INTERNATIONAL STANDARD SETTING & AUDIT CHALLENGES

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

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• 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 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.
Thank you!
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