



Auditing Pronouncement: 2016/2 ISA 701 Communicating Key Audit Matters in the independent Auditor's Report

1.0 Introduction

The purpose of this Auditing Pronouncement is to give supplementary guidance on International Standards on Auditing (ISA) 701: *Communicating Key Audit Matters in the independent Auditor's Report*. This Pronouncement must be read together with ISA 701.

2.0 Background

In January 2015, the International Auditing and Assurance Standards Board (IAASB) issued the final package of new and revised auditor reporting standards whose overall objective is to enhance the value and relevance of the auditor's report. The most significant innovation in the new standards is the introduction of Key Audit Matters (KAM). ISA 701 defines KAM as those matters which, in the auditor's professional judgment, were of most significance among the matters communicated with those charged with governance during the audit of the financial statements of the current period.

The application of ISA 701 is mandatory for the audit of general purpose financial statements of listed entities and may also be applied on a voluntary basis for other audits. The rationale for only requiring the reporting of KAM for listed entities is derived from the material impact that such entities have on markets and economies as a whole.

The purpose of communicating KAM is to enhance the communicative value of the auditor's report as the key deliverable addressing the output of the audit process for users of audited financial statements.

ZiCA recognizes the importance of the concept of KAM in the auditor's report to:

- Increase transparency on how the audit was performed and reporting on key audit matters is a means of achieving this;
- Focus users on areas in the financial statements that are subject to significant management judgment and significant auditor attention. This may assist the users to better understand the entity and financial statements as well as the outcome of the audit as reflected in the auditor's opinion;
- Provide users a basis to further engage with management and those in charged with governance, about certain matters related to the entity, the audited financial statements, or the performance of the audit;
- Renew auditor focus on matters to be communicated, which could indirectly result in an increase in professional skepticism, among other contributors to audit quality.

3.0 Pronouncement by ZiCA

Considering the significance of Statutory bodies and Public Interest Entities (PIEs) .in contributing to the national economy and their responsibility for maintaining and providing important functions that affect citizens, it is MANDATORY for all auditors of these entities to report on KAM in the auditor's report on financial statements as required under ISA 701.

For this purpose, statutory bodies are defined as all organisations created by an Act of Parliament or Cabinet Resolution with authority to check over other persons' actions.

For the purpose of this pronouncement, PIEs include:

1. All listed entities; and
2. Any entity:
 - i) Defined by regulation or legislation as a public interest entity; or
 - ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including the Zambia Institute of Chartered Accountants as Zambia's audit regulator.
3. Any entity that holds assets in a fiduciary capacity;

4.0 Effective Date

The Institute wishes to notify the general public and the members of the accountancy profession that this Pronouncement is effective for audits of financial statements for periods ending on or after 15th December, 2016 for all listed entities. For non listed PIEs and Statutory Bodies the effective date is the audit of financial statements for years ending on or after 15th December 2017 though early adoption is encouraged.

You may contact the undersigned to clarify any matter related to the foregoing.

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