

## Auditor Reporting—Summary of Exposure Draft (ED) Responses Relating to Remaining Suggested Improvements

### Objective of the CAG Discussion

The objective of the CAG discussion at its March 2014 meeting is to provide input on ISA 700<sup>1</sup> Drafting Team's (DT-700) recommendations and proposed revisions to proposed ISA 700 (Revised), specifically as it relates to the topics in paragraph 1 below.

### Structure of Paper and Overview

- This paper summarizes respondents' views on ISA 700-related issues in response to the IAASB's July 2013 auditor reporting ED. The paper also includes DT-700's recommendations for a way forward on the following key topics, in the order presented in the table below.

Section	Key Topic	Paragraph Ref.
I	Independence and other ethical requirements, including listing of sources	3–16
II	Disclosure of the engagement partner's (EP) name for audits of financial statements of listed entities, including the harm's way exemption	17–40
III	Enhanced description of the auditor's responsibilities and key features of the audit, including relocation	41–56
IV	Structure and format of the ISA auditor's report	57–67
V	Other matters raised by respondents to the IAASB's ED	68–74

- As further discussed below, although varying viewpoints continue to exist on certain topics, on balance respondents to the IAASB's ED were generally supportive of the IAASB's aim of improving the ISA auditor's report in response to users' demands for more transparency about audits. Many respondents, including Monitoring Group (MG) members,<sup>2</sup> were of a view that improving auditor reporting should be focused on reducing the information and expectations gaps that exist between auditors and users of audited financial statements, in an effort to restore market confidence in financial reporting more broadly.

#### I. Independence and Other Ethical Requirements, Including Listing of Sources (Question 11 of the ED)

- In light of the importance of compliance with independence and ethical requirements as a basis for the audit, and the increased focus on auditor independence more broadly, the IAASB's ED proposed that (i) an explicit statement about auditor independence and other ethical responsibilities as well as (ii) a statement to specify the sources of those requirements be required in all auditor's reports. Proposed ISA 700 (Revised) states that:

<sup>1</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>2</sup> *Regulators and Oversight Authorities*: BCBS, IAIS, IFIAR, IOSCO, WB

28. The auditor's report shall include a section with the heading "Basis for Opinion" that, among other matters, "includes a statement that the auditor is independent of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation] and has fulfilled the auditor's other responsibilities under those ethical requirements. If the independence and other ethical responsibilities are established by different sources, then the second part of the statement shall also specify the source of the other relevant ethical requirements."

## Feedback from Respondents to the ED

### *Statement about Independence and Other Ethical Requirements*

4. Respondents across all stakeholder groups, including from two MG members,<sup>3</sup> were generally supportive of the IAASB's proposed requirement to include a statement in the auditor's report about compliance with independence and other ethical requirements.<sup>4</sup> Of the 100/138 respondents who responded to the question, 72/100 respondents representative of all stakeholder groups expressed support for the proposed statement, while about 10 respondents were of a view that the statement should be further refined. For example, one MG member<sup>5</sup> was of a view that the statement as drafted in proposed ISA 700 (Revised), "We are independent of the Group within the meaning of..." could be perceived as a dilution of auditor responsibility and suggested that the words "within the meaning of" be replaced with "...in accordance with..." Others agreed.<sup>6</sup> Also, some suggested that the statement should include more information about how those charged with governance (TCWG) and auditors communicate about non-audit related services and other aspects of the client/auditor relationship that are considered in connection with the overall assessment of auditor independence.<sup>7</sup>
5. Proponents of having the statement about compliance with independence and other ethical requirements in the auditor's report were of a view that it would:
- Enhance financial statement users' understanding of the auditor's obligations related to independence and other relevant ethical requirements;
  - Remind and focus auditor attention on independence matters and their responsibilities with regard to independence and other ethical requirements, thereby contributing to an overall increase in auditors' accountability with respect to independence;

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<sup>3</sup> *Regulators and Oversight Authorities*: IFIAR, WB

<sup>4</sup> The following respondents were supportive of having a statement about independence and ethical responsibilities in the auditor's report: *Investors and Analysts*: ABI, CFA, IMA; *Regulators and Oversight Authorities*: DFSA, EAIG, EBA, ESMA, ICAC, IFIAR, MAOB, WB; *NSS*: AUASB, CNCC-CSOEC, FAP, HKICPA, IDW, NZAuASB, UKFRC; *Accounting Firms*: BDO, BT, CHI, DTT, EYG, GTI, KPMG, MAZARS, MSUK, PWC, RSM; *Preparers*: AA, CFOF, Gof100-A, SH; *Public Sector Organizations*: ACAG, AGNZ, CIPFA, NAOS, NAOUK; *Member Bodies and Other Professional Organizations*: ACCA, ASSIREVI, CAI, CICPA, CPAA, DNR, EFAA, FACPCE; *Academics*: ABurrowes, BCEMW, MU; *Individuals and Others*: ANA, CLL, CMunarriz, Flrungu

<sup>5</sup> *Regulators and Oversight Authorities*: WB

<sup>6</sup> *Member Bodies and Other Professional Organizations*: CICPA, WPK

<sup>7</sup> The following two respondents were of a view that the statement about independence should be more comprehensive: *Regulators and Oversight Authorities*: ICAC; *Academics*: BCEMW

- Increase transparency about the basis on which the audit has been conducted; and
- Increase users' confidence in the quality of the audit of the financial statements.

Two respondents noted that the proposed requirement was already in effect in their jurisdiction (i.e., the UK).<sup>8</sup>

6. On the other hand, seven respondents were of a contrary view and suggested the requirement that exists in extant ISA 700 for the auditor's report to have a title, such as "Independent Auditor's Report", to clearly indicate that the auditor's is independent is sufficient and should be retained.<sup>9</sup>

#### *Listing of Sources*

7. Notwithstanding the majority support among respondents for having an explicit statement about independence and other relevant ethical requirements in the auditor's report, there was considerably less support for the proposal to list the sources of these requirements. Eleven respondents, in particular regulators and oversight authorities, were supportive<sup>10</sup> of listing the sources, while the majority of respondents, in particular auditors, national auditing standard setters (NSS), public sector organizations, and member bodies and other professional organizations, cited serious concerns, including the following:
  - The application of the requirement as drafted in proposed ISA 700 (Revised) would be difficult or impossible to implement in certain jurisdictions (for example, Canada and Germany) and in certain circumstances (for example, multi-location group audits);<sup>11</sup>
  - Users of financial statements were not sufficiently familiar with the nuances of the independence and ethics rules in the context of an audit of financial statements to fully appreciate the more complex disclosures that would be necessary.<sup>12</sup>
8. One respondent<sup>13</sup> suggested that proposed ISA 700 (Revised) be revised to indicate that the requirements relating to disclosure in the auditor's report of independence and ethical requirements should not be applicable to the extent that there were other comparable requirements imposed by NSS, law or regulation for similar communications, even when those requirements are not required to be included in the auditor's report. 12 respondents were of a view that in group audit situations the statement about independence and ethical requirements should be limited to explain the requirements imposed on the group auditor – either in relation to the *Code of Ethics for*

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<sup>8</sup> NSS: UKFRC; *Accounting Firms*: CHI

<sup>9</sup> Respondents who favored retaining the approach under extant ISA 700, paragraph 21 were: NSS: ASB, CAASB; MAASB; *Accounting Firms*: KI; *Public Sector Organizations*: GAO; *Member Bodies and Other Professional Organizations*: ICAS, ICPAK.

<sup>10</sup> Respondents who expressed explicit support for having the sources of independence and other ethical responsibilities listed in the auditor's report were: *Regulators and Oversight Authorities*: DFSA, EAIG, EBA, ESMA; NSS: AUASB, FAP; *Accounting Firms*: DTT, RSM; *Preparers*: AA; *Member Bodies and Other Professional Organizations*: CPAA, ICAN.

<sup>11</sup> NSS: CAASB, IDW; *Public Sector Organization*: AGC; *Member Bodies and Other Professional Organizations*: WPK

<sup>12</sup> NSS: ASB

<sup>13</sup> *Accounting Firms*: DTT

*Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) or other national ethical requirements applicable to the group auditor.*<sup>14</sup>

9. Though not put forth as questions in the ED:
- Two respondents raised questions about whether the statement in the Auditor's Responsibilities for the Audit on the Financial Statement section about auditor communication on independence with TCWG, required for audits of financial statements of listed entities only, should be extended to audits of financial statements of all entities.<sup>15</sup>
  - Three respondents, including a MG member,<sup>16</sup> raised questions about potentially disclosing information about breaches of independence in the auditor's report.
  - One respondent suggested that the IAASB undertake additional efforts to have the wording in the statement about independence and other ethical requirements be more consistent with the US Public Company Accounting Oversight Board's (PCAOB) analogous requirement.<sup>17</sup>

#### **DT-700 Recommendation – Statement about Independence and Ethical Requirements, Including Listing Sources**

10. In determining a way forward, DT-700 considered respondents' feedback, focusing its deliberations on the views that:
- Questioned the appropriateness of the term "...within the meaning of..." and "...is independent of the entity..."
  - Challenged whether the requirement as drafted (i.e., requiring that sources be listed) would be able to be applied in practice (see above in the sub-section *Listing of Sources*).

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<sup>14</sup> NSS: MAASB; *Accounting Firms*: BT, DTT, GTI, KPMG, *Public Sector Organizations*: CIPFA; *Preparer*: AA; *Member Bodies and Other Professional Organizations*: IBR-IRE, ICPAK, SMPC, WPK; *Academic*: HGortmaker. In addition, three respondents (DTT, GTI, IDW) pointed out that members of the Forum of Firms are already required to have policies and methodologies that conform to the IESBA Code and national code(s) of ethics.

<sup>15</sup> *Member Bodies and Other Professional Organizations*: IBR-IRE, IPAR. Paragraph 38(b) of proposed ISA 700 (Revised) notes, "the auditor's report shall also state that the auditor is required to, for audits of financial statements of listed entities, provide [those charged with governance] with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards."

The illustrative text in the auditor's report relating to this proposed requirement is included within the Auditor's Responsibilities section in the auditor's report and states: "We are also required to provide [those charged with governance] with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards."

<sup>16</sup> *Regulators and Oversight Authorities*: IOSCO, IRBA; *Preparers*: AA

<sup>17</sup> *Accounting Firms*: PWC. PWC suggested that the IAASB's proposed statement about independence and ethical requirements should be consistent with the PCAOB's proposed statement. The PCAOB's proposed wording states that "We are a public accounting firm registered with the Public Company Accounting Oversight Board ("PCAOB") (United States) and are required to be independent with respect to the Company in accordance with the United States federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission ("SEC") and the PCAOB."

- Questioned whether the statement about independence should be more comprehensive and include, for example, information about how TCWG and auditors communicate about independence, or information about non-audit related services and relationships that are considered in preserving auditor independence.
  - Challenged the approach in the ED, which required having a statement about auditor communication about independence with TCWG in the auditor's report for audits of financial statements of listed entities only.
  - Questioned whether proposed ISA 700 (Revised) should require that information about breaches of independence be disclosed in the auditor's report.
11. The revised proposed requirement in paragraph 14 below about independence and ethical requirements that DT-700 is recommending:
- Retains the first part of the requirement in proposed ISA 700 (Revised) and continues to require an explicit statement about independence and ethical requirements in the auditor's report, but revises the wording to avoid the use of the terms "...within the meaning of..." and "...we are independent of the entity...".
  - Moves away from requiring that the sources of independence and other ethical requirements be listed in the ISA auditor's report, thereby assuaging concerns raised by respondents who expressed concerns about the difficulties that may arise in applying the proposed requirement, in particular within the context of a group audit or within jurisdictions where there are multiple sources of independence rules.
  - Retains the applicability of the proposed statement about auditor communication about independence to audits of financial statements of listed entities only, because the requirement for disclosure in the auditor's report was aligned with the communication required by ISA 260.<sup>18</sup> DT-700 members noted that the majority of respondents were supportive of, or did not comment on, the proposed approach and those who were not supportive did not provide a compelling reason to change. DT-700 also noted that making such a change would require a substantive amendment to ISA 260, an approach already considered and rejected by the IAASB.
  - Does not include having a requirement to disclose breaches of independence because the majority of the respondents were supportive of, or did not comment on, the IAASB's proposed approach. Those respondents confirmed the IAASB's view as set out in the Explanatory Memorandum (EM) in the ED that it would be impractical to require auditor reporting of breaches to auditor independence in an ISA auditor's report.<sup>19</sup> Reflecting on this feedback on the ED, the position in the EM, and the June 2012 Invitation to Comment (ITC), DT-700 was of a strong view that having one-way communications about breaches in the auditor's report would not be appropriate, because it would not fully encompass the robust discussion that takes place between the auditor and TCWG in such circumstances.

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<sup>18</sup> ISA 260, *Communication with Those Charged with Governance*, paragraph 17

<sup>19</sup> *Accounting Firms: GTI; Preparers: CFOF; Member Bodies and Other Professional Organizations: SAICA*

12. Acknowledging the merits put forth by those respondents, in particular regulators, who supported listing of the sources of independence and ethical requirements in the auditor's report, and recognizing that some NSS indicate that they already have requirements in their respective jurisdictions to list sources, DT-700 recommends that the IAASB develop application material regarding listing of sources. Doing so would continue to accommodate jurisdictions with existing requirements in place and those where the requirement is currently being explored, and potentially encourage others to include such information in the auditor's report.
13. DT-700 was of a view that the IAASB's proposed statement about auditor independence and other ethical requirements is more affirmative than that of the PCAOB, which is phrased as a statement of the auditor's responsibility with respect to independence. DT-700 also noted that, in general, investors and other users who responded to the PCAOB's proposals were of a view that the PCAOB's proposed wording was not very useful, and suggested that the PCAOB requirement be revised to be more affirmative.

#### Revised Text for CAG Consideration

14. DT-700 considered the views of respondents, including their drafting suggestions and agreed to the following revisions to the proposed ISA 700 (Revised) requirement, and illustrative auditor's report for the IAASB's consideration.

#### *Proposed ISA 700 (Revised) Requirement*

##### Basis for Opinion

28. The auditor's report shall include a section with the heading "Basis for Opinion that:

...

- (c) Includes a statement that the auditor is independent under relevant ethical requirements of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation]—and has fulfilled the auditor's other ethical responsibilities under those ethical requirements. ~~If the independence and other ethical responsibilities are established by different sources, then the second part of the statement shall also specify the source of the other relevant ethical requirements; and~~

...

#### *Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework*

##### **Basis for Opinion**

...We are independent ~~of the Group within the meaning of [indicate under relevant ethical requirements or applicable law or regulation]~~ and have fulfilled our other ethical responsibilities under those ~~ethical~~ requirements. ...

*Collaboration with the International Ethics Standards Board for Accountants (IESBA)*

15. DT-700 also agreed that it would be necessary for the IAASB to vet its revised requirement and illustrative text relating to the statement about independence and ethical responsibilities with the IESBA. The IESBA had expressed support for having the proposed statements in the ED in light of the underlying requirements of the IESBA Code. The IESBA noted that making reference in the auditor's report to the relevant ethical requirements that applied to the audit could provide transparency in a manner consistent with requiring the auditor to state that the audit was conducted in accordance with ISAs and name the financial reporting framework used in the preparation of the financial statements.
16. The next IESBA meeting is in April 2014. However, the IESBA leadership plans to consider DT-700's recommendations at its Planning Committee meeting on February 25, 2014. DT-700 Chair and staff will observe this meeting, and provide a verbal update to the IAASB and the IAASB Consultative Advisory Group (CAG) at their respective March 2014 meetings.

**Matters for CAG Consideration**

1. Representatives are asked whether they agree with DT-700's recommendation regarding the statement about independence and ethical requirements, including the revised text.

**II. Disclosure of the Engagement Partner's (EP) Name for Audits of Financial Statements of Listed Entities, Including the Harm's Way Exemption (Question 12 of the ED)**

**Recap of Feedback on the ITC and IAASB Conclusions**

17. The IAASB determined that it was important to respond to the public interest call for increased transparency by proposing in the ED to require the name of the EP be included in the auditor's reports for financial statements of *listed entities only*. The IAASB was of a view that limiting this requirement to listed entities was an appropriate response to the demand for transparency because:
  - The call for this information came primarily from institutional investors; and
  - For many non-listed entities, including small- and medium- sized entities , the EP's name is already available or known to the users of the financial statements through other means, albeit informal in many circumstances.<sup>20</sup>
18. The IAASB's deliberations on this topic leading up to the release of the IAASB's ED pivoted around the potential unintended consequences that could arise with having the EP named in auditor's reports. These included: inappropriate conclusions being drawn by investors and other users; potential damage to entities, audit firms and individuals; and increased perceived or actual liability exposure for auditors.

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<sup>20</sup> The IFAC SMPC noted that, despite the fact that many advanced jurisdictions require disclosure of the EP's name in auditor's report, there are certain jurisdictions in which such a practice would be culturally difficult, or inadvisable for other reasons. The SMPC had a neutral perspective on this issue.

## Feedback from Respondents to the ED

### *Disclosure of the EP's Name for Audits of Financial Statements of Listed Entities*

19. The majority (77/138 or 56 percent) of respondents expressed support for having the name of the EP disclosed in the auditor's report, 24/138 respondents (or 17 percent) were not supportive and 37/138 respondents (or 27 percent) either indicated that they were ambivalent or did not respond to the question. This feedback aligns with responses to the ITC, which indicated that 86/165 respondents (or 52 percent) were supportive, 31/165 respondents (or 19 percent) were not supportive, and 48/165 respondents (or 29 percent) either did not respond or indicated that they were ambivalent.
20. Among those supportive of the proposed requirement were: a member of the MG; investors and analysts; regulators and oversight authorities; member bodies and other professional organizations; and NSS representing jurisdictions where the name of the EP is already required to be disclosed in the auditor's report.<sup>21</sup> Those supportive of having the name of the EP disclosed in the auditor's report expressed views that were consistent with the feedback received on the ITC. They were of a view that having the name of the EP in the auditor's report:
  - Improves transparency for users of the auditor's report; and
  - Provides the EP with a greater sense of personal responsibility and accountability, which translates to improved audit quality.
21. On the other hand, some respondents (in particular auditors) as well as certain respondents (many from Hong Kong, North America, and New Zealand – jurisdictions where disclosure of the name of the EP is not currently required) continue to raise serious concerns.<sup>22</sup> Those respondents continue to disagree with the view that disclosure of the EP's name in the auditor's report would enhance the accountability of the EP or improve audit quality. They:
  - Pointed out that the legal frameworks, cultural norms, safety and security among jurisdictions differ and also continued to express concerns about the likelihood that the disclosure of the EP's name could potentially result in increased liability for auditors; and
  - Emphasized that the EP acts on behalf of the audit firm, and that naming the EP in the auditor's report would *not* change the EP's accountability, or the conduct of the audit.
22. Those respondents who were not supportive of the proposal in the ED suggested that the IAASB:

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<sup>21</sup> The following respondents were supportive of having the EP's name be included in the auditor's report: *Investors and Analysts*: ABI, CFA, ICGN, IMA; *Regulators and Oversight Authorities*: DFSA, EAIG, EBA, ESMA, ICAC, IRBA, JSE, MAOB, WB; *NSS*: AUASB, CNCC-CSOEC, FAP, IDW, JICPA, MAASB, NBA, UKFRC; *Accounting Firms*: BT, CHI, MSUK, PKF, PI; *Preparers*: AA, Gof100-A, SH; *Public Sector Organizations*: ACAG, AGC, AGM, AGNZ, AGO, AGSA, CIPFA, GAO, NAOS, NAOUK, PA; *Member Bodies and Other Professional Organizations*: ACCA, ASSIREVI, CAI, CICPA, CPAA, DNR, EFAA, FACPCE, FAR, FEE, FSR, IAA, IBRACON, ICAA, ICAEW, ICAG, ICAN, ICAP, ICAS, ICAZ, ICPAI, IMCP, IPAR, ISCA, KACR, NZICA, SAICA, WPK, ZICA; *Academics*: ABurrowes, BCEMW, HC, MU; *Individuals and Others*: ANA, CLL, CMunarriz, DJuvenal

<sup>22</sup> The following respondents were *not supportive* of having a requirement to name the EP in the auditor's report: *Regulators and Oversight Authorities*: CPAB; *NSS*: ASB, CAASB, HKICPA, NZAuASB; *Accounting Firms*: BDO, CR, DTT, EYG, GTI, KI, KPMG, PWC, RSM; *Preparers*: SPL, USCC; *Member Bodies and Other Professional Organizations*: AIA, CalCPA, IBR-IRE, ICPAK, NYSSCPA, PICPA; *Academics*: HGortmaker; *Individuals and Others*: Flrungu

- Revise the requirement to allow more flexibility for law, regulation or national auditing standards to further tailor the requirements in a manner that best fit the needs of users within their respective jurisdictions. Those respondents were of a view that balancing the need for transparency with liability and individual security protections was more feasible at the national level.
  - One respondent suggested that the proposed requirement to name the EP in the auditor's report be revised to focus more on the identification of the EP, rather than specifying the EP's name.<sup>23</sup>
  - Another respondent suggested that the requirement in proposed ISA 700 (Revised) apply only if the name of the EP is "not otherwise publicly available."<sup>24</sup>
- Retain the approach in extant ISA 700, which in their view permits national auditing standards, law or regulation to establish more detailed requirements for auditor signatures, which may include the name of the EP. Those respondents were of a view that such an approach allows national auditing standards, law or regulation to determine how best to deal with the issue of transparency about the name of the EP within the context of their legal frameworks and cultural norms.<sup>25</sup>

#### Extending the Requirement to Name the EP in the Auditor's Report to Entities Other than Listed Entities

23. Ten of the respondents who were supportive of having the EP's name in the auditor's report challenged the IAASB's position to limit the requirement to audits of financial statements of listed entities only. Nine of those respondents suggested that the requirement be extended to audits of financial statements of all entities,<sup>26</sup> while one respondent suggested that the requirement apply to audits of financial statements of banks.<sup>27</sup>

#### Public Sector Considerations

24. All but one<sup>28</sup> of the public sector respondents who responded to the question expressed support for the IAASB's proposal, noting that the requirement to include the name of the EP in auditor's reports was already common practice in the public sector. However, there was acknowledgement of the challenges that might exist in implementing the requirement more broadly. One public sector respondent suggested that, as a compromise, the IAASB should require that the auditor preface the

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<sup>23</sup> NSS: CAASB

<sup>24</sup> *Accounting Firms*: PWC

<sup>25</sup> *Investors and Analysts*: ABI; *Regulators and Oversight Authorities*: CPAB; NSS: ASB, CAASB, NZAuASB; *Accounting Firms*: CHI, DTT, EYG, GTI, PWC, RSM; *Individuals and Others*: Flrungu

<sup>26</sup> The following respondents were of a view that the requirement to have the EP's name in the auditor's report should be applicable to all entities: *Regulators and Oversight Authorities*: EAIG, ICAC, MAOB; NSS: IDW; *Member Bodies and Other Professional Organizations*: ACCA, ASSIREVI, CICPA, IMCP, IPAR

<sup>27</sup> *Regulators and Oversight Authorities*: EBA

<sup>28</sup> AGA noted that, while they did not disagree with the IAASB's proposal, there are situations where the auditor's report is signed by someone other than the EP, and suggested that the requirement be revised to accommodate those circumstances, provided that it is permissible by law or regulation.

statement with the EP's name with a statement that the EP is a key contact, and not solely responsible for the conduct of the audit.<sup>29</sup>

25. One public sector respondent indicated that the term "engagement partner" may not be the right descriptor for the individual signing the auditor's report in the context of a public sector audit and that the term should be replaced with "the engagement partner or public sector equivalent who signs the auditor's report."<sup>30</sup>

#### *Harm's Way Exemption*

26. Having the harm's way exemption included in the ED enabled the IAASB to accommodate jurisdictions where such exemptions already exist. There was strong support, in particular among auditors and NSS respondents, for having the proposed harm's way exemption included in proposed ISA 700 (Revised).<sup>31</sup> Auditors who were not necessarily supportive of having the EP's name included in the auditor's report were nevertheless supportive of the harm's way exemption.<sup>32</sup>
27. Three respondents<sup>33</sup> suggested that the IAASB clarify the meaning of the term "significant security threat" and provide additional guidance including examples to explain those circumstances that the IAASB determines to be "significant security threats" to the individual auditor.
28. One respondent<sup>34</sup> suggested that the harm's way exemption requirement should be strengthened to avoid potential abuse by auditors. Specifically, this respondent suggested that the entity's management should have a say in determining whether the disclosure of the EP's name would create a significant threat to the auditor, and that a relevant national authority should be notified of the intent to invoke the harm's way exemption.
29. To assess the nature and extent of the drafting changes necessary, DT-700 reviewed existing national requirements relating to harm's way exemptions. A summary of this review is included in Appendix 1 of this paper.

#### **DT-700 Recommendation – Disclosure of the EP's Name for Audits of Financial Statements of Listed Entities, Including the Harm's Way Exemption**

30. In determining a recommendation for a way forward, DT-700 acknowledged that the views expressed by respondents to the IAASB's ED were not significantly different from the feedback received on the IAASB's ITC. DT-700 also reflected on the extensive IAASB deliberations on the

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<sup>29</sup> *Public Sector Organizations*: GAO

<sup>30</sup> *Public Sector Organizations*: NAOUK

<sup>31</sup> The following 19 respondents were supportive of having the harm's way exemption: *Investors and Analysts*: BR; *Regulators and Oversight Authorities*: MAOB; *NSS*: CAASB, CNCC-CSOEC, IDW, UKFRC; *Accounting Firms*: BDO, BT, DTT, GTI, PKF; *Public Sector Organizations*: ACG; *Member Bodies and Other Professional Organizations*: ACCA, CAI, CalCPA, FEE, NZICA, ZICA; *Individuals and Others*: Flrungu.

<sup>32</sup> On the other hand, DTT was of a view that proposed ISA 700 (Revised) should not include a requirement to disclose the name of the EP, even with a harm's way exemption.

<sup>33</sup> *NSS*: UKFRC; *Accounting Firms*: DTT; *Member Bodies and Other Professional Organizations*: CalCPA; *Individuals and Others*: CMunarriz

<sup>34</sup> *NSS*: UKFRC

issue leading up to the conclusion in its ED, and concluded that the feedback on the IAASB's ED did not provide a basis to move away from having a requirement to identify the EP in the auditor's report for audits of financial statements of listed entities.

*Disclosure of the EP's Name for Audits of Financial Statements of Listed Entities*

31. DT-700 recommends that the requirement be revised to place more emphasis on the "identification", rather than "naming", of the EP in auditor's report. DT-700 is of a view that this approach appropriately responds to the feedback received, as it enables the IAASB to promote the merits of having additional transparency in the auditor's report with respect to EPs in a manner that accommodates the diversity that exists within the legal and regulatory regimes of national environments.
32. DT-700 also concluded that additional application material should be developed to further explain how this revised requirement would be applied in practice. It is envisioned that this application material would incorporate the suggestions made by some respondents, and be reflective of practices that are already in place across jurisdictions to identify the EP in auditor's reports – including disclosure of the EP name or inclusion of the EP's license number with an accompanying reference to the respective public accounting body.
33. DT-700 recommends that Illustration 1 in proposed ISA 700 (Revised) continue to feature a statement that discloses the EP's name, with one change to delete the phrase "responsible for." DT-700 is of a view that doing so will align the IAASB's proposed illustrative statement to that being proposed by the PCAOB in their re-proposed standard on transparency of audits (see **Agenda Item C** for further discussion about PCAOB's re-proposed standard). There is a view that removal of the phrase "responsible for" would be responsive to those who indicated that the audit firm, not only the EP, is responsible for the conduct of the audit.
34. DT-700 acknowledged that there was merit in adding the qualifier "unless otherwise publicly available" to the requirement, but noted that the IAASB had already considered the approach in their deliberations leading up to the finalization of the ED. At that time, the IAASB determined that the term "otherwise publicly available" would need to be further clarified in order to be meaningful in the ISA.

*Extending the Requirement to Name the EP in the Auditor's Report to Entities Other than Listed Entities*

35. DT-700 considered the suggestion to extend the requirement to audits of banks or, more broadly, "public interest entities", and concluded that it would be impractical to do so because of the existing challenges of establishing a definition for these entities at an international level.
36. Sensitive to the concerns raised by respondents about potential unintended consequences, DT-700 concluded that the IAASB's measured approach for this requirement to apply to listed entities only continues to be appropriate. However, accepting the validity of the conceptual argument put forth by respondents, DT-700 is of a view that it would be important for the IAASB to revisit its position on this issue during the post-implementation review of the proposed ISAs.

### Public Sector Considerations

37. DT-700 agreed that additional application material should be provided in proposed ISA 700 (Revised), along the lines of what is used in defining the term “engagement partner” in ISA 220,<sup>35</sup> to clarify the applicability of the requirement in the context of public sector audits.

### Revised Text for CAG Consideration

38. DT-700 recommends the following revisions to the requirement in proposed ISA 700 (Revised) and the respective statement within the illustrative auditor’s report. The revisions below are reflective of certain refinements suggested by respondents, and the PCAOB’s subsequent analogous proposed requirement.

#### *Proposed ISA 700 (Revised) Requirement*

##### Name of the Engagement Partner

42. The ~~name of the~~ engagement partner’s shall be ~~identified~~ included in the auditor’s report for audits of financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant threat to the individual. If the auditor intends not to identify the engagement partner in the auditor’s report, the auditor shall communicate this intention with management and, where appropriate, those charged with governance.

#### *Illustration 1 – Auditor’s Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework*

The engagement partner ~~responsible for~~ on the audit resulting in this independent auditor’s report is [name].

### Harm’s Way Exemption

39. DT-700’s recommendation retains the harm’s way exemption, but incorporates the suggestion to strengthen it. The revised requirement requires the auditor to communicate the auditor’s intention to *not* include the name of the EP in the auditor’s report to management and, where appropriate, TCWG. DT-700 sees merit in having the requirement in order to dissuade the auditor from unilaterally invoking the harm’s way exemption. DT-700 discussed the possibility of having a requirement for TCWG to agree to the use of the harm’s way exemption together with the auditor, but opted not to establish a requirement that would establish responsibilities for TCWG within the ISAs. DT-700 also determined that additional application material is needed to:

- Further explain what is meant by the concept of a security threat (for example, clarifying that concerns about additional personal liability in certain circumstances would not constitute a security threat for application of the harm’s way exemption); and
- Emphasize that the use of the harm’s way exemption would be very rare.

<sup>35</sup> ISA 220, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(d)

40. DT-700 discussed the possibility of including as part of application or other explanatory material examples of industries or entities where harm's way exemption may be invoked, but decided not to, for fear of it potentially becoming the norm within those industries or types of entities.

#### **Matters for CAG Consideration**

2. Representatives are asked whether they agree with DT-700's recommendation related to:
- (i) Disclosing the name of the EP in the auditor's report, including the suggested revisions to the requirement and illustrative text; and
  - (ii) The harm's way exemption, including the suggested revisions to the requirement.

### **III. Enhanced Description of the Auditor's Responsibilities and Key Features of the Audit, Including Relocation (Question 13 of the ED)**

#### **Overview of Proposed Requirements**

41. Appendix 2 to this paper is an excerpt of proposed ISA 700 (Revised) showing the requirements related to the enhanced description of Auditor's Responsibilities and key features of the audit (collectively referred to as the enhanced standardized description) and relocation thereof. Proposed ISA 700 (Revised) included a requirement that the description of the enhanced standardized description be included either within the body of the auditor's report, or in an Appendix to the auditor's report.
42. The proposed ISA also noted that law, regulation or *national auditing standards* may expressly permit the auditor to refer to a website of an appropriate authority that contains a description of the auditor's responsibilities (website). This meant that where permitted by law, regulation or national auditing standards, auditors could provide a link to a website with an enhanced standardized description, rather than including the enhanced standardized description within the body of their auditor's report, or as an appendix thereto.
43. Proposed ISA 700 (Revised) specified that reference to a website could only be made if: (i) the description of the auditor's responsibilities on the website was not inconsistent with the required enhanced standardized description,<sup>36</sup> and (ii) the auditor's report included a reference to clearly indicate the location of the enhanced standardized description.

#### **Feedback from Respondents to the ED**

##### *Enhanced Standardized Description*

44. Consistent with the feedback to the ITC, there continues to be support across all stakeholder groups for having an enhanced standardized description. However, some respondents provided drafting suggestions to improve or expand on certain matters (for example, internal control, materiality, fraud, group audits, and other auditor reporting responsibilities).<sup>37</sup>

<sup>36</sup> Paragraphs 37–38 of proposed ISA 700 (Revised)

<sup>37</sup> NSS: IDW, UKFRC; *Accounting Firms*: DTT; *Member Bodies and Other Professional Organizations*: ICAS

45. Notwithstanding the strong support for the enhanced standardized description, four respondents<sup>38</sup> continue to cite concerns with having the section be included within the body of all auditor's reports, and suggested that the IAASB revise the requirement to make it less prescriptive, thereby allowing for the use of a more concise or abbreviated enhanced standardized description in the body of the auditor's report, or permitting relocation of the entire text to an appendix or website. There were also concerns expressed, even among those respondents who were supportive of the enhanced standardized description, that:
- The auditor's responsibilities in an audit are fundamentally the same irrespective of the auditing standards being followed, and that having different words to describe them in auditor's reports across jurisdictions (a possibility if reference to a website is permitted) could potentially confuse users.
    - Three respondents suggested that the IAASB work with NSS to achieve consistency in wording of the standardized description of the audit and the auditor's responsibilities.<sup>39</sup>
    - One respondent questioned whether there was a compelling need to change the extant description, and observed that the extant description of the auditor's responsibilities is more closely aligned to the PCAOB's proposed description of the auditor's responsibilities.<sup>40</sup>
  - The auditor's report is not the best vehicle for providing a more detailed overview of the audit. Three respondents were of a view that it was impractical to try to summarize description of the auditor's responsibilities in plain English rather than using the words directly from the ISAs without either unintentionally changing their established meaning; or creating further ambiguity when read by a lay person.<sup>41</sup>

*Relocation of the Enhanced Standardized Description to an Appendix or Website of an Appropriate Authority*

46. There were mixed views among respondents as to whether the auditor should have the option to relocate the enhanced standardized description to an appendix or, where law, regulation or national auditing standards permit, a website of an appropriate authority (website). The 25 respondents who expressed views on this issue were either:
- Supportive of relocation to either an appendix to the auditor's report or a website;<sup>42</sup>
  - Supportive of relocation to an appendix to the auditor's report only, but not a website;<sup>43</sup> or

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<sup>38</sup> *Regulators and Oversight Authorities: EAIG; NSS: UKFRC; Accounting Firms: PWC; Member Bodies and Other Professional Organizations: ICAEW*

<sup>39</sup> *NSS: ASB, HKICPA; Accounting Firms: PWC*

<sup>40</sup> *Accounting Firms: PWC*

<sup>41</sup> *Accounting Firms: PWC; Member Bodies and Other Professional Organizations: AIA, CPAA*

<sup>42</sup> *Investors and Analysts: IMA; Regulators and Oversight Authorities: IOSCO; NSS: HKICPA, MAASSB, NBA, UKFRC; Accounting Firms: MSUK, PS; Public Sector Organizations: PA; Member Bodies and Other Professional Organizations: ICAEW*

<sup>43</sup> *NSS: CAASB, IDW; Member Bodies and Other Professional Organizations: CICPA, IAA, ICAG*

- Not supportive of relocation at all because they were of a view that the description of the auditor’s responsibilities should be retained within the body of the auditor’s report (the extant approach).<sup>44</sup> Those respondents were of a view that the enhanced standardized description is an integral part of the auditor’s report.

One respondent was supportive of relocating the enhanced standardized description to a website, but not an appendix to the auditor’s report.<sup>45</sup>

47. The respondents supportive of relocating the standardized description to either an appendix or website of an appropriate authority were of a view that it was an appropriate way to deal with concerns about the increased length of the auditor’s report. Three respondents suggested that proposed ISA 700 (Revised) should go even further to permit more of the standardized sections in the auditor’s report to be relocated (for example, all of the auditor’s responsibilities versus only the shaded text in the illustrative auditor’s report featured in the IAASB’s ED).<sup>46</sup> On balance, there was more support for relocation to an appendix to the auditor’s report than for relocation to a website.
48. Thirteen respondents continue to cite the practical limitations of including a reference to a website in the auditor’s report (e.g., users may not access and read the material on a website; the wording on the website may not be updated at the same time as when the ISAs are updated; etc.).<sup>47</sup> At the time the IAASB’s ED was released, it was envisaged that, in those jurisdictions where reference to a website was permitted, mechanisms would already be established at the national level to mitigate the concerns raised by respondents.

#### *Responsibilities for Overseeing the Financial Reporting Process*

49. Respondents did not explicitly object to the requirement in proposed ISA 700 (Revised) to describe those responsible for overseeing the financial reporting process.<sup>48</sup> One respondent indicated that the level of flexibility in the requirement was appropriate to accommodate its national circumstances.<sup>49</sup>

#### **DT-700 Recommendation – Enhanced Standardized Description, Including Relocation**

##### *Enhanced Standardized Description*

50. Given the widespread support for the enhanced standardized description both from the feedback to the IAASB’s ITC and its ED, DT-700 recommends that:
- The requirement relating to the enhanced standardized description be retained; and

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<sup>44</sup> NSS: ASB; Accounting Firms: MAZARS, PWC, RSM; Public Sector Organizations: ACAG; Member Bodies and Other Professional Organizations: ASSIREVI, CalCPA, ICAA, ISCA, WPK

<sup>45</sup> Accounting Firms: EYG

<sup>46</sup> NSS: UKFRC; Member Bodies and Other Professional Organizations: FACPCE, ICAEW

<sup>47</sup> NSS: CAASB, FAP, IDW; Accounting Firms: MAZARS, PWC, RSM; Public Sector Organizations: ACAG, AGNZ; Member Bodies and Other Professional Organizations: CICPA, ICAG, ISCA, NZICA, WPK

<sup>48</sup> The following respondents expressed specific views supporting the requirement to describe those responsible for overseeing the financial reporting process: NSS: CAASB, UKFRC; Member Bodies and Other Professional Organizations: FAR.

<sup>49</sup> NSS: UKFRC

- DT-700 further study the drafting suggestions provided by respondents and bring its recommended revisions to proposed ISA 700 (Revised), if any, for the IAASB's consideration at its June 2014 meeting.

*Relocation of the Enhanced Standardized Description to an Appendix or Website*

Appendix

51. With respect to the option to relocate the enhanced standardized description to an appendix to the auditor's report, DT-700 recommends that this option should be retained. However, DT-700 agreed that application material should be developed to clarify that the relocation of the enhanced description to an appendix is an option available to the auditor, but not a requirement.
52. There were split views among DT-700 members as to whether proposed ISA 700 (Revised) should include additional application material to explain what is meant by the term "appendix." Some DT-700 members were of a view that proposed ISA 700 (Revised) should be more specific about the need for the placement of the appendix to be contiguous to the auditor's report. Other DT-700 members were of the view that the term appendix, by way of its definition, was sufficiently clear, and that adjoining placement is not necessary. One DT-700 member noted that the issue of placement will likely be irrelevant as technology continues to evolve towards electronic documents that will allow more options for accessing the appendix irrespective of its placement (e.g., through use of hyperlinks). DT-700 plans to further deliberate on this issue and form a view for the IAASB's consideration at its June 2014 meeting.

Website

53. Reflection on the nature of the feedback indicates that proposed ISA 700 (Revised) should be revised to clarify that the website option would only be available when *both* of the following two conditions apply:
  - First, the auditor must operate in a jurisdiction where law, regulation or NSS permit reference to a website; and
  - Second, the auditor must prefer the option of relocation and, when preferred, include a reference in the auditor's report to indicate where the enhanced standardized description is located. DT-700 is also of a view that it would be appropriate for the auditor's decision to relocate the enhanced standardized description to be discussed with TCWG.
54. Because the proposed requirement indicated that the auditor may only opt to refer to a website when law, regulation or national auditing standards expressly permit this, DT-700 recommends moving the proposed requirement relating to relocating the enhanced standardized description to a website to be adjacent to the requirements that address the minimum requirements to be included in auditor's reports where law and regulation, or national auditing standards, prescribe the wording and layout of the auditor's report (i.e. paragraphs 46 and 47-48 of proposed ISA 700 (Revised)).
55. DT-700 is of a view that relocating this will simplify proposed ISA 700 (Revised) and further clarify to whom this option applies. Paragraph 46(j) already requires a reference to the ISAs and the law or regulation and a description of the auditor's responsibilities for an audit of the financial statements in a manner that is not inconsistent with paragraphs 36–38 of proposed ISA 700 (Revised) as a

minimum element of the auditor's report. DT-700 was of a view that it was not necessary for the revised requirement in its new location to state that the website description should not be inconsistent with certain requirements in the ISAs.

#### Revised Text for CAG Consideration

56. Appendix 2 to this paper includes an illustration of DT-700's suggested revisions.

##### Matters for CAG Consideration

3. Representatives are asked whether they agree with DT-700's recommendation for moving forward with respect to the enhanced description of the auditor's responsibilities, including the suggested revisions related to relocation to a website.
4. Representatives are asked for views on how the matter of the specific placement of an Appendix to the auditor's report (see paragraphs 51-52) should be addressed in proposed ISA 700 (Revised).

#### IV. Structure and Format of the ISA Auditor's Report (Questions 14 of the ED)

##### Feedback from Respondents to the ED

57. There was general support for the presentation of the IAASB's illustrative auditor's report featured in the ED. However, some respondents provided suggestions as to how the content, headings and ordering of sections could be improved.<sup>50</sup>
58. Respondents across all stakeholder groups generally agreed that the IAASB's approach achieves the right balance in promoting further adoption of proposed ISA 700 (Revised), while providing NSS and others the flexibility to accommodate national reporting requirements. However, there were mixed views about whether the ordering of sections of the auditor's report should be mandated.

##### Headings and Ordering of Sections of the Auditor's Report

59. On balance, the majority of respondents across all stakeholder groups, including two MG members,<sup>51</sup> appeared to support the IAASB's approach to mandate the specific headings in the auditor's report, but not mandate the ordering of sections to the auditor's report.
60. On the other hand, some suggested that the IAASB provide a stronger steer to encourage its preferred presentation. The views about how the IAASB should do that varied:
  - 12 respondents were of a view that the IAASB should mandate the ordering of the auditor's report to ensure global consistency across ISA auditor's reports.<sup>52</sup> Those respondents were of a view that unless, law or regulation specified a particular presentation, the ordering of the

<sup>50</sup> Accounting Firms: EYG; Public Sector Organizations: AGC, AGSA; Member Bodies and Other Professional Organizations: AIA

<sup>51</sup> Regulators and Oversight Authorities: BCBS, IOSCO

<sup>52</sup> Respondents who explicitly indicated the need to mandate the ordering of sections in the auditor's report include: Regulators and Oversight Authorities: CPAB; NSS: AUASB, CAASB, HKICPA, IDW; Accounting Firms: DTT; Member Bodies and Other Professional Organizations: ASSIREVI, DNR, IBRACON; Academics: ABurrowes; Individuals and Others: CMunnariz, Firungu

required sections within an ISA auditor's report should be the same. Two respondents noted that, with a longer auditor's report, mandating the ordering of sections was even more important.<sup>53</sup>

- Some respondents suggested the IAASB should mandate only certain sections of the auditor's report (e.g., see the Opinion and Other Reporting Responsibilities (ORR) subsections below).

### *Opinion*

#### Placement of Opinion Section

61. Consistent with the feedback received on the ITC, there was strong support for having the auditor's opinion be prominently placed first in the auditor's report.<sup>54</sup> Of the nine respondents who explicitly commented on the placement of the auditor's opinion, all but one MG member suggested that the IAASB mandate the placement of the Opinion section first. This MG member (IOSCO) was of a view that the Opinion section should be prominently placed in the auditor's report, but not necessarily always as the first section.

#### Placement of Paragraphs within the Opinion Section

62. Six respondents suggested that the placement of the paragraphs within the Opinion section should be revised.<sup>55</sup> Some suggested reversing the ordering of the two paragraphs in the Opinion section, while others were of a view that the second paragraph would be better positioned within the "Basis for Opinion" section of the auditor's report.

### *ORR and Other Matters Relating to the Structure and Format of the Auditor's Report*

63. There were mixed views among respondents about the level of flexibility that should be permitted in relation to auditors to present ORR in the auditor's report (i.e., the auditor's responsibilities under law or regulation or NSS that are in addition to the auditor's responsibility under the ISAs), although many respondents did not explicitly comment on this area.
64. On one hand, some respondents welcomed the additional flexibility, including the ability to present similar topics in the auditor's report within the same section. One respondent was of a view that the auditor's judgment is important in determining the placement of ORR in relation to other information in the auditor's report, because what is determined to be most meaningful to users differs across jurisdictions and cultural environments.<sup>56</sup>
65. On the other hand, some respondents expressed concerns about the increased level of flexibility that proposed ISA 700 (Revised) allowed. Those respondents suggested that, in order for ORR

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<sup>53</sup> *Academics: ABurrowes; Individuals and Others: CMunnariz*

<sup>54</sup> The following respondents explicitly commented on the placement of the auditor's opinion and all but IOSCO suggested that the IAASB mandate that the placement of the Opinion section be first: *Investors and Analysts: IMA; Regulators and Oversight Authorities: BCBS, EBA, IOSCO, MAOB; Accounting Firms: BDO, DTT, EYG, KPMG.*

<sup>55</sup> AUASB, GTI and WPK suggested that the paragraph be positioned as the first paragraph within the Basis of Opinion section, while DTT, EYG, and SMPC suggested that the ordering of the two paragraphs within the Opinion section be reversed.

<sup>56</sup> NSS: UKFRC

to be meaningful to users, it should be addressed in a separate section of the auditor's report<sup>57</sup> (i.e., retain the two-part auditor's report as is currently required under extant ISA 700). Those respondents explained that the extant approach is the only way to clearly delineate ORR from the auditor's responsibilities under ISAs – in their view, this delineation is essential for comparability in auditor's reports across jurisdictions.

#### *Auditor's Report Prescribed by Law or Regulation*

66. Respondents were generally supportive of the IAASB's requirements with respect to the minimum elements that the auditor should include in an ISA auditor's report when law or regulation specifies a particular wording or layout. However, some respondents provided suggestions to improve these requirements. One respondent suggested that the elements set out in paragraphs 46(a)-(n) of proposed ISA 700 (Revised) should be revisited, and clarified, in light of new reporting requirements being explored at national levels, such as the PCAOB proposals.

#### **DT-700 Recommendation – Structure and Format of the ISA Auditor's Report**

67. Reflecting on the feedback received, DT-700 recommends the following:
- (a) Establishing a new requirement to mandate that the Opinion section always be presented first in the auditor's report, immediately followed by the Basis for Opinion section. Paragraph 46 of proposed ISA 700 (Revised) would continue to accommodate those jurisdictions with law or regulation that prescribe a different placement of the Opinion and Basis for Opinion section within the auditor's report.
  - (b) Reversing the ordering of the two paragraphs in the Opinion section for the purposes of the illustrative auditor's report as follows, but not as an IAASB mandated requirement.

#### **Revised Text for CAG Consideration**

*Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework*

#### **Opinion**

~~In our opinion, the accompanying financial statements of ABC Company (the Company) are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.~~

We have audited the financial statements of the Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of ABC Company (the Company) are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

- (c) Retaining the requirements relating to the minimum elements necessary for an auditor to make reference to the ISAs in their auditor's report when law or regulation specifies the

<sup>57</sup> Regulators and Oversight Authorities: ESMA; NSS: IDW; Accounting Firms: GTI

layout or wording (i.e., paragraphs 46-47), taking into account respondents' suggested refinements as DT-700 determines to be appropriate.

- (d) Clarifying the requirement relating to ORR to indicate that the combining of sections of the auditor's report would only be permitted to enhance the presentation and readability of similar topics, and that the presentation of ORR should be clearly delineated from the auditor's reporting responsibilities under the ISAs. The following revised requirement for ORR incorporates the wording and principles of extant ISA 700.<sup>58</sup>

**Revised Text for CAG Consideration**

*Proposed ISA 700 (Revised) Requirement*

Other Reporting Responsibilities

41. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the ISAs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report that shall be presented in a section with a heading "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless the other reporting responsibilities address the same topics presented under reporting responsibilities required by the ISAs. In the latter case, other reporting responsibilities shall be clearly differentiated from reporting responsibilities required by the ISAs.

41a. If the auditor's report contains a separate section on other reporting responsibilities, the required sections referred to in paragraphs X–Y, shall be under a section with a heading "Report on the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Financial Statements."

**Matters for CAG Consideration**

5. Representatives are asked whether they agree with DT-700's recommendations for moving forward with respect to the structure and format of the auditor's report, including the proposed revised wording relating to other reporting responsibilities above.
6. Representatives are asked for views about DT-700's recommendations with respect to the structure and format of the ISA auditor's report, including the suggestion to mandate the placement of the Opinion and Basis for Opinions sections first.

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<sup>58</sup> ISA 700, paragraphs 38–39

## V. Other Matters Raised by Respondents to the IAASB's ED

### Implications of Auditor Reporting Proposals by Others

68. The IAASB's ED did not include requirements for disclosing information about:
- The involvement of other auditors in the auditor's report,<sup>59</sup> and
  - Auditor tenure.
69. DT-700's discussions suggest that the matters above, similar to the disclosure of the EP's name, are perceived to contribute towards achieving increased levels of transparency and confidence in audits of financial statements. The PCAOB proposals (see **Agenda Item C**) impose requirements relevant to auditor reporting relating to the above matters, and it has been suggested that the European Union Auditor Reform proposals will address independence and transparency matters, including auditor tenure.
70. Because of the overlap in the comment period to the IAASB's and the PCAOB's auditor reporting proposals, some respondents provided a joint letter in response to the PCAOB's and IAASB's proposals. Two of those respondents<sup>60</sup> indicated that information about auditor tenure in the auditor's report is useful; and three respondents<sup>61</sup> expressed disappointment that the IAASB's ED did not include a requirement for disclosing information about the involvement of other auditors in the auditor's report. On the other hand, one respondent<sup>62</sup> offered unprompted support for the IAASB's decision not to include such a requirement in its ED.
71. DT-700 was of a view that no further action is needed from IAASB at this time on these two topics as part of its auditor reporting project. Further, some DT-700 members pointed out that because the IAASB did not ask a specific question about these two topics in its ED, there is not sufficient information to conclusively determine how many other respondents would hold similar views. Specific to the disclosure of the involvement of other auditors in the auditor's report, DT-700 noted that the topic was raised in the ITC. During its deliberations, at that time, the IAASB concluded based on the ITC respondents' feedback (see footnote 59) that it would be inappropriate to include disclosing such information in the auditor's report because it would contradict the requirements and principles in ISA 600. However, as noted at **Agenda Item C**, these proposals will continue to serve as important inputs to DT-700's work, and the auditor reporting project more broadly, and may be relevant to the future post-implementation review.

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<sup>59</sup> This was because feedback to the ITC indicated that such a disclosure would contradict the requirements and principles that exist in ISA 600. The analogous PCAOB standard, AU 543, *Part of Audit Performed by Other Independent Auditors*, unlike ISA 600, allows for divided auditor responsibility when multiple auditors are involved in an engagement.

<sup>60</sup> *Investors and Analysts*: CFA, CII

<sup>61</sup> *Regulators and Oversight Authorities*: CPAB, JSE; *Member Bodies and Other Professional Organizations*: ICAZ

<sup>62</sup> *Member Bodies and Other Professional Organizations*: EFAA

**Conforming Amendments to Other ISAs, including ISA 705<sup>63</sup> and ISA 800 Series<sup>64</sup>**

72. Although no specific question was asked, the EM to the IAASB's ED welcomed views on the potential amendments that would need to be made the ISA 800 Series as a result of the IAASB's auditor reporting ED. Only one respondent<sup>65</sup> provided views on this topic.
73. Similarly, proposed revisions to ISA 705 were included in the IAASB's ED. A number of respondents provided specific suggestions relevant to proposed ISA 705 (Revised).<sup>66</sup> Consistent with the approach taken in progressing issues leading up to issuance of the ED, DT-700 recommends that the IAASB first agree on the broad direction to be taken in revising proposed ISA 700 (Revised) before deliberating on conforming changes needed to proposed ISA 705 (Revised).
74. In terms of timing, DT-700 recommends that the IAASB seek to agree the final wording of proposed ISA 700 (Revised) at its June 2014 meeting. DT-700 further recommends that issues related to ISAs 705 and the 800 Series also be tabled for discussion at the IAASB's June 2014 meeting, with a view to the IAASB providing input on issues relating to finalizing proposed ISA 705 (Revised) and issuing a new ED including conforming amendments to ISA 800 Series conforming amendments. It is anticipated that the IAASB will approve final ISAs 700 (Revised) and 705 (Revised); and a new ED related to ISA 800 Series at its September 2014 meeting.

**Matters for CAG Consideration**

7. Representatives are also invited to raise any other comments they believe may be relevant to the IAASB as it seeks to finalize its proposals related to the remaining suggested improvements.

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<sup>63</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

<sup>64</sup> The term "ISA 800 Series" incorporates the following ISAs: ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements or Items of a Financial Statement*; and ISA 810, *Engagements to Report on Summary Financial Statements*.

<sup>65</sup> NSS: IDW

<sup>66</sup> The following respondents provided drafting suggestions related to proposed ISA 705 (Revised): NSS: IDW; *Accounting Firms*: EYG, GTI; *Public Sector Auditors*: AGNZ, AGSA

## Appendix 1

(Ref: Para. 29)

### Background to the Harm's Way Exemption Requirement in Place in the UK

1. The information below provides additional information, about the harm's way exemption, including illustrations of "real life" examples permitted by European Directive and UK company law.
2. The 2006 EU Statutory Audits Directive established a requirement for the name of the person signing the audit report to be disclosed and also a provision exempting the naming of the disclosed in financial statements in exceptional circumstances. That provision states:

Where an audit firm carries out the statutory audit, the audit report shall be signed by at least the statutory auditor(s) carrying out the statutory audit on behalf of the audit firm. In exceptional circumstances Member States may provide that this signature need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any person. In any case the name(s) of the person(s) involved shall be known to the relevant competent authorities.<sup>67</sup>
3. As is customary with EU Directives, it is then for member states to transpose the directive into local law. In the UK, the relevant local law is in:
  - Section 505 of the Companies Act 2006, which requires that every company audit report includes the name of the person who signed the report as senior statutory auditor, unless Section 506 is applied; and
  - Section 506, which sets out the circumstances whereby the name of the firm and /or the name of the person who signed the report may be omitted.
4. Section 506 sets two conditions for the omission of information.
  - Firstly, the company "considering on reasonable grounds that statement of the name would create or be likely to create a serious risk that the auditor or senior statutory auditor, or any other person, would be subject to violence or intimidation, has resolved that the name should not be stated."
  - Secondly, notice of the resolution must be provided to the Secretary of State (a term to describe a minister in the government) and also the information that has been omitted must be provided to the Secretary of State.
5. Accordingly, there are no company audit reports issued where the name of the person signing the report or the identity of the firm is only known to officials of the company and the auditor. Either the information is placed into the public domain or it is provided to a public official.
6. Note that it is the company, and not the auditor, that initiates the Section 506 omission. This means that in effect both parties need to be in agreement that Section 506 should apply. An auditor cannot

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<sup>67</sup> Article 28 EU Statutory Audit Directive

apply Section 506 without the company having passed a resolution. A company passing a resolution could in theory, find that their auditor chooses to include the information in their report. But in practice such disagreements do not appear to arise.

7. Both Sections of the Companies Act 2006 are reproduced below.

### Illustrative Examples of Harm's Way Exemptions

8. The following are excerpts of "real life" auditor's reports and feature examples of the use of the harm's way exemption in the UK, provided by the ICAEW ISA Working Group. The ICAEW ISA Working Group indicated that the use of the Section 506 exemption is rare, based on its consultations with audit firms. Three of the five respondents who furnished the information for DT-700's consideration (including one from the Big 4) could not recall an instance of it being applied by their firm.
9. Representatives of the two firms that have applied the exemption could only identify one instance. Firstly, there is the PwC auditor's report for GlaxoSmithKline. The relevant extract is:

#### Other matters

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We have reported separately on the parent company financial statements of GlaxoSmithKline plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
5 March 2013

10. Another Big 4 firm uses identical language in their example:

The company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the auditors name should not be stated.

[Company not identified]

11. The identical wording is not surprising. The choice of words is tightly constrained by the requirements of Section 505, which specifically requires reference to a resolution in accordance with Section 506. Seemingly this is not an area where the auditor is going to use more words than are absolutely necessary. Indeed one member of the ICAEW's ISA group advised that if their firm were to apply Section 506 (which they have not), the words on their template are those cited in the examples above.

12. There is one further example available. The origin of Section 506 was in some ways connected to activity and press coverage relating to a particular company, Huntingdon Life Sciences Plc. That company continues to operate and their financial statements are available on the public record at Companies House. The auditor's report states:

**Senior statutory auditor exemption**

The company passed a resolution in accordance with Section 506 of the Companies Act 2006 that the auditors' name should not be stated.

Dated 26/9/2013

13. In addition to illustrative example above, DT-700 notes that, in addition to the wording, the name of the audit firm was not disclosed. The above is an example of Section 506 being applied to omit not just the identity of the person signing the report, but also the identity of the firm responsible for the audit.

## **Excerpt—Relevant Requirements of UK Company Law**

### *Section 505 Names to be Stated in Published Copies of Auditor's Report*

1. Every copy of the auditor's report that is published by or on behalf of the company must—
  - (a) State the name of the auditor and (where the auditor is a firm) the name of the person who signed it as senior statutory auditor, or
  - (b) If the conditions in section 506 (circumstances in which names may be omitted) are met, state that a resolution has been passed and notified to the Secretary of State in accordance with that section.
2. For the purposes of this section a company is regarded as publishing the report if it publishes, issues or circulates it or otherwise makes it available for public inspection in a manner calculated to invite members of the public generally, or any class of members of the public, to read it.
3. If a copy of the auditor's report is published without the statement required by this section, an offence is committed by—
  - (a) The company, and
  - (b) Every officer of the company who is in default.
4. A person guilty of an offence under this section is liable on summary conviction to a fine not exceeding level 3 on the standard scale.

### *Section 506 Circumstances in which names may be omitted*

1. The auditor's name and, where the auditor is a firm, the name of the person who signed the report as senior statutory auditor, may be omitted from—
  - (a) Published copies of the report, and
  - (b) The copy of the report delivered to the registrar under Chapter 10 of Part 15 (filing of accounts and reports),if the following conditions are met.
2. The conditions are that the company—
  - (a) Considering on reasonable grounds that statement of the name would create or be likely to create a serious risk that the auditor or senior statutory auditor, or any other person, would be subject to violence or intimidation, has resolved that the name should not be stated, and
  - (b) Has given notice of the resolution to the Secretary of State, stating—
    - (i) The name and registered number of the company,
    - (ii) The financial year of the company to which the report relates, and
    - (iii) The name of the auditor and (where the auditor is a firm) the name of the person who signed the report as senior statutory auditor.

## Appendix 2

(Ref: Paras. 41, 56)

### **Excerpt—DT-700 Revised Text of Proposed ISA 700 (Revised) Related to Relocation of Auditor’s Responsibilities Section to Website of Appropriate Authority when Law or Regulation Permits**

**Note:** Further changes to these requirements may be considered necessary in light of the IAASB, CAG and DT-700’s deliberations. These will be considered at the June 2014 IAASB meeting.

#### **Auditor’s Report**

*Auditor’s Report for Audits Conducted in Accordance with International Standards on Auditing*

#### Auditor’s Responsibilities for the Audit of the Financial Statements

35. The auditor’s report shall include a section with the heading “Auditor’s Responsibilities for the Audit of the Financial Statements.”
36. The auditor’s report shall state that:
  - (a) The objectives of the audit are to:
    - (i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
    - (ii) Issue an auditor’s report that includes an opinion. (Ref: Para. A36)
  - (b) 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; and
  - (c) 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.
37. The auditor’s report shall further: (Ref: Para. A37)
  - (a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the planning and performance of the audit; and
  - (b) Describe an audit by stating that the auditor’s responsibilities are:
    - (i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor’s opinion. 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.
    - (ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of

expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- (iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - (iv) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (c) In circumstances where ISA 600<sup>68</sup> applies, further describe an audit by stating that the auditor's responsibilities in a group audit are:
- (i) To obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the group financial statements;
  - (ii) For the direction, supervision and performance of the group audit; and
  - (iii) To remain solely responsible for the auditor's opinion.

38. The auditor's report shall also state that the auditor is required to:

- (a) Communicate with [those charged with governance] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit; and
- (b) For audits of financial statements of listed entities, provide [those charged with governance] with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Location of the description of the auditor's responsibilities for the audit of the financial statements

39. The description of the auditor's responsibilities required by paragraphs 37–38 shall be included within the body of the auditor's report or in an Appendix to the auditor's report. When the auditor's responsibilities are included in an Appendix, the body of the auditor's report shall make reference to the location of that Appendix. (Ref: Para. A38–A39)

40. ~~Law, regulation or national auditing standards may expressly permit the auditor to refer to a website of an appropriate authority that contains a description of the auditor's responsibilities. When:~~

- ~~(a) That description is not inconsistent with the requirements set out in paragraphs 37–38; and~~

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<sup>68</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- ~~(b) The auditor decides to refer to that website rather than include the description of the auditor's responsibilities in the auditor's report;~~

~~the auditor shall include a reference in the auditor's report to clearly indicate where this description is located. (Ref: Para. A38, A40–A41)~~

#### *Auditor's Report Prescribed by Law or Regulation*

46. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout or wording of the auditor's report, the auditor's report shall refer to International Standards on Auditing only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A52–A56)
- (a) A title.
  - (b) An addressee, as required by the circumstances of the engagement.
  - (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards, see paragraph 26).
  - (d) An identification of the entity's financial statements that have been audited.
  - (e) A statement that the auditor is independent of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation] and has fulfilled the auditor's other responsibilities under those ethical requirements. If the independence and other ethical responsibilities are established by different sources, then the second part of the statement shall also specify the source of the other relevant ethical requirements.
  - (f) A section that addresses the reporting requirements in proposed ISA 570 (Revised) relating to going concern.
  - (g) Where applicable, a section that includes the information required by proposed ISA 701, or additional information about the audit that is prescribed by law or regulation and that is not inconsistent with the reporting requirements in that ISA.<sup>69</sup> In circumstances where law or regulation either requires or permits the auditor or those charged with governance to prepare a separate report including a description of such information, this section either includes a description of the key audit matters, or refers to such a description in a report issued by those charged with governance, or in a supplementary report of the auditor. (Ref: Para. A53–A55)
  - (h) A section that addresses the reporting requirements in proposed ISA 720 (Revised).
  - (i) A description of the responsibilities of those responsible for the preparation of the financial statements.

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<sup>69</sup> Proposed ISA 701, paragraphs 9–11

- (j) A reference to International Standards on Auditing and the law or regulation and a description of the auditor's responsibilities for an audit of the financial statements in a manner that is not inconsistent with paragraphs 36–38.
- (k) For audits of financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant security threat to the individual.
- (l) The auditor's signature.
- (m) The auditor's address.
- (n) The date of the auditor's report.

46A ~~Where law, or regulation or national auditing standards may expressly permit the auditor to refer to a website of an appropriate authority that contains a description of the auditor's responsibilities, the~~ **auditor shall communicate this decision with those charged with governance and shall include a reference in the auditor's report to clearly indicate where this description is located.** ~~When:~~

- ~~(a) That description is not inconsistent with the requirements set out in paragraphs 37–38; and~~
- ~~(b) The auditor decides to refer to that website rather than include the description of the auditor's responsibilities in the auditor's report;~~

~~the auditor shall include a reference in the auditor's report to clearly indicate where this description is located.~~ (Ref: Para. A38, A40–A41)

*Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and International Standards on Auditing*

- 47. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the "national auditing standards"), but may additionally have complied with the ISAs in the conduct of the audit. If this is the case, the auditor's report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if: (Ref: Para. A57–A58)
  - (a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph that, in the particular circumstances, is required by ISAs; and
  - (b) The auditor's report includes, at a minimum, each of the elements set out in paragraph 46(a)–(n) and where applicable paragraph 46A above when the auditor uses the layout or wording specified by the national auditing standards. However, reference to "law or regulation" in paragraph 46(j) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards.
- 48. When the auditor's report refers to both the national auditing standards and International Standards on Auditing, the auditor's report shall identify the jurisdiction of origin of the national auditing standards.