Public Interest Oversight Board

INTERNATIONAL STANDARD SETTING
&
AUDIT CHALLENGES

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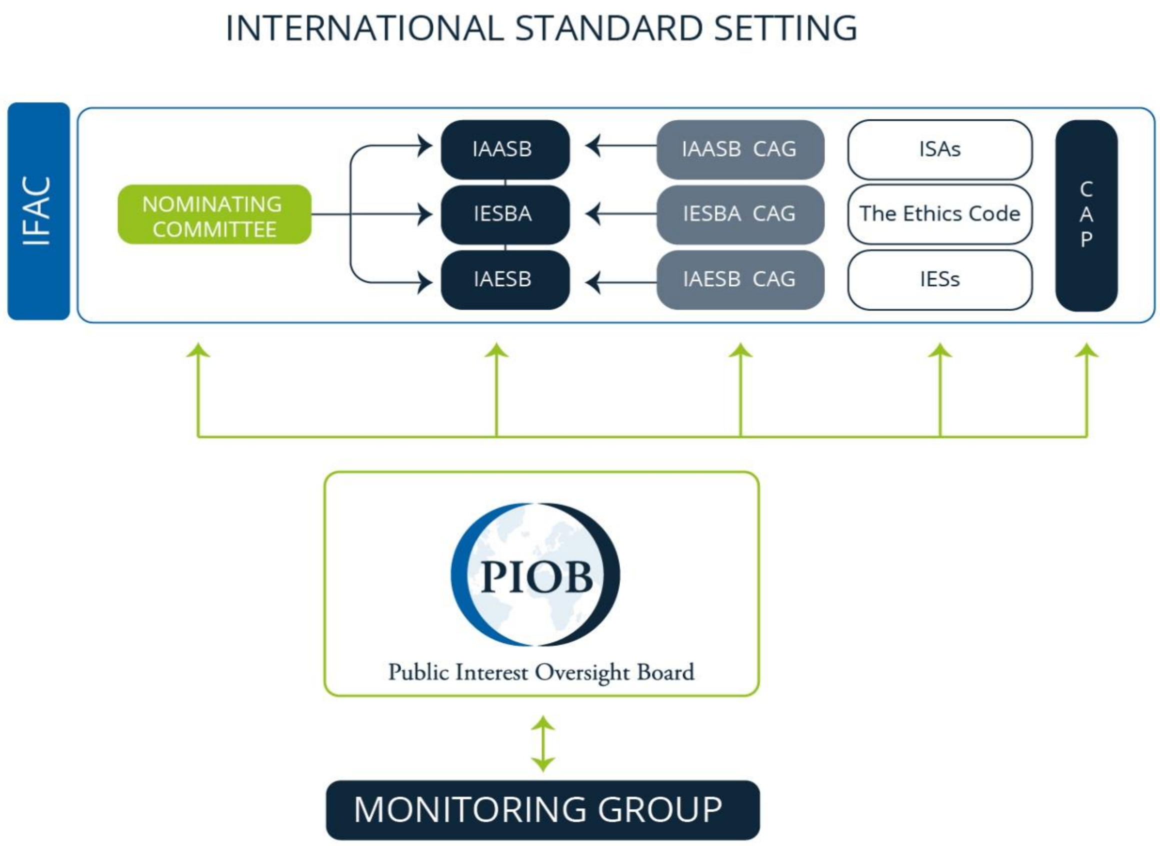
overseeing international audit, ethics and education standards for the accounting profession


INTERNATIONAL STANDARD SETTING
IFAC
NOMINATING COMMITTEE
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ISAs
The Ethics Code
IESs
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PIOB
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AUDITOR'S REPORT

Auditor's Report

- The most significant change in the new AR is the *introduction of Key Audit Matters (KAM):* those matters that have been most significant in the audit of the financial statements (FS) (e.g: areas with risks of material misstatements). KAM are selected from matters communicated with those charged with governance.
- The auditor's report will now have to include *more and better information* relevant to the audited FS.
- The *credibility of the opinion* will be greater, and so will the perceived integrity and veracity of the audited FSs
- However, the new AR does not include an explicit statement on "Going Concern": there were difficulties in including such a statement.
- Major audit firms have introduced innovations that go beyond the requirements in the ISAs. This is the case of the UK.

Trend: Market forces may be changing audits beyond standards requirements

ISA 540, "AUDITING ACCOUNTING ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES"

- ISA 540 will be revised in the next two years - in 2018 auditors will need to audit according to IFRS 9.
- IFRS 9:
  - Valuation of financial instruments according to their classification, with different impact on Profit & Loss and on Equity.
  - Includes a new "Expected Credit Loss Model" (ECL) to recognize impairment losses for financial assets.
- Auditors should enhance their understanding of :

  (i) the business model and the financial instruments

  (ii) complex valuations (mark-to-model) and ECLs

  (iii) risk assessment and valuation (impairment)
- Audits of financial institutions *will become increasingly challenging and subject to dialogue with the prudential regulators*.

Trend: A new set of skills is being required from auditors and audit firms, especially in IT, risk assessment and valuation of financial instruments.

NON-COMPLIANCE WITH LAWS & REGULATIONS (NOCLAR)

- "Non-compliance with laws and regulations" (NOCLAR): new provisions in the Code of Ethics (to be approved) and changes to related ISAs (250 and 240)
- ED: new responsibility for the auditor – responding to suspected or detected non-compliance with laws and regulations. The auditor shall "*disclose the matter to an* ***appropriate authority*** *where required by law or regulation or* ***where considered necessary in the public interest.***"
- Such disclosure would not be considered a breach of confidentiality.

Trend: Audit firms will see their role in protecting the public interest enhanced.

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Thank you!

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