

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: September 11, 2012

Agenda Item F.1

Auditor Reporting

Objective of Agenda Item

1. To provide a report back on proposals of the Representatives on this project as discussed at the March 2012 CAG Meeting.

Project Status and Timeline

2. The Appendix to this paper provides a history of previous discussions with the CAG on this topic, including links to the relevant CAG documentation. In June 2012, the IAASB approved the *Invitation to Comment: Improving the Auditor's Report*, included as a CAG reference paper to this agenda item. The Invitation to Comment (ITC) sets out the IAASB's indicative direction proposed for the future auditor's report. It features a revised auditor's report that illustrates the application of the IAASB's suggested improvements to auditor reporting. The ITC also provides the IAASB's rationale for the suggested improvements, together with a discussion of their potential value and impediments, and in what areas feedback is sought.
3. The ITC is open for comment through October 8. Three roundtables are also being planned to solicit feedback on the IAASB's suggested improvements to auditor reporting described in the ITC. CAG Representatives have been asked to participate in the roundtables, which will be held in New York (September 10), Brussels (September 14) and Kuala Lumpur (October 8). Feedback from the formal responses to the ITC and from the roundtables will be considered by the Task Force and IAASB in developing exposure drafts (EDs) of revised standards for auditor reporting by June 2013.

March 2012 CAG Discussion

4. Below are extracts from the draft minutes of the March 2012 CAG meeting,¹ and an indication of how the project Task Force or IAASB has responded to the Representatives' comments. In accordance with the manner in which the project was discussed at the March 2012 meeting (i.e., divided into four subcommittees), separate tables are included below for each of the subcommittees, as well as a section addressing overall comments.

¹ The minutes will be approved at the September 2012 IAASB CAG meeting.

Auditor Reporting Overview (Agenda Item G)	
Representatives' Comments	Task Force/IAASB Response
OVERALL COMMENTS ON THE BASIS FOR, AND APPROACH TO, THE PROJECT	
Mr. Koktvedgaard commented on behalf of the CAG Working Group that they were impressed with the amount of work that the IAASB and staff have done in progressing the project forward and putting forth innovative thinking. Mr. Waldron agreed, noting that the use of subcommittees seems to have been effective for this purpose.	Support noted.
In relation to the responses to the May 2011 CP, Mr. Diomeda highlighted the relatively low number of responses from users of financial statements. He questioned whether there was sufficient evidence of a demand for more precise information in auditor's reports from investors as a basis for the project. Mr. Diomeda also expressed a concern that the IAASB will never be able to fully address the expectations gap or the information gap.	Mr. Montgomery responded that, although the responses from users was small in number (6 of 82), quite a few of the letters represented larger groups of investors. He also noted these responses were consistent with publicly available investor views on the topic of auditor reporting, for example responses to the PCAOB Concept Release on auditor reporting, and outreach activities conducted by the IAASB, PCAOB and other National Standard Setters (NSS) over the past three years. Mr. Montgomery explained that on this basis the IAASB believes it has a foundation to explore options to respond to demands from users, recognizing the challenges in terms of delivering a proposed solution that will strike an appropriate balance among the varying needs and views of a wide range of stakeholders.
Mr. Hallqvist believed that the root cause of the issue in auditor reporting stemmed from the symbiotic relationship that exists between management and auditors and insufficient independence and rigor among those charged with governance in the auditor appointment and oversight process. Mr. Hallqvist noted his view that in the U.S. there is not a separation of roles of CEOs and directors of companies in the corporate governance model and as such, management has a significant and undue influence on the activities of the audit committee, which in turn creates a challenge for the auditor to be truly independent.	Point accepted. The ITC acknowledges the need for consideration of the role of those charged with governance (TCWG), and improvements to corporate governance and financial reporting more broadly, as paramount to further meaningful change. In regard to auditor commentary, it also notes the role of TCWG in overseeing both management and the auditor. Finally, the IAASB is suggesting that the auditor's report include a description of the responsibilities of TCWG, tailored based on law, regulation or entity type.

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Representatives' Comments	Task Force/IAASB Response
	[See paragraphs 7, 38 and 85–86 of the ITC.]
Mr. Koktvedgaard expressed support for the Task's Force decision to initially explore options for change that are within the scope of the current audit, based on the acceptance to date of the ISAs. However, he noted that, as the proposals develop, the IAASB may conclude that there is a need to undertake new, separate projects in order to discuss a change or increase the work effort in certain areas to best address user demands.	Point accepted. The ITC acknowledges that the IAASB will reconsider its position on maintaining the current scope of an ISA audit if responses to the ITC indicate a pervasive need to do so in light of particular options for change in auditor reporting. [See paragraph 9 of the ITC.]
Mr. Koktvedgaard also expressed a view that fundamentally the reason for the project is the public's lack of trust of auditors. It is therefore conceivable that further clarification of the language and wording used in the auditor's report would help address the issue by providing further transparency about what is done in an audit. However, Mr. Koktvedgaard noted his view that demand for additional information by investors may be rooted more in concerns with the accounting and reporting framework, rather than a need to understand what the auditor did.	Point accepted. Mr. Montgomery noted that many respondents to the CP indicated a similar view, suggested that the IAASB work with the IASB and others to explore a holistic approach to enhancing auditor reporting, financial and corporate governance reporting as a whole. [See paragraphs 7–8 of the ITC.]
Mr. Stewart noted, as a personal view, that, while materiality is of interest to the IASB, the IASB agenda is full in the short term although their future work program was likely to focus on conceptual framework which may address materiality.	Point noted.
VALUE AND IMPEDIMENTS MODEL	
Mr. Koktvedgaard supported the use of the value and impediments model as a structured means of seeking feedback on the IAASB's proposals.	Support noted.
Citing concerns that changes in auditor reporting would raise audit fees, Mr. Waldron drew a parallel between the amount paid by companies for audit fees and the amount paid for CEO compensation. He noted that CEOs are highly compensated because there is a high value placed on what they do. He indicated that similarly investors place a high value on what auditors do, as their role is to act on behalf of	Point accepted. An overall question was included in the ITC focusing both on value and impediments of the IAASB's suggested improvements, including costs. In addition, for each of the suggested improvements to auditor reporting, respondents were asked to comment on the value and

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investors, and suggested that that value be reflected in their audit fees. Mr. Waldron encouraged the IAASB to continue to seek feedback on the matter of cost and investors' views on value.	impediments. [See the questions on pages 13–15 of the ITC.]
Mr. Pannier suggested that cost should not be considered an impediment in the IAASB's decision-making process. He noted that there is a lack of trust in the financial sector, and that the consequences go far beyond audit fees. He challenged the TF and the IAASB to be innovative and bold and to consider proposals that are both useful for investors and that will benefit the public as a whole.	Mr. Montgomery commented that the concept of impediments was not limited only to cost, and reiterated the TF's view that options would not be excluded solely on the basis of actual or perceived high "cost," as such options may have high value. However, he noted that cost implications cannot be ignored, because of concerns raised on consultation particularly among SME Representatives. Mr. Montgomery explained the need for ongoing dialogue, in particular with users, to share the IAASB's preliminary thinking on its proposals to seek feedback as to whether the proposals would meet their information needs. [See paragraph 16 and Appendix 1 of the ITC.]
SPECIFIC ASPECTS OF THE PROJECT ²	
Mr. Koktvedgaard noted the CAG Working Group's support for the Building Blocks approach. In the Working Group's view, global agreement is needed on the structure of the auditor's report, with the pass/fail nature of the auditor's report retained as an international concept. He supported the concept of fundamental elements in all auditors' reports to respond to demands from preparers, users and others for comparability.	Support noted.
Messrs. Koktvedgaard and Morris, in supporting the TF's approach to the project, expressed the view that the topic of insights would be the most difficult to progress forward. Mr. Morris suggested that the IAASB seek to finalize its position and recommendations in the other subcommittee areas in	Point accepted. The ITC includes suggested improvements in areas considered by all four subcommittees.

² Further discussion on matters specifically addressed by the four subcommittees were discussed as part of Agenda Items H, K, L, and M and are included in the respective report back tables below.

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Representatives' Comments	Task Force/IAASB Response
advance of the June 2012 consultation, in order to effectively consult on those matters and allow ample time to further debate issues relating to insights.	
Mr. Kuramochi expressed strong support for the TF's general approach. Drawing from IOSCO's own outreach activities, he noted that investors have expressed a need to know more about the findings from particular audit procedures performed. Furthermore, they have generally challenged the value of the auditor's report absent of auditor insights.	Point accepted. [See paragraphs 35–38 of the ITC for a summary of investor views based on the IAASB's May 2011 consultation paper on auditor reporting and the TF's consideration of other bodies' outreach activities, including IOSCO.]
Mr. Peyret expressed a view that generally auditors know less than management and that often management is resistant to providing more information, particularly as it relates to the type of information that investors are looking for in the auditor's report. He suggested the need for the TF to give further consideration to the practical challenges involved in the auditor providing more information in auditor's reports, in light of what management has consciously chosen not to disclose. He recommended that the TF specifically consider whether it is appropriate that auditors will need to deal with the tension that will inevitably result if auditors are to provide their views about the entity in the auditor's report, or whether this role is better left to regulators and enforcement authorities.	Mr. Montgomery agreed that providing auditor insights will prove challenging, in relation to identifying potential matters than auditors may describe more fully in the auditor's report, what should be said about those matters (in particular in relation to the auditor's judgment and processes) and the criteria needed to help auditors determine the nature and content of auditor insights. [See paragraphs 38 and 62–64 of the ITC.]
PROJECT TIMELINE, OUTREACH AND CONSULTATION	
Mr. Kocktvedgaard noted that the 2013 timeframe might be too late in light of the PCAOB's pending proposals in June 2012 and the EC November 2011 proposals. He suggested that the TF and the IAASB give further consideration to accelerating planned deliverable dates to better align with the timetable of others. He also expressed a concern with the timing of the September 2012 CAG meeting in light of the project timetable and suggested further consideration was needed on how the IAASB's December 2012 debates would need to be taken into account by the CAG. Ms. de Beer agreed, noting the matter would be further considered	Point taken into account. The IAASB is of the view that the June 2012 ITC will enable it to best progress EDs of revised standards by June 2013. To accelerate this development, the IAASB has scheduled an additional meeting in February 2013, and has rescheduled the CAG and IAASB meetings from March 2013 to April 2013. The IAASB Chairman, TF Chair and others continue to participate in dialogue with the PCAOB and EC to consider the implication of their

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after the June 2012 IAASB meeting.	<p>timing on the IAASB's work.</p> <p>The TF Chair and Staff intend to liaise with the CAG Working Group on Auditor Reporting in advance of both the December 2012 and February 2013 IAASB meetings. The TF Chair and Staff, in conjunction with the CAG Chairman, will also consider the broader implications of the timing between CAG meetings as necessary.</p>
Mr. Hallqvist suggested further discussion with ICGN's Accounting and Auditing Practices Committee would be appropriate.	<p>Point accepted.</p> <p>Outreach with this and other related groups is being considered.</p>
Mr. Uchino was of the view that there is a need for the IAASB and auditors generally to educate users, in particular investors and company managers, about what an audit is. He also suggested that the concepts of professional skepticism and the need for transparent communication between auditors and preparers should be further emphasized in outreach and education.	<p>Point taken into account.</p> <p>The ITC acknowledges that, beyond the description of the auditor's responsibilities in the auditor's report, there may be better ways of educating users about the audit.</p> <p>[See paragraph 83 of the ITC.]</p>

Insights ³ (Agenda Item H)	
Representatives' Comments	Task Force/IAASB Response
CRITERIA FOR DETERMINING MATTERS ON WHICH TO PROVIDE AUDITOR INSIGHTS	
While expressing support for the concept of auditor insights, Mr. Robberecht questioned what was intended by "significant audit effort" in the proposed criteria, for example whether this was linked to the number of hours spent on a particular issue.	<p>Point taken into account.</p> <p>Mr. Montgomery explained that the intent of basing the requirement on significant audit effort and significant auditor judgment was to highlight that matters to be addressed in auditor insights were likely those that required significant discussions with management and TCWG and related to a significant number of hours. He</p>

³ Subsequent to the March 2012 CAG meeting, the IAASB agreed that "Insights" should be referred to as "Auditor Commentary."

Insights ³ (Agenda Item H)	
Representatives' Comments	Task Force/IAASB Response
	<p>agreed with Mr. Robberecht's view that such effort would likely be undertaken by more senior members of the engagement team, and that guidance to support this requirement would be useful. Mr. Montgomery cautioned however that the content of auditor insights should do more than simply itemize areas that required significant work effort. Auditor insights should explain why the matter was considered to be an area of significant auditor judgment (for example, due to the complexity of the underlying process or the use of a model).</p> <p>The IAASB's discussions following the March 2012 CAG meetings have moved away from the concept of "significant audit effort" and now focus on a broader objective of providing 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. The ITC notes that there are likely certain matters that auditors should consider in determining whether to include auditor commentary – this will be further considered by the TF in light of responses to the ITC.</p> <p>[See paragraphs 45–47 of the ITC.]</p>
<p>Mr. Hines supported the proposed criteria, noting his view that areas of significant audit effort should be indicative of areas of significant risks in the financial statements. In particular in relation to estimates, Mr. Hines was of the view that auditor insights about management's approach and basis for their decisions would be useful in light of users' focus on estimation uncertainty.</p>	<p>Mr. Montgomery responded that the Subcommittee explored focusing on significant risks, but recognized that some users who are interested in knowing more about the significant risks in the financial statements are referring to broader risks and uncertainties described in the financial statements, not necessarily the risks of material misstatement. Accordingly, the TF believed the proposed criteria should be sufficiently flexible to allow auditors the ability to discuss matters other than significant risks should they believe it is necessary to do so.</p> <p>[See paragraphs 35–38 and 43–45 of the ITC.]</p>

Insights ³ (Agenda Item H)	
Representatives' Comments	Task Force/IAASB Response
<p>Mr. Ratnayake expressed the view that it is important for the auditor's report to provide more information about management's judgments made in preparing the financial statements and that it would be particularly useful to indicate the areas that are likely to be affected by management bias and unusual transactions, rather than simply explaining the conduct of the audit.</p> <p>Mr. Koktvedgaard expressed concern about the possibility that auditor insights could include information about management's judgment. He noted that while users may find such information interesting, doing so may lead to questions about whether the auditor's opinion was near to being qualified.</p>	<p>Point accepted.</p> <p>The dual focus of auditor commentary of matters likely to be important to users' understanding of the financial statements or the audit is intended to provide for auditors to include this information.</p> <p>[See paragraph 42 of the ITC.]</p> <p>Point taken into account.</p> <p>The IAASB is suggesting that, within the auditor commentary section, introductory language could be included to note that certain matters are highlighted without modifying the auditor's opinion.</p> <p>[See paragraph 50 and the illustrative report in the ITC.]</p>
<p>Mr. Grund suggested the IAASB will need to determine the overall goal of the auditor insights. In his view, it is to increase users' trust in the auditor's opinions. He suggested the IAASB should further explore the relationship between auditor insights and the auditor's opinion in considering what could be described in auditor insights to determine whether it would increase or decrease trust in that opinion.</p>	<p>Point taken into account.</p> <p>The IAASB believes auditor commentary would be a valuable means of providing additional information to users tailored to the facts and circumstances of the entity to supplement the auditor's "pass/fail" opinion, which users and others have said has value. Auditor commentary is not intended to be a substitute for the auditor expressing a qualified opinion or an adverse opinion, or disclaiming an opinion, when required by the circumstances of a specific audit engagement.</p> <p>[See paragraphs 18, 39 and 50 of the ITC.]</p>
<p>Ms. Blomme expressed strong support for the TF's work on proposed criteria and commended the Board for commencing and prioritizing the project and taking into account the need for flexibility at the national level.</p>	<p>Support noted.</p>
<p>Ms. Blomme highlighted the need for the IAASB to consider what the auditor should report externally in the auditor's report or to supervisors, as well as internally to TCWG, in</p>	<p>Point taken into account.</p> <p>Mr. Montgomery responded that the proposed criteria were intentionally broad to allow auditors</p>

Insights ³ (Agenda Item H)	
Representatives' Comments	Task Force/IAASB Response
<p>light of demands from users for additional information. Mr. Johnson noted in the U.K. and Europe there is a view that reports of TCWG should be expanded to provide the additional information that users are requesting, while in the U.S. there is a view that such information should come directly from auditors. Mr. Johnson, supported by Ms. de Beer and Ms. Koktvedgaard, added that auditors already discuss significant management judgments with TCWG, and that the IAASB may need to focus on improving communications with TCWG to enable TCWG to improve their external reporting and the auditor's report could make reference to these reports. Mr. Baumann noted that the PCAOB's update to their standard on communicating with TCWG was intended to serve as a basis for the auditor to consider what should be reported externally. Mr. White added that IAASB would likely need to prescribe what information needed to be communicated to TCWG and what must be communicated to the public, bearing in mind the possibility that investors may question why such matters were discussed internally but not reported externally.</p>	<p>flexibility in judgment and approach tailored to the circumstances of the engagement. Mr. Montgomery explained that the building blocks approach was intended to provide flexibility in the means by which the additional information is provided, and acknowledge the possibility that auditors may report on the completeness and accuracy of expanded reports of TCWG (i.e., the UK proposed approach as part of its Effective Company Stewardship initiative). He noted however that in jurisdictions where TCWG do not have a reporting responsibility it may be necessary for the auditor to provide such information.</p> <p>The ITC acknowledges the need for consideration of the role of TCWG, and improvements to corporate governance and financial reporting more broadly, as paramount to further meaningful change. In regard to auditor commentary, it also notes the role of TCWG in overseeing both management and the auditor.</p> <p>Appendix 4 of the ITC acknowledges that auditors may need to refer to reports issued by TCWG and include a statement about the reasonableness and completeness of that report.</p> <p>The IAASB anticipates the need for amendments to ISA 260⁴ to operationalize the suggested improvements to auditor reporting.</p> <p>[See paragraphs 7, 38, 43, and Appendix 4 of the ITC.]</p>
<p>Mr. Pannier, Mr. Ratnayake, and Mr. Waldron were of the view that the additional information that is sought by users should come from auditors, as TCWG do not have the wealth of information that auditors do as a result of the audit. Furthermore, the auditor is expected to act as an</p>	<p>Point taken into account (see response above).</p>

⁴ ISA 260, *Communication with Those Charged with Governance*

Insights ³ (Agenda Item H)	
Representatives' Comments	Task Force/IAASB Response
<p>agent for the investor and can provide insights on the reliability of the financial statements.</p> <p>They supported requiring auditor insights for all listed entities.</p>	<p>Support noted.</p>
<p>Mr. Morris noted that the determination of whether auditor insights should be required for listed entities would need to follow the decision on what may be required in the insights.</p> <p>He also expressed a concern that auditor insights may become boilerplate over time.</p>	<p>Point taken into account.</p> <p>The ITC proposes that auditor commentary would be required for public interest entities (PIEs), which includes all listed entities.</p> <p>[See paragraphs 51–54 of the ITC.]</p> <p>Point accepted.</p> <p>[See paragraph 63 of the ITC.]</p>
CONTENT OF AUDITOR INSIGHTS	
<p>Mr. Baumann noted that the questions and challenges that the TF identified are the same as those faced by the PCAOB staff on its auditor reporting project. Specifically, he questioned the feasibility and usefulness of having a discussion about audit procedures in the auditor's report because of the difficulty of summarizing procedures described in the ISAs in great detail.</p>	<p>Point taken into account.</p> <p>Some stakeholders have indicated that a description of procedures would be useful. As a result, the ITC includes five illustrative examples, two of which include a description of specific audit procedures performed in a particular area of the audit to solicit feedback on the usefulness of this information.</p> <p>[See paragraph 59 and Question 5 of the ITC.]</p>
<p>Mr. Johnson, supported by Mr. Hansen, noted that the purpose of the audit is to provide an opinion on the financial statements as a whole and expressed concern that providing more information in the auditor's report about the auditor's procedures could be misread as providing piecemeal opinions. Ms. de Beer noted that, in her view, users were more interested in what conclusions the auditor reached than the auditor's procedures. However, Mr. Waldron supported a description of procedures in the auditor's report.</p>	<p>Point taken into account.</p> <p>Mr. Montgomery noted that the proposed requirement addressing the content of auditor insights did not mandate the disclosure of the auditor's procedures in the auditor's report. He explained that the proposed requirement and application material guided the auditor to consider whether a description of the auditor's procedures, or a conclusion based on these procedures would enable users to understand the importance of such matters and the basis for the auditor's judgments (for example, to provide flexibility for auditor insights to address the French justification</p>

Insights ³ (Agenda Item H)	
Representatives' Comments	Task Force/IAASB Response
	<p>of assessments model).</p> <p>The ITC notes that users have expressed different views about the level of detail they wish to see in auditor commentary, and the IAASB will need to develop guidance for auditors to help them make informed judgments in determining the information (at an appropriate level of detail) to include in their auditor's reports. This will be done when the EDs are developed.</p> <p>[See paragraphs 36, 47–48 and 63 of the ITC.]</p>
<p>Mr. Kuramochi expressed the view that while investors may not find value in a description of the auditor's procedures in the auditor's report, this could add transparency to the audit process and could potentially change auditor behavior. Mr. Waldron suggested further dialogue with investors about the implications of including a description of the auditor's procedures would be useful. Mr. Kuramochi also noted a strong link between the auditor reporting project and the IAASB's project on audit quality. Mr. Diomeda cautioned that audit quality may be better addressed by the activities of oversight bodies.</p>	<p>Point taken into account.</p> <p>The ITC includes five illustrative examples, two of which include a description of specific audit procedures performed in a particular area of the audit to solicit feedback on the usefulness of this information.</p> <p>[See paragraph 59 and Question 5 of the ITC.]</p>
<p>Mr. Hansen noted that what was not done by the auditor is also very useful and suggested that disclosure about the auditor's overall audit approach may be more relevant to users, in particular users of SME auditor's reports, and in line with the EC proposals to discuss the balance of controls and substantive testing.</p>	<p>Point accepted.</p> <p>The concept of "matters of audit significance" described in the ITC is intended to include areas of significant auditor judgment in conducting the audit, for example the audit scope or strategy.</p> <p>[See paragraph 45 of the ITC.]</p>
<p>While supporting the criteria to discuss areas of audit emphasis, Messrs. Koktvedgaard and Waldron did not support the examples in Appendix 2. Mr. Waldron noted the PCAOB's roundtable on auditor reporting provided useful feedback as to what users are looking for in auditor insights to enhance these examples. Mr. Koktvedgaard suggested that plain language to convey the auditor's understanding of the entity's business and the audit responses to identified risks, summarized in a manner consistent with how auditors</p>	<p>Point accepted.</p> <p>Mr. Montgomery clarified that in developing the illustrative examples, the TF considered the point of view of the investor, and started with the U.S. Center for Audit Quality examples presented in response to the PCAOB's Concept Release, supplemented by the additional information that is typically included as part of the justification of assessments model used in France. He noted the</p>

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would communicate to an entity's board of directors would be more useful.	<p>TF believed it was necessary for the auditor to provide context for users to understand why the insights were being provided, and plans to further refine the examples and test them with stakeholder groups. (Mr. Waldron noted the CFA Institute would welcome the opportunity to do so.)</p> <p>The illustrative examples in the ITC were further refined to take into account feedback from the IAASB and the CAG. The ITC explains that these examples have been drafted in a manner that illustrates that auditor commentary will vary in terms of the number and selection of topics addressed and the nature in which they may be described, based on the auditor's judgment about what may be most important to users.</p> <p>[See paragraphs 58–59 and the illustrative auditor's report in the ITC.]</p>
Mr. Diomeda suggested that the TF be mindful of implications of varied content in auditor's reports on users' perception of the audit, particularly as it relates to SMEs.	<p>Point taken into account.</p> <p>The ITC acknowledges the view of the IFAC Small and Medium Practices Committee and others that differentiation in auditor reporting by size or type of entity alone is generally not appropriate, and runs contrary to the notion that "an audit is an audit."</p> <p>[See paragraphs 92–94 and Question 18 of the ITC.]</p>
OTHER MATTERS	
Mr. Hansen questioned whether the IAASB was exploring changes to better describe the auditor's responsibilities with respect to fraud detection. He noted investors' requests in this regard, as well as the EC proposals and the U.S. Department of Treasury Advisory Committee to the Auditing Profession's recommendation.	Mr. Montgomery noted that this was addressed by the Clarifications Subcommittee in Agenda Item M.
Mr. Waldron inquired about the TF's consideration of describing materiality in the auditor's report.	<p>Point taken into account.</p> <p>Mr. Montgomery noted that this was addressed by</p>

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	<p>Clarifications Subcommittee in Agenda Item M. However, the TF recognized that one option would be for auditor insights to address materiality if the auditor considered it necessary to do so.</p> <p>The ITC acknowledges that some users have suggested they would like to understand more about how the audit was conducted, and key judgments made by the auditor in planning the audit, such as materiality. The IAASB did not believe it was necessary to mandate disclosure of the materiality level(s) applied to the engagement for all auditors' reports. Auditors would not be precluded from doing so based on the overall objective of auditor commentary.</p> <p>[See paragraphs 36, 39, 42, and 45 of the ITC.]</p>

Going Concern/Other Information (Agenda Item K)	
Representatives' Comments	Task Force/IAASB Response
OPTIONS PROPOSED REGARDING GOING CONCERN	
<p>Mr. Grant outlined the options for consideration and explained that they included five options as follows:</p> <ol style="list-style-type: none"> 1. To require the inclusion in the auditor's report of a generic description of the responsibilities of the auditor under extant ISA 570 and of management regarding GC. 2. To require a conclusion in the auditor's report regarding the auditor's work under extant ISA 570, in addition to a generic description of the responsibilities of management regarding GC. 3. To require the auditor to provide auditor insights in the auditor's report regarding important matters relating to the entity's ability to continue as a GC. 4. To require the auditor to express an opinion on the entity's future viability. 5. To develop enhanced guidance in the ISAs regarding the use of Emphasis of Matter paragraphs (EOMs) to highlight material uncertainties regarding the GC assumption. <p>He noted that the TF's recommendation was for further exploration of Options 2, 3 and 5, and that these preferred options were not mutually exclusive.</p>	
Mr. Kuramochi noted that, in his view, an opinion on the future viability of the organization is very difficult for an	Point accepted.

Going Concern/Other Information (Agenda Item K)	
Representatives' Comments	Task Force/IAASB Response
<p>auditor to provide, and that the work expected of the auditor should be that required by ISA 570.⁵ He asked if the TF could further explain the EC proposals, and how they would affect ISA 570. Mr. Robberecht noted that the treatment of going concern is central to their auditor reporting proposals.</p>	<p>Mr. Grant responded by noting that while the words of the EC proposals seem to indicate a statement of viability, this is contradicted by other statements in the package of proposals. He indicated that the TF would like to meet with EC staff to further understand the EC's intentions. He further noted the statement by the EC staff in Agenda Item F that they were aiming for a conclusion on the appropriateness of the going concern basis of accounting under the existing standard, which is one of the aims of the TF proposals.</p> <p>The ITC notes the IAASB's suggested improvements in relation to going concern make explicit in auditors' reports the auditor's work effort required by ISA 570. However, the IAASB recognizes that including an explicit statement about the absence of material uncertainties may lead to a misinterpretation by users that the auditor is providing a conclusion about the entity's future viability. Accordingly, the illustrative report notes the auditor's statement is not a guarantee as to the entity's ability to continue as a going concern.</p> <p>[See paragraphs 24–27 of the ITC.]</p>
<p>Mr. Johnson noted that, in the case of the UK bank, Northern Rock, many commentators thought the business model was not appropriate, and asked whether any of the proposals would address this issue, particularly Option 5 noted in the agenda material.</p>	<p>Mr. Grant noted that Options 1, 2, 3, and 5 would not change existing ISAs, so the judgments would not change. That is to say, the options explored by the IAASB did not anticipate that the auditor's responsibilities in relation to going concern would explicitly address the appropriateness of the entity's business model.</p>
<p>Mr. White expressed concern with Option 2 in that, when a material uncertainty exists or in borderline cases, it gives more assurance than is warranted under the</p>	<p>Point taken into account.</p> <p>The IAASB is suggesting that auditors' reports include (i) a conclusion regarding the</p>

⁵ ISA 570, *Going Concern*

Going Concern/Other Information (Agenda Item K)	
Representatives' Comments	Task Force/IAASB Response
<p>circumstances. He supported either Option 3 or 5 to give insight into the appropriateness of the going concern assumption.</p>	<p>appropriateness of management's use of the going concern assumption; and (ii) a statement regarding whether, based on the audit work performed, material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern have been identified.</p> <p>The ITC acknowledges that there may be merit in the auditor describing in the auditor's reports significant judgments the auditor may have made, and audit procedures the auditor may have performed, in reaching a conclusion that no material uncertainty exists. When a material uncertainty exists, the auditor's statement would draw users' attention to where such material uncertainty is described in the financial statements.</p> <p>[See paragraphs 25, 29–31 and Question 9 of the ITC.]</p>
<p>Mr. Waldron supported the TF's preferred options, but noted that Option 2 was his least preferred option.</p>	<p>Point not accepted.</p> <p>The IAASB was of the view that Option 2 was most appropriate for all auditors' reports.</p>
<p>Mr. Hansen noted that the discussion under Agenda Item H had focused on users wanting to know more. Accordingly, he favored Option 5 as this would permit management to elaborate on what they are doing and the auditor can evaluate the reasonableness of management's proposals. He did not support Option 4, on the ground that it would not be practical, nor Option 3, as this was substantially the same as the EOM paragraphs required by the extant ISAs.</p>	<p>Points taken into account.</p> <p>The ITC explores whether one or more of these options would be appropriate. It also recognizes that providing additional guidance to supplement ISA 570 in relation to material uncertainties is likely to require coordination between the IAASB and the International Accounting Standards Board (IASB).</p> <p>[See paragraphs 25–34 of the ITC.]</p>
<p>Mr. Koktvedgaard questioned if Option 2 could be altered to include, in the opinion paragraph, "...and we agree with management's/those charged with governance (TCWG's) use of the going concern assumption." Ms. de Beer commented that this was a question of positioning that</p>	<p>Point taken into account.</p> <p>The illustrative report in the ITC suggests a separate section on Going Concern immediately following the Basis for Opinion paragraph that</p>

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would be addressed in Agenda Item L.	<p>notes "As part of our audit of the financial statements, we have concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate."</p> <p>[See page 9 of the ITC.]</p>
Mr. Baumann commented that a statement about the appropriateness of the going concern assumption when a material uncertainty existed, and an EOM paragraph included, might either confuse investors or give false comfort because it could be interpreted as "overriding" the significant doubt about the ability to continue as a going concern.	<p>Point taken into account.</p> <p>The IAASB agreed that additional value would be provided to users if the conclusion on the appropriateness of management's use of the going concern assumption was supplemented by a statement that material uncertainties have not been identified.</p> <p>[See paragraphs 26–28 and Question 8 of the ITC.]</p>
Mr. Johnson noted that issues that give rise to material uncertainties often relate to funding agreements and liquidity issues. He further noted as a practical matter, including "qualifying" type of language, i.e., the use of EOM paragraphs in the auditor's report with respect to going concern, usually triggers market reactions that leads to the liquidation of the entity.	<p>Point noted.</p> <p>The IAASB hopes to obtain further views as to the impediments of the auditor reporting on going concern through the ITC.</p> <p>[See Questions 8–9 of the ITC.]</p>
Mr. Stewart noted that the going concern assumption is fundamental to the financial statements and so special emphasis and assessment by the auditor is needed. He noted that pursuing Option 4 would give rise to piecemeal opinions on various matters, and the enhanced use of EOMs under Option 5 was preferable as it explains the less favorable aspects of going concern. Mr. Stewart also noted that IFRS has little guidance on anything other than the going concern basis of accounting, but noted that the concept of significant doubt may lead to impairment testing, albeit that these are discrete tests.	<p>Point taken into account.</p> <p>Mr. Grant responded that Option 5 would involve liaison with the IASB to determine if the language in ISA 570, which mirrors language in IFRS on "material uncertainties" and "significant doubt," could be amended to provide greater clarity. Ms. de Beer noted the link between the TF proposals on going concern and insights.</p> <p>[See paragraph 34 of the ITC.]</p>
Mr. Stewart and Mr. Baumann highlighted that the US accounting standards do not require management to assess if the going concern basis is appropriate, instead	<p>Point accepted.</p> <p>To place the auditor's statements in the auditor's</p>

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placing emphasis on disclosure of risks and uncertainties. Mr. Baumann highlighted that, under US accounting standards, auditors, rather than management, have the requirement to assess going concern and that this is a matter of ongoing dialogue between the PCAOB and the US Financial Accounting Standards Board. He noted that companies continue to perform their accounting on a going concern basis until the company has made a decision to enter liquidation.	report in the appropriate context, the IAASB is suggesting that a description of management's responsibilities with respect to going concern be included, tailored based on the applicable financial reporting framework. [See paragraph 32 of the ITC.]
Mr. Kocktvedgaard noted that, in some cases, it was difficult to distinguish comments about going concern from comments about business risks underlying the going concern assumption. He noted that further disclosure on business risks could be made in the financial statements, but this could become voluminous. He also noted that, in his view, the primary concern is with matters that do not rise to the level of a material uncertainty, and that further clarification from the TF would assist in understanding the scale of auditor responses, such as commentary, EOMs and qualifications.	Point taken into account. The ITC acknowledges that there may be merit in the auditor describing in the auditor's reports significant judgments the auditor may have made, and audit procedures the auditor may have performed, in reaching a conclusion that no material uncertainty exists. In addition, the ITC notes that the IAASB intends to explore whether additional guidance could be provided for auditors to supplement what is currently in ISA 570. This is likely to require coordination between the IAASB and the IASB because the phrase "material uncertainty related to events or conditions that may cast significant doubt..." is rooted in IFRSs. [See paragraphs 30–31 and 34 of the ITC.]
OTHER COMMENTS	
Mr. Hallqvist commented that, in his experience, sometimes a company is at a delicate stage and auditor insights on the matter would cause the company to fail. He noted that such questions are difficult for the audit committee to judge.	Point noted. Mr. Grant highlighted research in the UK that indicated that going concern EOMs were poor predictors of corporate failure, perhaps because the EOM encourages management and stakeholders to proactively address the issue.
Mr. Morris noted that the American Institute of Certified Public Accountants (AICPA)' Auditing Standards Board has adopted the clarified ISAs, but did not clarify the material on	Point noted.

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going concern. As the US Financial Accounting Standards Board has now determined that it will not draft a standard on going concern specifically, the AICPA is now accelerating work on their auditing standard on going concern, which may provide some useful proposals for the IAASB project.	
Mr. Diomeda noted that the focus needed to be in dealing with circumstances when it is difficult to determine if the going concern assumption is appropriate - to anticipate a bad result by judging the future outcomes. Accordingly, he did not agree with the EC proposal to require inclusion of a statement regarding going concern in all cases. He also noted that EOMs were permitted under extant ISA 700. ⁶	Point noted. Mr. Grant clarified that Option 5 involves an enhanced EOM, so it is a potential improvement from extant ISA 700.
Mr. Jusuf asked what the auditor's response should be if the auditor's opinion is appropriate without modification.	Point noted. Based on the IAASB's suggested improvements, the two going concern statements would be included regardless of whether the auditor's opinion was modified.
OTHER INFORMATION	
Mr. Grant explained that the four options explored by the TF included a generic description of the auditor's responsibilities under extant ISA 720 ⁷ regarding OI; a conclusion regarding the auditor's work under extant ISA 720; auditor insights regarding the auditor's work on OI; and an opinion on the OI. He highlighted the TF's preference was for a conclusion on this other information which would not go beyond the current responsibilities of the auditor.	
Ms. de Beer noted that many stakeholders already assume that auditors are providing an opinion on other information and therefore, making explicit what the auditor does with respect to other information would be very useful. Mr. Waldron agreed that such clarification would be useful and expressed a preference for Option 3.	Support noted. Point not accepted. The IAASB supported the TF's preference for a conclusion on other information, rather than

⁶ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

⁷ ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

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	<p>increasing the scope of an audit beyond current ISA 720 to provide an opinion on other information.</p> <p>[See paragraph 67 of the ITC.]</p>
<p>Mr. Kuramochi noted that some IOSCO members are of the view that it would be useful to describe audit procedures with respect to other information. Mr. Kuramochi further noted that an explicit statement that limited work has been performed on other information could cause more confusion among users. He also noted that the language that would be used to describe the work performed would strike similarities with that used in limited assurance engagements.</p> <p>Ms. de Beer suggested that it might be useful to draw from the Insights discussion (Agenda Item I) regarding the inclusion of detailed procedures in auditor's reports.</p>	<p>Point taken into account.</p> <p>The illustrative report of the ITC includes a disclaimer that the auditor has not audited the other information as part of the audit of the financial statements. The IAASB was of the view that such a statement was necessary to ensure that readers of the auditor's report did not view the auditor's work on other information under ISA 720 as limited assurance on such work.</p> <p>[See paragraph 67 and the illustrative report on page 11 of the ITC.]</p>
<p>Mr. Stewart added that including a statement in the auditor's report that starts "we have read..." is a start, but thinks that conclusions about the auditor's views is also needed. Mr. Ratnayake agreed.</p>	<p>Point accepted.</p> <p>The suggested improvement now includes a discrete statement about whether the auditor has identified material inconsistencies in the other information or disclosure of such information.</p> <p>[See paragraph 67 of the ITC.]</p>
<p>Mr. Baumann described the auditor's responsibilities for other information under PCAOB standards and asked about whether there was a similar requirement under the ISAs that required the auditors to determine whether there is a material misstatement of fact in the other information. Mr. Baumann expressed a view that in some cases a material misstatement of fact is equally important as a material misstatement in the financial statements. To the extent auditor is aware that such information is factually incorrect and reports accordingly, it could be very helpful to investors because that information can affect the stock price.</p>	<p>Point not accepted.</p> <p>The IAASB was of the view that the work effort currently required by ISA 720 in relation to material misstatements of fact would be insufficient to support a statement or conclusion with respect to these matters. However, the ISAs establish specific procedures, including notification to TCWG, when the auditor concludes there is a material misstatement of fact and the auditor would not be precluded from including auditor commentary should the auditor judge it necessary to do so.</p>

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	[See paragraph 70 of the ITC.]
Ms. Blomme expressed a view that FEE work indicates strong support for a statement that indicated whether other information is consistent or inconsistent with information in audited financial statements and the auditor's knowledge and understanding of the company's business obtained during the audit. She also expressed a concern that option 4 goes beyond scope of audit.	Support noted.
Mr. Kuramochi noted that investor groups indicate that other information is useful for making investing decisions.	Point noted.

Building Blocks (Agenda Item L)	
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GENERAL REACTIONS TO THE "BUILDING BLOCKS" APPROACH	
Messrs. Bluhm, Hansen, Kockvedgaard, Mao, and Waldron and Mes. Blomme and Lang expressed support for the general principles incorporated in the building blocks approach. However, Messrs. Kockvedgaard and Waldron suggested that the TF consider developing an illustrative report that pulls all the pieces together from the work of the subcommittees.	Support noted. An illustrative report has been included in the ITC, and an Appendix highlights how the "building blocks" approach may be applied in national environments. [See pages 9–12 and Appendix 4 of the ITC.]
Mr. Kockvedgaard also recommended that the TF explore how more relevant information could be communicated in the auditor's report while being mindful of "information overload". He added that the right level of detail might be determined by thinking about what an auditor might say in a one minute presentation about the entity based on their audit to the entity's board of directors. Messrs. Grund and Morris agreed. Mr. Hansen further noted that core requirements would vary by jurisdiction because each jurisdiction would have a different view about what should be included in such a one minute conversation about the entity.	Point noted. The IAASB believes that its suggested improvements to auditor reporting would achieve this aim, but responses to the ITC will further inform it as to the usefulness of communicating the additional information in the auditor's report and the nature and extent of such additional information. [See paragraphs 5–6 and Question 1 of the ITC.]

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<p>Mr. Mao suggested that the building blocks approach may be operationalized by leveraging technology, for example XBRL. He also noted that each block could be further layered to include additional levels of details about each topic. He suggested that the IAASB consider using the building blocks approach for standard-setting more broadly.</p> <p>Mr. Pannier also suggested that consideration be given to demonstrating scalability within the “blocks,” i.e., the incremental topical areas added in the auditor’s report such as auditor insights, going concern and other information.</p>	<p>Point taken into account.</p> <p>Appendix 4 of the ITC is intended to describe how the “building blocks approach could be operationalized.”</p> <p>Point accepted.</p> <p>The IAASB has considered how its suggested improvements could be applied proportionately and is specifically seeking feedback in the ITC in relation to SMEs.</p> <p>[See paragraphs 87–94, Appendix 4 and Question 18 of the ITC.]</p>
<p>Ms. Blomme suggested that the IAASB give consideration to auditor reporting needs of external versus internal users. She added that a determination of what type of information is needed and how it will be used would be helpful in progressing forward. She also expressed support for the idea of having incremental requirements for listed entities. However, she suggested that further consideration be given to the impact of the approach on small listed entities and very large unlisted entities. Mr. Hansen noted that determining the split as to who should be required to provide incremental reporting is difficult.</p>	<p>Point taken into account.</p> <p>The IAASB concluded that, with the exception of auditor commentary, all of its suggested improvements would likely apply to all entities. As a result, it has concluded, subject to comments received on the ITC, that auditor commentary should only be required for PIEs, recognizing the possible impediments of doing so. However, the IAASB also believes that auditors of entities other than PIEs may wish to provide auditor commentary based on what they believe would be necessary in the context of the specific engagement.</p> <p>[See paragraphs 51–56 and Question 7 of the ITC.]</p>
CONSISTENCY VERSUS RELEVANCE	
<p>Mr. Hansen expressed a view that variation in practice may be created with increased flexibility in auditor reporting. Mr. Kuramochi added that some members of IOSCO were of a similar view, noting that the building blocks approach may challenge the notion of the concept of “an audit is an audit.”</p>	<p>Point taken into account.</p> <p>The ITC acknowledges the view of the IFAC Small and Medium Practices Committee and others that differentiation in auditor reporting by size or type of entity alone is generally not appropriate, and</p>

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Ms. Blomme agreed with this view.	runs contrary to the notion that “an audit is an audit.” [See paragraphs 92–94 and Question 18 of the ITC.]
Mr. Bluhm, in his capacity as a Building Blocks subcommittee correspondent member, noted that the building blocks approach was intended to achieve the right balance between needs of SMEs and listed entities. Ms. Lang noted that the building blocks approach was an important step forward and could be seen in some manner as being responsive to users' needs, including SMEs, and identifies what the differences could and should be in respect of this issue.	Support noted.
Messrs. Kuramochi and Hansen expressed a view that the definition of public interest entities should be further explored.	Point accepted. [See paragraphs 53–54 of the ITC.]
CHANGE IN PLACEMENT OF AUDIT OPINION	
Messrs. Waldron and Ratnayake supported the idea of increasing the prominence of the opinion by making it the first paragraph in the auditor's report.	Support noted.
Ms. Blomme expressed a view that the placement of the auditor's opinion was not considered to be a major change. She further noted that outreach on this topic by the FEE, indicated mixed views among users of auditor's reports. Some expressed a preference for having the executive summary approach - the opinion first. Others saw merit in having the additional paragraphs that provide the context and basis upon which the auditor's report was given lead up to the auditor's opinion.	Point taken into account. While the IAASB favored placing the opinion first and has done so in the illustrative report in the ITC, the TF acknowledges that certain jurisdictions, in particular developing and emerging economies, have highlighted that additional context in the auditor's report is essential for users to fully understand the auditor's opinion. The IAASB believes that there is likely merit in mandating the ordering of the elements within auditors' reports but is explicitly seeking feedback to determine whether this would be practicable in light of national requirements and the need for

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	<p>relevance in auditor reporting.</p> <p>[See paragraphs 18, 83 and Question 17 of the ITC.]</p>
Mr. Hines added that local laws and jurisdictions often mandate the placement of the auditor's opinion.	Point noted (see above).
OTHER MATTERS	
Mr. Koktvedgaard asked about whether the use of EOM paragraphs would be retained with the revised auditor reporting approach.	<p>Point taken into account.</p> <p>Mr. Montgomery noted that further discussions with the IAASB would be needed.</p> <p>The ITC explains that the new concept of auditor commentary is consistent with the existing concepts of EOM and OM paragraphs yet builds upon them to better meet the information needs of users. The ITC acknowledges there may no longer be a need to retain the separate concepts of EOM and OM paragraphs, and notes the IAASB's preliminary view that these concepts should be replaced by the more holistic concept of auditor commentary. The IAASB anticipates views from respondents in this regard will further inform its decisions.</p> <p>[See paragraph 42 of the ITC.]</p>
Mr. Kuramochi noted that some members of IOSCO suggested eliminating scope language in the auditor's report. Ms. Lang expressed a view that whilst there could be merit in having the information in the scope paragraph retained because it provides the context that leads up to the audit opinion, there may also be an argument in support of moving this information elsewhere. It would be of use to have sight of an illustration.	<p>Point taken into account.</p> <p>In developing the illustrative auditor's report, the IAASB has evaluated the nature of the information contained in the both the current opinion paragraph and the auditor's responsibility section under ISA 700 (i.e., identification of the auditing standards and a statement that the auditor has obtained sufficient appropriate evidence as a basis for the auditor's opinion). The IAASB believes that this information is relevant to users and should be placed in close proximity to the opinion paragraph in a new Basis for Opinion section.</p>

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	[See paragraphs 18–19 and page 9 of the illustrative report in the ITC.]
Mr. Waldron expressed a preference of having all the elements of the auditor's report in one place so that they are all subject to the same level of professionalism and accountability. He was not supportive of having certain sections of the auditor's report made available elsewhere, for example via a NSS website.	<p>Point taken into account.</p> <p>Recognizing that placing more standardized material describing the auditor's responsibilities outside of the auditor's report is common practice in certain jurisdictions and may be explored by others, the ITC poses a specific question in this regard.</p> <p>[See paragraphs 83–84 and Question 14 of the ITC.]</p>

Clarifications and Transparency (Agenda Item M)	
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CLARIFICATIONS	
Mr. Koktvedgaard supported the move to direct language, noting that it is a great improvement. Further debate, however, would be needed on the specific wording. He also noted that he would support the use of "a high level of assurance" instead of the description of reasonable assurance.	<p>Point accepted.</p> <p>The revised section about the Auditor's Responsibility now explains "Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.</p> <p>[See page 11 of the illustrative report in the ITC.]</p>
Mr. Waldron supported the efforts of the TF. He noted that, while the investor benefit is not that great, it is an easy fix that will improve understanding. He also noted that this alone would not be sufficient to address investor concerns, but it was still a worthwhile endeavor.	<p>Support noted.</p> <p>[See paragraphs 81–83 of the ITC.]</p>
Mr. Bluhm asked where the description of the auditor's responsibility for fraud would be placed in relation to the	<p>Point taken into account.</p> <p>Mr. Kinney explained that positioning of the</p>

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other elements.	<p>various elements would be decided later, as the view was that the wording needed to be discussed first. Ms. de Beer agreed with Mr. Kinney, noting that this would need to be an iterative process.</p> <p>The IAASB concluded it would be appropriate to describe the auditor's responsibilities for identifying, assessing and responding to the risks of material misstatement of the financial statements, whether due to fraud or error, first in a listing of bullets describing the auditor's responsibilities. Additional language relating to fraud has been added as follows: "The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.</p> <p>[See page 12 of the illustrative report in the ITC.]</p>
Mr. Pannier supported the work being undertaken, noting that the proposals on transparency were more significant than the clarifications of technical terms, which will always be present due to the complexity of financial reporting frameworks.	Support noted.
Mr. Stewart asked why the proposed description of materiality did not address misstatements that are material individually or collectively.	<p>Point accepted.</p> <p>Mr. Kinney responded by noting that this had not been included as the TF was seeking compact language, rather than a comprehensive description of materiality, but that the TF would continue to consider the definition.</p> <p>The IAASB subsequently agreed to add a statement "Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements."</p>

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	[See page 11 of the illustrative report in the ITC.]
TRANSPARENCY – DISCLOSURE OF THE NAME OR SIGNATURE OF THE AUDITOR	
Mr. Bollman explained that the IVSC has discussed this issue as well for their standards although a final view has not been reached. He noted that the work product does not seem to be better if the practitioner is individually identified, though it does enable the qualifications of the individual valuer to be disclosed, such as their expertise in relation to the specific asset classes.	Support noted. [See paragraphs 72–73 of the ITC.]
Mr. Robberecht noted that the EC proposals require disclosure of both names and signatures of the engagement partner so that they take personal responsibility.	Support noted for disclosure of the name of the engagement partner. The IAASB is not proposing that engagement partners' signatures be required. Mandating engagement partners' signature in the auditor's report would be left to the discretion of national standard setters or may be specified by law or regulation. [See paragraphs 72–73 and Appendix 4 of the ITC.]
Messrs. Waldron and Hansen supported the disclosure of the identity of the engagement partner, as this may improve quality and would show that the auditing profession is keen to improve the public perception of the profession. Mr. Waldron also noted that he did not believe that investor groups would track audit mistakes by partner.	Support noted. [See paragraphs 72–73 of the ITC.]
Mr. Hansen noted that management is required to sign off on the financial statements in some jurisdictions, which may lead to criminal sanctions if false. He noted that the US Treasury Committee ⁸ supported engagement partner signatures, although they acknowledged that they did not know if it would increase audit quality. He further noted that	Support noted. [See paragraphs 72–73 of the ITC.]

⁸ The U.S. Department of Treasury's Final Report of the Advisory Committee on the Auditing Profession dated October 6, 2008

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academic research was being undertaken into the area, and that investors, as the “customer,” want this disclosure. He did not believe that this would undermine the firms’ quality control systems.	
Mr. Johnson noted that this had been required in Europe since 2006, and anecdotal evidence was that it made engagement partners feel more accountable by the act of signing. He also noted that public reporting of inspections of firms and the receipt of these reports by the audit committees in some jurisdictions already enhanced accountability.	Point noted.
Mr. Hines noted that in the US actuarial profession the opinions given are a personal opinion, not an opinion of the firm. He noted that these reports state the reliance placed on other individuals and it is possible to share an opinion with other qualified actuaries. He noted that it is common to name all actuaries on the team that are qualified to give the opinion.	Point noted.
Mr. Kuramochi expressed the view that some audit regulators supported disclosing the name of the partner as this helps with enforcement against the partner rather than firm, and makes it more difficult for the firm to close and reopen under a different name but the same partners and staff.	Support noted. [See paragraphs 72–73 of the ITC.]
Mr. Peyret supported the disclosure of the signature of the engagement partner. He noted that this would assist in identifying if the engagement partner had sufficient qualifications and had maintained their knowledge of accounting standards.	Support noted. [See paragraphs 72–73 of the ITC.]
Mr. Ratyanake noted that disclosure of the engagement partner would help mitigate a failure to exercise professional skepticism or breaches of auditing standards.	Support noted. [See paragraphs 72–73 of the ITC.]
Mr. Pannier noted that what matters is the signal that is given about the confidence that may be taken in the audit report, and that any benefit to audit quality is a bonus.	Support noted. [See paragraphs 72–73 of the ITC.]

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Ms. de Beer noted that South African law requires disclosure of the engagement partner's name. This level of transparency was well received by investors and it seems to have focused the mind of the individual auditor more clearly on what he/she is signing.	Support noted. [See paragraphs 72–73 of the ITC.]
DISCLOSURE OF THE ROLE OF OTHER FIRMS	
Messrs. Robberecht and Ratyanake expressed the view that ISAs should not require disclosure of the role of other firms as this would lower the responsibility of the group auditor under ISA 600. ⁹ Individual jurisdictions can permit this, if they wish. Mr. Hansen noted that divided responsibility is permitted in US.	Point taken into account. The ITC notes that permitting or requiring disclosures regarding the role of other auditors is seen by some to run counter to the “sole responsibility” principle of ISA 600. Nevertheless, the IAASB acknowledges that the involvement of other auditors may be considered a matter of audit significance suitable for inclusion in auditor commentary. Alternatively, the IAASB could decide to mandate disclosure of the involvement of other auditors, which may therefore require it to be separately presented. [See paragraphs 77–80 and page 10 of the illustrative report in the ITC.]
Ms. Blomme and Mr. Johnson noted that this would reverse the progress made by the revision of ISA 600, and that disclosure of the percentage of the assets or other measure would not be helpful as risk can exist in smaller entities as well.	Point taken into account (see above).
Mr. Waldron supported the disclosures of participation of other firms, noting that 91% of respondents to a CFA survey wanted this disclosure, which could include the name of the other firms, their location and the individual responsible within that firm.	Support noted. Mr. Kinney noted that some view that naming additional parties reduces the role of the naming the firm or engagement partner.
Mr. Grund asked if the proposals on disclosing the role of other firms were about the role of the other firms, the	Mr. Kinney indicated that the main focus was on disclosing how much of the audit is under the

⁹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

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names of the firms or the names of the engagement partners.	<p>direct supervision of the auditor, but that some users want to know about the quality of the other firms, via a proxy such as disclosing whether the other firms are subject to audit inspections. Ms. de Beer noted that this would require further consideration by the TF given the support on both sides of the issue.</p> <p>For purposes of the ITC, the IAASB developed an example of a disclosure of the involvement of other auditors, included in the Auditor Commentary section of the illustrative report. The IAASB explored alternatives, such as disclosing the names and locations of other auditors, but questioned whether the value would outweigh the impediments.</p> <p>[See paragraph 80 and page 10 of the illustrative report in the ITC.]</p>
DISCLOSURE OF THE NAME AND INDEPENDENCE OF THE MEMBERS OF THE ENGAGEMENT TEAM	
<p>Mr. Robberecht explained that the EC proposals were focused on a declaration of the independence of the engagement team to make the engagement team more aware of its independence responsibilities. He noted that the EC agreed that this list of names should not be in the auditor's report, and that the EC was exploring where else it could be placed. He also noted that the EC proposals would be subject to a privacy review at the EC to avoid any privacy concerns.</p> <p>Messrs. Johnson, Koktvedgaard, Pannier and Hansen disagreed with Mr. Robberecht.</p>	<p>Point noted.</p> <p>Mr. Kinney responded by noting that the question was whether the disclosure of names would enhance audit quality or enforcement.</p>
<p>Messrs. Johnson and Koktvedgaard noted that there is an independence monitoring system within the firms which makes individual audit staff accountable. Mr. Koktvedgaard noted that disclosure of the names of senior people in the audit may be more useful. Mr. Hansen noted that the engagement partner is responsible, and the engagement team is accountable to the engagement partner.</p>	<p>Point noted.</p> <p>Because of the importance of compliance with ethical requirements as a basis for the audit, and the increased focus on auditor independence, the IAASB believes that an explicit statement of compliance with relevant ethical requirements should be required in all auditors' reports. The</p>

Clarifications and Transparency (Agenda Item M)	
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	<p>IAASB did not believe that a declaration of independence of all members of the engagement team was necessary in the auditor's report, particularly in view of the potential significant lengthening of the auditor's report.</p> <p>[See paragraphs 74–76 and page 9 of the illustrative report in the ITC.]</p>
ASSESSMENT OF INTERNAL CONTROL	
Mr. Hallqvist supported commentary on the internal control issues found, noting that this was the most important information for audit committees to receive. He noted that the reporting should be limited to issues reported to management or TCWG that are not addressed satisfactorily.	<p>Point taken into account.</p> <p>The focus on “matters of audit significance” in auditor commentary is intended to address audit matters that would typically be discussed with an engagement quality control reviewer or TCWG. This would include internal control. The ITC makes reference to the EC's legislative proposals in relation to internal control and acknowledges that understanding the entity's environment, including its internal control, is a critical area in an ISA audit, and users could likely benefit from greater transparency about an entity's internal control in the context of the current scope of an audit.</p> <p>[See paragraphs 39, 42, and 45 of the ITC.]</p>
Mr. Johnson noted that this was an important issue, and questioned if the goal was to disclose material weaknesses that were not resolved, or if was to disclose all material weaknesses discovered. He questioned the value in reporting on material weaknesses that were already addressed.	Point noted.
Mr. Waldron noted that the issue was an interesting one in that it would be useful to investors, but may cause difficulties for the survival of the company in some cases.	Point noted.
Mr. Hansen noted that this issue needs to be addressed, although it was often difficult to identify whether the auditor or management identified a misstatement, so linking the	Point noted.

Clarifications and Transparency (Agenda Item M)	
Representatives' Comments	Task Force/IAASB Response
disclosure of internal control difficulties with identification of misstatements may be problematic.	
OTHER COMMENTS	
<p>Mr. Hallqvist noted that he believes that the whole governance structure should be described, including shareholders, management and auditors amongst others.</p> <p>Ms. de Beer noted that this could be linked to the insights work, in that the auditor could comment on some governance matter of interest if it was significant.</p>	<p>Point taken into account.</p> <p>Mr. Kinney responded by noting that this may be needed, but that the auditor's report may not be the appropriate vehicle. The illustrative report in the ITC includes a brief description of the role of TCWG should be included in the auditor's report to complement the description of management's responsibilities, and notes that this description should be further tailored to describe the role of TCWG in more detail in the context of a particular jurisdiction.</p> <p>[See paragraphs 85–86, page 11 of the illustrative report, and Appendix 4 of the ITC.]</p>
Mr. Hallqvist noted that the problems of audit failures depends of the competitive forces, in that auditors often accept lower fees and short timeframes in which to conduct their work.	Point noted.

Matters for CAG Consideration

- The Representatives are asked to note the Report Back above, in particular the changes made as a result of the CAG's comments. **In addition to sharing views during the planned roundtables on auditor reporting, CAG Member Organizations are strongly encouraged to submit formal responses to the ITC by the response date of October 8, 2012 in order for the IAASB to hear their in-depth views about the value and impediments of the suggested improvements to auditor reporting and further inform the IAASB's work in this area, as it seeks to develop EDs by June 2013.** A full discussion of the summary of significant comments received on the ITC and the proposed way forward is planned for the April 2013 IAASB CAG meeting.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Invitation to Comment: Improving the Auditor's Report, issued June 2012

http://www.ifac.org/sites/default/files/publications/files/Auditor_Reporting_Invitation_to_Comment-final_0.pdf

Appendix

Project History

Project: Auditor Reporting

Summary

	CAG Meeting	IAASB Meeting
Report of IAASB Working Group – key findings from academic research studies on user perceptions of the standard auditor's report	March 2010	December 2009
Issues Paper and IAASB Working Group Proposals	-	December 2010
Development of Proposed Consultation Paper	March 2011	March 2011 May 2011
Consultation – May 2011		
Further Discussion	September 2011	
Discussion of Project Proposal and Issues	March 2012	December 2011 March 2012
Discussion of the Invitation to Comment	September 2012	April 2012 June 2012

CAG Discussions: Detailed References

Report of IAASB Working Group – key findings from academic research studies on user perceptions of the standard auditor's report	<u>March 2010</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5253 See CAG meeting minutes (in Agenda Item D of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882 See report back on March 2010 CAG meeting (in paragraph 12 of the following material): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6095
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<p>Development of Proposed Consultation Paper</p>	<p><u>March 2011</u> See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6095 http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6096 See CAG meeting minutes (in Agenda Item M of the following): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf See report back on March 2011 CAG meeting (in paragraph 1 of the following): http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemH1-Auditor-Reporting-V1-02.pdf</p>
<p>Further Discussion</p>	<p><u>September 2011</u> See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemH-Auditor-Reporting-V1-02.pdf http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemH1-Auditor-Reporting-V1-02.pdf See CAG meeting minutes (in Agenda Item H of the following material): http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-Agenda_Item_A-September_2011_Public_Minutes-APPROVED.pdf</p>
<p>Discussion of the Project Proposal and Issues</p>	<p><u>March 2012</u> See IAASB CAG meeting material included in Agenda Items G, H, K, L and M: http://www.ifac.org/meetings/brussels-belgium See CAG meeting Minutes (in Agenda Items G, H, K, L, and M of the following material: See draft September 2012 CAG Public Session Minutes included as Agenda Item A. See report back on March 2012 CAG meeting included in paragraph 4 of this paper.</p>