

# New Auditor's Report AASC Alert 001-2017

Accounting Teachers Conference

April 25, 2017

What are the new and revised auditor reporting standards that become effective for periods ended on or after December 15, 2016 and the changes thereto?

# Revised and New Standards

- PSA 700 (Revised), Forming an Opinion and Reporting on Financial Statements
- PSA 701, Communicating Key Audit Matters in the Independent Auditor's Report
- PSA 260 (Revised), Communication with Those Charged with Governance
- PSA 570 (Revised), Going Concern

- PSA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report
- PSA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report
- PSA 720 (Revised), The Auditor's Responsibilities Relating to Other Information

What are the key changes in the new auditor's report relevant to listed and non-listed entities?

# Key Changes applicable to Listed and Non-listed Entities

- Opinion section required to be presented first, followed by the Basis for Opinion section
- Enhanced auditor reporting on going concern, including:
  - Description of the respective responsibilities of management and the auditor for going concern.
  - A separate section when a material uncertainty exists and is adequately disclosed, under the heading “Material Uncertainty Related to Going Concern”

- We have audited the financial statements of [name of company] (“the Company”), which comprise the statements of financial position as at December 31, 2016 and 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

- In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).



# Going Concern Management Responsibility

- In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

# Going Concern Auditor's Responsibility

- 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 Company'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 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 Company to cease to continue as a going concern.

- Use of Going Concern Basis of Accounting Is Inappropriate  
Express an adverse opinion
- Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists
  - Adequate disclosure is made – unmodified opinion and include a separate section under the heading “Material Uncertainty Related to Going Concern”
  - Inadequate disclosure - Express a qualified opinion or adverse opinion

# Material Uncertainty Related to Going Concern

## Material Uncertainty Related to Going Concern

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with ISA 701]*

## Responsibility of those charge with governance

- Those charged with governance are responsible for overseeing the Company's financial reporting process.

# Key Changes applicable to Listed and Non-listed Entities

- Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities
- Enhanced description of the auditor's responsibilities and key features of an audit
- New and revised reporting requirements relating to other information that is included in an entity's annual report

# Auditor's Report Independence

## Basis for Opinion (Part)

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

- Our objectives are to obtain reasonable assurance about whether the 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 PSAs 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 financial statements.



# Auditor's Responsibility

- Exercise professional Judgment
- Maintain professional skepticism

- Identify and assess the risks of material misstatement of the 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Going Concern Responsibility
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## Requirement to communicate with those charge with governance

- 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.

# Key changes applicable to Listed Entities

- New section to communicate Key Audit Matters (KAM). KAM are those matters that, in the auditor's judgment, were of most significance in the audit of the current period financial statements
- Statement of the name of the engagement partner on the audit that resulted in the auditor's report

- Areas of higher assessed risk of material misstatement, or significant risks
- Significant management judgment, including accounting estimates
- The effect on the audit of significant events or transactions

- Shall include why the matter was considered to be one of most significance in the audit
- How the matter was addressed in the audit
- Shall include reference to related disclosures



## Goodwill

Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of XX as of December 31, 20X1 is material to the financial statements. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically [describe certain assumptions], which are affected by expected future market or economic conditions, particularly those in [name of country or geographic area].

- Valuation of Financial Instruments

The Company's investments in structured financial instruments represent [x%] of the total amount of its financial instruments. Due to their unique structure and terms, the valuation of these instruments are based on entity-developed internal models and not on quoted prices in active markets. Therefore there is significant measurement uncertainty in this valuation. As a result, the valuation of these instruments was significant to our audit.

“The engagement partner on the audit resulting in this independent auditor’s report is [name].”

# Additional Questions

1. Do KAM apply to audits of public companies which are defined in Securities Regulation Code (SRC) Rule 68, As Amended, Part I (3)(B)(a)(c) as entities with assets of at least Php50 million and have two hundred (200) or more holders each holding at least one hundred (100) shares of a class of its equity securities?

2. When the auditor is required to communicate KAM in respect of the audit of the consolidated financial statements, and the auditor is also required to express an audit opinion on the separate financial statements of the parent or holding company (hereinafter referred to as separate financial statements), is the auditor also required to communicate KAM in respect of the audit of the separate financial statements?

# Additional Questions

3. In describing the procedures performed to address the KAM for group audits, may the group auditor include the procedures performed by the component team?

4. What constitutes “Other Information” under our local jurisdiction?

- SEC Form 20-IS (Definitive Information Statement)
- SEC Form 17-A
- Annual Report



# Additional Questions

5. Given the other information identified in item 4 above, how should the Other Information section be presented where the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report?

### Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 20X1, but does not include the financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 20X1 are expected to be available to us after the date of this auditor's report.

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

In connection with our audits 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 audits, or otherwise appears to be materially misstated.”

## INDEPENDENT AUDITOR'S REPORT

To the...

Report on the Audit of Financial Statements

Opinion

Basis for Opinion

Material Uncertainty Related to Going Concern

Key Audit Matters

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Auditor's Responsibilities for the Audit of the Financial Statements

Report on Other Legal and Regulatory Requirements

[Name of the firm, auditor's name...]

[Date]

QUESTIONS?

THANK YOU

