



International Federation of Accountants

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Agenda Item

D.3

Committee: IAASB Consultative Advisory Group

Meeting Location: Toronto

Meeting Date: September 4-5, 2008

Report Back—IAASB Clarity Project – Auditors’ Reports – ISAs 700, 705, 706, 800, 805, 810

Objectives of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on the proposals of Representatives on the IAASB Clarity projects that deal with auditor’s reports discussed at the March 3-4, 2008 CAG meeting.
2. The IAASB intends to approve proposed ISA 700 (Redrafted),¹ proposed 800 (Revised and Redrafted),² proposed ISA 805 (Revised and Redrafted)³ and proposed ISA 810 (Revised and Redrafted)⁴ at its September 2008 meeting. ISA 705 (Revised and Redrafted)⁵ and ISA 706 (Revised and Redrafted)⁶ were approved by the IAASB at its June 2008 meeting, subject to PIOB confirmation that due process has been followed.

Report Back – March 3-4, 2008 CAG Proposals

3. Below are extracts from the minutes of the March 3-4, 2008 CAG meeting⁷ related to the discussions on IAASB’s Clarity projects, and an indication of how the IAASB Task Forces or the IAASB responded to the Representatives’ comments.

¹ Proposed ISA 700 (Redrafted), “Forming and Opinion and Reporting on Financial Statements.”

² Proposed ISA 800 (Revised and Redrafted), “Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.”

³ Proposed ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statements, Accounts or Items of a Financial Statement.”

⁴ Proposed ISA 810 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements.”

⁵ ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”

⁶ ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report.”

⁷ The minutes will be approved at the September 4-5, 2008 CAG meeting.

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IAASB CAG Agenda (September 2008)

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Report Back—Clarity – Auditors’ Reports – ISAs 700, 705, 706, 800, 805 and 810

Representatives’ comments	IAASB Task Force/IAASB response
<i>Proposed ISA 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements”</i>	
Consistency in the Auditor’s Report	
<p>The Representative commented as follows:</p> <ul style="list-style-type: none"> Ms. Sucher, presenting her view rather than that of IOSCO, noted that there is more merit in having a meaningful auditor’s report than having consistency in auditors’ reports. Mr. Scicluna, however, preferred consistency in auditor’s reports. He was concerned that readers may not be able to understand auditors’ reports if they were inconsistent. Ms. Todd McEnally was of the view that certain parts of the auditor’s report could be consistent, but that it would be helpful to have some flexibility to address critical concerns that the auditor may have about a particular audit. 	<p>The Task Force addressed the issue of consistency vs. flexibility in auditor’s report in F.2 of Agenda Item 11-A of the June 16-20, 2008 IAASB meeting. Based on conforming amendments as a result of ISA 580 (Revised and Redrafted),⁸ and responses to the exposure draft of proposed ISA 700 (Redrafted), the Task Force recommended that flexibility be introduced in the description of management’s responsibility for the financial statements in the auditor’s report.</p> <p>In addition, the IAASB accepted the Task Force’s recommendation that the requirements for auditors’ reports prescribed by law or regulation and for auditors’ reports for audits conducted in accordance with both national auditing standards and ISAs allow for flexibility when warranted, while retaining the principle of visibility of the authority that drives the different report wording or layout. Only minor amendments were proposed to clarify these requirements. See paragraphs 43-45 of Agenda Item 5-A of the September 15-19, 2008 IAASB meeting.</p>

Representatives’ comments	IAASB Task Force/IAASB response
<i>Proposed ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report”</i>	
<p>The Representative commented as follows:</p> <ul style="list-style-type: none"> Ms. Sucher noted that IOSCO was also of the view that the definition of “pervasive” is 	<p>In light of this and other comments received on exposure, the Task Force recommended that the definition of pervasive be revised to include a</p>

⁸ ISA 580 (Revised and Redrafted), “Written Representations.”

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Representatives’ comments	IAASB Task Force/IAASB response
<p>confusing. She supported the proposed reference to “fundamental to users’ understanding,” which would be more outcome orientated.</p>	<p>reference that, in relation to disclosures, pervasive effects on the financial statement are those that, in the auditor’s judgment, are fundamental to users’ understanding of the financial statements. IAASB supported the Task Force’s proposal,</p> <p><i>See B. of Agenda Item 14-A and paragraph 5(a) of Updated Agenda Item 14-C of the June 16-20, 2008 IAASB meeting.</i> The phrase “in relation to disclosures” was added as a result of the deliberations during the June IAASB meeting. The IAASB approved the final ISA at this meeting.</p>
<ul style="list-style-type: none"> Mr. Scicluna was concerned that the requirement for auditors to include disclosures that were omitted by management in the auditor’s report may be problematic in practice. 	<p>The IAASB supported the Task Force’s view that this matter went beyond the application of the clarity conventions. In finalizing the close off document of ISA 705 (Redrafted) and after lengthy debate, the IAASB concluded that it would be in the public interest for this requirement to be included in the ISA. In finalizing the ISA, the Task Force proposed that the requirement for the auditor to include the omitted disclosures in the auditor’s report be supplemented with a requirement to first discuss the non-disclosure with those charged with governance. It was thought that informing those charged with governance may then prompt management to include the omitted disclosures rather than the auditor having to do so. The IAASB supported this view in finalizing the ISA.</p> <p><i>See paragraph 48 of Agenda Item 14-A and paragraph 19 of Updated Agenda Item 14-C of the June 16-20, 2008 IAASB meeting.</i></p>

Representatives’ comments	IAASB Task Force/IAASB response
<p><i>Proposed ISA 706 (Revised and Redrafted), “Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor’s Report”</i></p>	
<p>Ms. Koski-Grafer noted that there was some confusion among the IOSCO representatives as to how an Other Matter(s) paragraph would be used, and</p>	<p>In light of this and other comments received on exposure, the Task Force recommended that further guidance on when an Other Matter paragraph may be</p>

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<p>whether the use of such a paragraph is rare.</p>	<p>considered necessary by the auditor be included in the ISA. In finalizing the ISA, the IAASB agreed the requirement relating to Other Matter paragraphs as follows:</p> <p>“If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities, or the auditor’s report and this is not prohibited by law or regulation, the auditor shall do so in a paragraph in the auditor’s report, with the heading “Other Matter”, or other appropriate heading.</p> <p>The Task Force did not believe that an Other Matter paragraph would necessarily be rare, in particular since other ISAs require the auditor to include an Other Matter paragraph in certain circumstances. This view was supported by a number of respondents to the exposure draft, as well as the IAASB.</p> <p>The IAASB agreed at its June meeting that, in order to respond to comments from respondents concerned about the interaction of the Other Matter paragraphs that were discussed in proposed ISA 700 (Redrafted) and those in this ISA, all requirements and guidance relating to Other Matter paragraphs should be included in ISA 706 (Revised and Redrafted). Additional guidance was developed to explain that the auditor may consider it necessary to include an Other Matter paragraph when reporting on more than one set of financial statements or when intending to restrict the distribution or use of the auditor’s report.</p> <p><i>See J.1 of Agenda Item 14-A of the June 16-20, 2008 IAASB meeting.</i> The IAASB approved the final ISA at this meeting. <i>See Updated Agenda Item 14-E of the June 16-20, 2008 IAASB Meeting.</i></p>
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Representatives’ comments	IAASB Task Force/IAASB response
<i>Proposed ISA 800 (Revised and Redrafted), “Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement”</i>	
Mr. Damant asked whether a true and fair / present fairly opinion can be expressed on a specific element, account or item of a financial statement. Ms. Hillier responded that the principle underlying ISA 800 is that it is possible if the element, account or item is prepared and presented in accordance with a fair presentation framework. She noted, however, that some respondents had questioned whether fair presentation frameworks, such as IFRS, contemplate “fair presentation” other than in the context of a complete set of financial statements, and whether a specific element, account or item prepared in accordance with the relevant requirements of such framework can achieve fair presentation.	<p>The Task Force recommended that the IAASB’s earlier decision to link the form of opinion to the applicable financial reporting framework not be amended at this stage.</p> <p>However, in response to the comments received, the IAASB agreed that the ISA should include additional special considerations relating to whether the framework applied in preparing the single financial statement or the specific element can be considered to be “fair presentation” framework for that purpose. See paragraphs 10 and A9 of Agenda Item 11-B of the September 15-19, 2008 IAASB meeting.</p>

Representatives’ comments	IAASB Task Force/IAASB response
<i>Proposed ISA 805 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements</i>	
Ms. Blomme was concerned about the form of opinion to be expressed on summary financial statements. She was of the view that the required work effort does not support the form of opinion. Mr. Damant also questioned referring to “fair,” while Mr. Ratnayake supported the reference to “fair summary.” Ms. Blomme was of the view that the fact that the ISA provides for flexibility with regard to prescribed auditors’ reports could be made clearer.	<p>The IAASB carefully considered (a) the concerns noted by the respondents to the exposure draft of proposed ISA 805 (Revised and Redrafted) (ED-ISA 805), (b) the fact that many of the respondents to the exposure draft of ISA 800 (Revised) (issued June 2005) and ED-ISA 805 indicated a preference for the existing wording, i.e., “consistent, in all material respects,” and (c) the fact that ED-ISA 805 permitted the auditor, in specified circumstances, to use wording for the opinion that is prescribed by law or regulation – which meant that the auditor could use “consistent, in all material respects.”</p> <p>Based on this consideration, the IAASB agreed that the ISA should permit both “consistent, in all material respects,” and “fair summary.” See paragraphs 9 and</p>

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	<i>A9 of Agenda Item 11-C of the September 15-19, 2008 IAASB meeting.</i>
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Representatives’ comments	IAASB Task Force/IAASB response
<i>General</i>	
Referring to the ISAs that deal with auditors’ reports, Mr. Karim was concerned that it may not be possible to reflect the finer nuances in translations of the standards.	At the meeting, Mr. Kellas responded that the IAASB takes great care to achieve the right nuance in the English version of the standards. He did not understand why this was not also possible in the translated versions. He noted that the exposure drafts of proposed standards include a question about translation of the text of the proposed ISA. Mr. Damant was of the view that the work of the “plain language expert” ⁹ also helps in this regard.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 5-A of the September 15-19, 2008 IAASB meeting – ISA 700 (Redrafted), “Forming and Opinion and Reporting on Financial Statements” <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4122>

Agenda Item 14-A of the June 2008 IAASB meeting – Summary of Significant Comments and Task Force Recommendations on proposed ISA 705 (Revised and Redrafted) and ISA 706 (Revised and Redrafted) <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3994>

Updated Agenda Item 14-C - Final wording of ISA 705 (Revised and Redrafted) as approved by the IAASB in June 2008 <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4075>

Updated Agenda Item 14-E - Final wording of ISA 706 (Revised and Redrafted) as approved by the IAASB in June 2008 <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4076>

⁹ This expert is contracted by the IAASB to review proposed standards to ensure that they are written in plain language, i.e., the text is complete and consistent, brief and concise, and clear.

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Agenda Item 11-B of the September 2008 IAASB meeting – ISA 805 (Revised and Redrafted), “Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement” <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4164>

Agenda Item 11-C of the September 2008 IAASB meeting – ISA 810 (Revised and Redrafted), “Engagements to Report on Summary Financial Statements” <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4165>