

IAASB

Auditor Reporting

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IAASB Consultative Advisory Group
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Agenda

- Overview
- Key Audit Matters / Proposed New ISA 701 (previously referred to as “Auditor Commentary”)
- Clarifications and Transparency Improvements and Resulting Proposed Changes to ISA 700
- Going Concern

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Overview

Feedback from the ITC

- Overwhelming response to ITC (165 comment letters!)
- Strong participation at our three roundtables in September and October 2012 (New York, Brussels and Kuala Lumpur)
- Broad support from stakeholders for various suggested improvements, but divergent views as to how best to proceed
 - The audit opinion is valued, but the auditor's report could be more informative
 - Users, in particular investors, want more relevant and decision-useful information about the entity, the financial statements, and the audit

Overview

Auditor Reporting – Looking Ahead

- Commitment to meet June 2013 Exposure Draft timetable, with final standards in June 2014
 - 5 Board meetings planned for 2013
 - Substantial allocation of Board and Staff time for Task Force and drafting meetings (2 Drafting Teams involving 9 Board Members)
- Represents a HUGE change in practice, but **CRITICAL** to the continuing perceived value and relevance of the profession
 - Essential that we achieve the intentions of the reporting reforms and realize their full benefit

Key Audit Matters / Proposed New ISA 701 (formerly referred to as “Auditor Commentary”)

Dan Montgomery

Auditor Commentary (AC) – Responses to the ITC

- With respect to the concept of AC, concerns raised include
 - Having auditors provide original information (such as subjective views or impressions) about the entity or the financial statements
 - AC being perceived by users as separate assurance, “piecemeal” opinions or hidden qualifications
 - The lack of a common definition of “public interest entities”
 - AC cannot solve all users’ information needs on its own
 - The need to retain EOM and OM paragraphs and clarify relationships to new concept of AC

IAASB Discussions to Date

New section to be required in the auditor's report for a listed entity in accordance with **new** ISA 701

Revised Title: **Key Audit Matters**

Revised Objective: **The objective of the auditor, having formed an opinion on the financial statements, is to communicate in the auditor's report those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements.**

*Matters to be included in **Key Audit Matters** will depend on auditor judgment*

Factors in Determining Key Audit Matters

- No required KAMs, but requirement to include a statement if auditor of a listed entity determines there is "nothing to report"
- Auditor uses professional judgment, taking into account the nature and extent of communications with TCWG, including
 - Whether the matter was a significant risk in accordance with ISA 315
 - The degree of difficulty encountered in obtaining sufficient appropriate audit evidence about the matter
 - The difficulty of the judgment involved relating to the matter
 - Whether the auditor identified a significant deficiency in internal control relating to the matter

Clarifications and Transparency Improvements and Resulting Proposed Changes to ISA 700

Bruce Winter

Presentation of the Auditor's Report

- Ordering of elements within the report will not be mandated
 - But illustrative report represents IAASB's preferred presentation, and requirements also structured in this manner
 - Flexibility in extant ISA 700 when law or regulation prescribes a specific layout or wording for the auditor's report retained
- Explicit statement of compliance with relevant ethical requirements will be required
 - But no ISA requirement to name the relevant ethical requirements or disclose breaches of independence requirements

Enhanced Descriptions of Responsibilities

- Specific wording would be required to describe the auditor's responsibilities
- Auditors permitted to include description of the auditor's responsibility in an Appendix to the auditor's report
 - ISA also addresses circumstances where law, regulation or national auditing standards allow for it to be relocated to a website

Disclosure of Engagement Partner's (EP) Name

- Recommendation that for listed entities the EP's name should be available to users of the financial statements
 - If otherwise unavailable publicly, the name of the EP would be required to be disclosed in the auditor's report
 - Law, regulation or national auditing standards may require disclosure of the name of the EP for other entities, including PIEs
- Seen as a balance between the public interest argument for having the name of the EP available in the public domain and legitimate concerns related to auditor liability

Going Concern
Bruce Winter

Going Concern

Responses to the ITC

- Encourage efforts towards a common global financial reporting solution in response to calls for a more “holistic” approach to GC
- Need to provide flexibility for application due to differences in management’s responsibilities under different financial reporting frameworks
- Concern that auditor reporting on GC might widen the expectations gap

Going Concern

Liaison with Accounting Standard Setters

- IAASB requested IASB to consider whether additional guidance about the identification and disclosure of material uncertainties would be useful
 - IFRIC discussed proposed revisions to IAS 1 at its January 2013 meeting
 - IASB considered these revisions at its March 2013 meeting and will further discuss
- Ongoing monitoring of US FASB work
 - Effects of FASB proposals on auditing standards being considered by US PCAOB and ASB

Implications: Changes in accounting standards may trigger a need for more substantive revisions to ISA 570, in particular if the threshold envisaged for EOM paragraphs is inadvertently changed or differs between the accounting standards

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Going Concern

IAASB Discussions to Date

- IAASB agreed to continue to explore auditor reporting on GC, in particular to further consider
 - How the work of accounting standard setters in the area of GC may affect the IAASB's proposals – at present, only limited amendments to ISA 570 planned
 - Whether the use of EOM paragraphs to highlight material uncertainties should be retained
 - Whether reporting on GC should be required for all entities or whether an approach based on the importance of GC considerations to the individual entity would be preferable
- Recognition of the importance that certain stakeholders (e.g., EC) attach to having explicit statements in the auditor's report relating to GC

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