
A. Background

1. Fifty comment letters were received on the exposure draft of proposed ISA 700 (Redrafted) (ED-ISA 700). ED-ISA 700 was a redraft of extant ISA 700,¹ which was issued in 2004 after extensive deliberation by the IAASB. Extant ISA 700 is effective for auditors’ reports dated on or after December 31, 2006.

2. Overall, respondents to ED-ISA 700 were in agreement with the application of the clarity conventions; suggestions for improvement focused on relatively few areas.

3. Whilst the majority of respondents were broadly supportive of the extant ISA, some raised fundamental issues with its approach to the auditor’s report. Some of their comments related broadly to the issue of whether there should be consistency in an ISA auditor’s report (a principle underlying extant ISA 700), whilst other comments focused on specific aspects of the auditor’s report.

4. A preliminary analysis of the significant comments was discussed at the March 3-4, 2008 IAASB Consultative Advisory Group (CAG) meeting. The IAASB CAG Representatives did not have significant comments on the matters highlighted for their consideration.

B. Responses to Requests for Specific Comments

5. The explanatory memorandum that accompanied ED-ISA 700² requested respondents to comment on three specific matters.

   B.1 Transfer of requirements and guidance related to forming an opinion from proposed ISA 450 (Revised and Redrafted):³ Virtually all respondents supported the proposal to limit the scope of ISA 450 (Revised and Redrafted) to the evaluation of the effect of uncorrected misstatements, while ISA 700 (Redrafted) deals with the evaluation whether the financial statements as a whole are free from material misstatement. Respondents emphasized the importance of appropriate cross references between these ISAs.

   B.2 Modified International Financial Reporting Standards (IFRS) frameworks: Responses to the proposed guidance, which was developed to address the matter of financial reporting frameworks described by reference to IFRS, were mixed. They are further analyzed below.

² The explanatory memorandum formed part of the exposure draft of proposed ISA 700 (Redrafted), which can be found at http://www.ifac.org/Guidance/EXD-Details.php?EDID=0090.
³ Proposed ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit.”
B.3 Incorporation of guidance from International Auditing Practice Statement (IAPS) 1014: Virtually all respondents supported the proposal to incorporate the guidance in IAPS 1014, appropriately amended, in proposed ISA 700 (Redrafted) and to withdraw IAPS 1014.

B.2.1 Financial Reporting Frameworks Described by Reference to IFRS

6. In addition to the application of the clarity conventions, the IAASB proposed that extant ISA 700 be amended to address the implications for the auditor’s report of the increasing use of financial reporting frameworks described by reference to, but modified from, IFRS. The proposed amendment introduced guidance on the auditor’s evaluation whether the financial statements adequately refer to or describe the applicable financial reporting framework. The proposal had been developed in conjunction with the International Accounting Standards Board (IASB). The IASB proposed an amendment in its Annual Improvements Exposure Draft to IAS 1, requiring disclosures in such circumstances.

7. The main element of the proposed amendment to extant ISA 700 was that, if the financial reporting framework was described in the financial statements as being a modified version of an established framework (in particular, modified IFRS), the auditor should consider whether such description may be misleading if the financial statements did not include appropriate details of the difference between the applicable financial reporting framework and the established framework. It followed closely the proposed amendment to IAS 1, though it also sought to generalize the relevant consideration to other frameworks.

8. Forty-one responses were received to the question about the proposed amendment to extant ISA 700. An analysis of the responses indicated that:

- Twenty respondents supported the proposal, although some suggested that it be amended in one way or another. Three respondents, for example, did not agree that the auditor’s report should include an Emphasis of Matter(s) paragraph if the financial statements adequately describe the difference between the applicable financial reporting framework and the established framework.
- Twelve respondents did not support the proposal.

4 IAPS 1014, “Reporting by Auditors on Compliance with Financial Reporting Standards.”
5 International Accounting Standard (IAS) 1, “Presentation of Financial Statements.”
6 ACCA, AG-CA, AG-NZ, AIA, AICPA, AUASB, BDO, CICA, CIPFA, CPAB, HKICPA, ICAEW, ICAI, ICPAI, ICPAS, IRBA, NIVRA, NZICA, PCS, SNAO.
7 BDO, ICAEW, NAO.
8 ACAG, APB, BUSINESSEUROPE, EALIC, EC, EYG, ICJCE, IOSCO, JICPA, KPMG, NAO, PWC.
such disclosure result in financial statements that do not give a true and fair view).

- Others thought that the proposed additional disclosures would be difficult to enforce in the absence of support in the standards – for example, if the adopting authority did not adopt the proposed amendment to IAS 1, or if the framework was other than IFRS. They argued that it was not the role of auditors to enforce such disclosure when it is not required by the financial reporting framework or regulation.

- A few were expressly of the view that the matter requires a regulatory rather than an auditing standards solution, though this thought seemed to lie behind other responses as well.

  - A few respondents\(^9\) suggested that the IAASB delay finalization of its proposal until the IASB has finalized its proposal, or that the IAASB omits the guidance if the IASB does not implement its proposal.

9. Other points of interest included the following:

  - A few respondents\(^10\) suggested that the guidance clarify that the difference between the applicable financial reporting framework and IFRS need not be quantified, or were of the view that it will be difficult for the auditor to determine whether the financial statements are in fact misleading if the difference is not quantified.

  - Two respondents\(^11\) were concerned that the guidance could lead to a proliferation of modified auditors’ reports in the European Union.

International Organization of Securities Commissions (IOSCO)

10. On February 6, 2008, the Technical Committee of IOSCO issued a Statement on Providing Investors with Appropriate and Complete Information on Accounting Frameworks Used to Prepare Financial Statements. The Statement noted the following:

   “As accounting standards around the world continue to converge and as cross border capital market activity increases, it can no longer be assumed that investors will automatically be familiar with the jurisdiction in which an issuer company is based and the accounting standards that have been used. Furthermore, there may be a growing tendency for investors and other users of financial statements to assume that all accounts are generally comparable, even when they are prepared in accordance with very different generally accepted accounting principles (GAAPs). This tendency exists particularly in circumstances where national standards assert that they are based on but do not fully implement International Financial Reporting Standards (IFRS), i.e., when IFRS have been modified or adapted to the particular circumstances of a national market. The IOSCO Technical Committee is concerned that investors run the risk of making investment decisions without a full understanding of financial statement data if

\(^9\) GT, ICAI, IDW, IBR-IRE, IRBA.

\(^10\) CICA, CNCC-CSOEC, FEE, ICAEW.

\(^11\) FEE, IDW.
they are not fully aware of the basis on which financial statements are prepared, and of
the accounting standards that underpin the company’s policies.

The risk of misunderstanding can be mitigated by making sure that the information
regarding the company’s accounting policies and the reporting framework on which
they are based is fully and appropriately described in the financial statements and that
investors and other users can readily get access to the accounting standards and other
authoritative literature which underpin the policies. To that end the Technical
Committee recommends that all annual and interim financial statements that are
prepared on the basis of national standards that are modified or adapted from IFRS and
published by publicly traded companies should include at a minimum the following
statements, (which should be tailored to the company’s circumstances and the markets
in which securities may be traded):

1. A clear and unambiguous statement of the reporting framework on which the
accounting policies are based;
2. A clear statement of the company’s accounting policies on all material
accounting areas;
3. An explanation of where the accounting standards that underpin the policies can
be found;
4. A statement that explains that the financial statements are in compliance with
IFRS as issued by the IASB, if this is the case; and
5. A statement that explains in what regard the standards and the reporting
framework used differ from IFRS as issued by the IASB, if this is the case.”

International Accounting Standards Board

11. The IASB has approved thirty-five of the forty-one amendments proposed as part of its
Improvements project. The proposed amendment to IAS 1 did not form part of the
approved amendments. After publishing the approved amendments in May, the IASB
staff plans to reassess the scope and process for future improvements before taking the
six excluded amendments to the IASB for redeliberation. Absent unforeseen
circumstances, the IASB staff expects to consider the proposed amendment to IAS 1 in
early summer (June 2008). The IASB will decide at that time whether to proceed with the
proposal.

Task Force’s Recommendation(s)

12. Based on the importance of the matter and the level of support received (i.e., half of the
respondents that commented on the matter), the Task Force recommends that the ISA
continue to include guidance that addresses this matter. However, the Task Force
recommends that the guidance be amended to focus on whether the reference renders the
overall financial statements misleading, rather than simply considering whether the
disclosures required by IAS 1 are present. Thus, ED-ISA 700 has been amended as
follows:
(a) The guidance in paragraphs A11-A12 and A35 of Agenda Item 11-B has been redrafted to be framework neutral. That is, the guidance refers to the “financial reporting framework of another authorized or recognized standards setting organization” as opposed to “International Financial Reporting Standards.” IFRS is used as an example.

(b) Paragraph A12 of Agenda Item 11-B now indicates that, if the applicable financial reporting framework has to be described with reference to the financial reporting framework of another authorized or recognized standards setting organization, and management cannot make an explicit and unreserved statement of compliance with that other framework, the description of the applicable financial reporting framework could be misleading if the effect on the financial statements of the difference between the applicable financial reporting framework and that other framework could be significant and the entity does not include further information in the financial statements. The disclosures in the proposed amendment to IAS 1 are given as examples of the type of information that might be disclosed. In response to comments received, the proposed guidance also states that such further information need not necessarily be quantified (see paragraph A12(b) of Agenda Item 11-B).

(c) Paragraph A35(b) of Agenda Item 11-B has been amended. It explains that the auditor adds an Emphasis of Matter paragraph to the auditor’s report if he/she concludes that the financial statements are not misleading but judges the further information provided in the financial statements to be of such importance that it is fundamental to the users’ understanding of the financial statements. This is in line with the requirement in ISA 706 (Revised and Redrafted).12

13. Paragraph A33(c) of ED-ISA 700 read as follows:

“In some cases, financial statements prepared and presented in accordance with an applicable financial reporting framework described by reference to International Financial Reporting Standards may also comply with all the requirements of International Financial Reporting Standards applicable in the circumstances. If the financial statements represent, and the auditor concludes, that the financial statements are prepared and presented in accordance with the applicable financial reporting framework and International Financial Reporting Standards individually, the auditor may express two opinions, that is that the financial statements are prepared and presented in accordance with the applicable financial reporting framework and a separate opinion that the financial statements are prepared and presented in accordance with International Financial Reporting Standards.”

Paragraph A33 of Agenda Item 11-B provides guidance on the reporting considerations when the financial statements are prepared in accordance with two financial reporting frameworks. As a result, the circumstances in paragraph A33(c) of ED-ISA 700 is already addressed. The Task Force therefore believes that paragraph A33(c) of ED-ISA 700 is unnecessary and recommends that it be deleted.

12 ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report.”
14. With regard to the IOSCO statement, the Task Force recognizes that there is a strong public interest argument in the case of listed companies. The Task Force debated whether the application of the guidance should be limited to audits of listed companies. The Task Force concluded that the matter is equally relevant for any financial statements that are used in different jurisdictions. Given that, in today’s global business environment, financial statements of any company might be of interest to users in other countries, it would be difficult to limit the guidance to listed companies, or to attempt to circumscribe cross-border usage. The Task Force therefore recommends that, if the IAASB decides to retain the guidance, it be broadly applicable.

Action Requested

- Does the IAASB agree with the recommendation to retain and amend the guidance relating to financial reporting frameworks described by reference to the frameworks of other authorized or recognized standards setting organizations (see paragraphs A11-A12 and A35 of Agenda Item 11-B)?
- Based on the IOSCO statement, what are the IAASB members’ views with regard to the scope of application of the guidance?

C. Objectives

15. ED-ISA 700 contained the following objectives:

“The objectives of the auditor are to:

(a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

(b) Express clearly that opinion through a written report that explains the basis of the opinion.”

16. The majority of respondents supported the objectives. Most agreed with the need for two objectives; i.e., one that focuses on forming the opinion, and another that focuses on the auditor’s report. Only one respondent\(^\text{13}\) was of the view that the objectives could be more outcomes oriented.

17. There were some specific suggestions for refinement. For example, some respondents\(^\text{14}\) suggested ways in which the wording of the objectives could be more closely aligned with that in proposed ISA 200 (Revised and Redrafted),\(^\text{15}\) or with other ISAs (e.g., focusing on the evaluation of audit evidence obtained rather than the conclusions drawn from the audit evidence obtained). Two respondents\(^\text{16}\) suggested that the first objective refers to “the financial statements as a whole.” One respondent\(^\text{17}\) was concerned that the

\(^{13}\) NZICA.

\(^{14}\) AICPA, EC, FEE, GAO, IBR-IRE, IRBA, NAO, SAICA.

\(^{15}\) Proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”

\(^{16}\) AUASB, ICAI.

\(^{17}\) PWC.
second objective could be interpreted as requiring a more discursive explanation of the basis for the specific opinion (i.e., the findings of the particular audit engagement).

Task Force’s Recommendation(s)

18. The Task Force is of the view that the objectives appropriately represent the requirements of the ISA and, together with the objectives of the other ISAs, will assist the auditor in achieving the overall objective. The Task Force also believes that the phrase “financial statements as a whole” is normally used in conjunction with “free of material misstatement.” It is thus not appropriate to insert it in the first objective.

19. As extant ISA 700 anticipates a standard description of an audit, the Task Force is of the view that “describes the basis for the opinion” may be a better articulation of the second objective to avoid confusion as to what is intended. That is: “(b) Express clearly that opinion through a written report that also describes the basis for the opinion.” Part (a) of the objectives remains as presented in ED-ISA 700. See paragraph 6 of Agenda Item 11-B.

Action Requested

- Does the IAASB agree with the proposed amended objectives in paragraph 6 of Agenda Item 11-B?

D. Definitions

20. A few respondents suggested that the Definitions section either refer to the description of fair presentation framework and compliance framework in proposed ISA 200 (Revised and Redrafted), or include that description.

21. One respondent indicated that it may not be clear to the readers of the ISAs or an auditor’s report what a “summary of significant accounting policies and other explanatory notes” is. The respondent understood it as “the footnotes prepared in accordance with the accounting framework accompanying the balance sheet and P&L statements,” but was concerned that others might interpret it as only including certain parts of the footnotes.

22. One respondent suggested including a definition of “modified opinion” in ISA 700 (Redrafted).

Task Force’s Recommendation(s)

23. Based on the comments on ED-ISA 700 and amendments processed to the exposure draft of proposed ISA 800 (Revised and Redrafted) (ED-ISA 800), the Task Force recommends the following:

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18 EYG, FEE, GTI, ICAI NZICA.
19 EC.
20 NZICA.
(a) The terms “fair presentation framework” and “compliance framework” are important in the context of ISA 700 (Redrafted); to further enhance the clarity of ISA 700 (Redrafted), they should be described in the ISA. See paragraph 7(b) of Agenda Item 11-B.

Based on a comment received on ED-ISA 700, the Task Force recommends that the reference to “specific” in the phrase “specific requirement of the framework” in the description of these terms be deleted. The original intention was to distinguish, in the case of a fair presentation framework, between the recognition, measurement and disclosure requirements of the framework and the requirement to provide additional disclosure or depart from a requirement in order to achieve fair presentation (the “stand back”). The Task Force agrees that this distinction may not be obvious to the reader. To clarify the matter, the Task Force proposes minor amendments to paragraphs 7(b) and 12-14 of Agenda Item 11-B. The proposed amendments to paragraph 7(b) will affect ISA 200 (Revised and Redrafted) and other redrafted ISAs.

(b) To further enhance the clarity of ISA 700 (Redrafted), a definition of the term “unmodified opinion” should be added. This will distinguish the requirements and guidance on the auditor’s opinion in ISA 700 (Redrafted) from those in ISA 705 (Revised and Redrafted), which deal with modified opinions in the auditor’s report. The following definition is proposed: “Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework including, in the case of a fair presentation framework, that the financial statements give a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.” See paragraph 7(c) of Agenda Item 11-B.

(c) The ISA should explain that reference to the term “financial statements” includes the related notes and that the related notes ordinarily comprise a summary of significant accounting policies and other explanatory information required by the applicable financial reporting framework (see paragraph 8 of Agenda Item 11-B). This is in line with paragraph 10(e) of IAS 1, which reads as follows: “A complete set of financial statements comprises … notes, comprising a summary of significant accounting policies and other explanatory information …” The Task Force is of the view that ISA 200 (Revised and Redrafted) should be amended accordingly.

(d) The footnote that explains that the requirements of the applicable financial reporting framework determine the form and content of the financial statements and what

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21 ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.”

22 AICPA was of the view that it is not clear what the word “specific” refers to and how it differs from “the requirements of the framework.


24 ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”
constitutes a complete set of financial statements should be moved to the body of the ISA. See paragraph 8 of Agenda Item 11-B.

24. In addition, the Task Force recommends that the ISA explain that reference to “International Financial Reporting Standards” means International Financial Reporting Standards issued by the International Accounting Standards Board and reference to “International Public Sector Accounting Standards” means International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (see paragraph 9 of Agenda Item 11-B). That is to clarify that such references do not include modified versions of those frameworks.

**Action Requested**

- Does the IAASB agree with the proposed amendments to the Definition section (see Agenda Item 11-B)?

**E. Requirements**

25. The majority of respondents were of the view that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors.

26. Although some respondents commented on the appropriateness of some of the requirements, or suggested refinement, few single requirements received a significant number of comments. They are discussed below.

**E.1 Forming an Opinion**

27. The Task Force considered the comments on ED-ISA 450 (Revised and Redrafted) that relate to the text that was moved to ISA 700 (Redrafted). The Task Force concluded that they did not require amendment to the text.

28. The Task Force processed minor amendments Forming an Opinion on the Financial Statements section (see Agenda Item 11-B) to improve the flow of and linkage between the paragraphs.

**E.1.1 Qualitative Aspects of Accounting Practices, Including Management Bias**

29. Paragraph 10 of ED-ISA 700 required the auditor to evaluate whether the financial statements are prepared and presented, in all material respects, in accordance with the specific requirements of the applicable financial reporting framework. It stated that this evaluation shall include consideration of the qualitative aspects of the entity’s accounting practices, including indicators of possible bias in management’s judgments.

30. One respondent was of the view that management bias is only one of a number of qualitative aspects of the entity’s accounting practices that the auditor may need to consider. This respondent suggested that the reference to management bias be moved to
the application material, and that further guidance be given on other qualitative aspects of the entity’s accounting practices. Another respondent suggested that the guidance on the qualitative aspects of the entity’s accounting practices in the Application and Other Explanatory Material section be linked to the appendix in ISA 260 (Revised and Redrafted), which contains additional matters that the auditor may need to consider as part of an evaluation of the qualitative aspects of the entity’s accounting practices.

Task Force’s Recommendation(s)

31. Other ISAs require the auditor to identify / be alert to possible indicators of management bias; however, they do not require the auditor to consider those indicators. The Task Force is of the view that the appropriate time for the auditor to consider them is when forming an opinion on the financial statements. The Task Force concluded that it is appropriate to refer to indicators of possible management bias in the Requirements section. See paragraph 12 of Agenda Item 11-B.

32. However, it is recommended that the application material contain a reference to the appendix in ISA 260 (Revised and Redrafted). See paragraph A2 of Agenda Item 11-B.

Action Requested

- Does the IAASB agree with the proposal to retain the reference to indicators of possible management bias in the requirement in paragraph 12 of Agenda Item 11-B?

E.1.2 Disclosure of Significant Accounting Policies and Interpretations

33. Paragraph 10(a) of ED-ISA 700 required the auditor to evaluate whether, in view of the specific requirements of the applicable financial reporting framework, the financial statements adequately disclose the significant accounting policies selected and applied, and significant interpretations by management of regulatory or legal requirements. It explained that, in jurisdictions where the applicable financial reporting framework is so codified as to preclude a choice of accounting policies or significant interpretations by management, a reference to the applicable financial reporting framework may suffice.

34. A few respondents questioned the reference to “significant interpretations by management of regulatory or legal requirements.” It was noted that management is not expected, requested or required to interpret regulatory or legal requirements, or to disclose such interpretations. One of the respondents was of the view that the financial statements do not necessarily need to disclose all such interpretations, but rather those that may have a significant effect on the financial statements. This respondent suggested that the wording be changed to “interpretations by management of regulatory or legal requirements that have or may have a significant effect on the financial statements.”

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26 PWC.
27 ISA 260 (Revised and Redrafted), “Communication with Those Charged with Governance.”
28 EALIC, EC, KPMG.
35. Some respondents were of the view that the explanation should be moved to the application material or deleted. It was noted that there will be very few situations where management will not have to make important choices. It was also noted that the explanation may contradict paragraph 20(d) of ED-ISA 700, which required the auditor to include a reference to the summary of significant accounting policies and other explanatory notes in the introductory paragraph of the auditor’s report.

Task Force’s Recommendation(s)

36. The reference to “significant interpretations by management of regulatory or legal requirements” was inserted in paragraph 10(a) of ED-ISA 700 because proposed ISA 210 (Redrafted) indicates that financial reporting standards may be supplemented by law or regulation, or that financial reporting frameworks may be prescribed by law or regulation. Although management may interpret law or regulation, if necessary to make it operational, the Task Force agrees that the reference may be interpreted incorrectly. The Task Force therefore recommends that the reference be deleted. See paragraph 13(a) of Agenda Item 11-B.

37. The Task Force also agrees that it is unlikely that management will not have to make important choices with regard to accounting policies, and that the essential guidance in paragraph 10(a) of ED-ISA 700 contradicts the requirement in paragraph 20(d) of ED-ISA 700. The Task Force therefore recommends that the essential guidance in paragraph 10(a) of ED-ISA 700 be deleted. Moving it to the application material will not resolve the contradiction. See paragraph 13(a) of Agenda Item 11-B.

Action Requested

- Does the IAASB agree with the deletion of the phrase “and significant interpretations by management of regulatory or legal requirements” in paragraph 13(a) of Agenda Item 11-B?
- Does the IAASB agree with the deletion of the essential guidance in paragraph 13(a) of Agenda Item 11-B?

E.1.3 Example in a Requirement

38. Paragraph 10(e) of ED-ISA 700 required the auditor to evaluate whether, in view of the specific requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements, for example, in the case of financial statements prepared and presented in accordance with many general purpose frameworks, the entity’s financial position, financial performance and cash flows. A few respondents were of the view that the example should be moved to the application material.

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29 ACAG, APB, DTT, EC, EYG, ICJCE, KPMG.
30 Proposed ISA 210 (Redrafted), “Agreeing the Terms of Audit Engagements.”
31 ACAG, IDW, SAICA.
Task Force’s Recommendation(s)

39. In line with the comments and based on the clarity conventions, the Task Force recommends that the example be moved to the application material. See paragraphs 13(e) and A4 of Agenda Item 11-B.

**Action Requested**
- Does the IAASB agree with the proposal to move the example to the application material?

### E.2 Form of Opinion

40. Paragraph 16 of ED-ISA 700 read as follows: “When the financial statements are prepared and presented in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, in extremely rare circumstances, the auditor may conclude that such financial statements are misleading. In such a case, the auditor shall discuss the matter with management and, depending on how it is resolved, determine whether, and how, to deal with it in the auditor’s report.” Neither ISA 705 (Revised and Redrafted) nor ISA 706 (Revised and Redrafted) provides any guidance on how this should be addressed in the auditor’s report.

41. One respondent noted that the ISAs do not explain compliance frameworks. Another respondent noted that the ISAs do not explain when and how to assess whether financial statements prepared in accordance with a compliance framework are misleading.

42. A few respondents were of the view that the second and third sentences of the paragraph should be moved to the application material. It was noted that the second sentence addressed matters that may arise in extremely rare circumstances. However, under the Clarity conventions, matters that do not represent requirements (or exceptions thereto) are not generally included in the Requirements section. Furthermore, the Requirements section ought to include matters that occur on virtually all audits. It was also noted that, since the third sentence dealt with the auditor’s response to a matter that may arise in extremely rare circumstances, it should also be placed in the application material.

43. One respondent noted that “a major issue in the design of the ‘misleading test’ for financial statements prepared in accordance with compliance frameworks was the limitation of its exercise to the professional judgment of the auditor – it was not a matter upon which third parties were to be able to reach their own conclusions independent of, or at variance with, the auditor’s conclusions.” For this reason, the respondent suggested that the reference to the exercise of professional judgment be reinserted in the second

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32 AUASB.
33 DATT.
34 FEE, IDW, IRBA, SAICA.
35 IDW.
sentence of the paragraph (as was the case in the close off document of ISA 700 amended as a result of ISA 800 (Revised)).

**Task Force’s Recommendation(s)**

44. The Task Force agrees that the ISAs are not specific as to how and when the auditor may conclude that financial statements prepared and presented in accordance with a compliance framework are misleading.

45. However, the *Code of Ethics for Professional Accountants* requires the auditor not be associated with misleading information. This paragraph provides an important “hook” for the references to financial statements that may be misleading in the ISAs. The Task Force therefore recommends that the paragraph be retained in the Requirements section and that the second and third sentences be redrafted to read as follows: “However, if in extremely rare circumstances the auditor concludes that, in the auditor’s judgment, such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor’s report.” See paragraph 19 of Agenda Item 11-B. In addition, paragraph A14 of Agenda Item 11-B explains that it will be extremely rare for the auditor to consider financial statements that are prepared and presented in accordance with a compliance framework to be misleading if, in accordance with proposed ISA 210 (Redrafted) the auditor determined that the framework is acceptable.

**Action Requested**

- Does the IAASB agree with paragraphs 19 and A14 of Agenda Item 11-B?

**E.3 Other Matters**

46. Paragraph 34 of ED-ISA 700 explained that law or regulation may require the auditor, or the auditor may consider it appropriate, to elaborate on matters that provide further explanation of the auditor’s responsibilities in the audit of the financial statements or of the auditor’s report thereon. It required the auditor to address such matters under the heading “Other Matters” in the auditor’s report.

47. Respondents36 held diverse views on this paragraph. Some suggested that the paragraph be deleted and the matter dealt with in ISA 706 (Revised and Redrafted).37 A few suggested that the relationship between paragraph 34 of ED-ISA 700 and the requirement relating to Other Reporting Responsibilities in paragraph 35 of ED-ISA 700 be clarified. A few requested that an example of such an Other Matter(s) paragraph be included in an illustrative example in the appendix.

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36 AICPA, APB, AUASB, CIPFA, CNCC-CSOEC, FEE, IBR-IRE, ICAEW, IDW, IRBA, SAICA.

37 ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor’s Report.”
Task Forces’ Recommendation(s)

48. Based on the comments received on ED-ISA 700, and on the exposure draft of proposed ISA 706 (Revised and Redrafted), the ISA 700 Task Force and ISA 706 Task Forces recommend the following:

(a) Paragraph 34 of ED-ISA 700 should be deleted. The requirement to include an Other Matter(s) paragraph in the auditor’s report in prescribed circumstances, including its presentation and position, should be dealt with in ISA 706 (Revised and Redrafted).

(b) ISA 700 (Redrafted) should require the auditor to include an Emphasis of Matter or Other Matter(s) paragraph, as appropriate, in the auditor’s report in accordance with ISA 706 (Revised and Redrafted) if the auditor has determined it necessary in the circumstances. See paragraph 38 of Agenda Item 11-B. As a result, ISA 700 (Redrafted) will refer the auditor to ISA 705 (Revised and Redrafted) in the case of a modified opinion (see paragraph 17 of Agenda Item 11-B), and to ISA 706 (Revised and Redrafted) in the case of an Emphasis of Matter or Other Matter(s) paragraph.

49. In addition, the Task Forces recommend that paragraph A35 of ED-ISA 700, which referred to the fact that one or more sub-headings may be used that describe the content of the Other Matter(s) paragraph, be deleted as the guidance is now provided in ISA 706 (Revised and Redrafted). Paragraph A36 of ED-ISA 700, which referred to ISA 706 (Revised and Redrafted), has been amended accordingly (see paragraph A36 of Agenda Item 11-B).

50. In response to comments received, the ISA 700 Task Force has developed two new paragraphs, providing guidance on circumstances in which an Other Matter(s) paragraph may be necessary. They are presented as paragraphs A37 and A38 in Agenda Item 11-B, but may be better placed in ISA 706 (Revised and Redrafted).

(a) Restriction on Distribution or Use of the Auditor’s Report. New paragraph A37 (see Agenda Item 11-B) explains that financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor’s report is intended for specific users, the auditor may determine it necessary in the circumstances to include an Other Matter(s) paragraph, stating that the auditor’s report is intended solely for the intended users, and should not be distributed to or used by other parties.

(b) Reporting on More than One Set of Financial Statements. New paragraph A38 (see Agenda Item 11-B) explains that an entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., the national framework) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter(s) paragraph in the auditor’s report, referring
to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

51. The ISA 700 Task Force is of the view that the examples of Emphasis of Matter and Other Matter(s) paragraphs in ISA 706 (Revised and Redrafted) are sufficient and that it is not necessary to include additional examples in ISA 700 (Redrafted).

**Action Requested**

- Does the IAASB agree with the proposal to replace paragraph 34 of ED-ISA 700 with a requirement for the auditor to include an Emphasis of Matter or Other Matter(s) paragraph in the auditor’s report in accordance with ISA 706 (Revised and Redrafted) if the auditor determined it necessary in the circumstances (see paragraph 38 of Agenda Item 11-B)?
- Does the IAASB agree with the proposed deletion of paragraphs A35 of ED-ISA 700 on the basis that the matter is dealt with in ISA 706 (Revised and Redrafted)?
- Does the IAASB agree with the additional guidance in paragraphs A37 and A38 of Agenda Item 11-B?

**E.4 Other Reporting Responsibilities**

52. A few respondents suggested amendments to more clearly articulate what should be included in the Auditor’s Report on the Financial Statements section of the report and, thereby, what would be included in the Other Reporting Responsibilities section. They were concerned that, without further clarification, the requirements could be interpreted differently in different jurisdictions, resulting in a lack of comparability (see also the discussion of other comments on the issue of consistency in an ISA auditor’s report – see Consistency in the Auditor’s Report vs. Flexibility section of this paper). In their view, the first part of the auditor’s report should be limited to the “ISA audit opinion,” i.e., whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Any other opinions or conclusions, even if related to the financial statements, ought to be included as other reporting responsibilities.

**Task Force’s Recommendation(s)**

53. The matter of other reporting responsibilities was discussed extensively in finalizing ED-ISA 700. Although it was recognized that clarity on this matter was important to the consistent interpretation and implementation of the standard, it was felt that an amendment to make the ISA more prescriptive in this regard extended beyond the application of the clarity conventions. The IAASB concluded that proposed ISA 700 (Redrafted) should be flexible in this regard, and that the existing text provided for such flexibility.

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38 FEE, IBR-IRE, IDW.
54. However, in response to the comments on ED-ISA 700 that argued that consistent application of the standard is important, the Task Force recommends that the requirement be clarified as follows: “When the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibility to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework, these other reporting responsibilities shall be addressed in a separate section in the auditor’s report that shall be sub-titled ‘Report on Other Legal and Regulatory Requirements,’ or otherwise as appropriate to the content of the section.” See paragraph 39 of Agenda Item 11-B. Paragraph 40 of Agenda Item 11-B deals with the placement of the section in the auditor’s report. The related application material has been amended accordingly (see paragraphs A39-A41 of Agenda Item 11-B).

**Action Requested**

- Does the IAASB agree with the proposal to amend the requirement to refer to “an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework” (see paragraph 39 of Agenda Item 11-B)?

**F. Significant Comments that Do Not Relate to the Application of the Clarity Conventions**

**F.1 Scope of the ISA**

55. Responses to ED-ISA 700 and ED-ISA 800 included comments on the scopes of the respective ISAs. Those comments are addressed in this section. This section also provides background to the IAASB’s earlier decision on the scopes of the respective ISAs.

56. Paragraph 14 of the Basis for Conclusions: Close Off Document—ISA 800 (Revised)\(^40\) notes that the IAASB was of the view that restricting the scope of ISA 700 to auditors’ reports on general purpose financial statements and the scope of ISA 800 (Revised) to auditors’ reports on special purpose financial statements would provide a clear indication as to where to look for requirements and guidance relevant to auditors’ reports. It explains that:

- The terms “general purpose financial statements” and “special purpose financial statements” are defined with reference to the purpose for which the applicable financial reporting framework is designed. In the case of general purpose financial statements, the applicable financial reporting framework is designed to meet the common financial information needs of a broad range of users; and in the case of special purpose financial statements, the applicable financial reporting framework is designed to meet the special financial information needs of specific users.

- Both ISA 700 and ISA 800 (Revised) specify that an applicable financial report framework can be either a fair presentation framework or a compliance framework.

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\(^40\) The Basis for Conclusions: Close Off Document—ISA 800 (Revised) can be accessed at [http://www.ifac.org/IAASB/Resources.php#BasisForConclusions](http://www.ifac.org/IAASB/Resources.php#BasisForConclusions).
Further, since financial statements in the ISAs refer to a complete set of financial statements or a single financial statement, both ISA 700 and ISA 800 (Revised) address reporting on complete sets of financial statements and single financial statements, such as a balance sheet. (In fact, ISA 800 (Revised) goes further and extends all of the above concepts to auditors’ reports on a specific element, account or item of a financial statement prepared in accordance with a general purpose of special purpose framework.)

57. A few respondents to ED-ISA 700 and ED-ISA 800 expressed concern about the scopes of ISA 700 (Redrafted) and ISA 800 (Revised and Redrafted). They noted that ambiguity between the scopes of the two ISAs will make it difficult for practitioners to implement them.

One respondent\(^{41}\) was of the view that an auditor’s report on a single financial statement prepared in accordance with a general purpose framework should not be included in the scope of ISA 700 (Redrafted). This respondent believed that “give a true and fair view / present fairly, in all material respects,” opinions on historical financial information other than complete sets of financial statements prepared in accordance with a fair presentation framework would create confusion, not only amongst practitioners but also amongst readers of financial statements. This respondent suggested that auditors’ reports on single financial statements should fall in the scope of ISA 800 (Revised and Redrafted).

One respondent\(^{42}\) was of the view that the scopes of ISA 700 (Redrafted) and ISA 800 (Revised and Redrafted) are not readily understandable, and that the standards do not provide sufficient guidance to illustrate the requirements of the standards. This respondent suggested that the IAASB use a decision tree to develop the requirements of the standards; that is, starting with the nature of the applicable financial reporting framework (fair presentation framework vs. compliance framework), and continuing with the following: (1) the components of the financial statements (complete set of financial statements vs. single financial statement), (2) the purpose for which the financial statements are prepared (general purpose vs. special purpose), and (3) the intended users (wide range of users vs. specific users).

Another respondent\(^{43}\) believed that a distinction in scopes based solely on the purpose for which the applicable financial reporting framework is designed will cause confusion as it means that “give a true and fair view / present fairly, in all material respects,” opinions fall within the scopes of both ISAs. It was of the view that both the purpose for which the framework is designed and the purpose for which the financial statements are prepared need to be considered. It also felt that there is inadequate guidance on which frameworks fall within the scope of which ISA. This respondent suggested that ISA 700 (Redrafted) apply to financial statements prepared for a general purpose and for which the auditor expresses a “give a true and fair view / present fairly, in all material respects,” opinion. ISA

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\(^{41}\) HKICPA.

\(^{42}\) CNCC-CSOEC.

\(^{43}\) PWC.
800 (Revised and Redrafted) should be restricted to special purpose audit situations that require additional considerations, including auditors’ reports on general purpose financial statements prepared in accordance with a compliance framework. (That is what the Basis for Conclusions: Close Off Document—ISA 800 (Revised) referred to as a split based on form of opinion, where ISA 700 would deal with “give a true and fair view / present fairly, in all material respects,” opinions, while ISA 800 (Revised) would deal with other forms of opinion. At the time, the IAASB did not adopt this option.)

- One respondent stated that the scope of ISA 700 (Redrafted) should be expanded to include auditors’ reports on financial statements prepared in accordance with a special purpose framework when such financial statements are prepared for broad distribution (as is sometimes the case with financial statements prepared in accordance with financial reporting frameworks that are accepted by law or regulation).

58. One respondent to ED-ISA 700 questioned whether the ability to include a Restriction on Distribution or Use paragraph in the auditor’s report should be limited to ISA 800 (Revised and Redrafted) if the scope of ISA 700 (Redrafted) includes auditors’ reports on any financial statements prepared in accordance with a general purpose framework. See paragraph 50(a) of this paper.

Task Forces’ Recommendation(s)

59. Acknowledging the controversial nature of the matter and the fact that there was not clear consensus in earlier debates, the ISA 700 and ISA 800 Task Forces re-debated the scopes of ISA 700 (Redrafted) and ISA 800 (Revised and Redrafted). The Task Forces concluded that most of the concerns may be addressed by limiting the scope of ISA 700 (Redrafted) to complete sets of general purpose financial statements. Special considerations in the case of audits of single financial statements will then fall in ISA 800 (Revised and Redrafted). Their arguments are as follows:

(a) ISA 700 (Redrafted), which is an important standard for adopters and potential adopters of ISA, will be very clear. It will deal with complete sets of general purpose financial statements. The general purpose framework may be a fair presentation or compliance framework and, as a result, the ISA will provide for fair presentation and compliance opinions. This is in line with extant ISA 700, and could be achieved with limited amendments to ED-ISA 700.

(b) Some respondents argued that ISA 700 (Redrafted) should focus on auditors’ reports on complete sets of general purpose financial statements, as it is the most common circumstance. The inclusion of other considerations (such as those relating to auditors’ reports on single financial statements) may complicate adoption of ISA 700 (Redrafted) in some jurisdictions. For example, in the case of the European Commission, parts of ED-ISA 700 will not apply to statutory accounts to which the 8th Directive applies.

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44 NIVRA.
45 PWC.
(c) Based on comments received, the ISA 800 Task Force is proposing an additional special consideration with regard to the form of opinion to be expressed on a single financial statement or a specific element, account or item of a financial statement prepared in accordance with a fair presentation framework. If ISA 700 (Redrafted) continues to deal with single financial statements, such special consideration will have to be included in ISA 700 (Redrafted) – this will introduce an undesirable degree of complexity in the ISA.

(d) The special considerations in ISA 800 (Revised and Redrafted) relating to audits of specific elements, accounts or items of a financial statement apply equally to audits of single financial statements.

60. Based on the above, the Task Forces recommend the following:

(a) The scope of ISA 700 (Redrafted) should be limited to complete sets of general purpose financial statements. They may be prepared in accordance with a fair presentation or compliance framework.

(b) The title of ISA 700 (Redrafted) should be “Forming an Opinion and Reporting on Financial Statements.” This is in line with the titles of other ISAs, and represents the content of ISA 700 (Redrafted). To avoid the impression that single financial statements are always special purpose financial statements, special considerations in audits of single financial statements and specific elements, accounts or items of a financial statement should be moved to a separate ISA with the title “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement.” The title of ISA 800 (Revised and Redrafted) should be “Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”

(c) ISA 700 (Redrafted) should explain that it is written in the context of a complete set of general purpose financial statements and that other ISAs deal with special considerations in audits of financial statements prepared in accordance with a special purpose framework and in audits of single financial statements and specific elements, accounts or items of a financial statement. See paragraph 3 of Agenda Item 11-B.

(d) ISA 700 (Redrafted) should be amended to explain that reference to “financial statements” in the ISA means “a complete set of general purpose financial statements,” including the related notes. See paragraph 8 of Agenda Item 11-B.
61. Based on the proposal in paragraph 60 above, the application of the ISAs in the different circumstances can be presented as follows:

<table>
<thead>
<tr>
<th>Complete set of financial statements</th>
<th>Single financial statement or specific element, account or item of a financial statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>General purpose framework</td>
<td>General purpose framework</td>
</tr>
<tr>
<td>(fair presentation / compliance)</td>
<td>(fair presentation / compliance)</td>
</tr>
<tr>
<td>ISAs 100-706</td>
<td>ISAs 100-706, adapted as per 805</td>
</tr>
</tbody>
</table>

**Action Requested**

- Does the IAASB agree with the proposal to limit the scope of ISA 700 (Redrafted) to complete sets of general purpose financial statements?
- Does the IAASB agree with the related amendments explained in paragraphs 60(b)-(d) of this paper?

ISA 200 (Revised and Redrafted)

62. The Task Force is of the view that it is important that the distinction between complete sets of financial statements and single financial statements in the ISAs is clear. Paragraph 13(f) of ISA 200 (Revised and Redrafted) explains that the term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, *but can also refer to a single financial statement*.

63. Paragraph A8 of ISA 200 (Revised and Redrafted) explains that the requirements of the applicable financial reporting framework determine what constitutes a complete set of financial statements. In the case of many frameworks, financial statements are intended to provide information about the financial position, financial performance and cash flows of an entity. For such frameworks, a complete set of financial statements would include a balance sheet; an income statement; a statement of changes in equity; a cash flow statement; and related notes. For some other financial reporting frameworks, a single financial statement and the related notes might constitute a complete set of financial statements.

64. The Task Force is concerned that the phrase “but can also refer to a single financial statement” in paragraph 13(f) of ISA 200 (Revised and Redrafted) may cause confusion. The phrase has no practical effect given the proposed structure under which special consideration is given to single financial statements. The Task Force therefore recommends that the phrase be deleted or replaced with “which may in some cases be a single financial statement and related notes.” The Task Force prefers the second option as it is consistent with the guidance in paragraph A8 of ISA 200.
**Action Requested**

- Does the IAASB agree with the proposal to amend ISA 200 (Revised and Redrafted)? If so, which option does the IAASB prefer?

### F.2 Consistency in the Auditor’s Report vs. Flexibility

65. One of the most significant issues debated in the revision of ISA 700 was that of the merits of having consistency in the format and wording of an ISA auditor’s report versus allowing greater flexibility. The IAASB was aware that flexibility could facilitate adoption of the revised ISA; however, it would perpetuate differences in auditors’ reports that are difficult to understand in a global marketplace and have the disadvantage of not making an audit conducted in accordance with ISAs readily identifiable. At the time, the IAASB opted for consistency. The IAASB believed that having a readily identifiable auditor’s report for audits conducted in accordance with ISAs would promote credibility in the global marketplace. Consistency was also viewed as being useful in promoting users’ understanding and in making unusual circumstances more readily identifiable. Some respondents to ED-ISA 700 resurfaced that debate.

#### F.2.1 Description of Management’s Responsibility for the Financial Statements

66. Some respondents, in particular – but not limited to – European-based respondents, considered the requirements dealing with the description of management’s responsibility for the financial statements to be too prescriptive. Their concerns included the following:

- The legal responsibilities of management differ between jurisdictions and different legal forms of entity within jurisdictions. Any attempt to provide an accurate description based on legal requirements would necessarily lead to inconsistencies and incomparability in auditors’ reports.\(^{46}\)

- Management is not necessarily required by local law or custom to maintain systems of internal control that are relevant to the preparation and presentation of the financial statements.\(^{47}\)

- The auditor’s report should not describe management’s responsibility for the financial statements if this responsibility is described elsewhere in the financial statements. In some jurisdictions or for certain types of company, for example, it is mandatory for management to issue a separate report, stating its responsibilities.\(^{48}\)

- The reference to management may not be appropriate. In some jurisdictions the responsibility for the financial statements falls on those charged with governance or the body of directors as a whole.\(^{49}\)

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\(^{46}\) APB, EALIC, EC, FEE, IBR-IRE, IDW.

\(^{47}\) EC, EALIC, ICAEW, NAO.

\(^{48}\) APB, BUSINESSEUROPE.

\(^{49}\) ACAG, AG-NZ, AUASB, ICAI, NZICA.
Exposure Draft of Proposed ISA 210 (Redrafted)

67. The exposure draft of proposed ISA 210 (Redrafted) (ED-ISA 210) included proposals, including conforming amendments to ED-ISA 700, which would allow for the flexibility requested by the respondents to ED-ISA 700. ISA 210 (Redrafted) would require that management’s responsibilities be described in the auditor’s report in the manner that they are described in the terms of the audit engagement but, importantly, would introduce greater flexibility in that description. In particular, it would allow the auditor to use the wording of relevant law or regulation to describe management’s responsibilities if the auditor has determined that the responsibilities prescribed by law or regulation are equivalent in effect to those set out in ISA 210 (Redrafted). For management’s responsibilities that are not equivalent in effect, or that are not prescribed by law or regulation, the auditor would use the description in ISA 210 (Redrafted).

68. The conforming amendments to ED-ISA 700 have been incorporated in Agenda Item 11-B. See yellow shaded text.

69. Some respondents explicitly supported the proposal to introduce greater flexibility in how management’s responsibilities are described in ISA 210 (Redrafted).

70. While the Task Force recommends that final decisions regarding the conforming amendments to ISA 700 (Redrafted) are not made until the ISA 210 Task Force has completed its detailed analysis of the responses (see below), a preliminary staff analysis of the responses to ED-ISA 210 has indicated that approximately three-quarter of those who commented on the matter:

- Supported the proposed description of management’s responsibilities in ED-ISA 210; however, some suggested refinement. Substantive comments raised included concern about the reference to internal control and the fact that management is responsible for providing the auditor with “all information …”

- Agreed that the description of management’s responsibilities in the terms of the audit engagement, written representations and auditor’s report may use the wording of the law or regulation if the auditor has determined that the law or regulation includes responsibilities that are equivalent in effect to those described in the ISAs. Again, some suggested refinement. Some respondents, however, did not agree, noting that the ISAs cannot impose requirements on management – they should be compatible with law or regulation. Another respondent, however, was of the view that the premise, relating to management’s responsibilities, on which an audit is conducted does not vary based on law or regulation. Some respondents questioned how “equivalence” is to be determined.

- Supported the conforming amendments to ED-ISA 700. Again, some suggested refinement. One respondent did not agree that auditors’ reports should contain different descriptions of management’s responsibility for the financial statements as the premise, relating to management’s responsibilities, on which an audit is conducted is the same in all audits; while other respondents were of the view that the description of management’s responsibility for the financial statements does not

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50 CNCC-CSOEC, DTT, EC, FEE, IBR-IRE, IDW.
reflect legal reality, in particular as regard internal control. A few respondents suggested that the auditor’s report refer to the preconditions for, or premise of, an audit, rather than management’s responsibility for the financial statements.

Task Force’s Recommendation(s)

71. To address comments that the reference to management may not be appropriate in all circumstances, the Task Force recommends that paragraph A23 of the proposed conforming amendments to ED-ISA 700 be placed under the Management’s Responsibility for the Financial Statements heading in the Requirements section of ISA 700 (Redrafted). See paragraph 24 of Agenda Item 11-B, which reads as follows: “This section of the auditor’s report describes the responsibilities of those in the organization that are responsible for the preparation and presentation of the financial statements. The auditor’s report need not refer specifically to ‘management’ in this context, but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference may be to those charged with governance.”

72. The Task Force recommends that the IAASB conclude on further amendments to ISA 700 (Redrafted) arising from ED-ISA 210 after the ISA 210 Task Force has completed its detailed analysis of the responses and reported to the IAASB in this regard. However, the IAASB can nevertheless approve ISA 700 (Redrafted) at this meeting, subject to any conforming amendments that may be necessary as a result of finalizing ISA 210 (Redrafted).

Action Requested

- Does the IAASB agree with the proposals in paragraphs 71-72 of this paper?

**F.2.2 Auditor’s Report for Audits Conducted in Accordance with Both International Standards on Auditing and Auditing Standards of a Specific Jurisdiction or Country / Auditor’s Reports Prescribed by Law or Regulation**

73. Paragraph 40 of ED-ISA 700 provided for the auditor’s report to refer to ISAs, in addition to national auditing standards, when the auditor has complied with both ISAs and the national auditing standards, if: (a) there is no conflict between the reporting requirements regarding the auditor’s report in ISAs and those in the national auditing standards that affects the auditor’s opinion or the need to include an Emphasis of Matter(s) paragraph in the particular circumstances; and (b) the auditor’s report includes, at a minimum, each of the elements in paragraph 40(b) of ED-ISA 700 when the auditor uses the layout or wording specified by the national auditing standards. There were a few comments on this requirement – some requesting more flexibility, while others requested less flexibility.

74. A few respondents\(^{51}\) suggested that paragraph 40(b)(iv) of ED-ISA 700, which deals with management’s responsibility for the financial statements, be deleted. One of those

\(^{51}\) BUSINESSEUROPE, EC.
respondents\textsuperscript{52} noted that Article 4(1)(c) of the EC Transparency Directive requires listed companies to include statements of management responsibilities within the annual report. It was of the view that repeating them in the auditor’s report will cause an unnecessary duplication and risk inconsistency.

75. One respondent\textsuperscript{53} was of the view that while, in the context of traditional thinking, a number of the elements in paragraph 40(b) of ED-ISA 700 appear to be self-evident, others may limit the opportunity of national standard setters to respond, in an innovative manner, to the calls from user groups to revise the auditor’s report to make it more readable and to add to its information value. In particular, this respondent was of the view that, rather than mandating a description of the work that an auditor performs in an audit (paragraph 40(b)(v) of ED-ISA 700), a more flexible approach could be to require the auditor to (a) evaluate the extent to which the annual report or other publicly available information provides the information that ED-ISA 700 would otherwise require the auditor to provide in the auditor’s report; and (b) refer in the auditor’s report to where this information may be found. It encouraged the IAASB to review the elements with a view to limiting them only to those that are absolutely essential. A few other respondents\textsuperscript{54} were of a similar view.

76. A few respondents,\textsuperscript{55} however, were concerned that the authority of ISAs will be compromised if too much flexibility is allowed in reporting in accordance with ISAs and national auditing standards. They were of the view that paragraph 40 of ED-ISA 700 allowed precedence to national auditing standards (i.e., in those jurisdictions that have not transposed ISAs) over ISAs in respect of layout and wording of the auditor’s report, and that this is not conducive to global convergence. They believed that this should only be the case for requirements established by law or regulation.

Task Force’s Recommendation(s)

77. The Task Force is of the view that the requirements allow for flexibility when warranted, while retaining the principle of visibility of the authority that drives the different report wording or layout. The Task is therefore only proposing minor amendments to clarify the requirements. See paragraphs 44-46 of Agenda Item 11-B.

Action Requested

- Does the IAASB agree with the Task Force’s proposal to process only minor amendments to the requirements in paragraphs 44-46 of Agenda Item 11-B?

\textsuperscript{52} EC.
\textsuperscript{53} APB.
\textsuperscript{54} BUSINESSEUROPE, EALIC, EC.
\textsuperscript{55} EC, FEE, IBR-IRE, IDW.
G. Other

G.1 Other Comments on ED-ISA 700

78. In addition to the above, the Task Force draws the IAASB’s attention a few other comments raised by individual respondents, that is:

(a) Whether conforming amendments should be processed to International Standard on Review Engagements (ISRE) 2400 and ISRE 2410. The form of opinion in those standards implies that the interim financial information has been prepared in accordance with a fair presentation framework. It does not provide for interim financial information prepared in accordance with a compliance framework. The revision of ISRE 2400 is identified as a priority in the draft IAASB Strategy and Work Program, 2009-2011. The Task Force recommends that the IAASB consider this matter as part of that revision. As most interim financial information is prepared in accordance with fair presentation frameworks, the Task Force does not foresee an urgent need to address this matter in advance of that project.

(b) Whether the illustrative examples in the appendix should include an auditor’s report on consolidated financial statements. The Task Force notes that Appendix 1 of ISA 600 (Revised and Redrafted) includes an example of an auditor’s report on consolidated financial statements; however, only to illustrate a qualified opinion based on the group engagement team’s inability to obtain sufficient appropriate audit evidence on which to base the group audit opinion.

G.2 Proposed Conforming Amendments to ISA 560 (Redrafted)

79. Based on comments received, the Task Force is proposing minor amendments to the requirement and guidance relating to the date of the auditor’s report. See paragraphs 42 and A43-A46 of Agenda Item 11-B. These amendments affect ISA 560 (Redrafted). As a result, the Task Force proposes the following conforming amendments to ISA 560 (Redrafted):

560.5(b) Date of approval of the financial statements – The date on which all the statements that comprise the financial statements, including the related notes, have been prepared and those with the recognized authority have asserted that they have taken responsibility for those financial statements.

560.A2 In some jurisdictions, law or regulation identifies the individuals or bodies (for example, management or those charged with governance) that are responsible for concluding that all the statements comprising the financial statements, including the related notes, have been prepared, and specifies the necessary approval process. In other jurisdictions, the approval

56 ISRE 2400, “Engagements to Review Financial Statements.”
57 ISRE 2400, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.”
58 ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).”
59 ISA 560 (Redrafted), “Subsequent Events.”
process is not prescribed in law or regulation and the entity follows its own procedures in preparing and finalizing its financial statements in view of its management and governance structures. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements has been obtained. The date of approval of the financial statements for purposes of the ISAs is the earlier date on which those with the recognized authority have asserted that all the statements comprising the financial statements, including the related notes, have been prepared and that those with the recognized authority have taken responsibility for those financial statements.

560.A3 The auditor’s report cannot be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. Sufficient appropriate audit evidence includes evidence that all the statements that comprise the financial statements, including the related notes, have been prepared and that those with the recognized authority have asserted that they have taken responsibility for those financial statements …

**Action Requested**

- The IAASB members are asked for their views of the matters set out in paragraph 78 of this paper.
- Does the IAASB agree with the proposed conforming amendment to ISA 560 (Redrafted)?

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ISA 700 (Redrafted), paragraph 40. In rare circumstances, law or regulation also identifies the point in the financial statement reporting process at which the audit is expected to be complete.
### APPENDIX

#### List of Respondents

<table>
<thead>
<tr>
<th>#</th>
<th>Abbreviation</th>
<th>Name</th>
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<tbody>
<tr>
<td></td>
<td><strong>Professional Organizations</strong></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>ACCA</td>
<td>The Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>2</td>
<td>AIA</td>
<td>The Association of International Accountants</td>
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<tr>
<td>3</td>
<td>AICPA</td>
<td>American Institute of Certified Public Accountants</td>
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<tr>
<td>4</td>
<td>CIPFA</td>
<td>Chartered Institute of Public Finance and Accountancy</td>
</tr>
<tr>
<td>5</td>
<td>CNCC-CSOEC</td>
<td>Compagnie Nationale des Commissaires aux Comptes + Conseil Supérieur de l’Ordre des Experts-Comptables</td>
</tr>
<tr>
<td>6</td>
<td>CPAI</td>
<td>The Institute of Certified Public Accountants in Ireland</td>
</tr>
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<td>FEE</td>
<td>Fédération des Experts Comptables Européens</td>
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<td>Institut des Reviseurs d'Entreprises/ Instituut der Bedrijfsrevisoren</td>
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<td>11</td>
<td>IDW</td>
<td>Institut der Wirtschaftsprüfer</td>
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<td>ICPAS</td>
<td>Institute of Certified Public Accountants of Singapore</td>
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<tr>
<td>13</td>
<td>ICABC</td>
<td>Institute of Chartered Accountants of British Columbia</td>
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<tr>
<td>14</td>
<td>ICAEW</td>
<td>The Institute of Chartered Accountants in England and Wales</td>
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<td>15</td>
<td>ICAL</td>
<td>The Institute of Chartered Accountants in Ireland</td>
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<td>16</td>
<td>ICAP</td>
<td>Institute of Chartered Accountants of Pakistan</td>
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<td>17</td>
<td>IJCCE</td>
<td>Instituto de Censores Jurados de Cuentas de España</td>
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<td>18</td>
<td>JICPA</td>
<td>The Japanese Institute of Certified Public Accountants</td>
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<td>19</td>
<td>NIA</td>
<td>National Institute of Accountants in Australia</td>
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<tr>
<td>20</td>
<td>NIVRA</td>
<td>Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)</td>
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<td>21</td>
<td>NZICA</td>
<td>New Zealand Institute of Chartered Accountants</td>
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<tr>
<td>22</td>
<td>SAICA</td>
<td>The South African Institute of Chartered Accountants</td>
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<td></td>
<td><strong>National Auditing Standard Setters</strong></td>
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<td>23</td>
<td>APB</td>
<td>UK Auditing Practices Board</td>
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<tr>
<td>24</td>
<td>Au AASB</td>
<td>Australian Government, Auditing and Assurance Standards Board</td>
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<td>CICA</td>
<td>Auditing and Assurance Standards Board of the Canadian Institute of Chartered Accountants</td>
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<td>26</td>
<td>IRBA</td>
<td>Independent Regulatory Board for Auditors, South Africa</td>
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<td><strong>Regulators and Oversight Authorities</strong></td>
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<td>27</td>
<td>Basel</td>
<td>Basel Committee on Banking Supervision</td>
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<td>28</td>
<td>CEBS</td>
<td>Committee of European Banking Supervisors</td>
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<td>29</td>
<td>CPAB</td>
<td>Canadian Public Accountability Board</td>
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<tr>
<td>30</td>
<td>EC</td>
<td>European Commission</td>
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<td>31</td>
<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<td><strong>Firms</strong></td>
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<td>32</td>
<td>BDO</td>
<td>BDO Global Coordination B.V.</td>
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<td>33</td>
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<td>Deloitte Touche Tohmatsu</td>
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<td>34</td>
<td>EYG</td>
<td>Ernst &amp; Young Global</td>
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<td>Pitcher</td>
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<td>PwC</td>
<td>PricewaterhouseCoopers (made two submissions)</td>
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<td>KPMG</td>
<td>KPMG (made two submissions)</td>
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**Public Sector Organizations**

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<th>Abbreviation</th>
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<tr>
<td>39</td>
<td>ACAG</td>
<td>Australasian Council of Auditors-General</td>
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<td>40</td>
<td>AG-CA</td>
<td>Auditor General of Canada</td>
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<td>41</td>
<td>Auditor-General, NZ</td>
<td>Office of the Auditor-General of New Zealand</td>
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<td>42</td>
<td>AG-DK</td>
<td>Rigsrevisionen – Auditor General of Denmark</td>
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<tr>
<td>43</td>
<td>GAO</td>
<td>United States Government Accountability Office</td>
</tr>
<tr>
<td>44</td>
<td>NAO</td>
<td>UK National Audit Office</td>
</tr>
<tr>
<td>45</td>
<td>Provincial Auditor-SK</td>
<td>Provincial Auditor Saskatchewan</td>
</tr>
<tr>
<td>46</td>
<td>Provincial Comptroller-SK</td>
<td>Provincial Comptroller Saskatchewan</td>
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<td>47</td>
<td>SNAO</td>
<td>Swedish National Audit Office</td>
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**Others**

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<td>BUSINESS-EUROPE</td>
<td>BUSINESS-EUROPE</td>
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<td>49</td>
<td>EALIC</td>
<td>European Association of Listed Companies</td>
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<td>50</td>
<td>Robson</td>
<td>Derrick Robson</td>
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