

# Auditor Reporting

Dan Montgomery, Task Force Chair

IAASB Meeting  
11-15 June 2012

# Outline

- Meeting Objective
- The Purpose of the ITC
- Recap of April NSS Meeting
- Key Issues to Be Resolved by the IAASB
- Detailed Discussion of the ITC
- Way Forward

## Meeting Objective

*The Task Force believes it has addressed the comments and input received from previous Board discussions and that the draft ITC reflects the indicative direction of the Board for purposes of consultation to inform the IAASB's future standard-setting activities.*

- The IAASB is asked to **approve the Invitation to Comment (ITC) for public consultation** at this meeting
- There is much to do to make this happen by Friday, so the IAASB is asked to
  - Provide solutions along with concerns to help move forward
  - Pass on editorial-type comments to Staff offline
  - Remember the agreed purpose of the ITC and the calls for the IAASB to move rapidly in this critical area – consultation needed now!

## Purpose of the Invitation to Comment

- **Solicit feedback to assist with the IAASB's standard-setting proposals** (i.e., the June 2013 Exposure Draft and planned final standards in June 2014)
  - *Show progressive thinking in response to the IAASB's May 2011 consultation, IAASB outreach, and ongoing initiatives of others*
  - *Allow for interested parties to provide comments on the proposed improvements to the auditor's report*
  - ***Serve as the basis for further outreach and consultation with investors and other users, including through planned roundtables***

## Purpose of the Invitation to Comment (cont.)

- **The ITC is NOT a standard-setting proposal – it is not intended to include the specific requirements and guidance that would be needed to operationalize the IAASB's indicative direction**
- **The IAASB may reconsider the positions in the ITC based on feedback received, in particular in relation to value and impediments**

# How the Meeting Discussions Will Be Structured

When and What?	Which Documents?
Monday p.m. – <b>What's still open?</b>	Overview and outstanding issues (Agenda Item 3)
Tuesday a. m. – <b>What are our key messages to readers of the ITC?</b>	Chairman's Statement, Intro, and Illustrative Report (pages 1-10 of Agenda Item 3-A)
Tuesday p.m. – <b>How did we get here and what do we need from respondents?</b>	IAASB Viewpoints, Questions and Other Appendices (Pages 11-37 of Agenda Item 3-A and Agenda Item 3-B)
<i>Tuesday p.m. and Wednesday p.m. – Staff and Task Force meetings</i>	
Thursday p.m. – <b>Finalize revised Chairman's Statement, Intro, and Illustrative Auditor's Report</b>	Revised Agenda Items 3-A and 3-B (distributed prior to lunch Thursday – select pieces earlier if practicable)
Friday – <b>Final discussion and approval of the ITC, including questions for respondents</b>	

## Recap of the April 2012 NSS Meeting

- Feedback similar to discussions during IAASB April 2012 teleconferences
  - Value and impediments model should be explained in the ITC
  - Danger of users inferring separate assurance/individual opinions on auditor commentary, going concern and other information – don't widen the expectations gap!
  - Consider more specific criteria for auditor commentary
  - Concerns about common definition of PIEs
  - Changes to illustrative wording suggested
- Support for “building blocks” approach to provide needed flexibility for national reporting models

# Lessons Learned from April 2012 NSS Meeting – Pilot Testing

- Varying views among NSS participants with respect to the right balance between consistency and relevance
  - Application of “flexibility” resulted in auditor’s reports that were not comparable
  - IAASB needs to be clear what will be mandatory and what will be left to NSS
- Results of initial NSS pilot testing (Australia, Germany, UK) suggest a need for the IAASB to be more prescriptive with respect to **use of section headings, content** and **ordering** of auditor reporting elements in revised auditor’s reports
- More discussion needed about “Other Reporting Responsibilities”

## Auditor Commentary – What Has Changed?

- Simplified objective of auditor commentary (AC)
  - To provide transparency about matters that are, in the auditor’s judgment, likely to be most important to users’ understanding of the audited financial statements or the audit
  - TF continues to believe focus on both financial statements and the audit is most responsive to calls from users
- Leverage existing concepts of EOM and OM paragraphs to provide entity-specific information
  - Highlight “most important” (vs. “fundamental”) matters in the financial statements and explain why these are being highlighted
  - Increase transparency about “matters of audit significance”
- Going concern and other information separate from AC
  - Required conclusion/statements for GC/OI vs. auditor judgment for AC

## Auditor Commentary

- Does the IAASB agree with the TF's recommendations relating to AC, including the proposals to expand the use of EOM and OM paragraphs to achieve the broad objective of AC?

## Auditor Commentary (cont.)

- PIEs would be required to explicitly consider whether to include AC based on key areas specified by the IAASB (i.e., a form of criteria)
  - Tailored to the facts and circumstances of the entity and the audit
  - No specific matters would be required in *all* PIE auditor's reports, but expectation that matters would be identified in all audits of PIEs (e.g. a range from 2-10 matters)
- Auditors of non-PIEs may include AC as appropriate in the context of engagement
- The IAASB is asked to confirm whether its position that AC should not be mandated for any specific matters remains appropriate, and that the ITC adequately explains the IAASB's rationale.

## Role of Other Auditors

- TF originally concluded that disclosure of other auditors would be inconsistent with principle of sole responsibility under ISA 600
- Nevertheless, there may be merit in being more transparent about the involvement of other auditors
  - Could the auditor describe the extent of the involvement of other auditors and the responsibility for the group audit, while not appearing to divide responsibility?
  - If so, what could be disclosed?
- Does the IAASB agree this issue should be raised on consultation? If so, does the IAASB support the possible disclosure?

# Responsibilities of Management, TCWG and the Auditor

- Proposal to include a description of the responsibilities of TCWG
  - Illustrative report includes a generic description based on the ISAs
  - Expectation is that NSS would tailor this to more specifically describe the national requirements (if any), similar to what is done in relation to management's responsibilities
- Further refinements to description of auditor's responsibilities
  - New description of auditor's responsibilities to communicate with TCWG
  - Fraud and estimates language revised
  - Not included: references to firm quality control procedures

# Detailed Discussion of the Invitation to Comment (Tuesday)

## Chairman's Statement, Intro and Illustrative Report

- Front part of ITC is very important (first 10 pages)
  - Capture attention of readers and highlight the possible changes to the auditor's report
  - Intended to be reader-friendly and draw attention to key areas
- Illustrative report
  - Key changes from last IAASB discussion, most notably the examples of Auditor Commentary (Item 3, para. 23)

# Illustrative Examples of Auditor Commentary

Examples of Auditor Commentary	Value/Impediments
<p>“Pointer” to disclosure in financial statements</p>	<p>Helps users navigate complex financial statements; no impediments</p>
<p>“Pointer” with additional context, e.g.:</p> <ul style="list-style-type: none"> <li>• Why matter is “most important”</li> <li>• Summary of key points in disclosure</li> <li>• Description of procedures</li> <li>• Conclusion</li> <li>• Auditor “views” on management judgments or “close calls”</li> </ul>	<p>Helps users navigate complex FS</p> <ul style="list-style-type: none"> <li>• Better understanding</li> <li>• Better understanding, but possibility of boilerplate</li> <li>• More transparency about audit process</li> <li>• Better understanding of how matter was resolved but concerns about “piecemeal opinions”</li> <li>• Higher value to users but concerns about providing information beyond management disclosure</li> </ul>
<p>“Matter of audit significance” only</p> <ul style="list-style-type: none"> <li>• Planning/scoping (e.g., materiality, locations visited)</li> <li>• Unique audit strategy</li> <li>• Audit adjustments</li> <li>• Internal control deficiencies</li> <li>• Use of experts</li> <li>• Use of internal audit</li> <li>• Involvement of other auditors</li> </ul>	<p>Increased transparency about the audit</p> <ul style="list-style-type: none"> <li>• Perception of value may differ significantly between users</li> <li>• Difficult for auditors to summarize in a way that may be meaningful</li> <li>• May jeopardize the effectiveness of auditor’s communications with TCWG by making those discussions more public</li> </ul>

## Illustrative Examples of Auditor Commentary

- Does the IAASB agree with the form and content of the illustrative examples and the explicit reference to the possible number of matters that may be included in AC?
- Where do we need more information to advance standard-setting?
  - Do the examples of AC meet user needs?
  - Will more definitive criteria be needed to drive auditor behavior and consistency in AC provided?
  - Should a definitive statement be required when auditors of PIEs conclude there is “nothing to report”?
  - What documentation requirements might be necessary?

# IAASB Viewpoints and Explanation of Proposed Direction in the Illustrative Auditor's Report

- Intended to be an overview to solicit feedback on proposals, and what IAASB believes is the value and impediments of these proposals
  - Investors and other users may not find too much detail useful
  - More relevant to auditors and NSS to understand other options considered but not pursued
  - Challenge to balance length with the need to articulate significant IAASB deliberations – opportunities for further condensing?

# IAASB Viewpoints and Explanation of Proposed Direction in the Illustrative Auditor's Report

- Walkthrough of each section
  - Are the value and impediments of the possible improvements fairly described based on the IAASB's deliberations to date?
    - For areas where the IAASB does not have a unanimous view, are IAASB members' concerns accurately described?
  - Will respondents have enough information to answer the questions in Appendix 1?
    - For areas where the IAASB's position needs to be further informed, is it clear where more specific feedback from respondents is needed?
  - Are there key messages that may need further emphasis for each area (e.g., in relation to SMEs, public sector, interaction with work of others like IASB, etc.)?

## Questions for Respondents – Appendix 1

- Rationale for the approach taken to the questions
  - TF preferred more questions to focus respondents on issues of most relevance to them – similar to approach taken for IAASB consultation on disclosures
  - Some questions are applicable to more than one stakeholder group; duplication was seen to be unhelpful due to the overall number of questions
- Does the IAASB support the questions and the approach taken to them?

## Other Appendices

- Appendix 2 based on material presented to the IAASB at its March 2012 meeting
- Appendix 3 intended to illustrate how the illustrative auditor's report would be tailored in particular circumstances based on existing ISA requirements
- Appendix 4 included for reference purposes
- Appendix 5 to be discussed separately

# **Agenda Item 3-B – Explanation of the Building Blocks Approach in the ITC (Tuesday)**

## Purpose of Appendix 5

- Intended primarily for NSS and others with an interest in understanding how the IAASB's “building blocks” approach might operate in practice
  - Supplements material in paragraph 91-94 of the ITC
- Useful to inform NSS’ concerns about how a revised ISA 700 could be operationalized
  - Intended to provide a look at flexibilities in tailoring auditor’s report elements in a manner that appropriately balances relevance and harmonization
- Clarifies how the Other Reporting Responsibilities section of the auditor’s report may be affected by IAASB-required reporting in new areas

## Incorporating Lessons Learned From NSS

Varying perspectives on how best to communicate audit results in a manner relevant to users necessitate an approach that allows for comparable auditors' reports, with a built-in mechanism for tailoring information in auditors' reports further for specificity.

