

New Auditor's Report

Your questions answered



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Disclaimer

This publication has been carefully prepared but it necessarily contains information in summary form and is therefore intended for general guidance only; it is not intended to be a substitute for detailed research or the exercise of professional judgment. The publication does not amend or override the International Standards on Auditing, the Companies Act 2017, other Laws, related Rules and Regulations, the text of which alone are authoritative. The information presented in this publication should not be construed as legal, auditing, or any other professional advice or service. The Institute and its staff do not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

Introduction

The auditor's report is the key deliverable addressing the output of the audit process. The International Auditing and Assurance Standards Board (IAASB), in 2015, issued suit of new and revised auditor reporting standards, effective for the audits of financial statements for periods ended on or after 15 December 2016. The new and revised auditor reporting standards transformed the auditor's report.

For more than 110 countries around the world that use the International Standards on Auditing (ISAs), this represented the most significant change in the auditing in 50 years. It is understood that the implications of the new and revised reporting standards are significant, affecting those involved in the financial reporting process (i.e. management, those charged with governance, including audit committees) as well as external auditors and financial statement users.

However, it is to be recognised that the new reporting standards are not changing the scope of the audit. The focus is on increasing transparency around the results of the audit. The audit teams will be having the primary responsibility of implementing the new requirements, but the changes are relevant to other stakeholders as well.

The new auditor's report brings in significant enhancements, which include presentation of the audit opinion at the beginning and reporting of the entity-specific key audit matters. Further, other significant changes are the renewed focus on going concern matters, expanded management and auditor's responsibilities as well as entity-specific reporting of other information. The report will provide enhanced transparency by clarifying the scope of the auditor's work as well as the roles and responsibilities of the auditor, management and those charged with governance.

In Pakistan, the Institute of Chartered Accountants of Pakistan (ICAP / the Institute) is the statutory body mandated to adopt the ISAs, other assurance and related standards issued by IAASB. ICAP has adopted all ISAs issued by IAASB, including the new and revised auditor reporting standards. The ISAs adoption status can be found at the ICAP's website at: <http://www.icap.net.pk/standards/isaadoption>

Further, the Companies Act 2017 requires the auditor to conduct the audit and issue the

auditor's report in compliance with the requirements of the ISAs as adopted by ICAP.

In this context, Securities and Exchange Commission of Pakistan (SECP) issued the Auditors (Reporting Obligations) Regulations 2018 (the Regulations), prescribing the new statutory auditor's report formats.

The Regulations contain the following statutory auditor's report formats:

Audit	
Every company (Other than Banking company and Insurer)	Report on the audit of the separate / individual financial statements of a company <i>Annexure I of the Regulation</i>
Banking company	Report on the audit of the financial statements of a banking company <i>Annexure II of the Regulation</i>
Insurer - General Insurance company	<ul style="list-style-type: none"> - Report on the audit of financial statements of general insurance company - Report on the regulatory returns of general insurance company
Life Insurance company	<ul style="list-style-type: none"> - Report on the audit of financial statements of life insurance company - Report on the regulatory returns of life insurance company <i>Annexure III of the Regulation</i>
Every holding company	Report on the audit of the consolidated financial statements of a company <i>Annexure IV of the Regulation</i>
Review	
Every company	Review report on the interim (half yearly) financial statements <i>Annexure V of the Regulation</i>
Every company (other than Public sector company)	Review report on the statement of compliance on Listed Companies (Code of Corporate Governance) Regulations, 2017 <i>Annexure VI of the Regulation</i>

The SECP prescribed auditor's report formats are aligned with the new and revised auditor reporting standards issued by IAASB and adopted by ICAP. These auditor's report formats replace the old formats of the audit and review reports, previously prescribed by SECP and ICAP. The new formats are applicable for the audit and review engagements for the periods ended on or after June 30, 2018. Therefore, will be used for the first time for June 2018 year/period end statutory audits/reviews.

The Regulations not only repealed the auditor's report formats provided under Rules 17A, 17B and 17C (Forms 3A, 35B and 35C) of the repealed Companies Ordinance 1984, but also specified the auditor's report formats applicable to audit of financial statements and regulatory returns of insurance companies, review of half-yearly financial statements of listed companies and review reporting on statement of compliance with corporate governance prepared by companies.

The auditor's report formats also contain the regulatory requirements applicable to the auditors' of companies under various laws, such as Companies Act 2017, Insurance Ordinance 2000 and Banking Companies Ordinance 1962. It is to be noted that the format of auditor's report prescribed through Regulation 3 (contained in Annexure I) of the Regulations, specifies the requirements primarily applicable to a listed company. The auditors' of other than listed companies are required to omit certain sections / paragraphs from the above-mentioned format, in accordance with the ISAs as applicable in Pakistan.

As mentioned earlier, the new auditor's report represents a mega change in the information content and better describes what an audit is and what an auditor does. The main benefits intended by these changes to the auditor's report is the enhancement of communication between auditors, investors, audit committees and board of directors. These changes will serve the investor and thereby the public interest. As the enhanced transparency, higher audit quality and an improved informative value of both the financial statements and the auditor's report will increase market confidence.

In Pakistan as the auditor's report of all companies and other entities (irrespective of their size and scale of operations) will reflect drastic structural changes and considerable additional information. Accordingly, understanding of the new auditor's report formats as well as the underlying requirements of ISAs is relevant and important for all members.

ICAP has played a proactive and leading role in adoption of the new and revised auditor's reporting standards. Further, ICAP proactively coordinated and contributed in the development of new statutory auditor's report formats. Additionally, various seminars and workshops have been organised by ICAP to create awareness and improve understanding of this important development in the accountancy profession. Moreover, members and other stakeholders are being facilitated through publication of relevant material, development of illustrative KAM database and responses to the queries.

As part of ICAP's efforts to facilitate members (especially, the Small and Medium-sized Practices (SMPs) and other stakeholders through insightful and relevant publications on the new developments, the Technical Services Department has developed this publication "**New Auditor's Report - Your Questions Answered**".

This publication not only provides a snapshot of all significant changes/ enhancements in the auditor's reports contained in the Regulations but also addresses the frequently asked questions and commonly occurring circumstances relating to the new auditor's reporting.

The publication contains following sections:

What has changed - This section provides an overview of the different changes and enhancements brought in by the new and revised auditor reporting standards. Further, it also provides references to all the sections / paragraphs contained in the auditor's report format prescribed in the Annexure I of the Regulations.

Your questions answered - This section discusses a series of topics related to the new auditor's report, through question and answer format. These questions and answers have been framed to help auditor's and other stakeholders in understanding and applying the requirements of new and revised auditor reporting standards.

This section besides providing explanation to some of the common general questions related to the new auditor reporting requirements, specifically covers following areas:

- Going Concern
- Key Audit Matters
- Other Information
- Group Audits
- Interim Review and Review of Statement of Compliance
- Special Purpose Reporting

We hope that this publication would facilitate all stakeholders, especially the SMPs in understanding and applying the requirements of the new and revised auditor reporting standards and the Regulations.

Rana Muhammad Usman Khan
Chairman Auditing Standards and Ethics Committee

Sohail Malik
Director Technical Services

What has changed?

In Pakistan, the auditor reporting landscape has changed, owing, to the global developments in the auditor reporting standards.

Internationally, the auditor's report changed consequent to issuance of new and revised auditor reporting standards by IAASB in 2015. However, before analyzing the changes brought in by these new and revised auditor reporting standards, it is important to understand, **Why the change?**

The change in the auditor reporting originated from a demand by investors and users of financial statements for more insight and transparency into the audit. This demand was stimulated by the global financial crisis that adversely affected capital markets and public confidence at large. In consideration of this widespread demand, the global standard setters explored the avenues to overhaul and restructure the auditor's report, thereby to provide more than a pass/fail opinion.

IAASB initiated the project of revising the auditor reporting standards with the overall objective to enhance the communicative value of the auditor's report, in the public interest.



In 2015, IAASB issued the new and revised auditor reporting standards after extensive international research, public consultation and stakeholder outreach. These new and revised auditor reporting standards have re-vamped and enhanced the informative and communicative content of the auditor's reports for investors and other users of financial statements. It is expected that the enhanced auditor reporting will reduce the information and expectations gaps about the audit and will be helpful in restoring market confidence.

"These changes will reinvigorate the audit, as auditors substantively change their behavior and how they communicate about their work. Informed by extensive research and global outreach to investors, regulators, audit oversight bodies, national standard setters, auditors, preparers of financial statements, audit committee members, and others, the final International Standards on Auditing (ISAs) represent a momentous—and unprecedented—first step. Now, we must study, promote, and plan for the effective implementation of the new and revised standards."

Prof. Arnold Schilder, IAASB Chairman

"The IAASB has responded to calls from investors and others that it is in the public interest for an auditor to provide greater transparency about the audit that was performed. Increasing the communicative value of the auditor's report is critical to the perceived value of the financial statement audit."

Dan Montgomery, former IAASB Deputy Chair and Chair of the Auditor Reporting project

What are the new and revised auditor reporting standards

The ISAs (series 700-799) contain the “Audit Conclusion and Reporting” standards that deal with the reporting requirements that are applicable when issuing an auditor’s report on general-purpose financial statements. IAASB as part of its project of revising the auditor reporting standards issued new standard (ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*) and made amendments to the “Audit Conclusion and Reporting” standards. Further, conforming amendments were made in other ISAs. The suit of new and revised auditor reporting standards issued by IAASB, in 2015, refers to all the above-explained new and amended ISAs.

The new and revised auditor reporting standards include following ISAs:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- ISA 701 (New), *Communicating Key Audit Matters in the Independent Auditor’s Report*
- 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*
- ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*
- Conforming amendments to several other ISAs

ISA 700 (Revised) is the overarching auditing standard on auditor reporting as it deals with the auditor’s responsibility to form an opinion on the financial statements as well as the form and content of the auditor’s report issued as a result of an audit of financial statements.

Overarching Standard for Auditor Reporting – ISA 700 (Revised)



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

What's new about the auditor's report

ISA 700 has been revised and its interaction with other auditor reporting standards has resulted in the development of new auditor's report format.

This revamped auditor's report has brought in significant structural changes to the layout of auditor's report.

Further, the content of auditor's report has also significantly increased. Although the auditor's "pass/fail" opinion continues to be relevant, the current auditor's report offers no insights into the audit process. KAM provides an opportunity to share the auditor's perspective with users on the matters that were of most significance in the audit of the current period (*these aspects are discussed separately in this section*).

The **major changes in the layout of the new auditor's report** compared to old ISA 700 auditor's report, is summarized below:

Auditor's report under ISA 700 (Revised)

Report on the Audit of Financial Statements

- Opinion
- Basis of Opinion
- Material Uncertainty Relating to Going Concern (if any)
- Emphasis of Matter (if any)
- Key Audit Matters
- Other Information
- Responsibilities of Management and Those Charged with Governance (TCWG) for the Financial Statements
- Auditor's Responsibilities for the Audit of Financial Statements

Report on Other Legal and Regulatory Requirements

Other Matters (if any)

Name of engagement partner

Auditor's signature

Date of the auditor's report

Auditor's address

Auditor's report under ISA 700 (Old)

Report on the Financial Statements

- Introductory para (*without any section heading*)
- Management Responsibility for the Financial Statements
- Auditor's Responsibilities
- Opinion

Report on Other Legal and Regulatory Requirements

Name of engagement partner















Auditor's signature

Date of the auditor's report

Auditor's address

What are the significant enhancements in the auditor's report

The significant enhancements brought in through the new and revised auditor reporting standards include the following:

Enhancements		Relevant ISA	Applicable to Listed	Applicable to other than listed
Opinion	Audit opinion section to be presented at the beginning	ISA 700 (Revised)	 Mandatory	
Basis for Opinion	Affirmative statement about the auditor's independence and fulfillment of relevant ethical requirements	ISA 700 (Revised)		
Going Concern	<ul style="list-style-type: none"> - Description of the respective responsibilities of management and auditor of company - A new section under the heading 'Material Uncertainty related to Going Concern', if a material uncertainty exists and is adequately disclosed (instead of reporting under 'Emphasis of Matter') - Increased focus on "close calls", requiring auditor to evaluate the adequacy of disclosures in close calls situations 	ISA 570 (Revised)		
Key Audit Matters	Explanation of those matters which were of most significance in the audit of the current-period, including explanation of "Why" considered significant and "How" addressed during the audit	ISA 701 (New)		 Optional, in accordance with ISA 700 (Revised)
Other Information	A section is added to the report when the entity has/is preparing, in addition to the historical financial information subject to audit, document(s) that meet the definition of an "annual report".	ISA 720 (Revised)		
Management and Auditor's Responsibilities	New sections explaining the responsibilities of the auditor and management, including the auditor's work effort and identification of other information	ISA 700 (Revised)		
Engagement Partner name	Disclosure of the name of the engagement partner <i>(In Pakistan it's a statutory requirement to disclose name of the audit engagement partner)</i>	ISA 700 (Revised)		 Not required in ISA 700 (Revised)

What is the brief explanation for the significant changes in auditor's report

Section of the auditor's report	Explanation
Opinion	<p>Prominent placement of the auditor's opinion in the auditor's report as the 'Opinion' section shall be presented first in the auditor's report and incorporates:</p> <ul style="list-style-type: none"> ▪ The matters previously contained in the introductory paragraph of the old ISA 700; and ▪ The opinion on the financial statements as previously contained in the opinion paragraph of the old ISA 700.
Basis for Opinion	<p>The 'Opinion' section shall be followed immediately by the 'Basis for Opinion' section that now has to be included in the auditor's report, regardless of whether a modified opinion is expressed on the financial statements. This section contains the information regarding the conduct of the audit and audit evidence and Ethical requirements. The part relating to the conduct of the audit and audit evidence states that the:</p> <ul style="list-style-type: none"> ▪ Audit was conducted in accordance with ISAs as applicable in Pakistan; ▪ Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs; and ▪ States whether the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion. <p>Ethical requirements: This element contains an affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities. The members of the Institute are subject to the ethical requirements of the International Ethics Standards Board for Accountant's Code of Ethics for Professional Accountants as adopted by the ICAP.</p> <p>Modified auditor's opinion</p> <p>If the auditor has a modified opinion on the financial statements, the auditor is required to include within the 'Basis for Opinion' section, as previously required by the old ISA 700, a description of the matter giving rise to the modification. The heading of this section will also be amended to accommodate the type of modification, such as 'Basis for Qualified Opinion'.</p>
Material Uncertainty Related to Going Concern	<p>ISA 570 (Revised), requires that a separate section be included in the auditor's report when the auditor concludes that a material uncertainty related to going concern exists and it has been adequately disclosed in the financial statements.</p>
Emphasis of Matter and Other Matter	<p>The concepts of Emphasis of Matter and Other Matter paragraphs have been retained within the auditor's report.</p> <p>ISA 706 (Revised) also provides guidance as to the placement of the EOM and OM paragraphs in the auditor's report, which will depend on the nature of the information to be communicated and the auditor's judgment as to the relative significance of such information for intended users.</p>

Key Audit Matters	<p>Key Audit Matters (KAM) is the most significant enhancement in the auditor's report. The new ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>, deals with KAM.</p> <p>KAM are those matters that, in the auditor's judgment, are of most significance in the audit of the current-period financial statements.</p> <p>The auditor is mandatorily required to communicate KAM in the auditor's report for all audits of complete sets of general purpose financial statements of listed entities.</p> <p>KAM may also be applicable to non-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.</p>
Other Information	<p>A separate section with the heading 'Other information' (or other appropriate title) is required to be included in the auditor's report, in accordance with ISA 720 (Revised).</p> <p>ISA 720 (Revised) deals with the auditor's responsibilities relating to other information; that is, financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report.</p> <p>A separate section in the auditor's report to identify the other information, explain the management and auditor's responsibilities in relation thereto and, if applicable, report on any material misstatement of the other information. It is also to be clearly stated that the auditor's opinion on the financial statements does not cover the other information and that the auditor does not express any form of assurance conclusion thereon.</p>
Responsibilities of Management and Those Charged with Governance for the Financial Statements	<p>This section of the auditor's report is required to include responsibilities of Management and those charged with governance for the preparation and fair presentation of the financial statements in accordance with approved accounting and reporting standards as applicable in Pakistan and the requirements of the Companies Act 2017.</p>
Auditor's Responsibilities for the Audit of the Financial Statements	<p>This section contains enhanced description of the auditor's responsibilities, with standardized wordings for every auditor's report.</p> <p>The auditor's responsibility section is intended to explain more fully the concept of a risk based audit, as well as to clarify the meaning of certain audit-technical terms. This approach results in a more lengthy description of the auditor's responsibilities in relation to specific matters, including fraud; internal control, accounting policies and estimates, evaluation the overall presentation, structure and content of the financial statements and disclosures, group audits, and communicating with those charged with governance; and, if applicable, the identification and communication of KAM.</p> <p>Furthermore, the auditor's report shall include a description of the auditor's responsibilities relating to going concern.</p>
The Auditor's Signature	<p>ISA 700 (Revised) requires that the name of the engagement partner be included in the auditor's reports of listed entities.</p>

What are the other significant changes in the auditor's reports under the Regulations

The audit reports prescribed under the Regulations are aligned with the new and revised auditor reporting standards. Therefore, the significant changes in the auditor's report formats are consequent to the implementation of new and revised ISAs. However, certain changes in the auditor's report formats are owing to the local regulatory developments (changes in auditor's duties/ responsibilities under the Companies Act). The significant changes, other than those emanating from ISAs as applicable in Pakistan are explained through below comparative table:

Report format	Revised / New reporting requirement	Previous reporting requirement	Comments
Report on financial statements of a company other than a banking company <i>Annexure I</i>	Opinion as to whether investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business.	Opinion as to whether: <ul style="list-style-type: none"> the expenditure incurred during the year was for the purpose of the company's business; and the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company 	<p>In accordance with section 249 (3) of the Companies Act, the auditors' report is now required to include opinion in respect of whether investments made, expenditure incurred and guarantees extended, during the year, were for the purpose of company's business. Previously, under section 255 of repealed Companies Ordinance 1984, this was only to the extent of expenditure.</p> <p>The requirement to include opinion in respect of whether the business conducted, investments made and expenditure incurred during the year were in accordance with the objects of the company has not been carried forward in the Companies Act 2017.</p> <p>Further, requirement to include opinion relating to consistency of accounting policies has not been carried forward in the Companies Act 2017.</p>
Report on financial statements of a banking company <i>Annexure II</i>	Opinion as to whether investments made, expenditure incurred and guarantees extended during the	Opinion as to whether: the expenditure incurred during the year was for the	As explained above, the new requirement has added opinion for the guarantees extended and opinion on

Report format	Revised / New reporting requirement	Previous reporting requirement	Comments
	year were in accordance with the objects and powers of the Bank / branches and the transactions of the Bank / branches which have come to the auditor's notice have been within the powers of the Bank / branches.	purpose of the Bank's / branches' business; and the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Bank / branches and the transactions of the Bank / branches which have come to the auditor's notice have been within the powers of the Bank / branches.	expenditure with reference to Bank's / branches business has been removed.
Report to the members on the financial statements of insurer registered under the Insurance Ordinance, 2000 <i>Annexure III</i>	Opinion as to whether investments made, expenditure incurred and guarantees extended during the year were for the purpose of the company's business.	Was not required in the prescribed report.	Please see above comments
Report on the consolidated financial statements <i>Annexure IV</i>	The auditor's report on the consolidated financial statements has been significantly changed. The new prescribed report is based on the ISA 700 (Revised) requirements. <i>Explanation to the changes in the new and old report formats are provided in the section, 'Group Audits', of this document.</i>		
Report on interim (half yearly) financial statements <i>Annexure V</i>	No significant change		
Report on Statement of compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017 <i>Annexure VI</i>	<i>Detailed comments on the changes in the review report on the Statement of compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2017, are provided in this publication in the section, 'Interim Review Report and Review Report on Statement of Compliance'.</i>		

References to the auditor's report specified in Annexure I of the Regulations

Format of auditor's report (Annexure I of the Regulations)	Reference
INDEPENDENT AUDITOR'S REPORT	ISA 700.21 ISA 700.50(a)
To the members of [name of company]	ISA 700.22 ISA 700.50(b)
Report on the Audit of the Financial Statements	ISA 700.45
Opinion	ISA 700.23 ISA 700.50(c)
We have audited the annexed financial statements (or revised financial statements, if applicable) ⁱ of(the Company), which comprise the Statement of Financial Position as at, and the statement of profit or loss ⁱⁱ and other comprehensive income or the income and expenditure statement, the statement of changes in equity, the statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies and other explanatory information and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.	ISA 700.24 ISA 700.50(d)
In our opinion and to the best of our information and according to the explanations given to us, the statement of financial position, statement of profit or loss and other comprehensive income or the income or expenditure statement, the statement of changes in equity and the statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of Company's affairs as at and of the profit or loss and other comprehensive income or loss, or the surplus or deficit ⁱⁱⁱ , the changes in equity and its cash flows for the year then ended.	ISA 700.25 Companies Act section 249(3)
Basis of opinion	ISA 700.28 ISA 700.50(e)
We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the <i>Auditor's Responsibilities for the Audit of the Financial Statements</i> section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' <i>Code of Ethics for Professional Accountants</i> as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.	
Material Uncertainty relating to Going Concern (if applicable)	ISA 700.29 ISA 570.21 to 23

Emphasis of Matter (if applicable)	ISA 706
Key Audit Matter(s)	ISA 700.30 & 31 ISA 700.50(h)
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.	ISA 701.11(a) (b)
Following are the Key audit matter(s) ^{vi} :	
Sr. Key audit matter(s) How the matter was addressed in our audit No.	ISA 701.11
Information Other than the Financial Statements and Auditor's Report Thereon [Reporting in accordance with the reporting requirements in ISA 720 (Revised)]	ISA 700.32 ISA 700.50(l) ISA 720.24
Responsibilities of Management and Board of Directors for the Financial Statements	ISA 700.33
Management is responsible for the preparation and fair presentation of the financial statements in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.	ISA 700.34(a) ISA 700.50(j)
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.	ISA 700.34(b)
Board of Directors are responsible for overseeing the Company's financial reporting process.	ISA 700.35 ISA 700.50(j)
Auditor's Responsibilities for the Audit of the Financial Statements	ISA 700.37
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 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 financial statements.	ISA 700.38
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:	ISA 700.39(a)
<ul style="list-style-type: none"> 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 	ISA 700.39(b)(i)

<p>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.</p>	
<ul style="list-style-type: none"> 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. 	<p>ISA 700.39(b)(ii)</p>
<ul style="list-style-type: none"> Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. 	<p>ISA 700.39(b)(iii)</p>
<ul style="list-style-type: none"> 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. 	<p>ISA 700.39(b)(iv)</p>
<ul style="list-style-type: none"> 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. 	<p>ISA 700.39(a)(v)</p>
<p>We communicate with the board of directors 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.</p>	<p>ISA 700.40(a)</p>
<p>We also provide the board of directors 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.</p>	<p>ISA 700.40(b)</p>
<p>From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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.</p>	<p>ISA 700.40(c)</p>
<p>Report on Other Legal and Regulatory Requirements ^{vii}</p>	<p>ISA 700.43</p>
<p>Based on our audit, we further report that in our opinion:</p>	
<p>a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);</p>	<p>Companies Act Section 249 (3) (b)</p>
<p>b) the statement of financial position, the statement of profit or loss and other comprehensive income or the income and expenditure account, the statement of changes in equity and the statement of Cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017), and are in agreement with the books of account and returns;</p>	<p>Companies Act Section 249 (3) (c)</p>

What has changed?

c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and	Companies Act Section 249 (3) (e)(i)
d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance ^{viii} .	Companies Act Section 249 (3) (e)(ii)
Other Matter(s)	ISA 706
<i>Prior Year Financial Statements Audited by Predecessor Auditor</i>	
The engagement partner on the audit resulting in this independent auditor's report is [name]	ISA 700.46 ISA 700.50(l)
[Signature]	ISA 700.47 ISA 700.50(m)
[Place/ location]	ISA 700.48 ISA 700.50(n)
[Date]	ISA 700.49 ISA 700.50(o)
	Companies Act, section 251

Which auditor's report format to be used

Type of Entity and Type of Financial Statements / Statement of Compliance	Auditor's report format
Standalone statutory financial statements	
Listed company (Other than Banking company and Insurance company)	Annexure I of the Regulations
Non-listed company <ul style="list-style-type: none"> Public Interest Company Public company Private company (Including single member company) Foreign Branch (under Companies Act 2017) Company registered under section 42 or section 45 of Companies Act 2017 	Annexure I of the Regulations (With certain changes that are applicable to all un-listed entities, in accordance with ISA 700 (Revised))
Banking company	Annexure II of the Regulations
Insurance company	Annexure III of the Regulations
Modaraba	Form No. XI of Modaraba Rules 1981
Mutual Fund	ISA 700 (Revised) , as auditor's report format is not specified in the statutory law
Welfare Organization (Such as Society registered under Societies Act 1860, Trust registered under Trust Act 1882)	ATR 17 (Revised) , issued by ICAP through Circular 11 of 2017
Standalone other than statutory financial statements	
Other than statutory standalone financial statements	ISA 700 (Revised)
Special purpose financial statements (Such as financial statements of a Donor funded project, financial statements of a Joint venture)	ISA 800 (Revised)

Consolidated financial statements

Statutory consolidated financial statements of company prepared under section 228 of the Companies Act 2017	Annexure IV of the Regulations
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Other Consolidated financial statements (other than above. statutory consolidated financial statements)	ISA 700 (Revised)
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Interim review report

Review report on the half yearly financial statements prepared under section 237 of the Companies Act 2017	Annexure V of the Regulations
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Review report on the interim financial statements, other than above	ISRE 2410
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Review report on the statement of compliance

Review report on the statement of compliance with Listed Companies (Code of Corporate Governance) Regulations 2017	Annexure VI of the Regulations
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Review report on the statement of compliance with Public Sector Companies (Corporate Governance) Rules 2013	Schedule III of the Public Sector Companies (Corporate Governance Compliance) Guidelines 2018
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Your questions answered

General

1. What is prescribed under the Auditors (Reporting Obligations) Regulations 2018?

SECP through S.R.O 558 (I)/2018 (dated April 26, 2018) has issued Auditors (Reporting Obligations) Regulations, 2018. Through these Regulations SECP has provided format of various audit and review reports. These new and revised auditor's report formats are aligned with the requirements of the auditor reporting standards issued by the IAASB and the local regulatory requirements (related to auditor's reporting on other legal and regulatory matters).

The new auditor's report formats prescribed under the Regulations and the corresponding repealed formats are listed below:

Prescribed auditor's report in the Regulations	Annexure of the Regulations	Previously prescribed - Repealed Form / Circular
Report on the financial statements of a company other than a banking company	Annexure I	Form 35A, prescribed under repealed Companies Ordinance 1984
Report on the audit of the financial statements of a banking company	Annexure II	Form 35B, prescribed under repealed Companies Ordinance 1984
<ul style="list-style-type: none"> - Report on the audit of the financial statements of General Insurance company - Report on the audit of the financial statements of Life Insurance company - Auditor's report for regulatory returns of General Insurance company - Audit report format for regulatory returns of Life Insurance company <i>(The auditor reports for the financial statements and regulatory returns have been prescribed separately)</i>	Annexure III	<p>Prescribed through SECP notification dated March 11, 2003</p> <p>Previously, the financial statements were part of the regulatory returns under insurance Ordinance 2000.</p>
Report on the consolidated financial statements	Annexure IV	Form 35C, prescribed under repealed Companies Ordinance 1984
Report on the interim (half yearly) financial statements	Annexure V	Circular No. 9/2009 and Circular No. 2010/07 issued by ICAP
Review report on the statement of compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2017	Annexure VI	Circular No. 02/2014 issued by ICAP

2. Has the new auditor's reports issued under the Regulations replaced the formats prescribed under the repealed Companies Ordinance 1984?

Yes, the revised auditor's report formats prescribed under the Regulations have replaced the earlier issued auditor's report formats. As explained above, prior to the issuance of the Regulations the auditor's reports prescribed through Rules 17A, 17B & 17C (Forms 35A, 35B and 35C) of the Companies (General Provisions and Forms) Rules, 1985 were used by the auditor's for the audit of financial statements of Companies.

In addition, to replacing above mentioned auditor's report formats, the Regulations also specify the new auditor's report formats for the insurance companies. Moreover, the review report formats for interim reporting and compliance with code of corporate governance have also been prescribed, replacing the old formats of these reports. Previously, the formats for reporting by the auditors were provided under the Insurance Rules 2002 and by ICAP.

3. What is the effective date of the new auditor's report contained in the Regulations?

The new auditor's reports contained in the Regulations are applicable for the audit/review of financial statements for the year/period ended on or after June 30, 2018. Accordingly, the auditors for the first time will issue the audit and review reports as per new formats on the financial statements/ statement of compliance for the financial year/period ended June 30, 2018.

4. Which auditor's report format would be applicable for the reporting periods ended before June 30, 2018?

The companies that have financial year / half year ended prior to June 30, 2018 would be provided audit / review reports, as applicable, on the same format as was provided for December 31, 2017 year / period end.

In case of audit of entities for which format of auditor's report has not been prescribed under the statutory law applicable to such entity, the new and revised auditor reporting requirements are applicable effective from December 15, 2016. The auditors of such entities shall use the format of auditor's report contained in ISA 700 (Revised), unless any specific clarification on the use of auditor's report format has been provided by SECP/ICAP).

In case of NGOs (which are not registered under the repealed Ordinance, and the Companies Act 2017), the auditors' report format prescribed in the ICAP's Auditing Technical Release 17 (ATR) (Revised 2017) 'Auditors' Report to The Trustees/ Board of Governors/ Management Committee', shall be followed.

5. Will the new auditor's report format apply to all companies, irrespective of their class determined under the Companies Act 2017?

The new format of the auditor's report will be applicable to the audit of financial statements of all companies. This position is similar to the old auditor's report (Form 35A), which was being used by auditors for financial statements of all companies.

It is important to note that, in accordance with ISA 701, Key Audit Matters section of the auditor's report is mandatory for the listed companies. In accordance with ISA 701, the auditor of other than the listed companies can voluntarily include Key Audit Matters section in the audit reports.

Further, SECP can prescribe communication of KAM for audits of entities other than listed entities, such as public interest entities or for public sector entities. So far, SECP has not notified any such requirement.

The auditor's of other than listed companies are required to omit two paragraphs from the Auditor's responsibilities section of the auditor's report. *Further, explanation to this is provided under question 9, below.*

6. Will the auditors of ‘Associations with ‘Charitable and Not for Profit objects’ that are registered / licensed with SECP, use the new auditor’s report format?

The auditors of charitable / not for profit companies were using the auditor’s report format prescribed in Form 35 A of the Companies (General Provisions and Forms) Rules, 1985 under the repealed Companies Ordinance 1984.

Consequent to the issuance of Regulations, the auditor’s report for all companies (including charitable / not for profit companies registered/ licensed with SECP under the repealed Companies Ordinance 1984 and section 42 and 45 of the Companies Act 2017) shall be in accordance with the new prescribed format. As explained, above these auditor’s report formats are applicable for the reporting periods ended on or after June 30, 2018.

In case of other NGOs (which are not registered under the repealed Ordinance, and the Companies Act 2017), the auditor’s report format prescribed in the ICAP’s Auditing Technical Release 17 (ATR) (Revised 2017) shall be followed. The revised ATR 17 has been issued to members through ICAP Circular No. 11 of 2017. This can be accessed at: <http://www.icap.net.pk/wp-content/uploads/2012/06/ATR-17-revised-2017.pdf>

7. How does the auditor’s responsibility section differs for different types of entities?

In accordance with ISA 700 (Revised), the auditor’s responsibilities section in the auditor’s report is different depending on the type of entity being audited.

All auditor reports (Compliance an Fair presentation framework)	All auditor’s reports include the content required by ISA 700 paragraphs 37, 38 and 39(a) and (b)(i) to (iv), and 40 (a)
Auditor’s reports (Fair presentation framework)	ISA 700 paragraph 39(b)(v) is applicable for auditor’s reports of financial reports prepared in accordance with a fair presentation framework
Auditor’s report on consolidated financial statements	ISA 700 paragraph 39(c) is applicable for audits where ISA 600 applies
Auditor’s report of listed entity	ISA 700 paragraphs 40(b) and (c) are applicable for audits of listed entities

8. Will every statutory auditor’s report on the financial statements of a listed company contain all sections / content, prescribed in Annexure I of the Regulations?

The Annexure I, under Regulation 3, contains the format of the auditor’s report that is applicable to the reporting on listed company’s financial statements. However, the inclusion of prescribed section in the auditor’s report will depend on the auditor’s evaluation and judgment of the circumstances / events associated with a particular listed company.

For example, the Material Uncertainty relating to Going Concern section will only be included in the auditor’s report, when there is a material uncertainty related to the going concern. Similarly, Emphasis of Matter and Other Matter(s) sections shall be included if required under the relevant ISA.

The modification in the auditor’s report will amend the currently prescribed wordings of the auditor’s report. In this regard, guidance shall be obtained from ISA 705 (Revised).

In view of the above, the sections determined not to be applicable to the financial statements of an entity shall be omitted from the auditor’s report.

9. Will the statutory auditor's report on the financial statements of a non-listed company contain all sections / content as prescribed in Annexure I of the Regulations?

As explained above, the Annexure I of the Regulations contains the format of the auditor's report that is applicable to the listed company's financial statements. The auditor of a non-listed company is required to make certain amendments to the prescribed format, in accordance with ISA 700 (Revised) and other auditor reporting standards.

As we know that KAM is a significant enhancement in the auditor's reporting, however, it is mandatorily required to be included in the audit reports of the listed companies. Accordingly, the auditor of a non-listed company is not mandatorily required to include KAM section in the audit report. In such a case, in accordance with ISA 700 (Revised) the following paragraph will be omitted from the section "Auditor's Responsibilities for the Audit of the Financial Statements".

"From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's 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."

Omit this paragraph from the auditor's report of an other than listed entity, if KAM section is not included in the auditor's report

ISA 700.40(c)

Further, following paragraph will not be included in the auditor's report of a non-listed entity.

"We also provide the board of directors 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."

Omit this paragraph from the auditor's report of an other than listed entity

ISA 700.40(b)

In addition to the above, the inclusion of sections in the auditor's report will depend on the circumstances / events associated to the particular non-listed company. This aspect has been explained in the answer to the preceding question.

10. What will be auditor's report format for the financial statements of Modaraba?

The auditor's report format for the financial statements of Modaraba is specified in Form No. XI, under Rule 9(3) of Modaraba Rules, 1981.

SECP, through the Regulations has prescribed the new auditor's report formats for the financial statements of companies. However, the auditor's report format for the financial statements of Modaraba that is aligned to the new auditors reporting standards, has not been specified under the applicable statutory law.

In view of the above, the auditor of a Modaraba shall follow the statutory requirements and use the auditor's report format prescribed in the Form No. XI, under Rule 9(3) of Modaraba Rules, 1981, till the notification of revised auditor's report by SECP.

11. What will be auditor's report format for the financial statements of Mutual Fund?

The statutory laws (i.e. NBFC Regulations and Rules) applicable to the mutual fund do not specify auditor's report format for the financial statements. The auditors of mutual fund use the auditor's report format of ISA 700. In this regard, it is relevant to mention that the Institute through Circular

12 of 2017 had clarified that the auditor's report for the financial statements of mutual fund shall be prepared in accordance with the old auditor's report format (i.e. used for the year ended June 30, 2016). This clarification was based on the premise that until the revised formats of the statutory auditor's reports are notified by the SECP under the Companies Act 2017, the old auditor's report formats shall be used by the auditors' of companies and mutual fund.

With the notification of the Regulations, the new auditor's report formats for the financial statements to companies have been made effective from June 2018 audits/review. In consideration of this development, auditors of mutual fund shall issue the auditor's report in accordance with ISA 700 (Revised), while making necessary changes according to laws applicable to the mutual funds.

12. Is the name of engagement partner required to be included in the auditors' report?

The ISA 700 (Revised) requires the engagement partner's name to be included in the auditor's report where required by law and regulation. Further, paragraph 46 of ISA 700 (revised) requires the auditor's name to be included in the auditor's report of listed entities, only.

However, section 251 '*Signature of Auditors Report*' of the Companies Act 2017 requires that the auditor's report must state the name of the auditor, engagement partner, date and indicate the place at which it is signed.

It is relevant to mention that the Institute has issued ATR 19 (revised), *Identification of the Engagement Partner in the Auditors' Report*, in December 2011. The ATR requires that the auditor's report on the financial statements or the interim financial statement is signed in the firm's name, the name of the engagement partner shall also be identified.

In view of the above, the name of the engagement partner is required to be included in all the statutory auditor's and interim reports.

13. Has the auditor's review report format for the statement of compliance prepared under section 227 of the Companies Act 2017 been prescribed?

The Companies Act through section 227, introduced a new requirement of preparation of a statement of compliance by the company. This statement of compliance shall be approved by the board of directors and attached with the financial statements.

Further, section 249 of the Companies Act, requires the auditor to review the statement of compliance and issue a report accordingly. The relevant section 249 (7) is reproduced hereunder:

"The Commission may by general or special order, direct, that the statement of compliance as contained in sub-section (4) of section 227 of this Act, shall be reviewed by the auditor who shall issue a review report to the members on the format specified by the Commission."

In this regard, SECP has not specified the scope of the statement of compliance and its contents under section 227. Further, the auditor's review report format on such statement of compliance has also not yet been specified by SECP.

14. Why auditor's report formats contain the section 'Report on Other Legal and Regulatory Requirements'?

The auditor may be required to address other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the ISAs to report on the financial statements. These other auditor reporting responsibilities, generally, emanate from statutory and regulatory laws applicable to the entities.

In accordance with ISA 700 (Revised), if the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibility under the ISAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor's report, titled as "Report on Other Legal and Regulatory Requirements" (or otherwise as appropriate to the content of the section).

Accordingly, the auditor's report formats specified in the Regulations contain the section 'Report on Other Legal and Regulatory Requirements'.

15. Where are the auditor's other reporting responsibilities mentioned?

Amongst the auditor's report formats specified in the Regulations, following contain the section 'Report on Other Legal and Regulatory Requirements':

- Report on financial statements of a company other than a banking company
- Report on financial statements of a banking company
- Report on financial statements of an Insurer

The other reporting responsibilities contained in the above-mentioned auditor's reports originate from the laws applicable to companies and other specialized companies. Primarily, these auditor's reporting responsibilities are set out in section 249 of the Companies Act. The auditors of specialized companies (such as Banks, DFIs and Insurers) are additionally required to consider the other reporting responsibilities contained in the specific laws applicable to such companies (Banking Companies Ordinance 1962, Insurance Ordinance 2000).

Similarly, the auditors of specialized entities (such as Mutual Funds and Modarabas) are required to consider the other reporting responsibilities set out in the specific law applicable to such entities (NBFC Regulations, Modaraba Ordinance).

16. Is an auditor required to report on the company's change in accounting policy?

Under the new auditor's report format the auditor is not required to report on the company's change in accounting policy. The new auditor's report format does not contain auditor reporting on the company's change in policy, as such reporting requirement is neither required under the ISA 700 (Revised) nor specified under the Companies Act 2017.

The previous auditor's report format contained in Form 35A specifically required auditor's reporting on the change in company's accounting policy. This requirement has not been carried forward in the new auditor's report format.

In this context, the auditor can bring users attention to any significant matter, including change in policy through inclusion of an Emphasis of Matter paragraph in the auditor's report. *(This is explained further in the answer to question 17, below)*

17. What are the reporting implications when a change in accounting policy is applied retrospectively?

Comparative information may be restated for the retrospective application of an accounting policy. Retrospective application is applying a new accounting policy to transactions, other events and conditions as if the policy had always been applied.

If, in the auditor's judgment, the change in accounting policy is fundamental to the users' understanding of the financial statements, paragraph 8 of ISA 706 (Revised), requires that an Emphasis of Matter paragraph be included in the report to draw users' attention to the disclosures in the financial statements describing the retrospective application of the new accounting policy.

18. What are the reporting implications for the successor's report when prior period financial statements were audited by a predecessor auditor?

ISA 710 through paragraph 13 indicates that if the financial statements of the prior period were audited by a predecessor auditor and the successor auditor is not prohibited by law or regulation from referring to the predecessor report on the corresponding figures and decides to do so, the successor auditor shall state in an Other Matter paragraph in the auditor's report:

- That the financial statements of the prior period were audited by the predecessor auditor;
- The type of opinion expressed by the predecessor auditor and, if the opinion was modified, the reasons therefore; and
- The date of that report.

The Regulations require the successor auditor to include an “Other Matter paragraph” referring to a predecessor auditor. The following is an example of an Other Matter paragraph referring to the predecessor auditor included in the successor’s report:

Other Matter

The financial statements of the Entity for the year ended [end of prior reporting period] were audited by another auditor who expressed an unmodified opinion on those financial statements on [date].

This paragraph is not required if there is no change in the auditor. Further, in accordance with ISA 706 (Revised) the wordings of the paragraph related to the predecessor auditor will change due to restatement of comparative information that has been audited by such predecessor auditor.

19. 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 say that there will not be some incremental effort (and cost) in the first year of implementation in particular. The empirical evidence in the UK and other countries suggests that the additional cost, if any, is not significant and can be effectively managed.

In most cases, for a recurring engagement, an experienced auditor will have a good idea of the areas that present the highest risk and complexity, and can signal upfront to the audit committee that these are likely to be communicated as KAM.

This allows for discussion 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.

20. Is there a link between the new auditor’s report and audit quality?

The auditor’s report is the key deliverable communicating the results of the audit process.

The intended benefits of new auditor’s report are:

- Enhanced communication between auditors and investors, as well as those charged with corporate governance;
- Increased user confidence in audit reports and financial statements;
- Increased transparency, audit quality, and enhanced information value;
- Increased attention by management and financial statement preparers to disclosures referencing the auditor’s report;
- Renewed auditor focus on matters to be reported that could result in an increase in professional skepticism;
- Enhanced financial reporting in the public interest.

The effective interaction between the auditor and those charged with governance is a key contributor to audit quality. A candid two-way dialogue between the auditor and the audit committee or others charged with the oversight of company’s financial reporting, regarding the areas of risk and the

planned approach to the audit helps those charged with governance exercise its important responsibility for oversight of the financial reporting process and the audit.

A more informative auditor's report can further support those charged with governance by creating a better link between the role of the audit and the responsibilities of the audit committee and the board. It sends a strong signal to users that the areas of emphasis of the auditor which, in all likelihood, are or should be areas of focus for investors have been discussed with those charged with governance.

21. Should the auditor, in addition to signing the last page of the auditor's report, also put initials on all the remaining pages of the audit report?

In accordance with section 249 of the Companies Act 2017, auditor shall conduct the audit and prepare auditor's report in compliance with the requirements of International Standards on Auditing as adopted by the Institute of Chartered Accountants of Pakistan (ISAs as applicable in Pakistan).

The Companies Act 2017 and ISAs as applicable in Pakistan, both require auditor's 'signature' on the auditor's report.

Section 251(1) of the Companies Act, 2017 and paragraph 47 of ISA 700 are reproduced below:

Section 251 Signature of auditor's report.

- (1) *"The auditor's report must state the name of the auditor, engagement partner, be signed, dated and indicate the place at which it is signed.*
- (2) *Where the auditor is an individual, the report must be signed by him.*
- (3) *Where the auditor is a firm, the report must be signed by the partnership firm with the name of the engagement partner."*

Paragraph 47 of ISA 700

"The auditor's report shall be signed."

ATR 19 *"Identification of the Engagement Partner in the Auditors' Report"*, issued by the Institute of Chartered Accountants of Pakistan, requires that when the auditors' report on the financial statements or the interim financial information is signed in the firm's name, the name of the engagement partner shall also be identified on the auditor's report.

A reading of the above provisions clearly reveals that the Companies Act 2017, ISAs as applicable in Pakistan and ATR 19 do not require auditor's initial on the auditor's report. Moreover, the practice to initial the auditor's report is generally not prevalent in other jurisdictions.

Practice Followed Generally

An audit practice may have an internal policy to put initials, identification marks, or stamp on all pages of the final auditor's report. Audit practices usually have this policy as part of their internal control over issuance of more than one draft of audit report. Few audit practices put a watermark to distinguish draft reports from final reports. These internal practices are not obligatory in nature, and the Institute neither recommends nor discourages such practices.

Conclusion

In consideration of the above, auditors are not obligated to put initials on the pages of the auditor's report. However, auditor can follow the firm's policy on initialing the auditor's report and accordingly may initial the auditor's report, in addition to the signature as required under the Companies Act 2017 and ISAs as applicable in Pakistan.

Going Concern

1. What has changed in relation to the going concern?

ISA 570, *Going Concern*, has been revised as part of the revised auditor reporting project. The revised ISA 570 deals with the auditor's responsibilities in an audit of financial statements relating to going concern and the implications for the auditor's report. Although the new requirements do not change the underlying work effort required in an audit, however, in combination with ISA 700 and ISA 701, there are changes to how going concern matters are reported by the auditor.

In the auditor's report now, there is an expanded description of the responsibilities of directors/management and the auditor in relation to going concern. These paragraphs are mandatory for all auditor's reports. These responsibilities are not new, but are now included for the first time in the auditor's report.

Following changes have been made in an auditor's report relating to going concern depending on the facts and circumstances of the entity:

Description of responsibilities in auditor's report

The explicit description of the respective responsibilities of management and auditor in relation to the Going Concern to be included in the auditor's report under the sub-headings of "Responsibilities of Management for the Financial Statements" and "Auditor's Responsibilities for the Audit of the Financial Statements", respectively.

Paragraph 39(b)(iv) of ISA 700 (Revised) requires the section with a heading "Auditor's Responsibilities for the Audit of the Financial Statements" (as required by paragraph 37 in ISA 700 (Revised)) to describe the auditor's responsibilities, including for:

- Concluding on the appropriateness of management's use of the going concern basis of accounting
- Concluding, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

Material Uncertainty Related to Going Concern

A separate section is required to be added on the Going Concern when material uncertainty exists with heading a "Material Uncertainty Related to Going Concern". When material uncertainty related to Going Concern exists, though it is by nature KAM, however, it is reported separately in "Material Uncertainty related to Going Concern" section of the auditor's report. It is to be noted that there will no longer be an Emphasis of Matter relating to the going concern.

Under the previous version of ISA 570, if the auditor concluded that the going concern basis of accounting is appropriate, but a material uncertainty exists and this material uncertainty had been adequately disclosed in the financial statements, the auditor would include an Emphasis of Matter paragraph immediately after the Opinion paragraph which would be cross-referenced to the relevant disclosure note in the financial statements. The auditor would also emphasize that their opinion is not modified in respect of the material uncertainty. This requirement has changed in the revised ISA 570 and the use of an Emphasis of Matter paragraph is no longer appropriate.

Close call situations

Events or conditions were identified that may cast significant doubt on the entity's ability to continue as a going concern but, after considering management's plans to deal with these events or conditions, management and the auditor conclude that no material uncertainty exists (i.e., "close call" situations). Auditors are required to evaluate the adequacy of disclosures in "close call" situations in view of the requirements of the applicable financial reporting framework. Matters relating to going concern, including "close calls", may be determined to be KAM and communicated in the auditor's report in accordance with new ISA 701, which is required to be applied for audits of listed entities' financial statements.

2. How does the new going concern reporting affects management and audit committee?

While the responsibilities of the board of directors, audit committee and management regarding going concern have not changed, the auditor's report will now include enhanced description highlighting these responsibilities.

Paragraph 34(b) in ISA 700 (Revised) requires the section with the heading "Responsibilities of Management for the Financial Statements" (as required by paragraph 33 in ISA 700 (Revised)), to contain a description of management's responsibilities, including for:

- Assessing the entity's ability to continue as a going concern the explanation of management's responsibility for the assessment includes a description of "when" the use of the going concern basis of accounting is appropriate. This description of "when" is intended to be tailored to the requirements of the applicable financial reporting framework relating to going concern.
- Determining whether the use of the going concern basis of accounting is appropriate. This description relates to "whether" the use of the going concern basis of accounting is appropriate, which is different from "when" the use of the going concern basis of accounting is appropriate, as discussed in (a) above.
- Disclosing, if applicable, matters relating to going concern

If there have been close calls in the recent history of the entity, or if new conditions exist in the current year that cause management and audit committee to think there is a possibility of a material uncertainty or a close call, then it is advised that they discuss the matter with their auditor as soon as is practicable to enable the matter to be addressed in the early stages of the audit.

3. What is included in "Material Uncertainty Related to Going Concern" paragraph in the auditor's report?

If there are events or conditions that cast significant doubt on an entity's ability to continue as a going concern, there are changes to the way this is reported by the auditor under ISA 570 (Revised) and auditor's reporting standards.

New section titled "Material Uncertainty Related to Going Concern"

If there is a material uncertainty related to going concern, and adequate disclosure in the financial statements has been provided, the auditor's report will include a section titled as **Material Uncertainty Related to Going Concern**.

It is to be noted that now there will no Emphasis of Matter paragraph relating to the going concern.

ISA 570 (Revised), paragraph 22 establishes the minimum information to be presented in the auditor's report under the Material Uncertainty Related to Going Concern heading which is to:

- Draw attention to the note in the financial statements which includes the required disclosures; and
- State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern, and that the auditor's opinion is not modified in respect of the matter.

Sample wordings is contained in Illustration 1 of the Appendix 2 of ISA 570 (Revised).

Interaction with KAM

A material uncertainty related to going concern is by its nature a KAM, however, this is to be reported in a separate section of the auditor's report under the section Material Uncertainty Related to Going Concern. Accordingly, it will not be reported as KAM.

When a section titled material uncertainty related to going concern is included in the auditor's report, the introductory sentences to the KAM section of the auditor's report includes a cross reference to the material uncertainty related to going concern section, where the matter is described. In such as case, the introductory wordings of KAM section will be:

"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."

(Note: Underlined wordings added due to inclusion of section 'Material Uncertainty Related to Going Concern')

The description of the matter required to be included in the material uncertainty related to going concern section is less than what is required in the KAM section of the auditor's report. However, the auditor may provide additional information in the Material Uncertainty Related to Going Concern section to supplement the required ISA 570 (Revised) paragraph 22 statements, for example to explain;

- That the existence of a material uncertainty is fundamental to user's understanding of the financial statements, or
- How the matter was addressed in the audit.

4. What is the placement of the section "Material Uncertainty Related to Going Concern" in the auditor's report?

The section headed 'Material Uncertainty Related to Going Concern' is included immediately after the Basis for Opinion paragraph but before the KAM section.

5. What are the reporting implications related to going concern when ISA 701, Key Audit Matters, applies?

Paragraph 15 of ISA 701 states that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a Key Audit Matter (KAM). It further indicates that that this material uncertainty shall not be described in the Key Audit Matters section of the report but rather include a reference to the Material Uncertainty Related to Going Concern section in the Key Audit Matters section as follows:

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.

No material uncertainty exists

When the auditor concludes that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, paragraph A41 of ISA 701 states that the auditor may determine that one or more matters relating to this going concern conclusion arising from the auditor's work effort are KAM. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or noncompliance with loan agreements, and related mitigating factors. Paragraph A2 of ISA 706 states that matters determined to be key audit matters may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. In such cases, when communicating the matter as a KAM, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the KAM to indicate the importance of the matter to users' understanding of the financial statements.

6. What can be an illustrative example of an unmodified auditor's report containing a Material Uncertainty Related to Going Concern section?

The illustration of unmodified opinion when a material uncertainty exists and disclosure in the financial statements is adequate is provided in ISA 570 (Revised).

Below is an illustrative example of an unmodified auditor's report that includes Material Uncertainty Related to Going Concern and Key Audit Matters.

Opinion

.....
Note: An unmodified opinion

Basis of Opinion

.....
.

Material uncertainty related to going concern

We draw attention to Note 1.3 in the financial statements, which indicates that the Company incurred a net loss of Rs. 120 million during the year ended June 30, 2018 and, as of that date, the Company's current liabilities exceeded its total assets by Rs. 460 million. As stated in Note 1.3, these events or conditions, along with other matters as set forth in Note 1.3, 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. (The underline is ours)

[Using the separate sub-headings to describe each key audit matter]

The above underlined wordings would be included in the KAM section in case a material uncertainty related to going concern is included in the auditor's report.

7. What will be the impact on the auditor's report, in case a material uncertainty does not exist and there is adequate disclosure in the financial statements?

If there is an event or condition which may cast significant doubt on the entity's ability to continue as a going concern, but the auditor concludes the uncertainty is not material and that the use of the going concern assumption is appropriate, no additional disclosure or additional paragraph in the auditor's report is required.

Interaction with KAM

- **In the case of a listed entity**, the above scenario is likely to be reported as a KAM. This is owing to the reason that it is likely that it was a matter of most significance to the audit. By their very nature, issues identified relating to going concern are likely to be considered a key audit matters and hence need to be communicated in the auditor's report.

The auditor considers whether this is a KAM in accordance with ISA 701 paragraphs 9 and 10. This is often referred to as a 'close call' situation. Where the auditor has identified conditions which cast doubt over going concern, but audit evidence confirms that no material uncertainty exists, this 'close call' can be disclosed in line with ISA 701.

- **If the entity is not listed**, and the auditor is not communicating KAMs, the matter is not reported in the auditor's report.

8. What will be the impact on the auditor's report in case a material uncertainty is not adequately disclosed in the financial statements?

Where the uncertainty is not adequately disclosed in the financial statements the auditor would continue to modify the opinion in line with ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*.

9. Shall the auditor change of wordings in "Auditor's Responsibilities for the Audit of the Financial Statements" Section when financial statements are prepared on a basis other than going concern?

When the going concern basis of accounting is relevant to a financial reporting framework (either because it is explicit in the financial reporting framework or is fundamental principle, but management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so, the going concern basis of accounting is not considered appropriate.

In accordance with paragraph 39 (b)(iv) of ISA 700 (Revised), the "Auditor's Responsibilities for the Audit of the Financial Statements" section of the auditor's report includes the following paragraph related to the auditor's responsibilities of going concern:

"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."

When the use of the going concern basis of accounting is not considered appropriate in the circumstances, paragraph A27 of ISA 570 states that management may be required, or may elect, to prepare the financial statements not using the going concern basis of accounting but prepare them on another basis.

The auditor's responsibilities for an audit of financial statements are prescribed by the ISAs as applicable in Pakistan and should generally remain the same. However, as provided for under paragraph A50 of ISA 700 (Revised), the description of the auditor's responsibilities may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements.

Where the financial statements are prepared on a basis other than the going concern, the above wordings of paragraph 39 (b)(iv) of ISA 700 (Revised), should be tailored accordingly to reflect the auditor's responsibilities prescribed by the auditing standards under such a situation so as to provide relevant and useful information to users of the financial statements and the auditor's report thereon. Guidance can be taken from paragraph A27 of ISA 570 (Revised) on the auditor's responsibilities when the financial statements are prepared on a basis other than going concern. An example of how the auditor's responsibilities can be described is provided below for reference. The auditor should tailor the wordings as appropriate depending on the circumstances.

"Conclude on the appropriateness of management's use of the going concern basis of accounting. When such use is inappropriate and management uses an alternative basis of accounting, we conclude whether the alternative basis used by management is acceptable in the circumstances. We also evaluate the adequacy of the disclosures describing the alternative basis of accounting and reasons for its use. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report."

10. What are the reporting implications when the going concern basis of accounting is not relevant for a special-purpose financial reporting framework?

Paragraph 2 of ISA 570 (Revised) and paragraphs A15 of (Revised) ISA 800 and A19 of (Revised) ISA 805 indicate that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant.

If the going concern basis of accounting is not a fundamental principle in the preparation of the financial statements, a single financial statement or the specific element, account or item of a financial statement (e.g., other historical financial information) prepared in accordance with a special purpose financial reporting framework, then the going concern basis of accounting is not relevant.

When the going concern basis of accounting is not relevant, ISA 570 (Revised) is not applicable and therefore the reporting requirements of management and auditor are also not relevant. Accordingly, the description in the auditor's report the respective responsibilities of management and the auditor relating to going concern do not apply.

Further, auditors' reports on special purpose financial reports are not within the scope of ISA 701 and therefore there is no requirement for the auditor to communicate KAMs unless required by law or regulation. However, the auditor may elect to communicate KAMs.

Key Audit Matters

1. What are Key Audit Matters?

The new ISA 701, ‘Communicating Key Audit Matters in the Independent Auditor’s Report,’ deals with Key Audit Matters (KAM), and represents the most significant enhancement in the new auditor report.

ISA 701, defines KAM 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**. Key Audit Matters are **selected from matters communicated with those charged with governance**”.*

ISA 701 outlines the requirement for the auditors to



2. How will KAM be presented in the auditor’s report?

In accordance with paragraph 11 of ISA 701, KAMs will be included in the auditor’s report under a separate section titled ‘Key Audit Matters’.

3. Why KAM is required to be communicated?

KAM is intended to increase the communicative value of the auditor’s report. KAM is also expected to enhance the:

- Transparency;
- Provide a basis for users to further engage with management and those charged with governance;
- Attention to the disclosures; and
- Renew auditor’s focus.

As explained in ISA 701, the users of the financial statements have expressed an interest in those significant matters about which the auditor and those charged with governance had the most robust dialogue as part of the two-way communication and have called for additional transparency about those communications. Therefore, a focus on “the matters of most significance in the audit” and their communication through auditor’s report is intended to result in the auditor communication on areas that are likely to be of interest to users.

4. Will KAM section be included in all auditor reports?

Listed entity - In accordance with ISA 701, KAM is mandatory for audits of complete sets of general-purpose financial statements of listed companies. Therefore, auditors of listed companies are required to communicate KAMs in the auditor’s reports that are to be issued on the complete set of financial statements.

Other than listed entity - Auditors' of non-listed entities are not mandatorily required to include KAM in their audit reports. However, they may voluntarily elect to communicate KAMs in the auditor's report on the complete set of financial statements of non-listed entities.

5. Will KAM increase the scope of audit engagement and result in increased auditor efforts?

KAM is the most fundamental change in the new auditor's report.

However, KAM will not change the audit model. As generally, in every audit, the auditor encounters matters that are significant in the context of the financial statements of the current period. The ISAs, required the auditor to communicate significant matters with those charged with governance.

Accordingly, KAM will not increase the audit scope, as such matters have always been considered during the audit process, and the enhancements to the auditor's report simply call for these significant matters to be presented in the auditor report.

However, the introduction of KAM demands considerable focus and places responsibilities on the auditors. The need to identify the matters of most significance in audit will require changes in process to facilitate their selection.

It will also require greater engagement with management and those charged with governance around the basis of auditor's selection of those matters and how these would be drafted in the auditor's report. It is important to describe KAMs clearly, being precise about what the particular matter is, clearly articulating why the audit focused on it and how the audit addressed it. Further, KAM may result as a potential point of debate between auditors, management and those charged with governance, therefore requires auditor's attention and effective communication.

6. How KAMs are determined / identified?

ISA 701 explains that determination of the KAM is a matter of the auditor's professional judgment. However, a starting point to identify the KAMs would be the information that auditors are required to communicate with those charged with governance. Practically, this would involve the areas of audit focus. KAMs are likely to be related to the following matters that are:

Indicator of KAM	ISA 701 reference
Are of higher risk of material misstatement or have been identified as significant risks	Paragraph 9 (a)
Are complex and/or require significant auditor judgment relating to areas that involve significant management judgment, including critical accounting estimates that have been identified as having high estimation uncertainty, and related disclosures	Paragraph 9(b)
Are the effect of significant events or transactions	Paragraph 9(c)
Require significant auditor attention	Paragraph A12
Posed challenges to obtain sufficient appropriate audit evidence	Paragraph A13
May have involved specialists or experts (management's or the auditor's)	Paragraph A14

7. When KAMs are determined?

KAMs may be identified throughout the audit process. However, the final identification of KAMs for inclusion in the auditor's report occurs at the end of the audit.

8. When should auditor discuss KAMs with those charged with governance?

It is suggested that the auditor informs a client regarding KAM related requirements and implications on the audit effort and auditor's report.

It is also advisable that the auditor discusses his/her preliminary views about matters that may be areas of significant auditor attention and therefore may be KAMs, as early as possible with those charged with governance. The assessment of KAMs may change during the audit so the auditor updates those charged with governance throughout the audit. At the end of the audit, the final determination and communication of KAMs occurs.

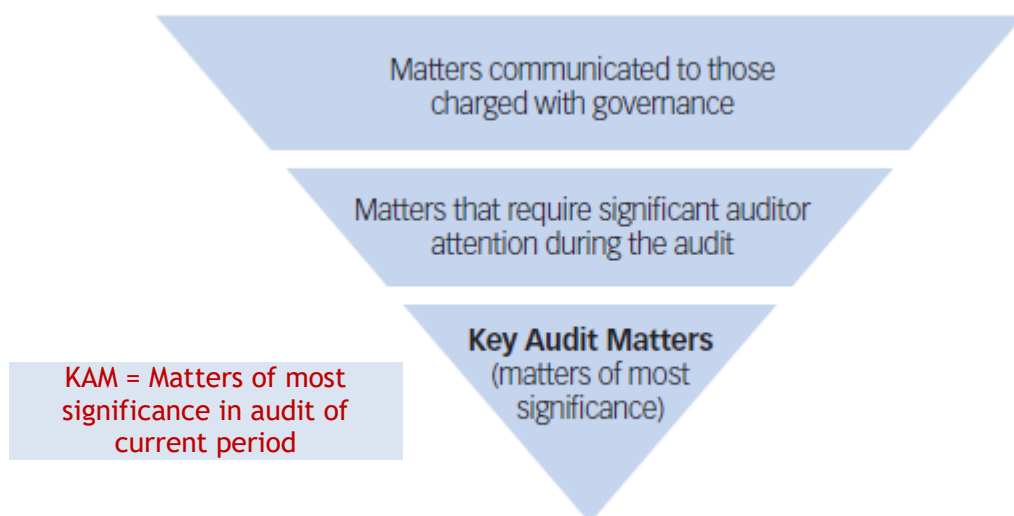
When discussing likely KAMs with those charged with governance, it is advisable to highlight/illustrate how the KAMs may be described in the auditor's report.

The early communication about KAMs also assists those charged with governance and management in considering whether the related matter is adequately disclosed in the financial statements and/or the original source of information about the entity.

9. How KAM is related to the significant risk related matters?

KAM are a sub-set of matters communicated with those charged with governance. KAM are extracted from the matters communicated with those charged with governance, however, it is emphasized that not all significant risks or matters communicated to those charged with governance will be KAMs.

ISA 701 provides a judgment-based decision-making framework to help the auditor decide which issues from the audit would be KAMs.



The auditor firstly narrows the matters communicated with those charged with governance to matters that required significant auditor attention. In the second step the auditor identifies the KAM from the areas that require significant auditor attention during the audit.

Explanation to the above is as under:

Matters communicated with those charged with governance

ISA 260 (Revised), *Communication with Those Charged with Governance*, requires the auditor to communicate various matters with those charged with governance, including the auditor's responsibilities in relation to the audit, the planned scope and timing of the audit, significant findings from the audit and auditor independence. In this regard, the auditor is required to communicate about the significant risks identified by the auditor, as part of communicating an overview of the planned scope and timing of the audit.

Matters that required significant auditor attention

The auditor's identification and attention to areas requiring significant attention recognizes that an audit is risk-based. Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or in forming an opinion on the financial statements may be particularly relevant in determining KAM.

Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments.

In turn, this often affects the overall audit strategy, allocation of resources, and extent of audit effort. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm to address these areas.

The auditor takes into account the following in making the determination of areas requiring significant attention:

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

Paragraph A20 of ISA 701 explains that areas of significant management judgment and significant unusual transactions may often be identified as significant risks and therefore significant risks are often areas that require significant auditor attention. However, paragraph A21 of ISA 701 highlights that this may not be the case for all significant risks. For example, ISA 240 presumes that there are risks of fraud in revenue recognition and management override of controls and accordingly requires the auditor to treat these assessed risks of material misstatement due to fraud as significant risks. Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered KAM.

After determining those matters that required significant auditor attention, the auditor will then determine which of those matters were of most significance in the audit of financial statements for the current period and therefore are the KAM.

The nature and extent of communication with those charged with governance provides an indication of which matters are of most significance. Other considerations in determining the relative significance of a matter include:

- Importance of the matter to intended users' understanding of the financial statements as a whole, in particular its materiality to the financial statements;
- Nature of the underlying accounting policy or complexity or subjectivity in management's selection of an appropriate accounting policy;
- Nature and materiality of corrected and uncorrected misstatements related to the matter;
- Nature and extent of audit effort needed to address the matter;
- Nature and severity of difficulties in applying audit procedures or obtaining relevant and reliable audit evidence;
- Severity of any control deficiencies related to the matter.

10. Are all significant risks considered KAM?

No, all significant risks are not KAMs. KAMs are sub-set of the significant risks.

ISA 701, paragraph 8 defines KAM as follows:

“Those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are selected from matters communicated with those charged with governance”. (Underline is ours)

KAMs are the audit related most significant matters communicated with those charged with governance.

The definition makes it clear that KAMs are sub-set of the matters communicated with those charged with governance. In essence, KAM are drawn from matters that are communicated with those charged with governance. However, it is not intended that all significant risks or matters communicated to those charged with governance will be KAMs. For example the ISAs stipulate that the risk of management over-ride of controls and the risk of fraud in the recognition of revenue are significant risks. It is however, not intended that these are KAMs unless the auditor determines that they are of most significance to the current year audit.

11. How the auditor will communicate KAM?

Separate section titled “Key Audit Matters”

In accordance with paragraph 11 of ISA 701, KAMs will be included in the auditor’s report under a separate section titled ‘Key Audit Matters’.

The introductory language of the KAM section must state:

- KAM are those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period, and
- These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, and the auditor does not provide a separate opinion on these matters

Separate sub-heading for each KAM

Each KAM shall be described using an appropriate sub-heading, as required under paragraph 11 of ISA 701.

Further, as explained in paragraph 13 of ISA 701, the description of each KAM shall include:

1. **Why the matter is considered to be one of most significance in the audit and therefore determined to be a KAM** (the description can explain what it is about the financial statement area that required significant audit attention, which can provide insight to users that is useful in understanding the matter and judgments/actions inherent in it) ;
2. **What the auditor did to address the matter and form the conclusion** (which may include a high-level description of the auditor’s approach, a brief overview of procedures performed, outcome and key observations, or a combination of these); for example descriptions of the auditor’s approach, a brief overview of procedures, outcome and key observations, or a combination of these; and
3. **Reference to the related disclosures in the financial statements (if any)**, (the objective is to enhance intended users’ understanding of how management has addressed the matter in preparing the financial statements).

12. What will be an illustrative example of KAM section of auditor’s report?

Below is an illustrative example of KAM section of the auditor's report (extracted from the auditor's report of Singapore Telecommunications Limited)

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. 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.

Taxation

The Group's subsidiaries, associates and joint ventures have operations across a large number of jurisdictions and are subject to periodic challenges by local tax authorities.

The Group is currently responding to an ongoing specific issue audit by the Australian Taxation Office ("ATO") in connection with the acquisition financing of Singtel Optus Pty Limited ("Optus"). The Group has engaged and involved external specialists to advise management on this specific issue audit and in its responses to the ATO. Evaluation of the outcome of the specific issue audit, and whether the risk of loss is remote, possible or probable, requires significant judgement given the complexities involved.

The Group has made disclosures on the above matter in Note 40(b) to the financial statements.

We have involved our tax specialists to assist us in assessing the judgements taken by management in reaching their conclusion that the specific issue audit by the ATO represents a contingent liability of the Group. We have examined the advice obtained by management from the Group's tax specialists to support the judgement taken, and have discussed the merits of the case with the specialists. Based on our procedures, we believe that the position taken by the Group is appropriate.

We have also assessed and validated the adequacy and appropriateness of the disclosures made in the financial statements.

Separate Key Audit Matters section
ISA 701.11

The introductory language
ISA 701.11(a),(b)

Subheading 'Taxation' to describe the specific KAM
ISA 701.11

Why the matter was considered to be one of most significance
ISA 701.13(a)

How the matter was addressed in the audit
ISA 701.13(b)

Reference to the related disclosures of financial statements (if any)
ISA 701.13

13. How detailed a KAM should be?

The ISA 701 outlines a principles-based framework, which suggests that the auditor may disclose any level of detail they deem appropriate as long as they fulfill four obligatory disclosures.

The description of the KAM should provide a balanced explanation of the matter. The extent of detail in the description and the order of presentation of individual matters within the KAM depend on the auditor's professional judgment.

However, the description of a KAM is in the context of the responsibility of the auditor to provide useful, concise and understandable information to the users, and avoids inappropriately providing original information about the company.

Paragraph A35 of ISA 701 explains that the original information is any information about the company that is not publicly made available by the entity. The description of KAM should avoid including information about the entity that has not been disclosed in the financial statements, or otherwise

made public by the company, unless this is considered appropriate in the circumstances and is not precluded by law or regulation. In this scenario, the auditor encourages management or those charged with governance to disclose additional information rather than the auditor providing original information in the Auditor's Report.

There is no requirement to detail the outcome of audit procedures undertaken; however, some auditors may elect to do so. If the outcome of procedures is included within the KAM, it is important that the wording does not imply discrete opinions on separate elements of the financial statements.

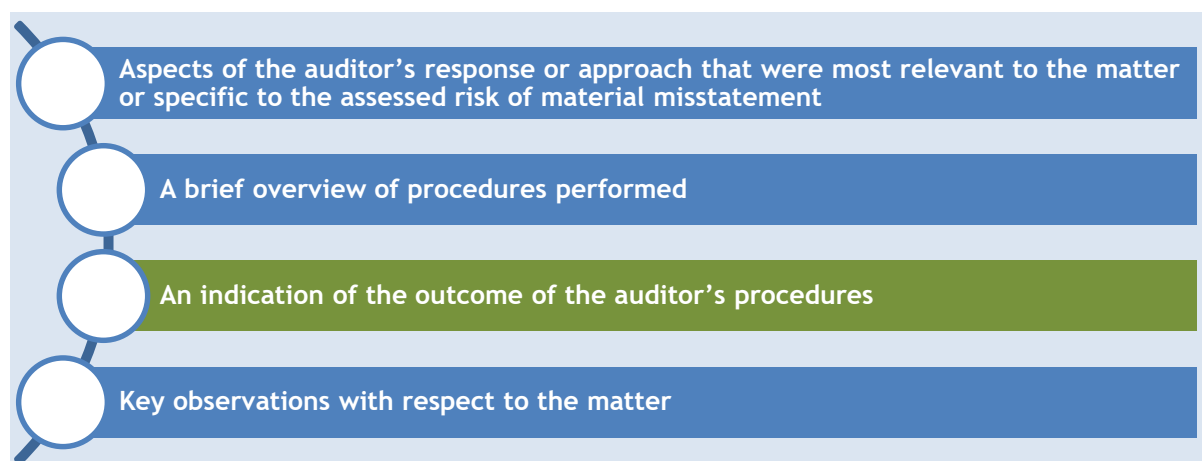
In case an external or internal expert (engaged either by the auditor or management) has been used, the auditor may detail the type of expert and the procedures the expert and the auditor performed.

The auditor's report may refer to the use of component auditors where it is considered appropriate. However, the group auditor is ultimately responsible for the conclusions reached and the audit opinion.

14. For each KAM an explanation is required that how the matter was addressed in the audit. Does this require auditor's conclusion on each KAM?

In accordance with section 13(b) of ISA 701, the auditor is required to explain how KAM was addressed in the audit. However, this does not obligate an auditor to provide a conclusion on the KAMs and the results of the audit procedures performed.

Paragraph A46 of ISA 701 outlines that the amount of detail how a key audit matter was addressed in the audit is a matter of professional judgment. In this regard, the auditor may describe or some combination of the following elements



The auditor can include an indication of the outcome of the auditor's response in the description of the key audit matter. However, if this is done, care is needed to avoid the auditor giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial statements as a whole.

15. Will KAM be always based on the financial statements, or auditor can refer to the KAM to the entity's 'Annual Report' or other publicly available information?

Communicating KAMs is an opportunity for the auditor to demonstrate the value of the audit, exercise of professional skepticism and sound professional judgment.

Yes, the auditor can refer to the entity's annual report or other publicly available communication by the entity or other credible sources, when describing the KAMs in the auditor report.

ISA 720 (Revised) defines the term annual report. ISA 720 explains that the documents such as management report, management commentary, operating and financial review or similar reports by

those charged with governance (e.g. the director's report), a Chairman's statement, corporate governance statement, internal control and risk assessment reports may form part of the annual report.

As explained in paragraph A38 of ISA 701, that although auditor's opinion on the financial statements does not cover the other information, the auditor may consider this information, as well as other publicly available communication either by the entity or other third credible party, in formulating a description of the KAM.

A KAM may be a matter relevant to the audit that is not required to be disclosed in the financial statements under accounting standards or the applicable regulatory or legal framework. For example, the implementation of a new IT system may have required significant audit attention and the auditor may identify this as a KAM. If a matter giving rise to a KAM has not been disclosed in the financial statements but is publicly available information, the auditor may make reference to the publicly available information if it is considered appropriate and helpful to users, noting that this information has not been audited.

16. Can KAM be a substitute of insufficient disclosure in the financial statements?

The auditor's report is not an instrument to fill in any gaps in the financial statements or be the original source of information about the entity.

If there is insufficient disclosure in the financial statements, the KAM cannot be used to communicate matters that are required to be disclosed in the financial statements. In such a scenario, the auditor requests those charged with governance to include appropriate disclosure in the financial statements, and if not rectified, consider the impact on the auditor's opinion.

Communicating KAMs is an opportunity for the auditor to demonstrate the value of the audit, exercise of professional skepticism and sound professional judgment.

17. Will KAM always originate from the financial statements?

In accordance with the paragraph 13 of ISA 701, the description of each key audit matter in KAM section shall include a reference to the related disclosures (if any) in the financial statements. Accordingly, there may be a scenario where a KAM may be a matter relevant to the audit that is not required to be disclosed in the financial statements under accounting standards or the applicable regulatory or legal framework.

As explained in paragraph A38 of ISA 701, that though the auditor's opinion on the financial statements does not cover the 'other information' (explained in ISA 705), the auditor may consider this information, as well as other publically available communications by the entity or other credible sources, in formulating the description of KAM.

For example, the implementation of a new IT system may have required significant audit attention and the auditor may identify this as a KAM. If this matter is considered, as KAM, however, has not been disclosed in the financial statements but is a publicly available information, the auditor may refer to the publicly available information if it is considered appropriate and helpful to users, noting that this information has not been audited.

18. Is there a specific guidance on the number of KAMs or sequencing of KAMs in the auditor's report?

KAMs are determined from the auditor's perspective 'through the eyes of the auditor'. The determination of KAM involves auditor's judgment.

The objective of KAMs is to provide users insightful and useful information about the entity's financial statements. This can be achieved when most significant matters are highlighted.

Paragraph A30 of ISA 701, explains that the determination of how many significant matters are to be included as KAM is a matter of auditor's professional judgment. As for the audits of more complex entities it may be appropriate to have more KAMs than for a non-complex entity. Other matters that

may impact the number of KAMs communicated are the nature of an entity's business and environment.

The auditor's report may lose impact if there is an extensive list and description of a wide range of matters rather than focused insight into those issues that were the most significant. Accordingly, the auditor is required to judge and communicate areas of most significance noted in the current year audit.

The order/sequence of the presentation of individual KAMs is also a matter of professional judgment. It is however, advisable that the KAMs are ordered in a logical manner, for example in order of importance, or that inter-related KAMs are placed close together.

19. Is it acceptable to determine that there are no KAM?

KAMs are specific to each audit and it is expected to be **extremely rare** for an auditor of a listed company not to have a matter which was of most significance.

Paragraph A59 of ISA 701 provides explanation to the rare scenario when auditor may determine that there were no matters that required significant auditor attention; and accordingly there are no KAMs to communicate in the auditor's report.

20. Is there any specific wordings to be included in the auditor's report, in case if no KAM is determined?

In a scenario where the auditor concludes that there are no KAMs, the presentation of *Key Auditors Matters* section of the auditor report will be as follows:

Key Audit Matters

"We have determined that there are no key audit matters to communicate in our report."

KAM introductory paragraph is not required

As explained in paragraph 11 of ISA 701, the introductory language of the *Key Auditors Matters* section, as generally required prior to description of the individual KAM will not be required.

Importantly, in the no KAM scenario, the audit documentation must detail the matters considered (if any) and the rationale for the conclusions made.

21. What possible circumstances may require non communication of KAM in the auditor's report?

The objective of communicating KAMs through the auditor's report is to provide users insightful and useful information about the entity's financial statements, and it can be achieved when most significant matters are highlighted.

The auditor is required to include each KAM.

However, ISA 701 envisages four possible circumstances/scenarios when KAM is not communicated in the auditor's report.

Paragraph 14 of ISA 701, provides situations when KAM is not communicated in the auditor's report.	Precluded by law Law or regulation precludes public disclosure about the matter
	Adverse consequences on public interest In extremely rare circumstances, the auditor determines that the matter should not be communicated where adverse consequences of communicating the KAM would reasonably be expected to outweigh the public interest benefits of such communication

Further, the following matters though significant (and in substance KAM) are not included in KAM section of the auditor's report

Paragraph 15 of ISA 701 outlines that	Matter giving rise to modified opinion Though the matter giving rise to a modified opinion is by nature KAM, however, it is not included in the Key Audit Matters section of the auditor's report
	Material uncertainty related to going concern Though the matter giving rise to material uncertainty related to going concern, is by nature KAM, however, it is not included in the Key Audit Matters section of the auditor's report

Furthermore, as explained in paragraph 16 and A59 of ISA 701 (above) in certain limited circumstances, the auditor may conclude that there are no KAM to be included in the auditor's report.

22. Should KAM be communicated in respect of each period for which the financial statements are presented?

Paragraph 10 of ISA 701 and its related application guidance indicates that the auditor shall determine KAM from the matters which were of most significance in the audit of the financial statements of the current period. Accordingly, the auditor's determination of KAM is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented.

The reason to limit the KAM to the audit of the current period was primarily because of its understanding that users are interested in the most recent information to make informed decisions, and therefore are more likely to value information from the auditor about matters of significance in the audit of the current period.

Further, there are practical challenges in communicating KAM in relation to the prior period, which could also further lengthen the auditor's report and result in a presentation that could be potentially confusing to the users.

23. Is auditor required to update KAMs included in prior year auditor's report?

There is no requirement for the auditor to update KAMs included in the prior period. However, the auditor still needs to consider whether a matter reported as a KAM in the prior period continues to be a KAM in the current period. Therefore, it may nevertheless be useful for the auditor to consider whether a matter that was a KAM in the audit of the financial statements of the prior period continues to be a KAM in the audit of the financial statements of the current period.

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

KAM is not a replacement of, or supplement to, management's perspective asserted 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. But clearly, there often will be a link between KAM and areas of complexity or significant judgment in the financial statements.

25. Is KAM a form of qualification/ modification?

KAM is not a qualification. Key Audit Matter section of the auditor's report is not a medium for the auditor to express qualification. KAMs are addressed in the context of the audit of the financial statements as a whole, and the auditor does not provide a separate opinion on the matters included as KAM.

26. With the introduction of KAM, are Emphasis of Matter Paragraphs / Other Paragraphs still used?

The 'Emphasis of Matter' and/or 'Other Matter' paragraphs are still used in the auditor's report and the definitions have not changed.

ISA 706 (Revised), '*Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*' establishes mechanism for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter paragraphs and Other Matter paragraphs when auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the KAM section in the auditor's report.

27. What is relationship between "Emphasis of Matter Paragraphs" and KAMs in the auditor's report?

The guidance is provided in ISA 706, paragraphs A1-A3.

The KAM are selected for matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period. Communication of KAM provides additional information to the users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit and may also assist the entity and areas of significant management judgment in the audited financial statements

Generally, the possible interaction between KAM and Emphasis of Matter Paragraphs could be that:

Possible interaction between KAM and Emphasis of Matter Paragraphs	What to do
The matter meets the definition of KAM and also meets the definition of Emphasis of Matter and/or Other Matter	<p>In this scenario, if KAMs are reported in the auditor's report, and a matter meets the definition of a KAM and an 'Emphasis of Matter and/or Other Matter', it is reported as a KAM only.</p> <p>In such circumstances the auditor may wish to highlight or draw further attention to matter owing to its relative importance. The auditor may do so by presenting the matter more prominently in the <i>Key Audit Matters</i> section or by including additional information on the subject matter in the <i>Key Audit Matters</i> section.</p>
The matter is not determined to be KAM but meets the definition of Emphasis of Matter and/or Other Matter.	In this scenario, if the matter is not determined to be KAM in accordance with ISA 701, however, in the auditor's judgment, is fundamental to

Possible interaction between KAM and Emphasis of Matter Paragraphs	What to do
	user's understanding of the financial statements (e.g., a subsequent event), the auditor may consider including such a matter in an Emphasis of Matter paragraph in the auditor's report in accordance with ISA 706.

28. In circumstances where modified opinion (qualified, adverse, disclaimer) or a material uncertainty related to going concern are issued/ included in auditor's report, will the auditor also report these as KAM?

The matters giving rise to a modified opinion, or a 'Material Uncertainty Related to Going Concern', are by definition KAMs.

However, as explained in paragraph 15 and related application guidance contained in paragraphs A5-A7 of ISA 701, these matters are not described in the KAM section of the auditor's report, but are reported in accordance with the requirements of the relevant standards ISA 705 (Revised), and ISA 570 (Revised).

When a Material Uncertainty Related to Going Concern exists

Explanation to the impact of going concern matter on the auditor's report has been provided in the previous section, *Going Concern*, of this document.

When the auditor expresses a qualified or adverse opinion

- When the auditor expresses a qualified or adverse opinion, the requirement to communicate other KAM/s (i.e. KAMs other than those leading to qualified or adverse opinion) is still relevant and hence will still apply.
- ISA 705 (Revised) outlines the requirements when the auditor concludes that the audit opinion should be modified. ISA 705 (Revised) requires that the auditor includes a "**Basis for Qualified/Adverse Opinion**" section in the auditor's report.
- When the auditor issues an adverse opinion it means that the financial statements do not give a true and fair view because the auditor has concluded that misstatements, individually and in aggregate, are both material and pervasive to the financial statements.

Depending on the significance of the matter(s) which has resulted in the auditor expressing an adverse audit opinion, the auditor might determine that no other matters are KAM. In this situation, the auditor will deal with the matter(s) in accordance with applicable ISAs and include a reference to the Basis for Qualified/Adverse Opinion or the Material Uncertainty Related to Going Concern section(s) in the KAM section of the report as illustrated below.

Such a matter is not included in KAM. It is described in the Basis for Qualified/ Adverse Opinion section of the auditor's report, and the description of, and why the matter was considered to be a KAM, and how it was addressed in the audit, is not required.

This helps to promote users understanding of the matter leading to the modified opinion, and separating the communication of this matter from *Key Auditor Matters* section, therefore, gives it appropriate prominence in auditor's report.

The auditor's report based on the appendix in ISA 705 (Revised) will present the above circumstances as follows:

Key Audit Matters

"In addition to the matter described in the Basis for Adverse/ Qualified opinion section or 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."

Further, paragraph A58 of ISA 701 illustrates how *Key Auditor Matters* section is presented when auditor has determined that there are no KAM to be communicated in the auditor's report beyond matters addressed in the Basis of Qualified/ Adverse Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report.

Key Audit Matters

"[Except for the matter described in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section,] we have determined that there are no other key audit matters to communicate in our report."

When a disclaimer of opinion is issued

No KAM section is included in the auditor's report

- A disclaimer of opinion is issued when the auditor is unable to form an opinion on the financial statements. ISA 705 states that when the auditor expresses a disclaimer of opinion then the auditor's report **should not** include a KAM section.
- A KAM section is not included in the auditor's report when a disclaimer of opinion is issued due to concerns that communicating KAMs would suggest that the auditor was able to conclude on that topic. Further, if a disclaimer of opinion is issued there is no Other Information section in the Auditor's Report, as explained in ISA 705, paragraph 29.

29. What challenges are expected to be faced by auditors in relation to KAM?

KAM represents the most significant change in the auditor report, and it will present some challenges to both the auditors and those charged with governance.

The major challenges expected to be faced by the auditors include:

- Exercising significant professional judgment in determining KAM;
- Ensuring appropriate additional audit documentation that comes with exercising professional judgment, describing the KAMs to the satisfaction of management and those charged with governance; and
- Complying with the essence of the standard around clarity and sufficiency of the language to enable user comprehension and increased costs, especially around time spent by senior engagement team members.

30. Will the communication of KAM through auditor's report have an adverse effect on the relationship between the auditor and the audit committee?

A commonly expressed concern is that the communication of KAM may have a negative effect on the auditor's relationship with the audit committee, possibly leading to less candid or robust discussions on auditing and financial reporting matters. However, communication of KAM will enhance

communications about those matters between the auditor and the audit committee, and will increase attention.

31. Will KAM impact the Emphasis of Matter paragraphs?

Emphasis of Matter and Other Matter paragraphs are still retained in ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* and the concepts involved have not been overridden by the new ISA 701 requirements.

The Emphasis of matter paragraph is included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment is of such importance that it is fundamental to user's understanding of financial statements.

ISA 701 establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor report. ISA 570 (Revised) and ISA 720 (Revised) establish requirements and provides guidance about communication in the auditor's report relating to going concern and other information respectively.

The matters which the auditor considers to be KAM will relate to issues that are presented and/or disclosed in the financial statements. Therefore, communicating these as KAM under ISA 701 will serve as the most useful and meaningful mechanism for highlighting the importance of the matter.

When the auditor communicates matters as KAM, the intention is to provide additional information beyond that which would be included in an Emphasis of Matter paragraph. In recognition of this ISA 706 (Revised) states:

- The auditor is prohibited from using an Emphasis of Matter paragraph or an Other Matter paragraph when the matter has been determined to be a KAM. To that end, the IAASB has emphasized that the use of an Emphasis of Matter paragraph is not a substitute for a description of individual KAM.
- If a KAM is also determined to be fundamental to users' understanding, the auditor may present this issue more prominently in the KAM section. Alternatively, the auditor might also include additional information in the KAM description to indicate the importance of the matter.
- There may be a matter which is not determined to be a KAM, but which, in the auditor's judgement is fundamental to users' understanding and for which an Emphasis of Matter paragraph may be considered necessary.

Paragraph A5 contains examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph. Such circumstances may include early application of a new IFRS that has a material impact of the financial statements, a significant subsequent event that occurs between the date of financial statements and the date of auditor's report.

32. How an auditor will communicate KAM, when engaged in audit of the consolidated financial statements and separate financial statements of the parent?

In accordance with ISA 701, KAMs are mandatorily communicated in the auditor's report for audits of general-purpose financial statements of the listed companies.

In case of the listed companies, the consolidated financial statements and separate financial statements are generally presented in a single document i.e. The Annual Report.

The auditor is required to issue two separate audit reports on the consolidated financial statements and separate financial statements. Regardless of how the consolidated and separate financial statements and related auditor's report(s) are presented, the auditor would need to determine KAM in respect of the audit of the consolidated financial statements and KAM in respect of the audit of the separate financial statements. Accordingly, when describing such KAM in the auditor's report(s), the description should be tailored to each of the respective audits. In making this determination, the auditor may identify a matter that gives rise to KAM for both audits.

In circumstances where the separate financial statements of the parent are not a complete set of general purpose financial statements under the applicable financial reporting framework, KAMs are not required to be communicated, however, the auditor may voluntarily communicate KAM.

33. What should the auditor document in the working paper file in relation to KAMs?

ISA 230, '*Audit Documentation*' outlines the auditor's responsibility to prepare audit documentation for an audit of financial statements.

As well as complying with ISA 230, the following is required to be documented in relation to KAMs:

- identification of which matters are required significant auditor attention;
- explanation relating to whether or not they are KAMs;
- if it was determined to be a KAM, the rationale for not including a matter in the auditor's report;
- if there are no KAMs, the rationale for this.

From the matters communicated to those charged with governance, the auditor determines those that require significant auditor attention. Professional judgment is used when determining the matters that require significant auditor attention and are likely to be those that require auditor judgment and attention from the senior members of the audit team. The audit documentation needs to include why these matters are, or are not KAMs.

There is no requirement to document why all matters communicated to those charged with governance were not matters that required significant auditor attention and are not KAMs.

34. What is the effect, if any, on the KAM previously communicated in the auditor's report in circumstances when the auditor reissues the report or amends the report previously issued?

In certain circumstances under ISA 560, '*Subsequent Events*', the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued.

In such circumstances where the auditor re-issues or amends the auditor's report, the auditor may also need to consider whether the matter that has resulted in the new or amended auditor's report:

- a) gives rise to an additional KAM that should be communicated, or
- b) relates to a matter previously communicated as a KAM and whether revisions to the description of that KAM are therefore necessary.

Other matters previously communicated as KAM are not likely to be affected because such matters were previously determined to be matters of most significance in the audit for purposes of the original auditor's report.

Considering whether any updates to the KAM may be necessary, in addition to the Emphasis of Matter paragraph or Other Matter paragraph required by ISA 560, relates to the objective of communicating KAM. The description of a KAM is intended to provide additional information to intended users of the financial statements beyond what is included in an Emphasis of Matter paragraph (i.e., more than a reference to the matter being emphasized and to relevant disclosures in the financial statements). The auditor also may consider cross-referencing the respective descriptions in the Emphasis of Matter paragraph or Other Matter paragraph and the updated KAM in the auditor's report to clarify that both are in respect of the same matter.

35. Should the audit engagement letter include the auditor's responsibility to communicate KAM in the auditor's report?

Early engagement between the auditor and the company's management is going to be critical. It is appropriate that both the client and auditor discuss and agree the key terms and changes in the scope of the audit engagement. We have noted that communicating KAM is one of the fundamental changes in the auditor's reports, relevant both to the client and auditors. Accordingly, it is important

that the audit engagement letter explicitly states the definition of KAM and document the understanding that the reporting of key audit matters is exempt from confidentiality.

In this context, reference to paragraphs 10 and A24 of ISA 210, *Agreeing the Terms of Audit Engagement*, can be made. Paragraph 10 requires the recording of the agreed terms of the audit engagement in an audit engagement letter. Further, paragraph A24 of ISA 210 provides explanation to the form and content of the audit engagement letter and requires the auditor to communicate KAM in the auditor's report in accordance with ISA 701.

With relation to KAM, suggested wording for inclusion in the engagement letter is as follows:

"ISAs as adopted in Pakistan require that we determine key audit matters and communicate those matters by describing them in the auditors' report, except in very limited circumstances. In accordance with ISA 701, key audit matters are those matters that, in our professional judgment, are of most significance in the audit of the financial statements of the company of the current financial year. Our communication of key audit matters in our auditors' report will be in the context of our audit of the financial statements as a whole. We will not provide a separate opinion on these matters. The communication of key audit matters applies to listed entities and in circumstances when we otherwise decide to communicate key audit matters in our auditors' report. We will communicate with you if we decide to do so."

36. What should the auditor do if a KAM related matter is not required to be included in the financial statements and those charged with governance refuse to communicate the matter in another form (e.g. Director's Report)?

Paragraph 13 of ISA 701 makes clear that not all KAM are able to be referenced to a disclosure. The adequacy of the description of a KAM is a matter of professional judgment. The nature and extent of information provided by the auditor should be concise and understandable, while not inappropriately providing original information about the entity. The description of KAM is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM. The auditor may encourage management to disclose additional information.

Ultimately, the auditor uses professional judgment in complying with ISA 701. Clear communication with those charged with governance is essential and where appropriate, encouragement to disclose within, or outside of, the financial report may overcome any perceived problems. The auditor increases focus on the way in which the KAM is worded.

37. Why last two paragraphs from the Auditor's Responsibilities section of Annexure I specified report shall be omitted, in case of an auditor's report for the financial statements of an un-listed company?

The auditor's report format contained in the Auditors (Reporting Obligations) Regulation 2018, the last two paragraphs of the section "Auditor's Responsibilities for the Audit of the Financial Statements" shall be omitted from the auditor's report of a non-listed entity, in accordance with ISA 700 (Revised) paragraphs 40(b) and 40(c).

Please note that the KAM related paragraph i.e. (40(c) of ISA 700 (Revised) would not be omitted from the auditor's report, incase KAM section has been voluntarily included in the auditor's report for the financial statements of a non-listed entity.

38. When should those charged with governance be informed about KAMs in the audit process?

The auditor discusses with those charged with governance, as early as possible, preliminary views about matters that may be areas of significant auditor attention and therefore may be KAMs. The assessment of KAMs may change during the audit so the auditor update those charged with governance throughout the audit. At the end of the audit, the final determination and communication of KAMs occurs in the auditor's report.

The early communication about KAMs also assists those charged with governance and management in considering whether the related matter is adequately disclosed in the financial statements and/or the original source of information about the entity.

39. Can audit committee have a say in how KAM are reported?

The auditor is likely to develop a preliminary view at the planning stage about matters which are likely to be KAM and will communicate to the audit committee. They may even provide a draft KAM section for review and feedback. The auditor will likely be receptive to feedback on specific wording, but ultimately KAM are reported within the auditor's report. The final determination of KAM is based on the results of the full audit, and initial assessments of what matters are KAM may change throughout the audit process. As a result, the audit committee is likely to have final discussions about KAM with the auditor at the conclusion of the audit.

40. How will the KAMs affect audit committee and management?

KAMs are intended, though, to focus on the audit and give further useful information in respect thereof to assist the reader to better understand the entity. KAM is not intended to supply original information about the entity. It is the role of management to provide adequate and transparent disclosure in the financial statements on the entity, its activities and transactions.

The auditor will report KAM in the auditor's report after discussing it with those charged with governance. Therefore, there should be no surprises to those charged with governance or to Board of directors.

However, instances can arise where the auditor believes that a matter relating to the audit is one of the most significant matters that he/she experienced during the audit and should be disclosed as a KAM, but the management holds a different view. The auditor disclosing the matter as a KAM could result in investors questioning why the financial statements did not provide transparency on the matter.

Therefore, difficult debates could take place between auditors, management and those charged with governance. The ethics and attitude of the management's/ those charged with governance's decision-making and governance structures towards transparency will play a key role in determining how easy or difficult these discussions will be.

41. What are directors' responsibilities in relation to KAM?

The responsibility for the financial statements preparation and presentation remains with the Board of directors of the company. The auditors are only responsible for forming an opinion on the financial statements. Accordingly, directors should communicate relevant information to users about the company including providing adequate disclosures in accordance with the applicable financial reporting framework. With KAM, the directors are expected to ensure that appropriate disclosures in the financial statements have been made and when appropriate, their assessment of the KAM.

42. Will investors and other users view KAM as a "scorecard" on management's performance?

The ISAs require the auditor to communicate with audit committees/ board of directors about certain matters. This includes the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

The intent of this communication is a candid discussion with the audit committee about any observations (including any concerns) the auditor may have about the entity's accounting practices or management's judgments or assumptions underlying critical accounting estimates. Auditors are required to write in the auditor's report about how KAM were addressed. However, the specifics of the description are left to the judgment of the auditor. The ISAs do not require either a lengthy description of the auditor's procedures, nor do they require an indication of the outcome of the procedures or a conclusion on the matter.

Users generally welcome additional transparency and insight from auditors. On the other hand others may misconstrue the outcomes and KAMs as separate opinions and detract from the auditor's opinion on the financial statements as a whole.

43. Will the KAM be the same for entities operating in similar industries?

Not necessary, an audit is carried out on a risk based approach. Whilst entities may operate in similar industries, there still may be differences in controls and operating model and processes. Accordingly, KAM for entities operating in similar industries may differ.

44. Can a subsequent event which provides evidence of conditions that arose after the date of the financial statements be communicated as a KAM or an emphasis of matter (EOM) in the auditor's report?

Subsequent events which are adjusted or disclosed in the financial statements are matters relevant to the financial statements of the current period. Therefore, where ISA 701 applies, they may be identified as a KAM if, in the auditor's judgement, they are a matter of most significance to the audit of the financial statements.

Other Information

1. Why the auditor's report contains a section 'Information Other than the Financial Statements and Auditor's Report thereon'?

In accordance with paragraph 32 of ISA 700 (Revised), where applicable, the auditor shall report on the "Other Information".

Paragraph 21 of ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information, requires the auditor to include a separate section in the auditor's report with a heading "Other Information" (or other appropriate heading).

In this context, the auditor's report specified under the Regulations contain the section titled 'Information Other than the Financial Statements and Auditor's Report thereon'.

2. What is 'Other Information'?

Paragraph 12 (c) of ISA 720, defines "Other Information" as:

"Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report."

Management, or those charged with governance is responsible for preparing the other Information.

3. Is an auditor required to express an assurance conclusion on other information?

The auditor does not express any form of assurance conclusion on the other information.

4. What are auditor's responsibilities in relation to other information?

ISA 720 (Revised) has been reissued to provide increased clarity on the auditor's responsibility in relation to the other information reported in the annual report.

Obtaining the other information	In accordance with the paragraph 13 of the ISA 720 (Revised) the auditor shall obtain the other information. In this context, the auditor should discuss their responsibility for other information with those charged with governance as early as possible, to ensure they are aware of the additional detail that will be provided in the auditor's report if the other information is not available to the auditor before the date the audit report is signed.
Reading and considering the other information	<p>In accordance with paragraph 14 of ISA 720 (Revised), the auditor is required to:</p> <ul style="list-style-type: none"> Read the other information and consider whether there is a material inconsistency between the other information and the financial statements, and/or the auditor's knowledge obtained during the audit. This responsibility applies regardless of whether the other information is obtained before or after the date of the auditor's report. As a basis for considering whether there is a material inconsistency between the Other Information and the financial statements, the auditor is required to compare selected amounts or items in the other information to such amounts or items in the financial statements. This is a new requirement. <p>The nature and extent of the amounts or items to compare is a matter of professional judgment. It is however, intended that the auditor selects</p>

Responding to the outcome	<p>amounts or items which are significant in size or importance to the financial statements.</p> <p>The auditor is required to respond to the outcome of reading and evaluation of other information in accordance with the paragraphs 16 to 20 of ISA 720 (Revised). These are explained through a separate question and answer in this publication.</p>
Reporting	<p>The auditor's report shall include a section on the other information in accordance with the paragraph 21 of ISA 720 (Revised). This is also explained through a separate question and answer in this document.</p> <p>Auditor also needs to consider the impact of any qualification on the financial statements on the Other Information.</p>
Documentation	<p>Audit documentation includes details of the procedures performed and the final version of the Other Information, as explained in paragraph 25 of ISA 720.</p>
Representation	<p>In accordance with paragraph 13 (c) of ISA 720, when some of the other information will not be available until after the date of the auditor's report, the auditor is required to request a representation from management/those charged with governance that the final version of the documents will be provided to the auditor when available and prior to its issuance by the company.</p>

5. Why other information is considered important and relevant in context of audit of financial statements?

Over the years, there have been significant developments in corporate reporting, particularly in relation to the amount of detail included in entities' annual reports, as well as the importance ascribed by users to the information in annual reports beyond the audited financial statements and the auditor's report thereon.

In particular, annual reports now include more narrative and qualitative information than in the past, such as descriptions of the entity's business model, risk exposures and uncertainties. Users have been attaching increasingly more importance to such information as they look for ways to better inform their analysis and understanding of the more complex areas in the financial statements, including disclosures.

Entities also have been making increasing and more diverse use of documents other than the annual report (whether pursuant to law or regulation or voluntarily) for their external communication purposes in connection with the issuance of their audited financial statements. For example, in many jurisdictions entities are presenting information such as management reports, or statements on corporate governance or on internal control and risk assessment, in documents accompanying the audited financial statements, instead of in documents containing the financial statements.

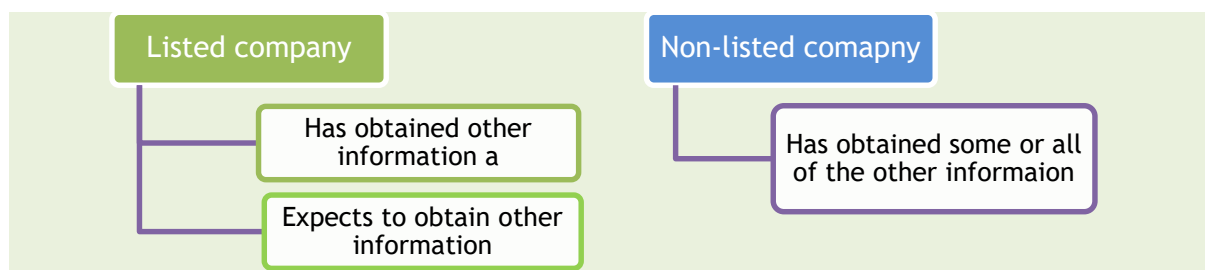
Therefore, the other information is a fundamental part of overall financial reporting package. In context of today's financial reporting environment, users' expectations and auditor's role to serve the public interest by ensuring that there is an appropriate auditor response in the event the other information could undermine the credibility of the audited financial statements and the auditor's report.

6. Will every auditor's report prepared under the Companies Act contain the section 'Information Other than the Financial Statements and Auditor's Report thereon'?

In accordance with paragraph 32 of ISA 700 (Revised) the auditor shall report on the other information (information other than the financial statements and auditor's report thereon). This paragraph outlines that there could be circumstances where the auditor is not required to report on other information in the auditor's report.

Paragraph 21 specifies differing reporting requirements for the auditors of the listed and non-listed companies relating to the inclusion of section 'Information Other than the Financial Statements and Auditor's Report thereon'. In other words the section is included depending on whether the entity being audited is listed or not, and the status of the other information received by the auditor as of the report date.

In consideration of typical scenarios relating to the status of other information and nature of the company, the section in the auditor's report will be included in the following cases:

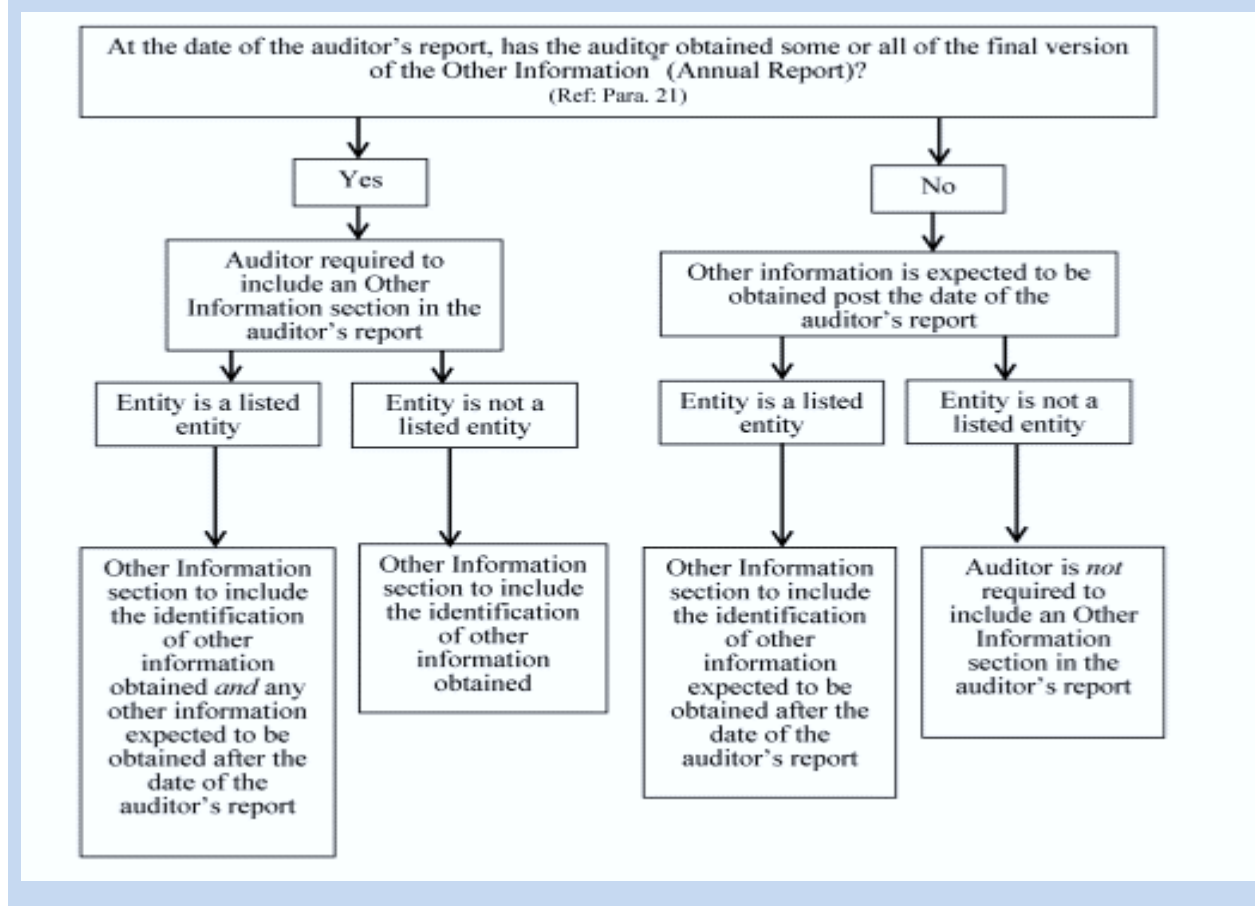


Status of the other information received	Listed company	Other than listed company
The auditor has obtained all of the other Information at the date of the auditor's report	<p>Identification of the other information obtained prior to the date of the auditor's report</p> <p>In respect of information obtained prior to the date of the auditor's report, either:</p> <p>A statement that the auditor has nothing to report; or</p> <p>If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information</p>	The same requirements apply as for audits of the listed entities
The auditor has obtained some of the other information at the date of the auditor's report	Same reporting requirement as above	The same requirements apply as for audits of the listed entities
The auditor expects to obtain other information after the date of the auditor's report	Identification of the other information expected to be obtained after the date of the auditor's report	No reporting required, although the auditor still has responsibilities under ISA 720 (Revised) to perform the necessary procedures on the other information.

It is not uncommon for a company to prepare its full annual report after the auditor has signed the audit opinion on the financial statements. In this scenario, the auditor's report for a listed company details the other information which is expected to be received after the date of the auditor's report.

In case of an unlisted company if all of the other information is not available to the auditor at the date of the auditor's report, the auditor is not required to report anything on the other information through the auditor's report.

Decision tree diagram for other information reporting in the auditor's report



7. What will generally be communicated in the auditor's report about other information?

The auditor's report will always include a separate other information section when the auditor has obtained some or all of the other information as of the date of the auditor's report. For audits of financial statements of listed companies, an other information section will also be included if the auditor expects to obtain other information after the date of the auditor's report.

In accordance with paragraph 21 and 22 of ISA 720 (Revised), under the heading "Information than the Financial Statements and Auditor's Report thereon", the auditor's report will include:

- A statement that management is responsible for the other information. [ISA 701.22\(a\)](#)
- Identification of the other information obtained prior to the date of the auditor's report. In the case of a listed entity, the auditor is also required to identify any other information expected to be obtained after the date of the auditor's report. [ISA 701.22\(b\)](#)
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon. [ISA 701.22\(c\)](#)

- A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by ISA 720 (Revised). [ISA 701.22\(d\)](#)
- When other information has been obtained prior to the date of the auditor's report, either: [ISA 701.22\(e\)](#)
- A statement that the auditor has nothing to report; or
- If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

8. How the section "Information Other than the Financial Statements and Auditor's Report thereon" include when the auditor is issuing an unmodified opinion and has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information?

ISA 720 (Revised) includes illustrative examples to show how reporting on other information may be done in various circumstances.

In accordance with illustration 1 contained in ISA 720 (Revised), following is an example of reporting when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

Information Other than the Financial Statements and Auditor's Report Thereon

The management is responsible for the other information.

The other information comprises the [information included in the X report, but does not include the financial statements and our auditor's report thereon.]

Our opinion on the 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 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. If, based on the work we have performed, 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.

9. How the section "Information Other than the Financial Statements and Auditor's Report thereon" will be presented in the auditor's report when the auditor of a listed / other than listed company is issuing an unmodified opinion. Further, the auditor has obtained some of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information?

Auditor's report on the financial statements of a listed company

In accordance with illustration 2 contained in ISA 720 (Revised), following is an example of reporting when the auditor of a listed company obtained a part of the other information prior to the date of the auditor's report and has not identified a material misstatement of that other information. Further, other information is expected to be obtained after the date of the auditor's report.

Information Other than the Financial Statements and Auditor's Report Thereon

The management is responsible for the other information.

The other information comprises of the X report, but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.

Our opinion on the 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 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.

If, based on the work we have performed, we conclude that the other information that we obtained prior to the date of this auditor's 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.

When we read the report Y, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs as applicable in Pakistan.

Auditor's report on the financial statements of an un-listed company

Information Other than the Financial Statements and Auditor's Report Thereon

The Board of directors/ management is responsible for the other information.

The other information obtained at the date of this auditor's report in [information included in the X report, but does not include the financial statements and our auditor's report thereon]

Our opinion on the 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 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.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's 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.

10. How the section “Information Other than the Financial Statements and Auditor’s Report thereon” will be presented in the auditor’s report of a listed company, when the auditor is issuing an unmodified opinion and has not obtained other information prior to the date of the auditor’s report?

Following is an example of reporting when the auditor of a listed company expects to obtain the other information after the date of the auditor’s report.

Information Other than the Financial Statements and Auditor’s Report Thereon

The management is responsible for the other information.

The other information comprises all the information included in the Annual Report, excluding the financial statements and our auditor’s report thereon. The other information is expected to be made available to us after the date of our auditor’s report on the financial statements.

Our opinion on the 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.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs as applicable in Pakistan.

11. How does auditor determine the documents that comprise the annual report?

The annual report contains or accompanies the financial statements and the auditor’s report thereon. This may be a single document or a combination of documents that are prepared to provide owners with information on the entity’s operations, financial results and financial position.

Paragraph 12(a) of ISA 720 (Revised) defines “annual report” as follows:

“As a document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity’s operations and the entity’s financial results and financial position as set out in the financial statements. An Annual Report contains or accompanies the financial statements and the auditor’s report thereon and usually includes information about the entity’s developments, its future outlook and risks and uncertainties, a statement by the entity’s governing body, and reports covering governance matters.”

An annual report is typically prepared on an annual basis.

In accordance with paragraph A3 of ISA 720 (Revised), determining the documents that comprise the annual report is often clear as they are required by the statutory and regulatory requirements, or are within the one document called “annual report”. In some cases, an entity’s annual report may be a single document and referred to by the title “annual report” or by some other title. In other cases, law, regulation or custom may require entity to provide information about operations and financial position by way of a single document or by way of two or more separate documents that in combination serve the same purpose.

Generally, the following documents may form part of the annual report:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report)
- Chairman's statement
- Corporate governance statement
- Internal control and risk assessment reports

In Pakistan context, the annual report (in general) includes material/information required under the statutory and regulatory requirements from the Companies Act 2017, the Pakistan Stock Exchange listing rules and relevant applicable law, regulation or rules. Further, it may contain additional voluntary reporting.

An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.

As explained in paragraph A5 of ISA 720 (Revised), an annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available).

ISA 720 (Revised) does not apply to preliminary announcements of financial information or securities offering documents, including prospectuses. Application material in the ISA explains common items included or excluded from the definition of an annual report to aid auditors in applying the definitions in practice.

Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this ISA, include:

- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries.
- Corporate social responsibility reports.
- Sustainability reports.
- Legal compliance reports.
- Diversity and equal opportunity reports.
- Product responsibility reports.

If the determination of contents of annual report is not clear, the auditor is required to use professional judgment to determine what comprises the annual report considering the timing, purpose of the documents and for whom they are intended.

Further, an annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.

12. Is director's report prepared under section 227 of the Companies Act, considered 'other information' within the scope of ISA 720 (Revised)?

As explained above the annual report is information prepared to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial report, and contains or accompanies the financial report.

The director's report prepared under section 227 serves the purpose of providing operation and financial information to the members of the company. Director's report forms part of other information in accordance with ISA 720 (Revised).

13. Is the CSR / Sustainability report considered 'other information' within the scope of ISA 720 (Revised)?

The guiding principle will be the definitions of "Other Information" and "Annual Report" provided in the ISA 720 (Revised).

When CSR / Sustainability disclosure is done in the annual report

"Other Information" is defined as financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's Annual Report.

Under Pakistan financial reporting regime, any information, including the CSR / Sustainability reporting that is included as part of the entity's annual report, other than the financial statements and the auditor's report, would be considered other information within the scope of ISA 720 (Revised).

When a summary of CSR / sustainability disclosure is included in the annual report and a full standalone sustainability report is issued, separate from the annual report

Applying the above principle, the summary of CSR / Sustainability disclosure included in the annual report is considered other information within the scope of ISA 720 (Revised). For the full sustainability reporting presented as a standalone document, separate from the annual report, the auditor would need to consider whether it is part of the Annual Report, i.e. if it meets the definition of "Annual Report" under ISA 720 (Revised).

Paragraph A5 of ISA 720 (Revised) explains that an Annual Report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available).

It lists, among others, sustainability reporting as an example of a report that, when issued as a standalone document, is not typically part of the combination of documents that comprise an Annual Report (subject to law, regulation or custom), and therefore is not other information within the scope of ISA 720 (Revised).

Taking guidance from paragraph A5 of ISA 720 (Revised), the full sustainability report, issued as a standalone document, would generally not form part of the documents that comprise an entity's Annual Report and accordingly, is not considered other information.

There may be a scenario where within the annual report, a reference to the separate standalone sustainability report is made. In this context, the mere reference to such separate documents would not constitute such separate documents as other information.

14. Will the auditor's report on the financial statements of non-listed companies include an other information section?

In accordance with paragraph 21 of ISA 720 (Revised), the auditor's reports on financial statements of non-listed entities shall include an other information section if the auditor has obtained some or all of the other information as at the audit report date.

Accordingly, if no other information has been received as at the audit report date, an other information section is not included in the auditor's report. However, in context of financial reporting under the Companies Act 2017 this is unlikely to be the case as the Director's Report is other information and is ordinarily received before the auditor's report date. In case of non-listed companies if the other information (some or all) has been received before the date of the auditor's report, the auditor's report should include an other information section.

Conversely, if no other information has been received before the date of the auditor's report, the auditor's report on the financial statements of non-listed company should not include an other information section.

15. Which audit opinion will not require a section on the other information?

In accordance with paragraph A58, when the auditor issues a disclaimer opinion on the financial statements, the auditor's report does not include a section addressing the reporting requirements of ISA 720 (Revised).

16. What is a material misstatement of the other information and the impact on reporting?

A misstatement of the other information is defined in paragraph 12(b) of ISA 720 (Revised) as follows:

A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information).

Paragraph A7 of ISA 720 (Revised) states that the concept of materiality may be discussed in a framework applicable to the other information; if discussed there, such a framework may provide a frame of reference for the auditor to make judgments about materiality under ISA 720 (Revised). Paragraph A7 also states that in many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, paragraph A7 states that the following characteristics provide the auditor with a frame of reference for determining whether a misstatement of the other information is material:

- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements since such users may be expected to read the other information to provide context to the financial statements.
- Judgments about materiality take into account the specific circumstances of the misstatement and consider whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
- Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report

17. What is auditor's responsibility if a material inconsistency is identified in the Other Information, the financial statements or the auditors' understanding of the company?

If a material inconsistency is identified between the other information and the financial statements and/or the other Information and the auditor's understanding of the company, the auditor performs audit procedures to conclude whether:

1. A material misstatement exists in the other information
2. A material misstatement exists in the financial statements
3. The auditor's understanding of the entity needs to be updated

Material misstatement is identified in the Other Information

Other Information received before the date of the auditor's report

(If a material misstatement is identified in the other information received prior to the date of the auditor's report)

- Request management to correct the other information (*ISA 720.17*)

	<ul style="list-style-type: none"> ▪ If management makes the correction, ascertain that the correction has been made (ISA 720.17(a)) ▪ If management refuses to make the correction, request those charged with governance to make the correction (ISA 720.17(b)) ▪ If the material misstatement in the other information is not corrected after communicating with those charged with governance: <ul style="list-style-type: none"> - Take appropriate action (ISA 720.18) - Consider the implications for the auditor's report or withdrawal from the engagement. Paragraph 22 of ISA 720 requires the auditor to include a statement that describes the uncorrected material misstatement of the other information in the auditor's report. <p>Other Information received after the date of the auditor's report (If a material misstatement is identified in the other information received after the date of the auditor's report)</p> <ul style="list-style-type: none"> ▪ Request management to correct the other information (ISA 720.17) ▪ If management makes the correction, ascertain that the correction has been made (ISA 720.17(a)) ▪ If management refuses to make the correction, request those charged with governance to make the correction (ISA 720.17(b)) ▪ If the material misstatement in the other information is not corrected after communicating with those charged with governance: <ul style="list-style-type: none"> - Take appropriate action (ISA 720.19(b), A49 and A50)
<p>A material misstatement exists in the financial statements</p>	<p>Based on the other information obtained prior to the date of auditor's report</p> <p>If a material misstatement is identified in the financial statements owing to the other information received before the date of the auditor's report, the auditor requests that the financial statements be amended. If the entity does not make appropriate amendments, the auditor considers the implications on the auditor's opinion on the financial statements in accordance with the relevant ISA.</p> <p>Based on the other information obtained after the date of auditor's report</p> <p>If as a result of reading the other information received after the date of the auditor's report, a material misstatement is identified in the financial statements, the auditor considers their responsibilities under ISA 560 (Revised), <i>Subsequent Events</i>, including requesting those charged with governance to amend the financial statements. If the financial statements are not amended, the auditor uses professional judgment to determine how to bring this to the attention of users and considers seeking legal advice.</p>

The auditor's understanding of the entity needs to be updated

Based on the the other information obtained prior to the date of auditor's report

If a material inconsistency is identified by the auditor before the date of the auditor's report, the auditor considers the impact on the audit including whether the identified risk of material misstatements are still appropriate, and performs additional procedures as appropriate for the circumstances.

Based on the other information obtained after the date of auditor's report

If a material inconsistency is identified in the auditor's understanding of the entity after the date of the Auditor's Report, the auditor considers their responsibilities under ISA 560 (Revised).

18. What are the auditor's responsibilities in relation to other information in circumstances when the auditor reissues the report or amends the report previously issued?

In circumstances when the auditor provides a new auditor's report, or amends the auditor's report that was previously issued, the auditor may need to reconsider the auditor's responsibilities relative to the other information, the nature and extent of which would depend on whether the auditor restricts the audit procedures on subsequent events to the amendment of the financial statements:

- a) The auditor is permitted to restrict the audit procedures on subsequent events to the effects of the subsequent event or events causing the amendment (i.e., the circumstances in paragraph 12 of ISA 560 apply). In such cases, the auditor's responsibility relates to:
 - Considering the effect on the Other Information as reported in the auditor's report that was previously issued; and
 - Determining whether updates to the *other information* section in the auditor's original report are necessary.

With respect to other information that the auditor previously reported on, the auditor needs to consider whether appropriate updates have been made to the other information in relation to the subsequent event and the auditor may need to revise the other information section of the auditor's report to refer to the amended other information. The auditor is not required to report on any other information obtained after the date of the original report.

- b) The auditor does not restrict the audit procedures on subsequent events to the amendment of the financial statements (i.e., the circumstances in paragraph 12 of ISA 560 do not apply). In such cases, the other information section in the reissued auditor's report would cover all other information obtained as of the date of the reissued report. For audits of listed entities, the other information section would need to be updated to identify any other information that is expected to be obtained after the date of the auditor's report.

In both cases, the auditor would still be responsible for performing the necessary procedures on any other information obtained after the date of the auditor's report, as described in paragraph 19 of ISA 720 (Revised).

Group Audits

1. What are the significant changes in the auditor's report for the consolidated financial statements, compared to the auditor's report of on the standalone financial statements of a listed company?

The Annexure I of the Regulations specifies the auditor's report for the individual/ separate financial statements of a listed company. Further, the format of auditor's report on the consolidated financial statements is prescribed in Annexure IV of the Regulations. These formats are in accordance with the ISAs applicable in Pakistan, and also contain the Pakistan specific other regulatory requirements.

Following significant differences can be noted in the above formats:

Sr No.	Auditor's report on separate /individual financial statements	Auditor's report on consolidated financial statements	Comments
1	The auditor's report contains the title 'Report on the audit of financial statements'	The auditor's report on the consolidated financial statements does not contain the title 'Report on the audit of financial statements'	In accordance with ISA 700 (Revised) paragraph 45, the title 'Report on the audit of financial statements' is only included if the auditor reports on other legal and regulatory requirements in the auditor's report in addition to their opinion on the financial statements. In case of consolidated financial statements, there are no legal and regulatory reporting duties of the auditor under the Companies Act, hence, title 'Report on the audit of financial statements' not required.
2	The opinion paragraph contains requirements of the Companies Act (section 249), related to the auditor's duties to report on each component of the financial statements	The auditor's report contains the opinion on the consolidated financial statements	The opinion paragraph on the separate financial statements is based on the requirements of the Companies Act, along with ISA 700. Conversely, there are no specific auditor's opinion requirements in the Companies Act on the consolidated financial statements.
3	The auditor's responsibilities section does not include paragraph related to the group audit responsibilities	The auditor's responsibilities section does not include paragraph related to the group audit responsibilities	In accordance with paragraph 39 (c) of ISA 700 (Revised), an additional auditors responsibility is included if the audit is a group audit under ISA 600.
4	The auditor's report contains section 'Report on other legal and regulatory requirements'	The auditor's report does not contain section 'Report on other legal and regulatory requirements'.	Please see comments to serial No. 1 above.

2. In addition to the changes brought in by the new and revised auditor reporting standards, what is the most significant change in the new auditor's report on the consolidated financial statements (compared to Form 35C prescribed format)?

The changes brought in by the Companies Act 2017 and new and revised auditor reporting standards have been discussed in the earlier sections.

The auditor's report on the consolidated financial statements of a company is now required to be issued as per the format prescribed in Annexure IV of the Regulations. Previously, the auditor's report format for the consolidated financial statements was prescribed in Form 35C, issued through Rule 17C of the Companies (General Provisions and forms) Rules, 1985.

The previous report contained the concept of 'division of responsibility', allowing the auditor of the consolidated financial statements when rendering opinion thereon, to base the opinion solely on the reports of subsidiaries' auditor/s in so far as it is related to the amounts of those subsidiaries included in the consolidated financial statements.

The relevant, extract from Form 35C is as follows:

".....We have also expressed separate opinions on the financial statements of xxx and its subsidiary companies except for xxx and xxx which were audited by other firm(s) of auditors whose report(s) has/have been furnished to us and our opinion, in so far as it relates to the amounts included for such company(ies), is based solely on the report(s) of such other auditors....."

However, the auditor's report on consolidated financial statements specified under the Regulations has eliminated the aforementioned concept of the division of responsibilities. Consequently, the group auditor is made responsible for the audit opinion on the consolidated financial statements, without making reference in the audit report to any other auditor involved in the audit of subsidiaries. The opinion paragraph of the audit report on the consolidated financial statements shall state as follows:

"In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at xxx, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the accounting and reporting standards as applicable in Pakistan."

3. Can the component auditor(s) be referred to in the auditor's report on the group financial statements?

Paragraph 11 of ISA 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* indicates that the auditor's report on the group financial statements shall not refer to the component auditor, unless required by law or regulation to include such reference. If such reference is required by law or regulation, the auditor's report shall indicate that the reference does not diminish the group engagement partner's or the group engagement partner's firm's responsibility for the group audit opinion.

Paragraph A9 of ISA 600 further explains that when the group audit opinion is modified because the group engagement team was unable to obtain sufficient appropriate audit evidence in relation to the financial information of one or more components, the Basis for Modification paragraph in the auditor's report on the group financial statements describes the reasons for that inability without referring to the component auditor, unless such a reference is necessary for an adequate explanation of the circumstances.

4. How auditor's responsibilities related to a group audit are described in the auditor's report?

When ISA 600 applies, paragraph 39(c) of ISA 700 requires the auditor's report to describe the additional auditor's responsibilities in a group audit engagement by stating that:

- a) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;
- b) The auditor is responsible for the direction, supervision and performance of the group audit; and
- c) The auditor remains solely responsible for the auditor's opinion.

These are contained under the section 'Auditor's Responsibilities for the Audit of the Consolidated Financial Statements'.

5. Why section 'Report on Other Legal and Regulatory Requirements' not included in the auditor's report on the consolidated financial statements?

The other legal and regulatory requirements relate to the additional reporting responsibilities on the matters that are supplementary to the auditor's responsibilities under the ISAs. In Pakistan, the Companies Act specifies the requirements for the auditor to report on certain matters, under section 249.

The requirements of section 249 related to auditor's reporting on other legal and regulatory matters related to the company and are accordingly included in the separate/ individual auditor's report of the company. These requirements are not framed for the group and accordingly are not included in the auditor's report on the consolidated financial statements of the group.

Interim Review Report and Review Report on Statement of Compliance

1. Is the auditor's review report for the half-yearly financial statements impacted by the new auditor reporting requirements?

ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", has not been amended for the new auditor reporting requirements.

The Regulations specify the auditor's review report format for half-yearly financial statements. This format is in accordance with ISRE 2410. The interim reports on reviews conducted in accordance with ISRE 2410 must continue to comply with the requirements of the existing standard.

2. Does the auditor's review report need to include key audit matters?

The review engagements are not within the scope of ISA 701.

Key audit matters (KAMs) therefore, are not required to be included in auditors' review reports. ISA 701 and ISRE 2410 however, do not preclude the inclusion of KAMs in auditors' review reports, if auditors elect to do so. If an auditor elects to communicate KAMs in a review report, the requirements of ISA 701 must be complied with. We understand that this may be problematic as ISA 701 is predicated on the performance of an audit.

Accordingly, the format of review report specified in the Regulations does not contain the KAM section.

3. Is there any change in the auditor's review report on the statement of compliance contained in Listed Companies (Code of corporate Governance) Regulations, 2017?

The Regulations through Annexure VI prescribe the format of the independent auditor's report on the statement of compliance contained in Listed Companies (Code of corporate Governance) Regulations, 2017. The changes in the review report on statement of compliance are explained below:

CCG Regulations Auditor's review report format	2012 Code Auditor's review report format	Key changes / comments
Independent Auditor's Review Report	Review report to the members on the statement of compliance with the code of corporate governance	
To the members of(Name of Company)		
Review Report on the Statement of Compliance contained in Listed Companies (Code of Corporate Governance) Regulations, 2017		

CCG Regulations Auditor's review report format	2012 Code Auditor's review report format	Key changes / comments
<p>We have reviewed the enclosed Statement of Compliance with the <u>Listed Companies (Code of Corporate Governance) Regulations, 2017 (Regulations)</u> prepared by the Board of Directors of (Name of the Company) for the year ended, in accordance with the <u>requirements of regulation 40 of the Regulations.</u></p> <p>(Underline is ours)</p>	<p>We have reviewed the enclosed Statement of Compliance with the <u>best practices contained in the Code of Corporate Governance (the Code)</u> prepared by the Board of Directors of Limited for the year ended to comply with the <u>requirements of Listing Regulation No(s) of the Stock Exchange(s) where the Company is listed.</u></p>	<p>The wording “<i>with the best practices contained in the Code of Corporate Governance (the Code)</i>” has been substituted with the “<i>Listed Companies (Code of Corporate Governance) Regulations, 2017 (Regulations)</i>”.</p> <p>Further, the wording “<i>to comply with the requirements of Listing Regulation No(s) of the Stock Exchange(s) where the Company is listed</i>” has been substituted with the “<i>in accordance with the requirements of regulation 40 of the CCG Regulations.</i>”</p>
<p>The responsibility for compliance with the Regulations is that of the Board of Directors of the Company. Our responsibility is to review whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the <u>Regulations</u> and report if it does not and to highlight any non-compliance with the requirements of the <u>Regulations</u>. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the <u>Regulations</u>.</p>	<p>The responsibility for compliance with the Code is that of the Board of Directors of the Company. Our responsibility is to review, <u>to the extent where such compliance can be objectively verified</u>, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the <u>Code</u> and report if it does not and to highlight any non-compliance with the requirements of the <u>Code</u>. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the <u>Code</u>.</p>	<p>In the statement relating to the auditor's review responsibilities, the wording “<i>to the extent where such compliance can be objectively verified</i>” has been omitted.</p> <p>Previously, the 2012 Code (<i>Compliance with the code of corporate governance - xli</i>) reproduced hereunder, contained this wording: “<i>All listed companies shall ensure that the statement of compliance with the best practices of corporate governance is reviewed and certified by statutory auditors, where such compliance can be objectively verified, before its publication. Statutory auditors of listed company shall ensure that any non-compliance with the CCG requirements is highlighted in their review report.</i>”</p> <p>However, the wordings has not been carried forward in the CCG Regulations, therefore same has been omitted from the review report format.</p>

CCG Regulations Auditor's review report format	2012 Code Auditor's review report format	Key changes / comments
<p>As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.</p>	<p>As a part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.</p>	<p>Further, the term 'Code' has been substituted with the term 'Regulations'.</p> <p>No change in the paragraph.</p> <p>The paragraph relating to auditor's extent of understanding of accounting and internal control system, and limitation with regard to the effectiveness of the internal controls as stated by the board of directors, has been carried forward in the new report format.</p>
<p>The Regulations require the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions and <u>also ensure compliance with the requirements of section 208 of the Companies Act 2017</u>. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out procedures <u>to assess</u> and determine the Company's <u>process for identification of related parties</u> and that whether the related party transactions were undertaken at arm's length price or not.</p>	<p>The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions <u>distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism</u>. We are only required and have ensured compliance of this requirement to the extent of the approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.</p>	<p>The paragraph relating to the auditor's extent of procedures on related party transactions contain following amendments: Though the term "Code" has been substituted with "Regulations". The reference to section 208 has been included as the CCG Regulation no. specifies the requirement of the section 208 (Related party) of the Companies Act shall be complied with by the board of directors. Previously, the 2012 Code contained requirements relating to the related party transactions. However, now these requirements along-with definition of related parties have been provided in newly inserted section 208 of the Companies Act. In consideration of above the following specific wordings contained in 2012 Code report have been omitted: <i>"distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and</i></p>

CCG Regulations Auditor's review report format	2012 Code Auditor's review report format	Key changes / comments										
		<p><i>transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism”</i></p> <p>Further, due to expanded definition of related parties contained in section 208 of the Companies Act compared to previously used definition and criteria (generally based on IAS 24) of related parties, the wordings have been added to explain the limitation of review procedures related to the company's process for identification of related parties.</p>										
<p>Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the <u>requirements contained in the Regulations</u> as applicable to the Company for the year ended</p> <p>* Further, we highlight below instance(s) of non-compliance with the requirement(s) of the <u>Regulations</u> and relevant disclosure as reflected in the note/paragraph reference, in the Statement of Compliance:</p> <p>Note/paragraph</p> <table><thead><tr><th>Reference</th><th>Description</th></tr></thead><tbody><tr><td>i</td><td>.....</td></tr><tr><td></td><td>.....</td></tr></tbody></table>	Reference	Description	i	<p>Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the <u>best practices contained in the Code</u> as applicable to the Company for the year ended</p> <p>* Further, we highlight below instance(s) of non-compliance with the requirement(s) of the <u>Code</u> as reflected in the note/paragraph reference where it/these is/are stated in the Statement of Compliance:</p> <p>Note/paragraph</p> <table><thead><tr><th>Reference</th><th>Description</th></tr></thead><tbody><tr><td>i.....</td><td>.....</td></tr></tbody></table>	Reference	Description	i.....	<p>The wording “<u>best practices contained in the Code</u>” has been substituted with the wording “<u>requirements contained in the Regulations</u>” .</p> <p>No significant change in the relation to the para on identified non-compliances. Though the term “Code” has been substituted with “Regulations”.</p>
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Reference	Description											
i.....											
<p>Chartered Accountants</p> <p>Place:</p> <p>Date:</p>	<p>Chartered Accountants</p> <p>Place:</p> <p>Date:</p>	<p>No change with regard to the signature of the auditor, place and date of the review report.</p>										

4. Is there any change in the review report on the statement of compliance of public sector company?

The Regulations do not specify the independent auditor's review report on the statement of compliance of public sector company.

SECP has prescribed the independent auditor's review report on the statement of compliance of public sector company in the schedule III of the Public Sector Companies (Corporate Governance Compliance) Guidelines 2018. These Guidelines have been issued by SECP under the Public Sector Companies (Corporate Governance) Rules 2013.

The auditor's of the public sector companies are required to follow the format specified in the Public Sector Companies (Corporate Governance Compliance) Guidelines 2018.

Special Purpose Reporting

1. **Are auditors' reports on special purpose financial statements or single financial Statements and specific elements, accounts or items of a financial statement issued under ISA 800 (Revised) and ISA (805) Revised are impacted by the changes to the auditor's reporting requirements?**

ISA 800 (Revised), '*Special Considerations—Audits of Financial Statements Prepared In Accordance With Special Purpose Frameworks*' & ISA 805 (Revised), '*Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*' have been revised to reflect the changes to auditor reporting.

Impact of ISA 570 (Revised) on reporting under ISA 800 and ISA 805 - Paragraph A15 of (Revised) ISA 800 and A19 of (Revised) ISA 805 requires that special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant.

Accordingly, depending on the applicable financial reporting framework used in the preparation of the single financial statement or the specific element of a financial statement, where subject matter is prepared under a special purpose framework that is not requiring assessment of going concern, there is no need to include such paragraphs in management's responsibilities and auditor's responsibilities section of the auditor's report

Impact of ISA 701 on reporting under ISA 800 and ISA 805 - The auditors' reports on special purpose financial statements or ISA 805 are not within the scope of ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, and therefore there is no requirement for the auditor to communicate KAMs unless required by law or regulation. However, the auditor may elect to communicate KAMs.

Impact of ISA 720 (Revised) on reporting under ISA 800 and ISA 805 - ISA 720, deals with the auditor's responsibilities relating to other information. Reports containing or accompanying special purpose financial statements with the purpose of providing owners with information on matters presented in the special purpose financial statements are considered to be annual reports, and the requirements of ISA 720 apply (A17 of ISA 800).

2. **Do auditor's reports on summary financial statements (including Concise Financial Reports) include communication of key audit matters?**

ISA 810 *Engagements to Report on Summary Financial Statements* has been revised and reissued to reflect the changes to auditor reporting.

Where the auditor's report on the financial statements includes KAMs, the auditor's report on the summary financial statements or concise financial report states that the auditor's report on the financial report includes communication of KAMs.

The intention is to draw to the users' attention that there are KAMs in the auditor's report on the financial report, however the auditor is not required to describe in detail or repeat the KAMs in the auditor's report on the summary financial statements or concise financial reports.

3. **Does ISA 720 (Revised) apply to audits of financial statements prepared in accordance with special purpose frameworks?**

The ISAs as applicable in Pakistan in the 100-700 series apply to an audit of financial statements. ISA 800 deals with special considerations in the application of those ISAs to an audit of financial statements prepared in accordance with a special purpose framework. Paragraph A17 of ISA 800 states that reports containing or accompanying special purpose financial statements, the purpose of which is to provide owners (or similar stakeholders) with information on matters as set out in the special purpose financial statements, are considered to be "Annual Reports" for the purpose of ISA 720.