



International Auditing
and Assurance
Standards Board

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Meeting: IAASB Consultative Advisory Group

Meeting Location: Brussels

Meeting Date: March 6–7, 2012

Agenda Item

M

Auditor Reporting—Clarifications and Transparency

Objective of Agenda Item

1. To consider proposals relating to providing additional auditor commentary in the auditor's report.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper. Within this paper, reference is made to **Agenda Item M.1** to facilitate the discussion. Discussion of the general approach to the auditor reporting project is provided in **Agenda Item G**, and the project proposal approved by the IAASB in December 2011 is provided in **Agenda Item G.1**.

Background

1. The Clarifications and Transparency Sub-committee (Clarifications Sub-committee) was asked to address a number of related issues around some of the "boilerplate" or standardized language in the standard audit report. Specifically, this included:
 - *Clarifications:* Recognizing that any efforts to clarify technical terms will need to be combined with other changes to the auditor's report, and possibly educational initiatives, in order to represent a meaningful change to users, the subcommittee will:
 - Explore how technical terms in the auditor's report might be clarified and simplified to assist users' understanding of the fundamental concepts of an audit.
 - Consider and balance views that (i) further language could add unnecessary volume to the auditor's report without significant benefit; (ii) it may be difficult to reach common agreement as to the definition of certain terms because the application of judgment inherently underpins them; and (iii) previous attempts to clarify such wording did not improve the understandability or address the expectations gap in a measurable way.
 - *Transparency regarding the Audit Process:* The Clarifications Sub-committee will explore whether and, if so, how transparency about the audit process can be enhanced, for example by describing or identifying the name of the engagement partner and the role of any affiliated firm(s) that participated in the audit.
3. Paragraphs 29–30 of **Agenda Item G.1** provides further context to these calls for change, and proposed IAASB actions that may be appropriate in light of the comments received on the May 2011 Consultation Paper (CP) on auditor reporting and other relevant national initiatives.

4. Following on from the project proposal, **Agenda Item M.1** represents the Auditor Reporting Task Force's (TF) initial proposals in relation to providing additional clarifications of technical terms and transparency of the audit process. These proposals reflect the debates of the Task Force, informed by the discussions of the Clarifications Sub-committee, and will be considered by the IAASB for the first time at its upcoming March 2012 meeting. Accordingly, these proposals are at a preliminary stage, and are intended for discussion purposes only.

Summary of Proposals

Clarifications of Technical Terms

2. Recognizing the desire for a progressive June 2012 CP on auditor reporting, it is important that the CAG provides strategic input to the IAASB on the topic of auditor commentary in light of the TF's recommendations. The recommendations made by the TF include:
 - Clearer identification that notes to the financial statements are included within the scope of the audit – this provides users with a clearer view of what is covered by the opinion;
 - A mandatory, explicit statement of compliance with the ethical requirements, including independence requirements – while this will require further discussion with the IAASB and external parties, particularly with the International Ethics Standards Board for Accountants (IESBA), the Task Force believes that this should be highlighted at this stage so that the value and impediments can be further understood, and also noted that this would be responsive to both the European Commission (EC) and US Public Company Accounting Oversight Board (PCAOB) proposals;
 - Further elaboration of the meaning of:
 - Reasonable assurance;
 - Materiality;
 - The auditor's responsibility for fraud; and
 - The auditor's responsibility to evaluate the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Transparency of the Audit Process

Engagement partner signature/name of engagement partner

5. Mandatory disclosure of the engagement partner's name – consistent with the mandate to consider progressive options to improve transparency, the Task Force is recommending that this be considered and further discussed.

Role of affiliated firms, and others, in the audit

6. Given the support by some stakeholder groups for this proposal, the Task Force agreed to seek views on the value and implications of disclosing the role of affiliated firms, and others, in the audit.

Matter for CAG Consideration

CAG Representatives are asked for their views on:

1. The following proposed clarifications of technical language, and the values and impediments thereof:
 - The proposed description of a risk-based audit (see Appendix 1 of **Agenda Item M.1**).
 - The “preferred options” regarding descriptions of materiality, fraud and disclosures (see Appendix 2 of **Agenda Item M.1**).
2. Requiring the disclosure of the name of the engagement partner, and the values and impediments thereof.
3. Requiring disclosure of the role of affiliated firms and others, in the audit and the values and impediments thereof.
4. Whether there are other matters that the Representatives wish to raise relative to clarifications of technical language and the transparency of the audit process?

Material Presented – IAASB CAG PAPER

Agenda Item M.1	Auditor Reporting—Clarifications—Discussion of Issues and Illustrative Examples (IAASB March 2012 Agenda Item 4-D)
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