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AUDIT COMMITTEE FORUM

# Enhancing the auditor's report

March 2015



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# Overview of changes to the auditor's report



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# Enhancing the auditor's report

**15 January 2015**

New and revised standards published

**1 January 2016<sup>1</sup>**

Effective date (early application permitted)

**31 December 2016<sup>1</sup>**

First annual financial statements in which amendments are effective

## Overview

- Changes to the auditor's report aim to give users more insight into the audit
- New requirements improve transparency and enhance the nature of communications with stakeholders
- No change to the current scope of an independent audit

## Key changes in the auditor's report

- Revised descriptions of management and auditor responsibilities
- Description of work performed by the auditor on other information and their findings
- For listed companies:
  - description of key audit matters
  - disclosure of engagement partner's name (already required in SA)

<sup>1</sup> Assumes a 31 December annual reporting date

# Enhancing the auditor's report

## Key audit matters

Those matters that the auditor judged were of the **most significance** to the audit of the current period financial statements, selected from matters communicated with those charged with governance.

Those matter that required significant auditor attention eg areas with

- Higher assessed risk of material misstatement or significant risks
- Significant management judgement, including high estimation uncertainty
- Significant events and transactions during the period

**\*Specific to the entity\***

## Description

- For each key audit matter, the auditor should explain:
  - **why** they consider that matter to be one of most significance; and
  - **how** the matter was addressed
- Cross reference to disclosures in financials
- The auditor should try to avoid providing original information about the company in the description of a key audit matter

## Bottom line

- Significant change in auditor reporting for listed companies
- Increased interaction with senior management and those charged with governance

# Format and content of the auditor's report

## Opinion

- **Always** first
- Identifies the financial statements audited (previous introduction)

## Basis for opinion

- **Always** after the opinion
- Audit conducted in accordance with ISAs
- Auditor **independent** in accordance with ethical requirements

## Responsibilities for financial statements

- Directors responsible for:
  - Preparing financials to framework and internal controls
  - Assessing entity's ability to continue as a **going concern** and whether the use of the going concern basis is appropriate
- Identify those responsible for **oversight** of financial reporting process (if different from directors)

# Format and content of the auditor's report

## Other information

- Description of respective responsibilities of directors and auditor

## Auditor's responsibilities

- Expanded description of responsibilities
  - Includes a description of what **materiality** means
  - Auditor's responsibility to conclude on the appropriateness of management's use of the **going concern** assumption
  - Evaluating whether overall presentation represents underlying transactions and events in a manner that achieves **fair presentation**
  - Description of matters communicated with **those charges with governance** and requirement to report KAMs (if applicable)
- Location:
  - Body of report, appendix to report or website of an appropriate authority where law, regulation or national auditing standards expressly permit this

# Format and content of the auditor's report

## Report on Other Legal and Regulatory Requirements

- Other reporting responsibilities
- Separate section unless responsibilities address same topics as those presented under reporting responsibilities required by ISAs
  - e.g. independence of the auditor

## Name of the engagement partner

- SA: APA requirement for all entities
- Other countries: listed entities, unless significant security threat (discuss with Those charged with governance)

## Signature

## Address

## Date



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# Considerations for audit committees



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# Considerations for audit committees

## Timing

- Do audit committees support early adoption of auditor reporting requirements?
- Engage with auditor

## Oversight role

- The auditor will be throwing a spotlight on certain areas of the financial statements: how has the audit committee satisfied themselves that the highlighted areas are satisfactory?

## Reporting

- How are audit committees telling users of the financial statements their side of the story?
- If no mention is made of areas highlighted as KAMs, will users (mis)understand AC role?

Bear in mind the aim:  
**Greater transparency**

# Considerations for audit committees: Reporting

## UK requirements

**Amended Code of Corporate Governance:** Audit committees required to report on, inter alia

- the significant issues the committee considered in relation to financial statements, and
- how these issues were addressed

See extracts of audit committee reports for Rolls Royce, New World Resources, Kazakhmys (available on the ACF website)

## SA requirements (current)

**S94(7)(f) of the Companies Act of South Africa:** Audit committee's report required to

- describe how the audit committee carried out its functions;
- state whether the audit committee is satisfied that the auditor was independent of the company; and
- commenting in any way the committee considers appropriate on the financial statements, the accounting practices and the internal financial control of the company

# Considerations for audit committees: Reporting

## Best practice

- Engage with stakeholders for areas of interest
- Look to audit committee reporting in UK as best practice for reporting
- **Don't wait for the auditors to start reporting**

## Audit Committee Forum

- Education for AC members on enhanced auditor reporting and its purpose
- To put out an **ACF Alert** on best practice for audit committee reporting

## King IV

- **Opportunity to codify best practice for audit committees** (best practice for directors probably already contained in IFRS)



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**Thank you for your  
participation today.**

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