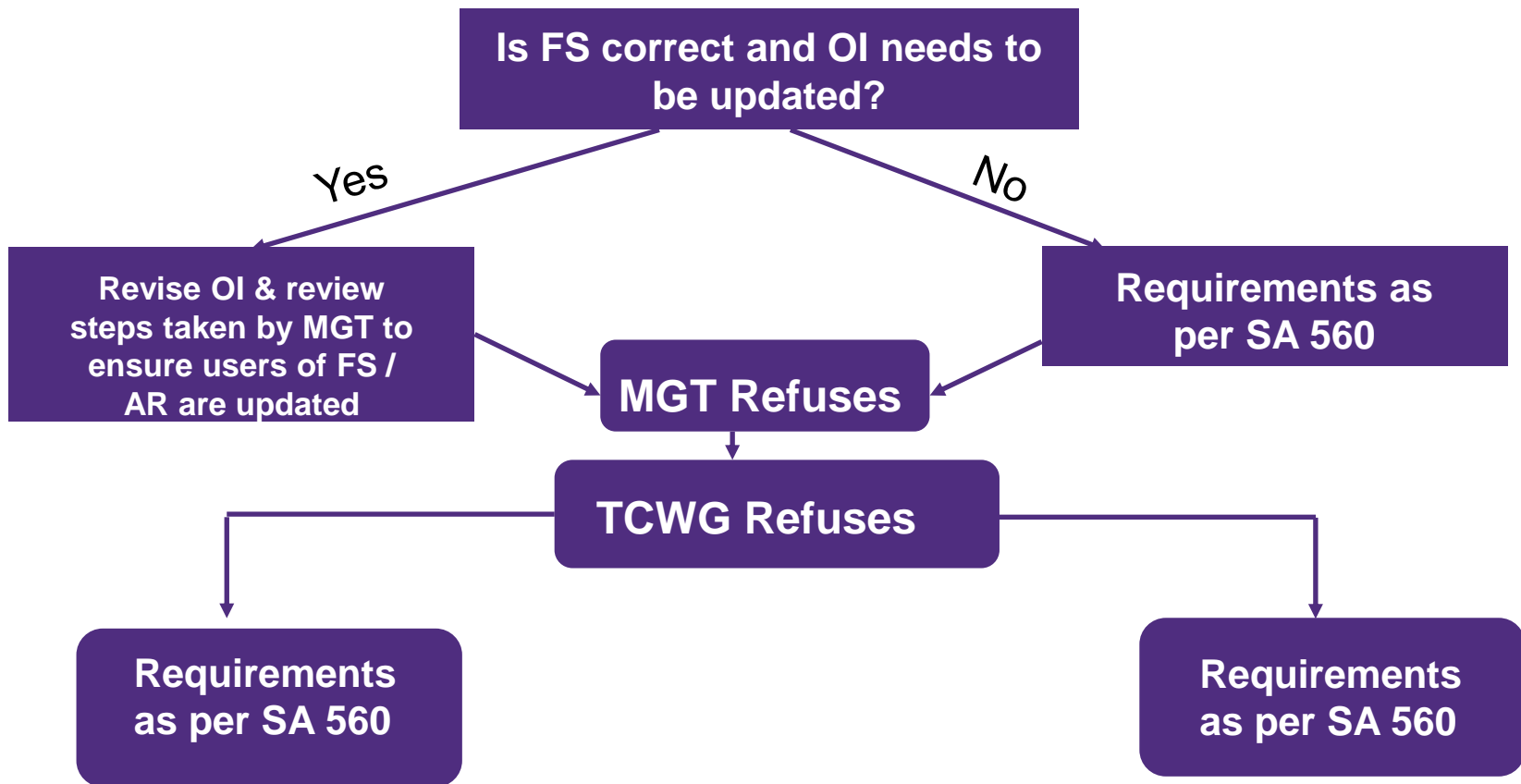
How are auditors expected to comply?

A



How are auditors expected to comply?

B



How are auditors expected to comply?

Written confirmation

- ❑ That drafts are near final
- ❑ Other Information to be *consistent with financial statements*
- ❑ In case some information is not provided during audit process:
 - ❑ mention this fact in audit report
 - ❑ written representation from management that the final version of the outstanding documents, if any, will be available to us prior to issuance by entity.

Reporting Considerations

- **Separate section with a heading “Other Information” or other appropriate heading**
- **Placement**
 - Listed entity [after key audit matter paragraph but before management responsibility]
 - Unlisted entity [after basis for opinion but before management responsibility]
- **Consider extent of information**
 - Not available
 - Partly available
 - Fully available

Reporting Considerations

Information received prior to the date of auditor's report

- Management responsibility
- Identify information received
- State that opinion does not cover other information
- auditor's responsibility relating to reading, considering and reporting on other information
- Conclusion
 - auditor has nothing to report; or
 - a statement that describes the uncorrected material misstatement of the other information

Reporting Considerations

Information not received/partly received prior to the date of auditor's report

- Management responsibility
- Identify the other information partly received
- For listed entity, identify any information expected to be made available to the auditor after the reporting date [consider partly received]
- Mention auditor's responsibility is to read and consider the other information
- Conclusion
 - auditor has nothing to report; or
 - a statement that describes the uncorrected material misstatement of the other information

Other Considerations

- In addressing the requirements of SA 230, the auditor shall include in the audit documentation:
 - Documentation of the procedures performed under this SA; and
 - The final version of the other information on which the auditor has performed the work required under this SA.
- Disclaimer of opinion – Auditor’s report not to include reporting on other information
- Consideration to be given to the implications of the matter giving rise to modification in the audit opinion while reporting on Other Information.
- If Material Inconsistency is identified between the other information and auditor’s knowledge obtained in the audit - revise the auditor’s risk assessment.

Impact of COVID 19

- Exercise professional skepticism
- Audit of accounting estimates
 - Information given for projections
 - Information given for going concern

Questions?

Thankyou