



Beyond auditor's report




Example description Extract from KPMG Audit Plc, report to Rolls-Royce Holdings plc shareholders for the year ended 31 December 2013

The measurement of revenue and profit in the Civil aerospace business

Refer to page 81 (Key areas of judgement - Long-term aftermarket contracts), page 83 (Significant accounting policies - Revenue recognition) and page 44 (Audit committee report - Financial reporting)

- **The risk** The amount of revenue and profit recognised in a year on the sale of engines and aftermarket services is dependent, inter alia, on the assessment of the percentage of completion of long-term aftermarket contracts and the forecast cost profile of each arrangement. As long-term aftermarket contracts can extend over significant periods and the profitability of these arrangements typically assumes significant life-cycle cost improvement over the term of the contracts, the estimated outturn requires significant judgement to be applied in assessing engine flying hours, time on wing and other operating parameters, the pattern of future maintenance activity and the costs to be incurred. The inherent nature of these estimates means that their continual refinement can have an impact on the profits of the Civil aerospace business that can be significant in an individual financial year. The assessment of the estimated outturn for each arrangement involves detailed calculations using large and complex databases with a significant level of manual intervention.
- **Our response** We tested the controls designed and applied by the Group to provide assurance that the estimates used in assessing revenue and cost profiles are appropriate and that the resulting estimated cumulative profit on such contracts is accurately reflected in the financial statements; these controls operated over both the inputs and the outputs of the calculations. We challenged the appropriateness of these estimates for each programme and assessed whether or not the estimates showed any evidence of management bias. Our challenge was based on our assessment of the historical accuracy of the Group's estimates in previous periods, identification and analysis of changes in assumptions from prior periods and an assessment of the consistency of assumptions across programmes, detailed discussions and assessments of the achievability of the Group's plans to reduce life-cycle costs and an analysis of the impact of these plans on forecast cost profiles taking account of contingencies and analysis of the impact of known technical issues on cost forecasts. Our analysis considered each significant airframe that is powered by the Group's engines and was based on our own experience supplemented by discussions with an aircraft valuation specialist engaged by the Group. We assessed whether the valuer was objective and suitably qualified. We also checked the mathematical accuracy of the revenue and profit for each arrangement and considered the implications of identified errors and changes in estimates.



You may previously
take only few
minutes to read
through the
auditor's report.

In the near future, you may have to spend an hour to read the whole report in full detail.

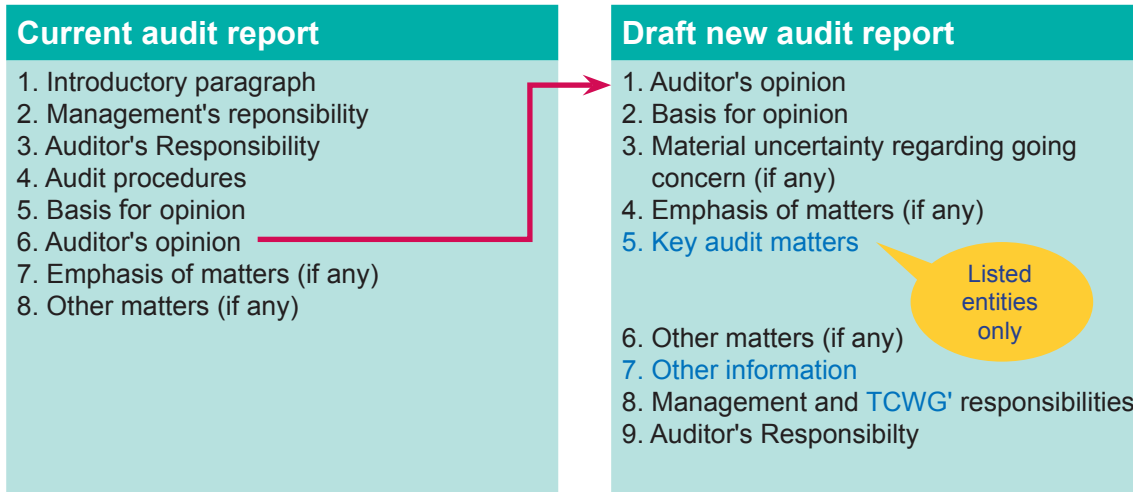
What can financial statements' users expect from the changing landscape of the report?

Does the change affect the stock price of the entity? And who are among those affected by the changes?

For many years, we may not pay full attention in every single word that are written in the auditor's report. Some are just interested in a pass/fail opinion, how the audit is conducted or the areas that are particularly focused on in the audit. This may be because the auditor's report for each entities are written in standardized descriptions. From now on, we may have to take a more careful look at the report, especially the one for listed entities. According to the new and revised Thai Auditing Standards, auditors will be required to communicate key audit matters and how the audit is performed in the auditor's reports for listed entities. Such details have to be tailored for each entity, which will provide more insights into the audit whereby the interested users of the audited financial statements can gain more understanding. The changes will also inspire greater transparency and values in financial reporting, which will be beneficial for the users.

What are the changes?

What's changed in the new audit report?

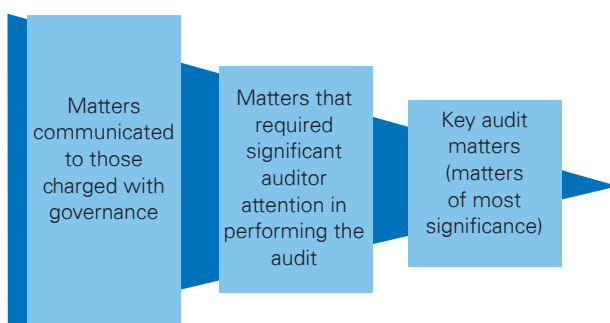


What are the key audit matters?

- 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.
- Those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following:
 - (a) Areas of higher assessed risk of material misstatement, or significant risks identified
 - (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
 - (c) The effect on the audit of significant events or transactions that occurred during the period.

Key audit matter

Step 1 - Identify key audit matters



Step 2 - Describe key audit matters

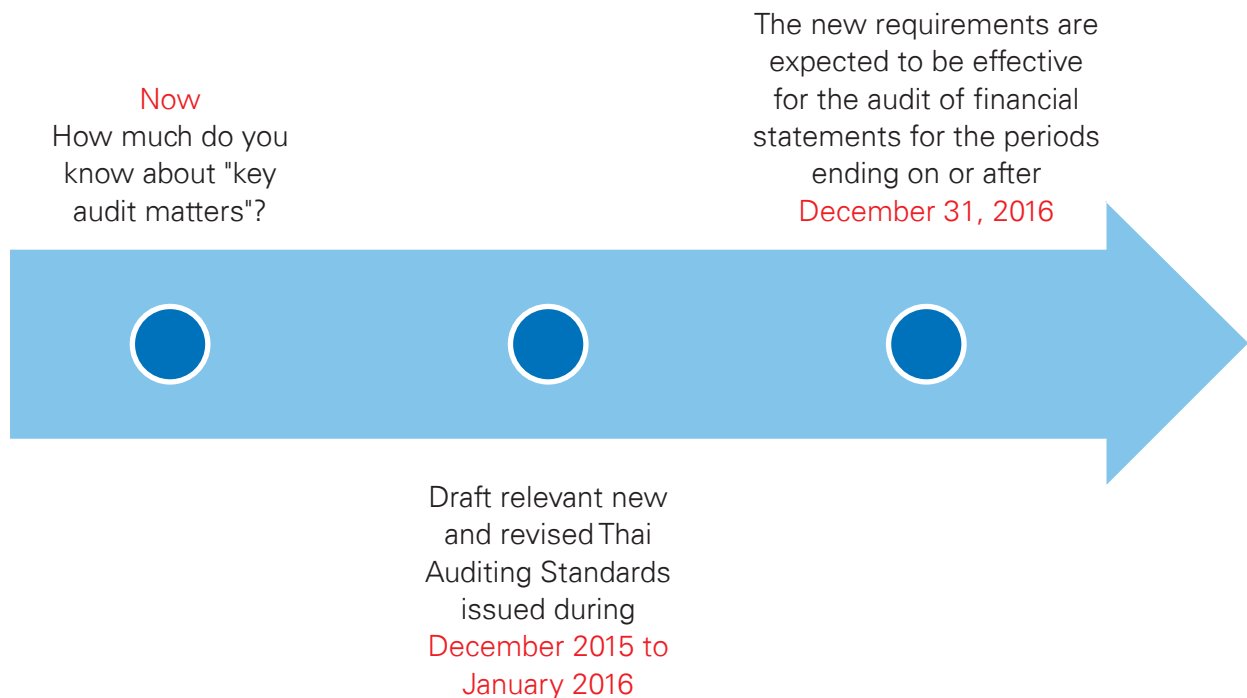
Name of key audit matter	
Why the matter was of most significance	How the matter was addressed in the audit
Include a reference to any relevant financial statement disclosures	

Changes for ALL entities

However, there are other changes in the auditor's report that are applied for ALL entities, such as

- Report reordered – opinion required to go first
- Revised description of management's (and those charged with governance's) responsibilities including an assessment of the entity's ability to continue as a going concern and if the going concern basis of accounting is still appropriate
- Revised description of the auditor's responsibilities including a conclusion on the appropriateness of management's use of the going concern basis of accounting

Timeline



Let's hear what our partners say about the changes in the auditor's report



Something different

Supot Singhasaneh

"For the first time ever, auditor's report is actually worth reading and even more interesting, because it is customized to each entity."



Challenges

Charoen Phosamritlert

"Changes in a form of new audit report have brought benefits and posed challenges to users, entity's management, and auditors. The challenges we have to manage include the followings:

- Determine key audit matters
- Provide specific and relevant information about the entity
- Describe appropriate reasons in each audit procedure for key audit matters
- Avoid matters which may affect auditor's opinions

These are just some of the challenges. Are you ready for the change?"



Taking audit quality to the next level

Somboon Supasiripinyo

We've finally reached the stage where auditor's report can actually enhance audit quality, enabling auditors to effectively communicate with the users.

Who is affected by the change?

1. Audit committee

Audit committee are suggested to:

- oversee financial reporting process of the listed entities more closely, especially the matters that could be key audit matters
- Discuss more with auditors, particularly on key audit matter issues
- consider whether disclosures in the financial statements or elsewhere in the annual report and/or other investor communications need refreshing so that they are in line with key audit matters

2. Investors

- Be able to learn in detail on the issues discussed between auditors, management and those charged with governance, in relation to key audit matters
- Know the audit procedures for each key audit matter

3. Regulators

Regulators will be able to see greater transparency and independence about the audit that was performed.

KPMG will provide our clients the best support and practical advice on this matter along the way. Stay tuned for our next episode.

The new-style audit report

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Thai Financial Reporting Standards (TFRSs).

Basis for Opinion

We conducted our audit in accordance with Thai Standards on Auditing (TSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Federation of Accounting Professions' *Code of Ethics for Professional Accountants* together with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

[Name of key audit matter]	
Refer to Note [X] to the financial statements.	
The key audit matter	How the matter was addressed in our audit
[describe matter and why it was considered to be one of most significance in the audit]	[describe how the matter was addressed in the audit]

Other Information

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]. The X report is expected to be made available to us after the date of this auditor's report.

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

In connection with our 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 X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.]

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with TFRSs, 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.

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.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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 TSAs 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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.
- 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.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the 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.

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

[Auditor Signature]

[Auditor Address]

[Date]

The new-style auditor's report



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