

## Auditor Reporting—Summary of Responses Relating to Building Blocks (BB)

The following represents the Task Force's (TF) preliminary views on the way forward with respect to the building blocks approach based on responses to the Invitation to Comment (ITC) and feedback from the public roundtables. IAASB input on these matters, in the context of the detail that follows in this agenda paper, will be welcome.

- Continue to encourage consistency in auditor reports, recognizing that law or regulation in a local jurisdiction may prescribe the form and content of the auditor's report
- Specify requirements for all auditors' reports for audits conducted in accordance with ISAs to ensure the IAASB's suggested improvements in auditor reporting are promulgated globally
- Continue to require minimum elements<sup>1</sup> for auditors' reports that refer to ISAs when law or regulation prescribes the form and content of the report (e.g., maintain the approach currently used under ISA 700) and expand the minimum elements if necessary
- Encourage, but do not mandate, a specified format, structure, and ordering for the required elements. This could be done through:
  - Including application material in a revised ISA 700 explaining the rationale for the IAASB's preferred presentation, including the focus on presenting the most relevant information first
  - Use of illustrative examples in a revised ISA 700
  - Liaising with national standard setters (NSS)
- Consider whether the wording of particular elements, including titles, headings and subheadings, within the auditor's report should be mandated when reference to ISAs is to be made, or whether greater flexibility would be necessary (for example, to take into account different financial reporting frameworks)
- Determine whether requirements are appropriate for auditor reports of audits of small- and medium-sized entities (SMEs) and public sector entities (e.g., ensure that changes to auditor reporting do not inhibit other reporting by public sector auditors required or permitted by the mandates of Supreme Audit Institutions (SAIs))
- Consider and take into account existing and evolving auditor reporting regimes in other jurisdictions
- Continue to strive for alignment with others currently addressing auditor reporting (e.g., US Public Company Accounting Standards Board (PCAOB) and European Commission (EC)); and consider existing requirements or practices in other jurisdictions to further inform discussions on alternative ways of providing information to users, including through a corporate governance reporting model similar to the UK Financial Reporting Council (UKFRC))

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<sup>1</sup> See paragraph 43 of International Standard on Auditing (ISA) 700, *Forming an Opinion and Reporting on Financial Statements*, for a listing of the minimum elements necessary for auditors to refer to the ISAs in their auditor reports when the law or regulation of a specific jurisdiction prescribe a specific layout or wording of the auditor's report.

## **Introduction**

1. Recognizing that a new auditor reporting standard would need to be capable of being implemented in diverse national environments, the IAASB in its ITC (Appendix 4), identified elements that would be required in all auditor reports, and developed an approach that allows the flexibility for jurisdictions to further tailor auditor reports, where appropriate (i.e., the “building blocks” (BB) approach).
2. An important objective of the ITC was to obtain views in order to determine how to achieve the appropriate balance between global consistency and national flexibility in auditor reporting. The ITC sought views on:
  - The need for global consistency in auditor reports when ISAs, or national auditing standards that incorporate or are otherwise based on the ISAs, are used;
  - Whether the IAASB should mandate the ordering of items in a manner similar to that in the illustrative report, unless law or regulation require a particular presentation, including whether such an approach would provide sufficient flexibility to accommodate national reporting requirements or practices;
  - Whether the illustrative improved auditor’s report, including the placement of the auditor’s opinion and auditor commentary (AC) towards the beginning of the auditor’s report, provides appropriate emphasis to matters of most importance to users; and
  - Whether the IAASB’s suggested improvements are appropriate for entities of all sizes and in both public and private sectors and whether there should be special considerations specific to audits of SMEs and public sector entities.<sup>2</sup>
3. This paper discusses respondents’ views in response to matters above, as well as:
  - Issues Relevant to Navigating a Possible Way Forward; and
  - Matters for IAASB Consideration

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<sup>2</sup> See questions 15–18 of the ITC.

## Views about the Need for Consistency in Auditor Reports

### *General Reactions about Consistency*<sup>3</sup>

4. Approximately 70 percent of the respondents<sup>4</sup> to the ITC indicated a strong steer towards exploring global consistency in auditor reporting by applying the BB approach, and shared the following views:
- With companies increasingly venturing overseas in search of international markets, the investment community sees merit in having global consistency in auditors' reports that enhance comparability.<sup>5</sup>
  - The IAASB's BB approach achieves the appropriate balance between global consistency and comparability and the need to increase the value of auditor reporting by including flexibility to accommodate national circumstances.<sup>6</sup>
    - One ISA-compliant auditors' report would be viewed by the audit profession as the hallmark of the ISA brand and would likely minimize different interpretations across industries.<sup>7</sup>
  - Auditors' reports that are consistent are more useful to investors (e.g., consistency allows investors to quickly identify issues in auditors' reports across multiple jurisdictions),<sup>8</sup> and facilitates inspections by audit oversight authorities.<sup>9</sup>
    - Confusion and uncertainty would likely result if auditors, when reporting under the ISAs, were allowed to change the format and structure of the auditor's report.<sup>10</sup>

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<sup>3</sup> The following respondents, representing over 20 percent of the total number of respondents, did not express a view about consistency in auditor's reports: *Investors and analysts*: BR, JMahoney, SAAJ; *TCWG*: ACGA, GSaucier, HICG, IBGC; *Regulators and oversight authorities*: BCBS, EBA, WB; *Accounting firms*: CB, SRA, WBLI; *Public sector organizations*: CNAO, RD; *Preparers*: BP, CBI, MEDEF, USCC, VNO-NCW; *Member bodies and other professional organizations*: CAQ, CIMA, ICAI, ICASL, IE, MIA, NASBA, OROC, TK; *Academics*: BCEM, BMednick, JCarcello, KJamalSSunder, RMoroney; *Individuals and others*: ASaleem, JHodgeZMurray, SGiang

<sup>4</sup> *Investor and Analysts*: CalPERS, EUMEDION, GCSPS, ICGN, NAPF, S&P, SLI; *TCWG*: AICD, IIA, OECD; *Regulators and oversight authorities*: CPAB, CSA CAC, CSIPPC, CSRC, DFSA, EAIG, HKFRC, IAIS, ICAS, IRBA, IOSCO, JSE, MAOB; *NSS*: ASB, AUASB, CAASB, CICPA, CNCC-CSOEC, FAP, HKICPA, IDW, JICPA, MAASB, NBA, NZAuASB, UKFRC; *Accounting firms*: BDO, BT, CH-AU/NZ, DTT, EYG, GC, GTI, KI, KPMG, MAZARS, MNP, PKF, PKF(UK), PWC, PP, RSM, SNG, TL, WK; *Public sector organizations*: ACAG, AGA, AGC, AGM, AGNZ, AGQ, BC, GAO, NAOS; *Preparers*: BE, CNRL, Gof100-UK, PAIB; *Member bodies and other professional organizations*: ACCA, ASSIREVI, BICA, CAI, CalCPA, CGAC, CNDCEC, CPAA, CPRB/SCAG, DNR, EFAA, FACPCE, FAR, FEE, FSR, IBR-IRE, ICAA, ICAEW, ICAN, ICAP, ICAS, ICPAI, ICPAK, ICPAS, ICPAU, IMCP, KICPA, KWT, MICPA, NYSSCPA, SMPC, WPK, ZICA; *Academics*: AAA, HC, PGillis, UofW, VMassarygina; *Individuals and others*: CBarnard, DJuvenalMRejon, Flrungu, IChandra, JKelly, KPastakia, MAhmedi, RMahadevan, RRodil

<sup>5</sup> *Member bodies and other professional organizations*: ICPAS

<sup>6</sup> *Investors and analysts*: CalPERS, EUMEDION, ICGN; *Regulators and oversight authorities*: DFSA

<sup>7</sup> *Member bodies and other professional organizations*: FEE

<sup>8</sup> *Regulators and oversight authorities*: CSRC, HKFRC; *NSS*: CICPA; *Academics*: AAA

<sup>9</sup> *Regulators and oversight authorities*: ICAC

<sup>10</sup> *Regulators and oversight authorities*: JSE

- The more additional information that is provided in auditor reports, the more consistency becomes important because it helps make the information in auditor reports easier to find and understand.<sup>11</sup>
  - The goal of consistent and comparable auditors' reports is highly desirable, but is difficult to achieve because of the different legal and economic environments across jurisdictions, and the differences in entity-specific circumstances.<sup>12</sup>
    - Because each company is unique, professional judgment must be applied by management and auditors to ensure reports are appropriate to its unique circumstances.<sup>13</sup>
5. Some of those who supported the IAASB pursuing a goal of consistency in a revised reporting standard provided specific comments about consistency or comparability. Respondents noted that:
- A single global auditor's report is a laudable objective, but is unlikely to be practical given national variations in company law and business practice. Accordingly, NSS have an important role and should retain a certain degree of flexibility to decide how best to implement principles set forth by the IAASB.<sup>14</sup>
  - Global comparability is desirable, but not essential. NSS may balance the benefits of consistency with relevance to their national circumstances.<sup>15</sup>
  - Extant ISA 700 already allows for an appropriate level of consistency.<sup>16</sup>
6. In contrast, a few respondents<sup>17</sup> suggested that the IAASB should not seek global consistency in auditor reporting because:
- Different national and regional standard setters should be allowed to respond to the aims of the IAASB's suggested improvements in the way that best reflects their local governance and legal frameworks. Seeking global consistency may lead to irrelevant disclosures that do not respond to the nature and circumstances of the entity.<sup>18</sup>
  - It is likely that standardization of auditors' reports would be achieved at a lowest common denominator and this would unnecessarily restrict the flow of useful information to investors.<sup>19</sup>

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<sup>11</sup> *Investors and analysts: IMA*

<sup>12</sup> *Member bodies and other professional organizations: CGAC*

<sup>13</sup> *Investors and analysts: NAPF*

<sup>14</sup> *NSS: CAASB; Accounting firms: CCW-UK, ICAEW; Preparers: QCA*

<sup>15</sup> *Public sector organizations: AGA*

<sup>16</sup> *Regulators and oversight authorities: AFRC; NSS: CAASB, UKFRC; Accounting firms: CCW-UK*

<sup>17</sup> *Investors and analysts: HEOS, NAPF; Public sector organizations: CIPFA; Preparers: Gof100-A*

<sup>18</sup> *Investors and analysts: HEOS*

<sup>19</sup> *Investors and analysts: ABI*

### *Consistency versus Flexibility*

7. Views about the degree of consistency that should be required in auditors' reports ranged from a desire for maximum comparability in ISA auditors' reports aimed at promoting an ISA brand<sup>20</sup> to a suggestion that consistency in auditor reports should come from having common elements, and not necessarily the ordering of the elements.<sup>21</sup>
8. For example, one respondent<sup>22</sup> was of a strong view that, unless local law or regulation requires a departure from the structure, form, or wording of auditors' reports prescribed in the ISAs, the IAASB should not permit flexibility in structure, form, or wording of auditors' reports, with the exception of AC (which in principle will vary based on the nature of the matters included and the circumstances of the entity), the description of management, the identification of financial statements subject to audit, and the description of the applicable financial reporting framework. This respondent was also of the view that:
  - The description of auditor responsibilities under an ISA audit should be the same around the world, as should be the preconditions of an ISA audit with respect to management's responsibilities, regardless of local law or regulation.
  - Permitting flexibility to change the form, structure, or wording of the auditor's report beyond those items mentioned above would encourage NSS to diverge from the ISA structure, form, and wording and ultimately reduce harmonization of auditors' reports in the long run.
9. On the other hand, there was a view that the flexibility that currently exists under extant ISA 700 permitting jurisdictions to accommodate differences in auditor reports arising from local laws and regulations should be retained.<sup>23</sup> One respondent<sup>24</sup> suggested that a revised ISA 700 that is more prescriptive (i.e., with requirements to further prescribe a particular form, structure or wording for an ISA auditor's report) may give rise to irreconcilable conflicts between requirements of the reporting ISAs and the reporting requirements of national law and regulation. It was noted that this could result in a jurisdiction whose local auditing standards comply with the procedural/operational auditing standards of the IAASB being unable to comply with the ISAs that deal with auditor reporting.

### *Varying Views about the Meaning of Consistency*

10. Despite the support for consistency in auditor reporting, there continues to be varying views as to what consistency means in this context.<sup>25</sup> It will therefore be important for the TF and IAASB to

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<sup>20</sup> *Regulators and oversight authorities:* JSE; *NSS:* IDW; *Member bodies and other professional organizations:* FEE; *Individuals and others:* KPastakia

<sup>21</sup> *NSS:* ASB, UKFRC

<sup>22</sup> *NSS:* IDW

<sup>23</sup> *Regulators and oversight authorities:* CSRC; *NSS:* ASB, UKFRC

<sup>24</sup> *NSS:* UKFRC

<sup>25</sup> Respondents to the IAASB's May 2011 Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, also expressed varied views about the meaning of consistency in auditor reporting.

recognize these varying views and consider the potential effect on how a revised ISA 700 could be drafted.

11. Expectations as to the level of consistency that is likely to exist under the application of extant ISA 700 vary, and depend on whether the law or regulation addressing the form and content of the auditor's report of a particular jurisdiction requires:
- An explicit reference to the ISAs, whereby the structure and format regardless of jurisdiction or size would likely be the same (that is, an "ISA 700 Auditor's Report"); or
  - A reference to national auditing standards that are based on ISAs. In such a case the reporting elements would be recognizable when compared to an "ISA 700 Auditor's Report," but across the board there would be less consistency because of additional national requirements (that is, an "Auditor's Report that Complies with ISA 700").

#### *Views about How to Achieve Consistency in Auditors' Reports*

12. Although the ITC did not specifically ask about how the IAASB should draft reporting requirements aimed at achieving a goal of global consistency in auditors' reports, suggestions were provided as follows:
- Mandate required elements, including headings, and certain contents thereof for all reports, allowing jurisdictions to further tailor auditors' reports only to the extent necessary to adhere to reporting requirements or practices resulting arising from local law or regulation.<sup>26</sup>
  - Mandate ordering in a manner similar to that which was presented in the illustrative auditor's report included in the ITC.<sup>27</sup>
  - Present non-ISA elements of the auditor's report (i.e., additional auditor reporting requirements prescribed by local law or regulation) in a separate section that is clearly distinguishable to allow for comparability across jurisdictions.<sup>28</sup>
  - Work closely with the EC, PCAOB and others to further influence a global solution to the perceived deficiencies in auditor reporting. Recognizing that auditors' reports are read globally, those who share this view suggest that a more coordinated approach among these groups and the IAASB will further drive consistency in auditor reporting, thereby making auditor reporting more comparable.<sup>29</sup>

#### **Views about the Structure of the Illustrative Auditor's Report in the ITC**

##### *The Pass/Fail Model*

13. There continues to be explicit support from respondents<sup>30</sup> for retaining the pass/fail model of the current standard auditor's report. The pass/fail model of the current auditor's report is described as

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<sup>26</sup> *Investors and analysts: IMA; NSS: IDW; Accounting firms: EYG*

<sup>27</sup> *NSS: IDW; Accounting firms: DTT*

<sup>28</sup> *Investors and analysts: IMA, Accounting firms: EYG, PP, PWC*

<sup>29</sup> *Investors and analysts: CalPERS; Regulators and oversight authorities: CPAB; Accounting firms: PWC*

an unambiguous communication that continues to have value and the IAASB was cautioned against changes that may “detract or obscure” the fundamental message about whether an entity’s financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework.

### *Positioning of the Auditor’s Opinion*

14. Specific to the structure of the auditor’s report, the majority of respondents<sup>31</sup> expressed support for positioning the auditor’s opinion first because it is “the fundamental point of the audit”. However, there were also respondents,<sup>32</sup> including a few investors and regulators, who did not support positioning the auditor’s opinion first, noting that:
  - The placement of the auditor’s opinion is not important as long as it is clear, understandable and identifiable. The IAASB’s focus on strengthening the content of the auditor’s report through inclusion of more entity-specific information based on the auditor’s work and findings is more vital for institutional investors.<sup>33</sup>
  - Presenting the auditor’s opinion first may lead readers to lose interest in other content of the auditor reports that a few respondents<sup>34</sup> believe is equally important in order to have a complete understanding of the auditor’s opinion.
15. It can be inferred that preference for the placement of information in the auditor’s report is influenced by cultural, social and economic factors. Analysis of the comment letters indicates that respondents from the Asia Pacific region and Canada were generally less supportive of the revised structure of the auditor’s report, noting that it would not achieve the objectives of narrowing the expectations and information gaps if users did not read beyond the auditor’s opinion.
16. Two respondents<sup>35</sup> indicated that moving the auditor’s opinion to the beginning of the auditor’s report, immediately followed by the AC section, negatively affects the auditor’s ability to keep all conclusions, such as those related to other information and going concern, in close proximity to the

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<sup>30</sup> *Regulators and oversight authorities:* BSBC, CPAB, IOSCO; *Accounting firms:* BT, PKF(UK), RSM; *Member bodies and other professional organizations:* FEE, ICAEW; *Academics:* BCEM, PGillis

<sup>31</sup> *Investors and analysts:* ABI, CalPERS, IMA, NAPF, SAAJ, SLI; *TCWG:* IBGC, IIA, OECD; *Regulators and oversight authorities:* AFRC, BCBS, CPAB, CSA CAC, CSIPPC, DFSA, EAIG, EBA, IAIS, ICAC, JSE, WB; *NSS:* AUASB, CAASB, CNCC-CSOEC, FAP, HKICPA, JICPA, NBA, NZAuASB, UKFRC; *Accounting firms:* BDO, BT, CCW-UK, DTT, EYG, GTI, KI, KPMG, MAZARS, PKF(UK), PP, PWC, RSM, TL; *Public sector organizations:* ACAG, AGA, AGM, AGNZ, BC, CIPFA, GAO, NAOS; *Preparers:* BE, CNRL, PAIB, Gof100-UK, QCA; *Member bodies and other professional organizations:* ASSIREVI, BICA, CAI, CalCPA, CGAC, CNDCEC, CPAA, CPRB/SCAG, DNR, EFAA, FACPCE, FAR, FEE, FSR, IBR-IRE, ICAA, ICAEW, ICAN, ICAP, ICAS, ICPAK, ICPAS, ICPAU, KICPA, KWT, MICPA, ZICA; *Academics:* HC, PGillis, RMoroney, UofW, VMassarygina; *Individuals and others:* CBarnard, DJuvenaIMRejon, RRodil

<sup>32</sup> *Investors and analysts:* EUMEDION, ICGN; *TCWG:* AICD; *NSS:* ASB, CICPA; *Regulators and oversight authorities:* CSRC, HKFRC, IRBA; *NSS:* IDW; *Accounting firms:* CH-AU/NZ, GC, MNP, SNG, WBLI, WK; *Public sector organizations:* AGC, AGQ, CNAO; *Member Bodies and other professional organizations:* ACCA, ICAI, ICAN, ICPAI, IMCP, NYSSCPA, WPK; *Academics:* KJamalSSunder, *Individuals and others:* Flrungu, JHodgeZMurray, KPastakia

<sup>33</sup> *Investors and analysts:* EUMEDION, ICGN

<sup>34</sup> *Regulators and oversight bodies:* HKFRC; *Accounting firms:* GC; *Public sector organizations:* AGM; *Member bodies and other professional organizations:* ICAN; *Individuals and others:* KPastakia

<sup>35</sup> *Public sector organizations:* AGC, AGQ

auditor's opinion. A suggestion was made to have the auditor's opinion and other conclusions and opinions (including those required by local law and regulatory requirements) positioned in a section before the AC section to clearly distinguish them from other explanatory content in the auditor's report.<sup>36</sup>

17. Other suggestions made with respect to the structure of the auditor's report include:
- Changing the ITC illustrative auditor's report:
    - Moving disclosures about other auditors involved in audit after the signature and date on the auditor report
    - Positioning the auditor's opinion towards the end of the auditor's report
    - Removing standardized text that describes the auditor's responsibilities to a website or appendix (to be explored further by the TF as this was a specific question in the ITC)
  - Repositioning the AC section and the description of the respective responsibilities of management, TCWG and the auditor to an appendix, in response to concerns that the illustrative report in the ITC was too long.

#### *Ordering of the Elements in Auditor Reports*

18. Many respondents<sup>37</sup> from all stakeholder groups (including investors and analysts) supported mandating the ordering of the elements in auditors' reports in a manner similar to that in the ITC illustrative auditor's report. As noted above, mandating ordering was presented as a feasible way of achieving consistency in auditors' reports. However, respondents' views about ordering of the elements in auditors' reports beyond what is already captured in paragraphs 12-17 above range from:
- Auditor reports that result from an ISA audit should have a consistent "look and feel"<sup>38</sup> to allow users the ability to easily recognize, compare and understand these reports, irrespective of the jurisdiction of origin.
  - Mandating the elements of auditor reports, use of titles, headings and subtitles enables information to be clearly recognizable and retrievable. Thus mandating the elements, including the use of titles, headings and subheadings is more important than mandating the ordering of those elements. NSS should be permitted flexibility to order of the elements based on local jurisdictional needs.<sup>39</sup>

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<sup>36</sup> NSS: NBA, NZAuASB, UKFRC; *Public sector organizations*: AGC, AGQ

<sup>37</sup> *Investors and analysts*: CalPERS, GCSPS, HEOS, IMA, NAPF, S&P, SLI; *TCWG*: IIA; *Regulators and oversight authorities*: CPAB, CSA CAC, CSIPPC, HKFRC, IAIS, ICAC, IRBA, JSE; *NSS*: CAASB, HKICPA; *Accounting firms*: DTT, PWC, TL; *Public sector organizations*: AGM, NAOS; *Preparers*: Gof100-UK, PAIB, QCA; *Member bodies and other professional organizations*: ASSIREVI, CPAA, FACPCE, FAR, IBR-IRE, ICAN, ICPAK, ICPAU, KICPA, KWT, MICPA, WPK; *Individuals and others*: CBarnard, DJuvenalMRejon, Flrungu, IChandra, RMahadevan, ROverweg

<sup>38</sup> *Member bodies and other professional organizations*: KICPA

<sup>39</sup> NSS: ASB

19. Further, some respondents discouraged mandating the ordering of elements in the auditor's report, noting that the:
- IAASB should encourage consistency in, but not mandate, the ordering of, auditor reporting elements by, for example, avoiding prescriptive requirements, and instead providing helpful guidance in the form of illustrative auditors' reports in the revised auditor reporting standards.<sup>40</sup>
  - Benefits of mandating the elements of auditor reports would be outweighed by the disadvantages of reducing flexibility.<sup>41</sup>
  - Inclusion of illustrations in the ISAs tends to be viewed by auditors and regulators as how matters should be addressed, thus while they are likely to be helpful initially, over time, there is a tendency for them to limit experimentation in the presentation and content of reports.<sup>42</sup>

### **Special Considerations for SMEs and Public Sector Entities**

20. Additionally, there are varying views as to whether auditors' reports for all entities within a particular jurisdiction should be consistent irrespective of the size or type of entity. Many respondents<sup>43</sup> expressed a view that auditors' reports of certain entities (for example SMEs, public sector entities, and investment companies) should be exempted from at least some of the improvements featured in the ITC, in particular AC. Those respondents noted that the:
- Information in the ITC illustrative auditor's report, particularly the AC section, would have less relevance for non-listed entities, particularly SMEs, as users can more readily obtain information directly from management and TCWG;
  - The cost of implementing the suggested improvements may exceed the value that users of SME financial statements may ascribe to these improvements; and
  - Cultural barriers exist among SMEs in certain jurisdictions that make SMEs fearful of disclosing certain type of information, and among auditors who may be resistant to change.
21. However, there were also many respondents<sup>44</sup> who were of the view that the IAASB's suggested improvements featured in the ITC illustrative auditor's report should be applicable to audits of all

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<sup>40</sup> *Accounting firms:* EYG

<sup>41</sup> *Investors and analysts:* ABI

<sup>42</sup> *Preparers:* Gof100-A

<sup>43</sup> *Investors and Analysts:* ABI, BR, HEOS; *TCWG:* AICD, IBGC; *Regulators and oversight authorities:* CSA CAC, CSRC, DFSA, HKFRC; *NSS:* ASB, CAASB, CICPA, FAP, HKICPA, MAASB; *Accounting firms:* BDO, BT, CB, CCW-UK, DTT, EYG, GC, KPMG, MNP, RSM, SNG, SRA, TL, WBLI; *Public sector organization:* ACAG, AGC, AGM, AGNZ, AGQ, CIPFA, RD; *Preparers:* QCA; *Member bodies and other professional organizations:* ACCA, ASSIREVI, CAI, CGAC, CPAA, CNDCEC, DNR, EFAA, FACPCE, FAR, FEE, FSR, IBR-IRE, ICAA, ICAEW, ICAN, ICAP, ICAPS, ICAS, ICPAK, ICPAU, IMCP, JICPA, KIPCA, SMPC, WPK, ZICA; *Academics:* UofW, VMassarygina; *Individuals and others:* RMahadevan, ROverweg

<sup>44</sup> *Investors and analysts:* CalPERS, GCSPS, NAPF, S&P, SLI; *TCWG:* IIA; *Regulators and oversight authorities:* CPAB, CSIPPC, IAIS, IRBA; *NSS:* AUASB, CNCC-CSOEC, IDW, NZAuASB; *Accounting firms:* GTI, KI, MAZARS, PKF, PKF(UK), PP, PWC, WK; *Public sector organizations:* AGA, BC, NAOS; *Preparers:* PAIB; *Member bodies and other professional*

entities. Those respondents noted that, in principle, a revised auditor reporting standard could be applied proportionately across entities of different types and sizes, as is currently the case with extant ISA 700. Those holding this view note that investors in SMEs may likely have an interest in receiving relevant information about the audit even if the actual volume of specific information may be less than would be required for listed entities or public interest entities (PIEs).<sup>45</sup>

22. With respect to public sector entities, respondents noted that:
- An AC section may duplicate information that is already required of public sector auditor reports in certain jurisdictions.<sup>46</sup>
  - As a consequence of the sovereign debt crisis, there is a growing need to improve financial reporting of public sector entities from the perspective of private sector users and improvements in auditor reporting would be welcome.<sup>47</sup>
  - Further consultation is required with public sector entities to determine whether the IAASB's suggested improvements would be appropriate for them.<sup>48</sup>

### **Navigating a Possible Way Forward**

23. ISA 700 was developed recognizing the desire for consistent and comparable auditors' reports. It notes that consistency in auditors' reports, when the audit has been conducted in accordance with ISAs, makes them readily identifiable as audits that have been conducted in accordance with globally recognized auditing standards. Such consistency facilitates the user's understanding of the auditor's report and helps to identify unusual circumstances when they occur.<sup>49</sup>
24. It has not been easy to achieve the spirit of consistency promoted by extant ISA 700. This is because paragraph 43 of extant ISA 700, often referred to as an "exemption paragraph", permits compliance when law or regulation of a specific jurisdiction require the use of a specific layout or wording of the auditor's reports. As acknowledged by a few respondents,<sup>50</sup> this paragraph helps alleviate tension that might likely exist between achieving a goal of international consistency in auditors' reports and the need to cater for national circumstances (such as jurisdictional law, regulation or national corporate governance regimes that specifies the content and layout of auditor reports).
25. At previous meetings, including in [September 2012](#), the IAASB considered:
- To what extent a goal of global consistency in auditor reporting should be pursued;

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*organizations:* BICA, ICAC, KWT, MICPA, NYSSCPA; *Academics:* AAA; *Individuals and others:* CBarnard, DJuvenalMRejon, Flrungu, JKelly, KPastakia, RRodil

<sup>45</sup> *Investors and analysts:* SLI; *Member bodies and other professional organizations:* ACCA

<sup>46</sup> *NSS:* NZAuASB; *Public sector organizations:* ACAG, GAO

<sup>47</sup> *Public sector organizations:* ACAG

<sup>48</sup> *Member bodies and other professional organizations:* ICAN

<sup>49</sup> See ISA 700, paragraph 4.

<sup>50</sup> *Regulators and oversight authorities:* IRBA; *NSS:* IDW, UKFRC

- What the appropriate level of prescriptiveness in drafting an IAASB auditor reporting standard should be – for example, whether the requirements in a revised ISA 700 should be more prescriptive about 1) what information should be included in auditor reports, and 2) how such information, including titles and subtitles, should be ordered; and
  - How to achieve the right balance between having consistency in auditor reporting and allowing jurisdictions the flexibility to further tailor requirements aimed at making auditors' reports more relevant in the content of their national financial reporting regime.
26. On balance, there is strong steer for the IAASB to further refine its BB approach to achieve the appropriate balance of having auditors' reports that are comparable across jurisdictions, while permitting jurisdictions the right level of flexibility to explore solutions within the context of their jurisdictional frameworks for more informative and relevant auditors' reports.
27. According to one respondent,<sup>51</sup> the coordinated efforts of the IAASB with regulators and standard setters will be critical to the acceptance and implementation of robust improvements to auditor reporting that will provide real value to investors and other users of financial statements. In exploring consistency in auditor reporting, it will also necessary to explore global consistency in the accounting/financial reporting and corporate governance frameworks, because they affect the content of auditor reports.<sup>52</sup> Along those lines, it may be necessary for the TF to explore ways of providing guidance within a revised reporting standard to illustrate how certain frameworks in different jurisdictions, such as the Effective Company Stewardship framework of the UKFRC, the "justification of assessments" as is required by law in France, or financial reporting frameworks other than International Financial Reporting Standards (IFRSs), can be accommodated under the BB approach.

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<sup>51</sup> *Investors and analysts: CalPERS*

<sup>52</sup> *TCWG: GSaucier*

**Matters for IAASB Consideration**

1. Taking into account the responses to the ITC, the IAASB is asked to consider the following:
  - Should the degree of flexibility that exists under extant ISA 700 (paragraph 43) be retained?
  - Should the elements of auditor reporting necessary for compliance with the ISAs be expanded and enhanced?
  - Should the elements, including the use of titles, headings and subheadings of ISA auditor reports be consistent, unless local laws or regulation prescribe otherwise? If yes, does the IAASB agree that the ordering of those elements, including the use of titles, headings and subheadings should **not** be mandated?
  - What additional steps could be taken by the IAASB to further coordinate and harmonize the efforts of others seeking solutions to improving auditor reporting, or from existing or evolving reporting regimes in other jurisdictions?

## Appendix

### Desire for Consistency in Auditor Reports When ISAs Are Used (Question 16 of the ITC)

**Note:** The following table is intended to depict the level of support for consistency in auditor reports when ISAs (or national auditing standards that incorporate or are otherwise based on the ISAs) are used, both on an overall basis and from a geographic perspective. It is intended to provide a directional steer on key issues and has been focused on those stakeholders that are primary participants in the financial reporting supply chain. The views of other respondents (academics, public sector organizations, member bodies and other professional organizations, and individuals and others) are included in the main paper.

Green indicates support for the concept, yellow indicates mixed views (including balancing support and lack of support from individual respondents within the category), and red indicates an overall lack of support for the concept. Blank boxes indicate no respondents fell into that particular category. The overall category is intended to be a summary of all regions.

	Investors and Analysts	Regulators and Oversight Authorities	National Standard Setters	Accounting Firms – Forum of Firms <sup>53</sup>	Accounting Firms – Regional and Smaller Firms	TCWG	Preparers
<b>Overall</b>							
<b>Organizations with a Global Mandate</b>							
<b>Asia Pacific</b>							
<b>Europe</b>							
<b>Middle East and Africa</b>							
<b>North America</b>							
<b>South America</b>							

<sup>53</sup> The Forum of Firms is an association of international networks of accounting firms that perform transnational audits. Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies. They are indicated with a \* on the list of respondents.