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| **INDEPENDENT REGULATORY BOARD FOR AUDITORS** |

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| **Feedback on the IRBA Pro Forma Inspections of the New Auditor's Reports**  Johannesburg / 30 September 2016  **Background**  The IRBA had the opportunity to collaborate with firms to conduct pro forma inspections of the new auditor's report. The pro forma inspections focused on the form and content of the new auditor's report prepared in terms of the new and revised Auditor Reporting Standards. These changes are significant. They will affect all audit clients and will involve firm-wide preparations.  The new and revised Auditor Reporting Standards are effective for audits of financial statements for periods ending on or after 15 December 2016, which is just less than three months away.  **Summary of Changes**  Which are the new and revised Auditor Reporting Standards?   * ISA 700 (Revised), [*Forming an Opinion and Reporting on Financial Statements;*](http://www.irba.co.za/upload/ISA-700-Revised.pdf) * ISA 701, [*Communicating Key Audit Matters in the Independent Auditor's Report;*](http://www.irba.co.za/upload/ISA-701.pdf) * ISA 705 (Revised), [*Modifications to the Opinion in the Independent Auditor's Report*](http://www.irba.co.za/upload/ISA-705-Revised.pdf)*;* * ISA 706 (Revised), [*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*](http://www.irba.co.za/upload/ISA-706-Revised.pdf)*;* * ISA 570 (Revised), [*Going Concern*](http://www.irba.co.za/upload/ISA-570-Revised.pdf)*;* * ISA 260 (Revised), [*Communication with Those Charged with Governance*](http://www.irba.co.za/upload/ISA-260-Revised.pdf); and * [*Related Conforming Amendments to other ISAs*](http://www.irba.co.za/upload/Conforming-Amendments-to-ISAs.pdf).   In addition, the following related standards have also been revised:   * ISA 720 (Revised), [*The Auditor's Responsibilities Relating to Other Information*](http://www.irba.co.za/handbooks-of-international-standards/2015-handbook); * ISA 800 (Revised), [*Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*;](http://www.irba.co.za/handbooks-of-international-standards/2015-handbook) * ISA 805 (Revised), [*Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*](http://www.irba.co.za/handbooks-of-international-standards/2015-handbook)*;* and * ISA 810 (Revised), [*Engagements to Report on Summary Financial Statements*.](http://www.irba.co.za/handbooks-of-international-standards/2015-handbook)   What are Key Audit Matters (KAM)?   * From all the changes to the auditor's report, KAM are expected to have the most significant impact, not only on the auditor's report but also on the users of audited financial statements. * KAM are defined as those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated to those charged with governance. * ISA 701*, Communicating Key Audit Matters in the Independent Auditor's Report*, deals with the auditor's responsibility to communicate KAM in the auditor's report. It addresses both the auditor's judgement as to what to communicate in the auditor's report and the form and content of such communication. * The auditor is required to communicate KAM in the auditor's report for all audits of complete sets of general purpose financial statements of listed entities. * KAM may also be applicable to entities other than listed entities when the auditor is required by law or regulation to communicate KAM in the auditor's report or when the auditor decides, for a particular audit, to voluntarily communicate KAM.   **Summary of Findings from Pro Forma Inspections**   * The descriptions of KAM communicated in the auditor's report were:   + Misaligned to the disclosure in the financial statements.   + Not comprehensive and clear enough for users with limited financial background to easily understand the KAM and make informed decisions.   + Found to omit reference to the relevant disclosure in the financial statements.   + Contained 'boilerplate' language.   + Misaligned to the information disclosed in the Audit Committee Report. * There was insufficient evidence or there were poor linkages in working papers of the process followed in determining KAM. * Working papers did not yet fully reflect all the changes arising from the full suite of new and revised Auditor Reporting Standards. * Several elements of the format of the illustrative reports contained in the [South African Auditing Practice Statement (SAAPS) 3, *Illustrative Reports*](http://www.irba.co.za/upload/SAAPS%203_Illustrative%20Reports_Revised_Nov%202015_PDF.pdf)*,* were found not to be followed, or were completely omitted.   As firms and engagement teams finalise their preparations to implement the new and revised standards, we highlight below the resources developed to support implementation.  **Dedicated webpage on the IRBA website:**  Click [here](http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards)  This page includes the following resources:   * The new and revised Auditor Reporting [***Standards***](http://www.irba.co.za/guidance-to-ras/the-new-and-revised-reporting-standards). * [***Communiques***](http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards/communiques):   + 17 June 2015 - The IRBA Board Adopts the IAASB's New and Revised Auditor Reporting Standards and Related Conforming Amendments.   + 18 June 2015 - Visit by the IAASB Leadership and Resources for the Implementation of the New and Revised Auditor Reporting Standards. * [***KAM on a page***](http://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards/kam-on-a-page). * [***Digital media resources***](http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards/digital-media-resources,-magazine-articles,-slides)***:***   + A ***webcast*** of the free joint SAICA/IRBA event, 'The New Auditor's Report - Straight from the Horse's Mouth', targeting JSE-accredited auditors and focusing on key audit matters.   + A recording of the CNBC Africa ***television interview*** with Professor Arnold Schilder on 'Digging Deeper into the Newly Revised Auditing Standards' during the prime time show Closing Bell South Africa (interviewer Gugulethu Cele).   + A **podcast** of the Power FM ***radio interview*** with Professor Arnold Schilder and Bernard Agulhas during the prime time show Power Hour (interviewer Victor Kgomoeswana). * [***Articles in the Accountancy SA magazine***](http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards/digital-media-resources,-magazine-articles,-slides)*published by SAICA****:***   + April 2015 edition:     - Focus on Key Audit Matters; and     - New Auditor's Report.   + July 2015 edition:     - Special feature: The new auditor's report - with articles on:     - Ins and outs of The New Auditor's Report;     - Key audit matters: questions and answers;     - Auditor's report and financial statement disclosures;     - Audit committee reporting;     - What's going on with going concern?; and     - Effect on smaller entities. * [***Slides***](http://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards/digital-media-resources,-magazine-articles,-slides)***:***   + The IAASB/SAICA/IRBA slides from the event 'The New Auditor's Report - Straight from the Horse's Mouth'. * A link to[***SAICA resources***](http://www.irba.co.za/guidance-for-ras/technical-guidance-for-ras/auditing-standards-and-guides/the-new-and-revised-auditor-reporting-standards/saica)***.***   **Dedicated webpage on the** [**IAASB website**](http://www.iaasb.org/new-auditors-report)**:**  Click [here](http://www.iaasb.org/new-auditors-report)  The following extensive resources have been developed by the IAASB:   * The new and revised Auditor Reporting Standards; * Auditor Reporting Fact Sheet\*\*; * Press Release; * Slide Presentation in Support of the IAASB's New and Revised Auditor Reporting Standards\*\*; * At a Glance\*\*; * Basis for Conclusions\*\*; * Auditor Reporting Project History\*\*; * Auditor Reporting - Key Audit Matters\*\*; * Auditor Reporting - Key Audit Matters Diagram\*\*; * Auditor Reporting - Illustrative Key Audit Matters\*\*; * Auditor Reporting on Going Concern\*\*; and * The New Auditor's Report: A Comparison between the ISAs and the PCAOB Re-proposal\*\*.   ***Alert****: Please note that the publications marked \*\* have not been subjected to the IAASB or the IRBA due process and are not authoritative. They have not been issued by the IRBA. They are provided in order to assist registered auditors with the implementation of the new and revised auditing standards. The new and revised Auditor Reporting Standards are authoritative.*   |  |  | | --- | --- | | **Imre Nagy** | **Imran Vanker** | | **Director: Inspections** | **Director: Standards** |     ***About the IRBA***  *The objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.* |