



Technical Conference on Implementation of New Auditor's Report for Bank and NBFIs: Challenges and way forward

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Overview of the IAASB's Auditor Reporting Project

Research & Consultation

Academic
Research
(2006 - 2009)

Review of National
Developments /
Initiatives
(2009-2010)

Consultation Paper: Enhancing
the Value of Auditor
Reporting
(May 2011)

Commencement of Standard Setting

Project Proposal
(December 2011)

Task Force and
Drafting Teams
(January 2012)

Public Consultation

Invitation to
Comment:
Improving the
Auditor's Report
(June 2012)

Outreach and
Roundtables

Exposure Draft
(June 2013)

Released new and revised Auditor Reporting ISA in Jan 2015
Effective Date – Periods ending on or after December 15, 2016

New and Revised Auditor Reporting Standards

Overarching Standard for Auditor Reporting – ISA 700 (Revised)



New Key
Audit
Matters
section
ISA 701



Modifications
to auditor's
opinions
ISA 705
(Revised)



Enhanced
auditor
reporting
related to
going concern
ISA 570
(Revised)



New other
information
section
ISA 720
(Revised)
April 2015

Revisions to **ISA 260 and 706** as a result of **ISA 701**, and related conforming amendments to **ISA 210, 220, 230, 510, 540, 600, 710**

Which ISAs are Changed?

ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report (applicable only for listed entity)*

ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

ISA 570 (Revised), *Going Concern*

**ISA 260 (Revised), *Communication with Those Charged with Governance*
Conforming amendments to other ISAs**

ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Key Features of the New Auditor's Report



Overview of the new reporting requirement

Opinion	The audit opinion and identification of what's been audited will now be the first section of the report.
Basis for Opinion	The Basis for Opinion will directly follow the Opinion section and, in addition to referring to compliance with the ISAs and referring to the auditor's responsibilities section, will now include the new assertion of the auditor's independence. If the audit opinion has been modified, the explanation would be here too.
Going concern (if any)	If there is a material uncertainty with respect to going concern, it will now be described in a separate section that identifies it as such.
Emphasis paragraphs (if any)	An emphasis of matter paragraph may be next if, for example, it is relevant to understanding the financial reporting framework, or it might follow the key audit matters if it relates to a matter also addressed in that section.
Key audit matters	The new section providing insight into the key matters addressed in the audit will be required for audits of listed companies, but can also be included voluntarily by others.

Overview of the new reporting requirement

Other matter paragraphs	The placement of an Other Matter paragraph could be here if it relates to the financial statement audit only, or later in the report if it relates to other legal or regulatory requirements.
Other information	A new section in the auditor's report will describe the auditor's responsibilities for "other information" (e.g., the rest of the annual report, including the management report) and the outcome of fulfilling those responsibilities.
Responsibilities for the financial statements	The description of management's responsibilities will be expanded to explain its responsibilities with respect to going concern. It will also now identify those charged with governance (if different from management).
Auditor's responsibilities	The description of the auditor's responsibilities under the ISAs is now much more comprehensive and includes a description of the auditor's responsibilities with respect to going concern.
Date, address and signature	In addition to the signature, address and date, auditor's reports for listed companies will now also have to identify the engagement partner's name.

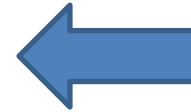
Illustrative example (i)

Independent Auditor's Report to the Shareholders of ABC Bank Limited Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated financial statements of ABC Bank Limited and its subsidiaries (the "Group") as well as the separate financial statements of ABC Bank Limited (the "Bank"), which comprise the consolidated and separate balance sheets as at 31 December 2018 and the consolidated and separate profit and loss accounts, consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements of the Group and separate financial statements of the Bank give a true and fair view of the consolidated financial position of the Group and the separate financial position of the Bank as at 31 December 2018, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) **as explained in note XX.**



Opinion first.
The auditor's opinion—the "pass/fail" statement that users have said they continue to value- is required to be positioned at the beginning of the report, followed by the Basis for Opinion.

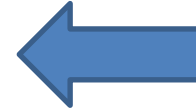
Illustrative example (ii)

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), Bangladesh Securities and Exchange Commission (BSEC) and Bangladesh Bank, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the Institute of Chartered Accountants of Bangladesh (ICAB) Bye Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Going Concern

This paragraph is required if any going concern issue is identified. Please refer to illustrations in ISA 570 for more detail.



Basis for Opinion section is required. Currently only required when the auditor's opinion was modified.

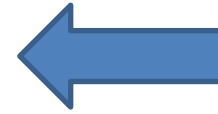


New affirmative statement about the auditor's fulfillment of independence and other relevant ethical responsibilities requirements.

Illustrative example (iii)

Key Audit Matters

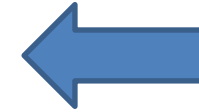
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



The new KAM section is the centerpiece of the revised auditor's report.

KAM is not a substitute for expressing a modified opinion

Illustrative example (iv)



Reporting on other information

Management is responsible for the other information. The other information comprises all of the information in the Annual Report other than the consolidated and separate financial statements and our auditors' report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Any one of the following paragraphs shall be considered for reporting.

If, based on the work we have performed, on the other information obtained prior to the date of this audit report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Or

When we read the annual report, we conclude that there is a material misstatement therein, we are required to communicate the matter to the board of directors of the Bank.

A separate section relating to other information is required under the revised ISA720 The Auditor's responsibilities Relating to Other Information

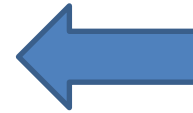
Illustrative example (v)

Responsibilities of Management and Those Charged with Governance for the Consolidated and Separate Financial Statements and Internal Controls

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the Group and also separate financial statements of the Bank in accordance with IFRSs as explained in note XX, and for such internal control as management determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error. The Bank Company Act, 1991 and the Bangladesh Bank Regulations require the Management to ensure effective internal audit, internal control and risk management functions of the Bank. The Management is also required to make a self-assessment on the effectiveness of anti-fraud internal controls and report to Bangladesh Bank on instances of fraud and forgeries.

In preparing the consolidated and separate financial statements, management is responsible for assessing the Group's and the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.



intended to reflect the requirements of the applicable financial reporting framework.



Separate new section specific to going concern.



Identification of TCWG is required

Illustrative example (vi)

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Expanded description of the auditor's responsibilities, including key features of the audit. This is intended to explain the concept of a risk based audit, as well as to clarify the meaning of certain audit-technical terms.

Illustrative example (vii)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- **Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Bank to cease to continue as a going concern.**
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- **Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.**

Illustrative example (viii)

- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Note for Audit partners: As per ISA 260 (Revised) there shall be a formal reporting process between the auditors and those charged with governance (i.e. audit committee) on certain matters

Illustrative example (ix)

Report on other Legal and Regulatory Requirements

In accordance with the Companies Act, 1994, the Securities and Exchange Rules 1987, the Bank Company Act, 1991 and the rules and regulations issued by Bangladesh Bank, we also report that:

we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;

to the extent noted during the course of our audit work performed on the basis stated under the Auditor's Responsibility section in forming the above opinion on the consolidated financial statements and considering the reports of the Management to Bangladesh Bank on anti-fraud internal controls and instances of fraud and forgeries as stated under the Management's Responsibility for the financial statements and internal control:

internal audit, internal control and risk management arrangements of the Group as disclosed in the financial statements appeared to be materially adequate;

nothing has come to our attention regarding material instances of forgery or irregularity or administrative error and exception or anything detrimental committed by employees of the Group and its related entities {other than matters disclosed in these financial statements};

financial statements of subsidiaries namely,, have been audited by, Chartered Accountants and have been audited by, Chartered Accountants and have been properly reflected in the consolidated financial statements;

Illustrative example (x)

Report on other Legal and Regulatory Requirements (cont.)

in our opinion, proper books of account as required by law have been kept by the Group and the Bank so far as it appeared from our examination of those books;

the records and statements submitted by the branches have been properly maintained and consolidated in the financial statements;

the consolidated balance sheet and consolidated profit and loss account together with the annexed notes dealt with by the report are in agreement with the books of account and returns;

the expenditures incurred were for the purpose of the Bank's business for the year;

the consolidated financial statements have been drawn up in conformity with prevailing rules, regulations and accounting standards as well as related guidance issued by Bangladesh Bank;

adequate provisions have been made for advance and other assets which are in our opinion, doubtful of recovery;

the information and explanations required by us have been received and found satisfactory;

we have reviewed over 80% of the risk weighted assets of the Bank and spent over xx person hours; and

Capital to Risk-weighted Asset Ratio (CRAR) as required by Bangladesh Bank has been maintained adequately during the year.

Illustrative example (xi)

The engagement partner on the audit resulting in this independent auditor's report is *[name]*.



[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor Address]

[Date]

Disclosure of the name of partner for audits of listed entities.

Unless in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

In rare circumstances that the auditor intends not to include name of the engagement partner in the auditor's report the auditor shall discuss this intention with TCWG to inform the auditor's assessment of the likelihood and severity of a significant personal threat.

Report on other Legal and Regulatory Requirements (FI)

In accordance with the Companies Act, 1994, the Securities and Exchange Rules 1987, the Financial Institutions Act, 1993 and the rules and regulations issued by Bangladesh Bank, we also report that:

we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and made due verification thereof;

in our opinion, proper books of account as required by law have been kept by the Company so far as it appeared from our examination of those books;

the consolidated balance sheet and consolidated profit and loss account together with the annexed notes dealt with by the report are in agreement with the books of account and returns;

the expenditures incurred were for the purpose of the Company's business for the year;

the financial statements of the Company have been drawn up in conformity with the Financial Institutions Act, 1993 and in accordance with the accounting rules and regulations which were issued by Bangladesh Bank to the extent applicable to the Company;

adequate provisions have been made for loans, advances, leases, investment and other assets which are, in our opinion, doubtful of recovery and Bangladesh Bank's instructions in this regard have been followed properly;

the financial statements of the Company conform to the prescribed standards set in the accounting regulations which were issued by Bangladesh Bank after consultation with the professional accounting bodies of Bangladesh;

the records and statements which were submitted by the branches have been properly maintained and recorded in the financial statements;

statements sent to Bangladesh Bank have been checked on sample basis and no inaccuracy has come to our attention;

Report on other Legal and Regulatory Requirements (FI)

taxes and other duties were collect to be and deposited in the Government treasury by the Company as per Government instructions found satisfactory based on test checking;

nothing has come to our attention that the Company has adopted any unethical means i.e. 'window dressing' to inflate the profit and mismatch between the maturity of assets and liabilities;

proper measures have been taken to eliminate the irregularities mentioned in the inspection report of Bangladesh Bank and the instructions which were issued by Bangladesh Bank and other regulatory authorities have been complied properly as disclosed to us by management;

based on our work as mentioned above under the auditor's responsibility section, the internal control and the compliance of the Company is satisfactory, and effective measures have been taken to prevent possible material fraud, forgery and internal policies are being followed appropriately;

the Company has complied with relevant laws pertaining to capital, reserve and net worth, cash and liquid assets and procedure for sanctioning and disbursing loans/leases found satisfactory;

we have reviewed over 80% of the risk weighted assets of the Company and we have spent around xxx person hours for the audit of the books and accounts of the Company;

the Company has complied with relevant instructions which were issued by Bangladesh Bank relevant to classification, provisioning and calculation of interest suspense;

the Company has complied with the 'First Schedule' of Bank Companies Act, 1991 in preparing these financial statements; and

all other issues which in our opinion are important for the stakeholders of the Company have been adequately disclosed in the audit report.

What is key audit matters?

KAM is defined in the standard as *“Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with those charged with governance”*. In essence, KAM are drawn from matters that are communicated with those charged with governance (TCWG).

The new ISA 701 observes that professional judgement will be needed to determine which, and how many, key audit matters to include in the audit report. This will be an important judgement.

While key audit matters will be drawn from matters discussed with the audit committee, it is not expected that all matters communicated to those charged with governance would be considered key audit matters to be included in the auditor’s report. Neither is the ISA looking for a long list, as that would be contrary to the notion of such matters being those of most significance in the audit.

The Decision-Making Framework for Key Audit Matters (KAM)

Matters that were communicated with those charged with governance

Matters that required significant auditor attention

Matters of most significance in the audit

Key Audit Matters

- Required for **listed entity audits**, voluntary for others
- Areas of **higher risk, significant auditor judgement**, matters of **significant affect on audit**
- **Communication: why matter is a KAM, how addressed, related F/S disclosures**
- **Documentation: Auditor judgements & decisions on KAM**

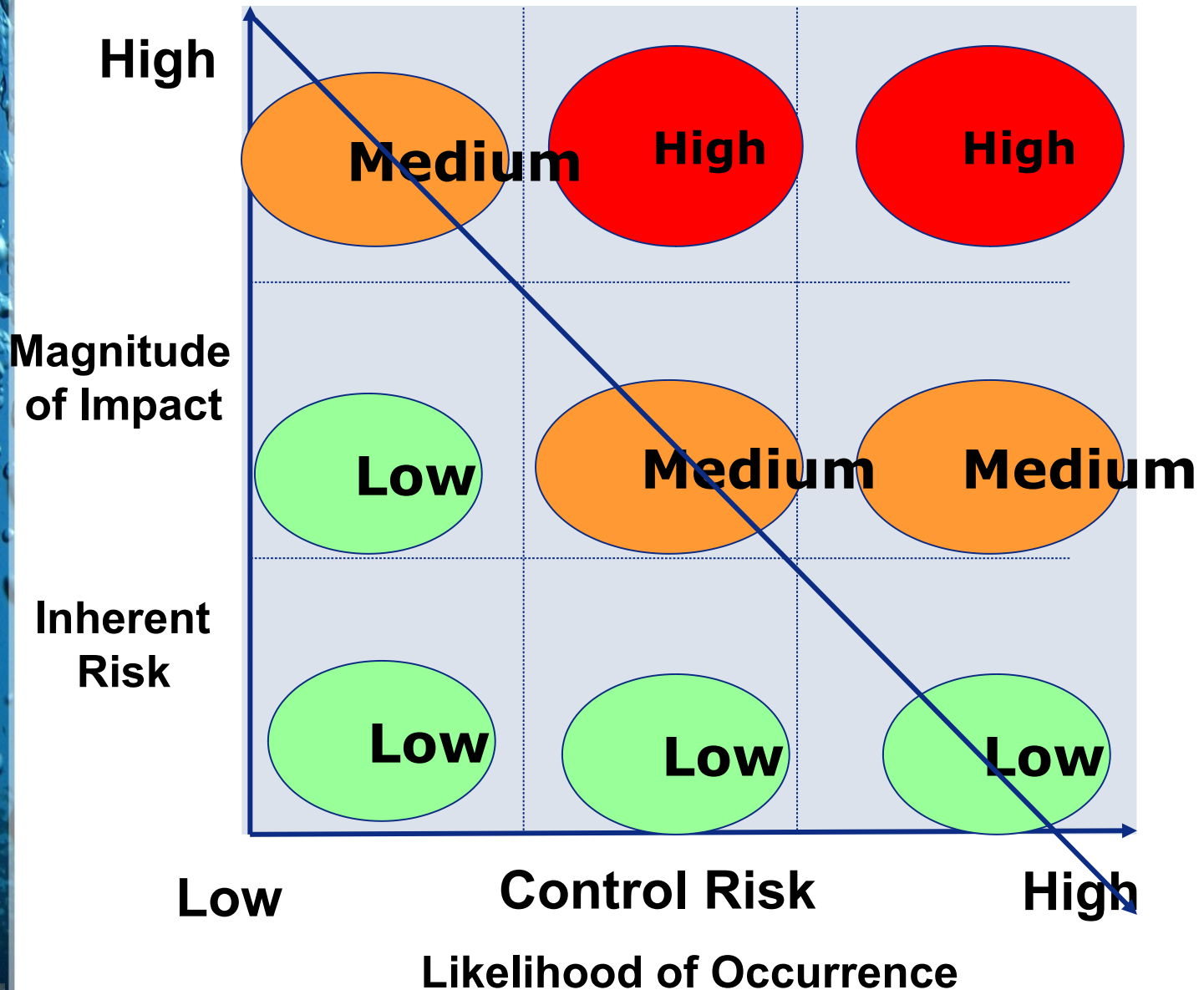
How do auditors select key audit matters?

Key audit matters are selected from those matters involving significant auditor attention in the audit. The concept of significant auditor attention, the ISA says, **“recognizes that an audit is risk-based”**, and areas of significant auditor attention **“often relate to areas of complexity and significant management judgement in the financial statements”**. These are, therefore, the areas that, **“often involve difficult or complex auditor judgements”**.

ISA 701 includes a judgment-based decision-making framework to help the auditor decide which issues would count as KAMs. The auditor firstly narrows the matters communicated with TCWG to matters that required significant auditor attention. In doing so, auditors will consider:

- ▶ Areas of higher risk of financial statements material misstatement
- ▶ Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty
- ▶ The effect on the audit of significant events or transactions that occurred during the period

Risk of Significant Misstatements



Some selected KAMs that may relates to Banks and FIs

- **Measurement of provision for loans and advances
(loans subject to stay order/writ petition, reschedule, restructure)**
- **Valuation of treasury bills and treasury bonds**
- **Measurement of deferred tax assets and income tax provision
(non recognition of DTA on loan provision, pending tax assessments)**
- **Valuation of defined benefits and pension obligation**
- **Legal and regulatory matters
(Capital adequacy, CRR and SLR, Good borrower rebate, WPPF)**
- **IT systems and controls**
- **Carrying value of investments in subsidiary(s) by the Bank/FI
(In solo book if the subsidiary is making loss or lower profit)**
- **Inter branch balance and reconciliation**

Is the auditor taking on a management role when communicating KAM?

KAM is not a replacement of, or supplement to, management's perspective embodied in the financial statements. The intent is not to "fill the gaps" for disclosures viewed as incomplete or missing – the auditor's consideration of the adequacy and appropriateness of disclosures is part of forming an opinion on the financial statements.

Clearly, there often will be a link between KAM and areas of complexity or significant judgment in the financial statements. Such is the nature of auditing – a risk-based approach that focuses auditor attention on matters of greatest risk of material misstatement. The intent of KAM is to provide transparency for users as to HOW this affected the auditor's approach to the audit. It's intended to highlight for users the matters that required the most auditor attention (i.e., "kept the auditor awake at night") so that users can then focus greater attention on how such matters were dealt with in the financial statements and annual report.

Will the new and more informative auditor's report add significantly more time and cost to the audit and the financial reporting process?

- The new auditor's report represents one of the biggest changes in auditor reporting and communications in decades.
- It is difficult to argue that there will not be incremental effort (and cost) in the first year of implementation in particular.
- In most cases an auditor need to thoroughly analyze the areas that present the highest risk and complexity, and need various rounds of discussion with management and TCWG before informing audit committee that these are likely candidates to be communicated as KAM. These additional discussions with the audit committee and management well before the conclusion of the audit about the KAM that may be included in the auditor's report and how the auditor may describe these matters certainly require additional time at quite senior level. Therefore, it will no doubt result in some increased costs, but incremental benefit from such extended audit report would outweigh the higher cost.

Implementation challenges in Bangladesh

As we have noted, the most significant changes in the new audit report are mandatory reporting of key audit matters and going concern. Although theoretically these new requirements do not change the underlying work effort required in the audit, it will improve the focus by the auditor on significant areas of the audit, including going concern, impacting audit quality and the auditor's professional scepticism.

Furthermore, the quality of financial reporting is expected to improve as there will be increased focus on going concern disclosures and the disclosures in the financial statements to which the auditor's report makes reference.

Key implementation challenges for reporting of KAM and going concern in audit report

Concerned stakeholders in implementation of the enhanced audit report can be categorized in the following three broad categories, and each of the group has its own challenges and possible ways to overcome these challenges. These are highlighted in the following table:

Implementation challenges in Bangladesh

<i>Audit profession</i>	<i>Preparers of financial statements</i>	<i>Other stakeholders including regulators</i>
<p>The enhanced auditor's report brought in a number of critical changes most important amongst those are identification and reporting of "Key Audit Matters (KAM)" and "going concern" by the auditor. Proper identification of KAM is dependent on taking risk based audit approach with greater focus on controls. Unless all audit firm/teams apply such approach it would be difficult to identify and report on right KAM.</p>	<p>In order for the auditor to satisfactorily conclude on "key audit matters" and "going concern assumptions" first step would for management to identify and self assess these risks and take mitigating controls/ process/ steps. Such actions taken by management shall be supervised by "Those Charged With Governance (TWCG)". If such clients do not have proper management set-up to self-assess these risks and TWCG fails to apply its oversight role desired outcome would be missing.</p>	<p>There are expectation gaps amongst user of financial statements and audit report about the role of an auditor viz a viz that of management and TCWG. Due to enhanced wording used in the new audit report such gap can further increase. Many stakeholders are familiar with Boiler Plate audit report and hence entity specific audit report may be treated differently.</p>

Enhanced Auditor Reporting and Audit Quality

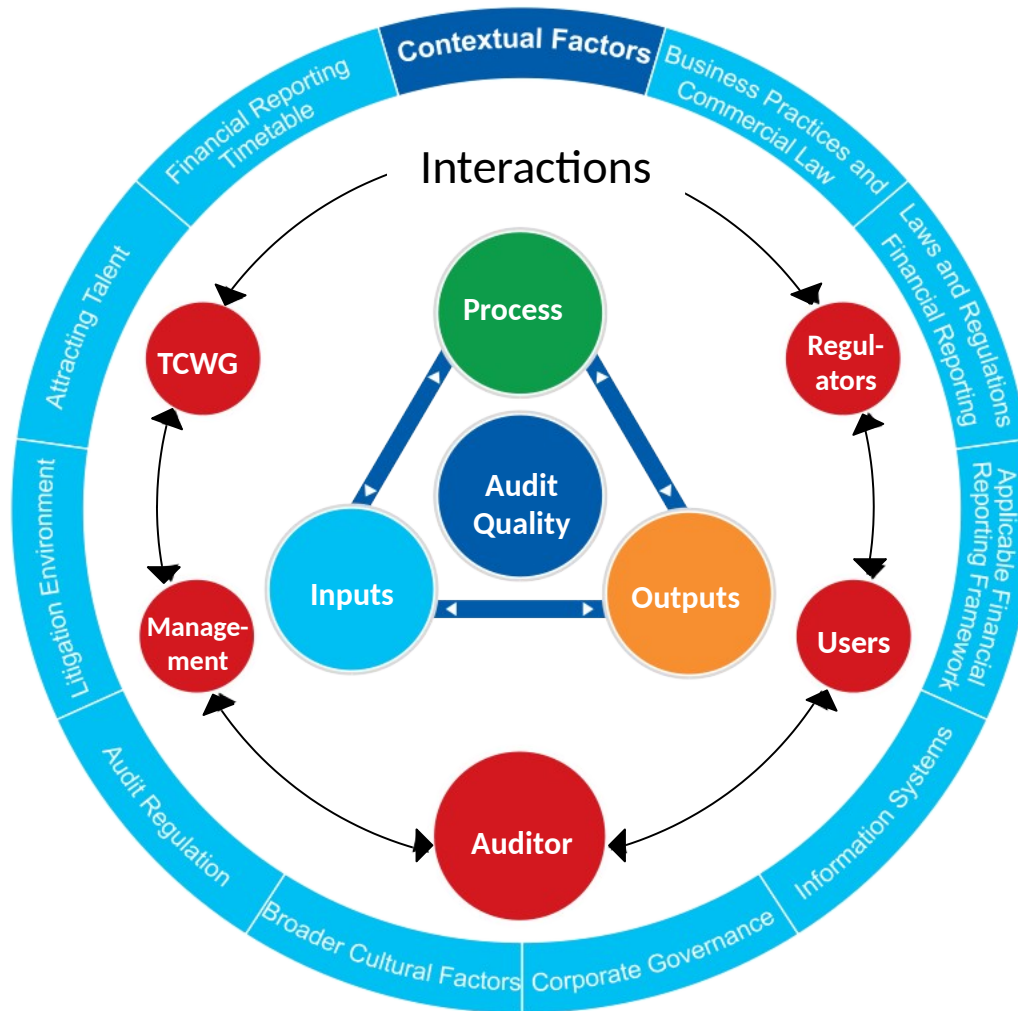


Diagram extracted from:
A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality
February 2014

... Beginning of a Journey

