PIOB

Public Interest Oversight Board

Quality of Financial Reporting and Audit Failures

Gonzalo Ramos

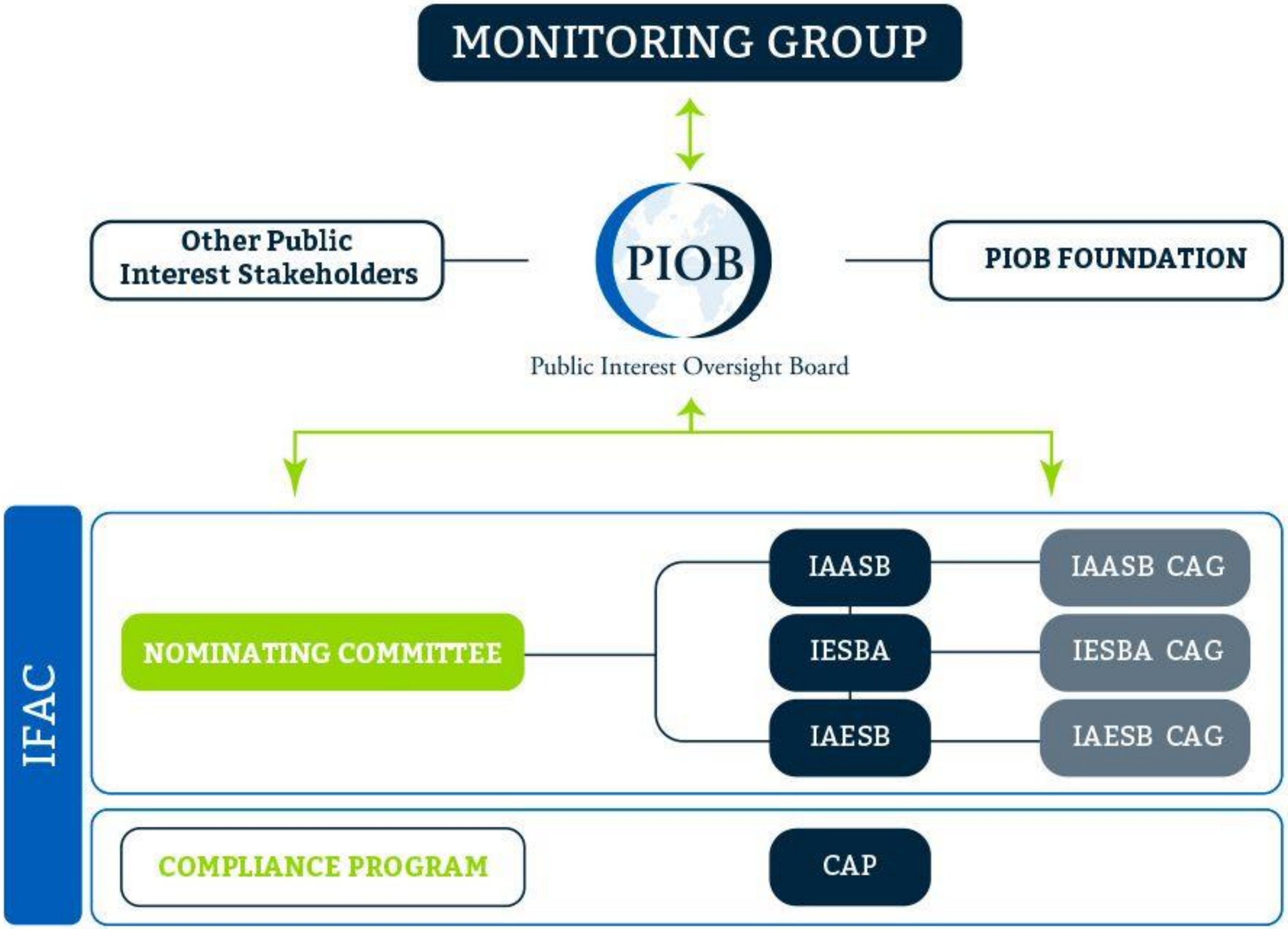
Secretary General of the PIOB

Financial Reporting Serving the Economy

Beirut - November 25th, 2015

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

THE PIOB



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

Public Interest Oversight Board

New Communication Requirements

- Financial Crisis: increased expectations on the profession
- In 2015, the new Auditor Report was approved. It will be effective on December 15, 2016.
- Most significant items:
  1. Key Audit Matters –KAM- (new ISA 701): KAM include those matters that, according to the auditor's judgement, have been the most significant in the audit of the financial statements. KAM are selected from matters communicated with those charged with governance.
  2. Identification of the "engagement partner."
  3. Independence statement that the auditor is independent of the audited entity.
  4. Enhanced description of the auditor's and management's responsibilities.
- "Going Concern": difficulties in including an explicit statement in the new Auditor Report.
- **Trend**: The auditor will have to apply professional judgement and communicate relevant information –main risks identified in the audit and how these have been addressed.

Public Interest Oversight Board

Complexity of Financial Instruments

- IFRS 9 –Financial Instruments- will become effective on January 1, 2018
  - Valuation of financial instruments according to their classification (which depends on business model and contractual terms of the instrument).
  - Different impact on Profit & Loss and on Equity.
- IFRS 9 includes new “Expected Credit Loss Model” to recognize impairment losses of financial assets.
- Revision of ISA 540: on January 1, 2018, auditors will need to audit according to IFRS 9 and ISA 540. This will imply

  (i) knowing the business model and increasingly complex financial instruments

  (ii) auditing complex valuations (mark-to-model)

  (iii) being experts, or contracting experts, on risk assessment (impairment)
- Financial instruments are not just held by banks. Corporations deal with increasingly complex derivatives.
- **Trend**: Auditors and audit firms will have to enhance their expertise in financial instruments and in risk-assessment.

Public Interest Oversight Board

Relief of Confidentiality

- "Non-compliance with laws and regulations" (NOCLAR): new provisions in the Code of Ethics (to be discussed and approved) and changes to related ISAs (250 and 240)
- ED: new responsibility for the auditor – responding to suspected or detected non-compliance with laws and regulations. The auditor "*shall disclose the matter to an **appropriate authority** where required by law or regulation or **where considered necessary in the public interest.***"
- Such disclosure would not be considered a breach of confidentiality.
- *EU Regulation 537/2014 - Article 7 –* **Irregularities**: … *when a statutory auditor or an audit firm carrying out the statutory audit of a public-interest entity suspects or has reasonable grounds to suspect that irregularities, including fraud with regard to the financial statements of the audited entity, may occur or have occurred, he, she or it shall inform the audited entity and invite it to investigate the matter and take appropriate measures to deal with such irregularities and to prevent any recurrence of such irregularities in the future. Where the audited entity does not investigate the matter, the statutory auditor or the audit firm shall inform the authorities as designated by the Member States responsible for investigating such irregularities.*
- **Trend**: Auditors will see their public interest role enhanced.

Thank you!