

Updated Agenda Item 5-A

Enhancing the Value of Auditor Reporting – Draft IAASB Project Proposal to Revise Relevant ISAs

Updated for IAASB December 2011 Discussions

I. Subject

1. The revision of ISA 700¹ and, as appropriate, the revision of or conforming amendments to related standards in the ISA 700 series or other communication requirements in relevant ISAs (for example, ISA 260),² to help enhance the communicative value of auditor reporting to users of audited financial statements (users), together with related initiatives designed to seek to narrow users' "expectations gap" and "information gaps".³ In addition, the revisions will explore new ways in which auditor reporting could accommodate evolving national reporting regimes and facilitate enhanced approaches in corporate reporting.

II. Background

2. Academic research co-sponsored by the IAASB, as well as the outreach activities of the IAASB and others, has resulted in compelling evidence of strong demand by investor and user communities for change.⁴ Groups such as the CFA Institute, Global Audit Investor Dialogue (GAID), the International Corporate Governance Network (ICGN), and the U.S. Center for Audit Quality (CAQ) have also approached their constituents, as well as the IAASB, to bring forth viewpoints and concerns relevant to auditor reporting. Acknowledging the importance of auditor reporting in addressing users' information needs, the International Organization of Securities Commissions (IOSCO) had taken initiatives in advance of the IAASB's issuance of its Consultation Paper (CP) to consult on the topic of auditor communications as a "call for action." Many have suggested that now is the time for a fundamental review of auditor reporting. The calls for change have been particularly strong in the U.S., U.K. and elsewhere in Europe.

IAASB Consultation on Auditor Reporting

3. In an effort to explore how best to respond to such requests for additional information in auditor reporting, the IAASB issued a CP, *Enhancing the Value of Auditor Reporting: Exploring Options for Change*, in May 2011. The objective of the CP was to (i) determine whether there are common views among key users and other parties to the financial

¹ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

² ISA 260, *Communication with Those Charged with Governance*

³ The term "expectations gap" has been defined and described in a number of ways. In the broadest terms, the expectations gap is the difference between what users expect from the auditor and the financial statement audit, and the reality of what an audit is. The term "information gap" describes the divide between what users believe is necessary to make informed investment and fiduciary decisions, and what is available to them through the entity's audited financial statements, the auditor's report or other publicly available information.

⁴ See *Other Relevant Sources of Information*, included as Appendix 1 to this paper.

reporting process about the usefulness and relevance of auditor reporting, and (ii) obtain views about the extent to which an expectations gap or information gap exists. The CP also sought views about possible options for enhancing the quality, relevance and value of auditor reporting, implications for change and potential implementation challenges, and whether there were factors that would lead to different solutions for different types of entities.

4. There was a wide range of views expressed among respondents to the CP as to whether or how auditor reporting could be enhanced. Specific discussions of key matters noted on consultation are included in Section IV below, and are analyzed in greater detail in **Agenda Item 5-B** and **Agenda Item 5-C**. Notwithstanding the diversity in the views based on the category and geographic location of the respondents, there was strong support, both implicitly and explicitly, among the majority of respondents for the IAASB to take on a formal project on auditor reporting at this time. The Auditor Reporting Working Group (WG) believes that approving the commencement of a formal project on auditor reporting at this time would enable the IAASB to timely respond to further calls for change. This project proposal contemplates steps aimed at further understanding and reconciling views of users, in order for the IAASB to best meet their information needs.

Relevant Developments of Regulators and Policymakers, Standard Setters and Others

5. Regulators and policymakers, standard setters and others in certain jurisdictions have identified the need to explore enhancements to auditor reporting as well as corporate reporting more broadly.⁵ Amongst others:
 - In France, the current auditor reporting model, established in 2003, was developed in the context of country law applicable to corporate reporting and auditing to improve the communicative value of the statutory auditor's report (see further discussion in paragraph 19). In response to the interest shown in the French statutory auditor's report by the European and international communities, the Compagne Nationale des Commissaires aux Comptes (CNCC) commissioned an independent study to survey users' perception about its usefulness.⁶ That study noted that the value ascribed to the additional information included in the French auditor's report varied considerably among the survey respondents.
 - ~~In November 2011, the European Commission (EC) currently has efforts proposed legislation and a directive underway to reform audit policy arising from lessons from the global financial crisis, including. It is anticipated that proposals pertaining to the content of statutory auditor's reports and auditor's reports to audit committees will feature among a series of proposals that will be put forward for legislative debate in the near term.~~
 - The U.S. Public Company Accounting Oversight Board (PCAOB) has several initiatives underway to explore changes to the auditor reporting model, including (a) its Concept Release (CR) on possible options for changes to the auditor's report to increase its communicative value; and (b) proposed rules relating to enhanced

⁵ See Appendix 1 of this paper and Appendix 2 of **Agenda Item 5-B**.

⁶ Available at http://www.cncc.fr/download/footprintconsultant_reportstudy_va_cncc_fev2011.pdf

transparency in auditor's reports through disclosure of the name of the engagement partner and others participating in the audit. With respect to its CR on auditor reports, the PCAOB has signaled at its recent Standing Advisory Group (SAG) meeting that it would anticipate issuing standard-setting proposals relating to auditor reporting in the second quarter of 2012.

- The U.K. Financial Reporting Council (FRC) has recently made recommendations to enhance reporting responsibilities for audit committees to the full Board of Directors (BoD), via an expanded report made public by inclusion in the entity's annual report. Auditors would then provide an expanded auditor's report to include (i) a new section that addresses the completeness and reasonableness of the audit committee's report; and (ii) identification of any matters in the annual report that the auditors believe are incorrect or inconsistent with the information contained in the financial statements or obtained in the course of their audit. The FRC completed an earlier initiative to facilitate more concise audit reports in 2009 and revised U.K. audit reports to specifically refer to the auditor's responsibilities in relation to ISA 720.⁷
6. In light of such national and regional developments, many have strongly signaled the importance of coordinated efforts that focus on consistency and comparability in auditor reporting. Respondents to the CP also have highlighted the role the IAASB has in that regard, given the rapidly expanding global use of ISAs. This and other important views were echoed by the IAASB's Consultative Advisory Group (CAG).

III. Project Scope, Objectives and How They Serve the Public Interest

Project Scope

7. The scope of this project is to increase the relevance and usefulness of auditor reporting, including improvements to the content and structure of the auditor's report~~in the overall context of increasing the relevance of auditor communications~~. The focus will therefore mainly be on ISA 700, or other communication requirements in relevant ISAs.⁸ In proposing changes to the standard(s), principal consideration will be given to confirming the information needs of investors and determining how best to meet those needs (and thereby narrow the expectations and information gaps), while at the same time considering the implications of such proposals to others in the financial reporting process, including those charged with governance (TCWG), regulators, preparers and auditors.
8. The underlying premise of the project would be to maintain the current scope of the audit. The project does not anticipate changing the fundamental role of the auditor in performing an audit of financial statements in accordance with the ISAs, but rather how the auditor reports on the audit, either in the auditor's report or through other communications. If, during the course of the project, the project Task Force (TF) identifies a need to do so, it will make clear any recommendations as appropriate for consideration by the IAASB. For

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

⁸ For example, ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, ISA 720, ISA 260 and ISA 570, *Going Concern*

example, while it is currently contemplated that the project TF will explore how the auditor's report could describe the auditor's responsibilities in relation to going concern (see paragraph 31), substantive revisions to the requirements and guidance in ISA 570 are not contemplated by this project.

9. In light of the strong support among respondents⁹ for exploring an enhanced corporate governance reporting model, ISA 260 will be considered in the context of exploring enhanced auditor communications to TCWG as a step towards an enhanced corporate governance reporting model.
10. The scope of the project also does not extend at the immediate time to the ISA 800 series (i.e., special reports). Any such further steps in these areas, if deemed necessary, will be considered by IAASB in due course. For example, while changes may be necessary to the illustrative examples in these standards, changes to the additional reporting requirements relating to special purpose frameworks and reporting for audits of single financial statements or specific elements, accounts or items of a financial statement are not contemplated by this project.
11. The IAASB also has a project on its current standard-setting work program to revise ISA 720. The CP solicited feedback on whether the auditor's report should include a statement about the auditor's responsibilities regarding other information, and respondents were supportive of doing so. There may be some merit in including a reporting requirement in the planned March 2012 exposure draft (ED) of ISA 720 to better align the reporting responsibility with the work effort contemplated in the ED and more rapidly respond to calls for change. On balance, however, both the ISA 720 TF and Auditor Reporting WG agree it is preferable that the reporting responsibility is dealt with as part of the auditor reporting project, in coordination with the ISA 720 TF, given that there may be broader discussions about the auditor's involvement with other information that will need to be fully debated by the IAASB before putting forth proposals.
12. Subject to the IAASB's deliberations on its *Strategy and Work Program, 2012-2014*,¹⁰ it is envisaged that an Innovation, Needs and Future Opportunities-Strategy Working Group (SWG)¹¹ (INFO WG) will be established in 2012. This group is likely best positioned to consider a more holistic approach to change, particularly international and national initiatives aimed at enhancing financial reporting by management and TCWG. It is expected that this group will monitor relevant developments, which will include emerging issues in corporate reporting that are likely to affect the future of auditor reporting. Developments in this regard could include:

⁹ See paragraphs 49-50 of **Agenda Item 5-B**.

¹⁰ See **Agenda Item 3** for the draft *Strategy and Work Program, 2012-2014*, which is being presented to the IAASB for approval at its December 2011 meeting.

¹¹ The aim of the INFO SWG is to further explore emerging areas such as integrated reporting, reporting on corporate governance, sustainability, internal control, and XBRL. The INFO SWG will report periodically with a view to informing the IAASB's longer-term strategy. The INFO SWG may recommend specific work streams for the IAASB to pursue, avenues of cooperation with interested stakeholders, how best to gather input at earlier stages of any potential project to develop standards in these areas, and whether to develop discussion papers or thought pieces. It may also develop reports on findings that may be shared with NSS, regulators, firms and other organizations to stimulate further debate and collaboration.

- The FRC’s and the International Integrated Reporting Committee’s (IIRC) projects related to improving corporate reporting and disclosures.
- Changes in management and governance reporting to increase transparency, clarity and relevance of the corporate financial reporting process, and engaging in the debates as necessary.
- Demands by users and others for assurance on information not within the current scope of the financial statement audit.

Close collaboration between the project TF and the SWG will therefore be necessary.

13. Related, collaborating and coordinating with accounting standard setters was also suggested as a means of promoting a holistic approach to change to address the information needs of users. In this regard, the IAASB-International Accounting Standards Board (IASB) liaison initiative will be directly relevant.

Project Objectives

14. The project objectives are to:

- (i) Appropriately enhance the communicative value and relevance of the auditor’s report through proposed revisions to ISA requirements that address its structure and content; and
- (ii) Determine whether and how the IAASB’s reporting ISAs, in their design, can be modified to accommodate evolving national financial reporting regimes, while at the same time ensuring that common and essential content is being communicated (referred to as a “building blocks approach”).¹²

Achieving the project objectives is premised on the need to take into account the activities of others noted in paragraph 5, and consider how the IAASB may act to minimize the differences in auditor’s reports that may result from these separate initiatives.

How the Project Serves the Public Interest

15. The project aims to explore avenues to help address both the information gap and the expectations gap in order to meet demands of users and investors for more information that is relevant for making their investment decisions. The project will also explore new ways in which auditor reporting could accommodate evolving national reporting regimes and facilitate enhanced approaches in corporate reporting, allowing for the use of the ISAs in those jurisdictions (for example, auditor reporting on information provided by the BoD or TCWG). The combination of the two objectives of the project is responsive to calls from some respondents that it is the information about the audit that is important, and views as to whether the source of the information is the auditor or audited entity may vary between jurisdictions.

¹² See further discussion of the “building blocks approach” in paragraphs 22-27 of this paper and 73-76 of **Agenda Item 5-B**.

IV. Outline of the Project

Major Problems and Issues that Will Be Addressed

16. Responses to the CP, and feedback from dialogue facilitated by others, have provided useful insight into the information needs of key groups of users. As addressing the information needs of users will be of paramount importance in this project, the project TF will need to consider how best to engage members of the user community, taking into account different demographics such as size, sophistication, culture and ownership/governance structures in order to seek their input in debating the merits of particular courses of action and developing proposals for recommending to the IAASB. In determining the nature and extent of proposed changes to the auditor's report, the project TF will need to explore how best to respond to, and prioritize the needs of, investors and analysts, while also taking into account the needs of regulators, TCWG, lenders, etc.). Further discussion about how the TF may obtain further input from stakeholders at various stages of the project is included in paragraphs 46-51.
17. Consideration will also need to be given as to how to address regional differences in regard to calls for change¹³ and also to ensure the needs of users of small- and medium-sized entities' (SME) financial statements are also being considered, in light of concerns expressed that any proposals should not be unduly burdensome to SMEs.
18. ~~It will be necessary for the project TF to consider and evaluate how the IAASB's timing of the project, including its key milestones, should take into account the activities of others noted in paragraph 5, and how the IAASB may act to minimize the differences in auditor's reports that may result from these separate initiatives. The project TF will need to consider and evaluate how the IAASB's timing of the project, including the prioritization of issues to be explored and key milestones, will be affected by developments of others. The IAASB will also need to consider whether proposals in addition to those currently being contemplated by others may be appropriate to ensure the objectives of the project are met.~~

Modifying the ISAs to Accommodate Enhancements Made by National Financial Reporting Regimes

19. It is noted that while many jurisdictions have adopted the ISAs, some have not adopted the form and content of the auditor's report envisaged by ISA 700. For example:
 - The U.K. Auditing Practices Board (APB) (a subsidiary Board of the FRC) permits auditors to include a cross reference to the description of the scope of an audit on the APB's website instead of including such narrative in the auditor's report.¹⁴ This was in response to concerns raised by U.K. investors that auditor's reports were unnecessarily lengthy and contained little information value.

¹³ As noted in paragraph 2, calls for change are particularly strong from users in the U.S., U.K., and other parts of Europe, while notably less so from respondents in the Asia Pacific region. Further consideration will need to be given as to how to obtain further input on the IAASB's proposals from users in this region in particular.

¹⁴ The APB believes that, in addition to removing standard wording from the auditor's report, the website reference enables a more complete description to be provided, thereby contributing to reducing the expectations gap.

- In France, country law requires all statutory auditor reports to include a separate section, referred to as the “justifications of assessments,” where the auditor identifies certain key areas of the financial statements and provides information about the auditor’s procedures in those areas.¹⁵ As noted in paragraph 5, a recent survey among users of the French auditor’s report indicated mixed reactions regarding its usefulness.

20. Beyond modifications to the ISA 700 auditor’s report, some have looked at reporting models more broadly in exploring how best to meet the information needs of users. For example, the FRC’s work in this area has resulted in proposals that acknowledge that management and TCWG have a significant role to play in this regard and, accordingly, the standard-setting activities in relation to these proposals are expected to focus on not only the reporting standards, but also ISA 260, as a means of strengthening the auditor’s communication with TCWG.

Consistency versus Relevance in Auditor Reporting

21. In light of signals from certain jurisdictions that there is a need for ISA 700 to provide for national circumstances and evolving financial reporting regimes, the project TF and the IAASB will need to consider whether promoting international consistency in auditor reporting should continue to be a priority or whether promoting principles of relevance and flexibility in standard auditor’s reports may outweigh the principle of consistency. ISA 700 was developed recognizing the desire for consistent and comparable auditor reports globally.¹⁶ Consistency in auditor reporting can be viewed in relation to: (i) global consistency among publicly-listed entities and more broadly “public interest entities;”¹⁷ (ii) consistency between all entities in the same jurisdiction; and (iii) global consistency among all types of entities (for example, publicly listed entities, SMEs and public sector entities).

Adopting a “Building Blocks” Approach, Including Considerations for SMEs

22. The diversity of auditor reporting needs identified among respondents has prompted the WG to recommend a “building blocks approach” in considering revisions to ISA 700. Such an approach would require establishing a clear understanding of what is meant by the term “building blocks approach.”
23. A building blocks approach results from drafting the revised standard to include core requirements to be applied in all instances (i.e., for all entities and all jurisdictions) and

¹⁵ See examples of the auditor’s report as required in France in the March 2011 IAASB meeting agenda material www.ifac.org/sites/default/files/meetings/files/6046.pdf.

¹⁶ ISA 700 notes that “Consistency in the auditor’s report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user’s understanding and to identify unusual circumstances when they occur.”

¹⁷ The ISAs do not define the term “public interest entities.” While there is no common global definition, the term is generally used to refer to listed entities and other entities that have regulatory and audit reporting requirements similar to those of listed entities, and is considered in the context of, among other things, regulation and ethical standards. Accordingly, there may be merit to consider reporting implications for public interest entities within this project.

having the ability to add supplemental requirements, for example for publicly-listed or public interest entities. Such an approach could facilitate flexibility in the form and content of auditor reporting, tailored to meet the varied needs of users.

24. In pursuing this approach, the project TF will need to determine the minimum elements within a standard auditor's report, and any additional required elements for publicly-listed entities (or public interest entities) (for example, in light of those mandated by particular jurisdictions exploring change to the auditor reporting model), and also provide guidance that explains how other reporting requirements can be accommodated by ISA 700. A number of the proposals described in the CP to enhance the communicative value and relevance of the auditor's report may represent core elements that could be specified in a revised ISA 700. Paragraphs 28-37 below highlights respondents' views on those proposals.
25. As an example, with respect to the opinion paragraph of the standard auditor's report, under the building blocks approach, the content of the opinion paragraph would remain, but the project TF may evaluate its positioning, an option that was supported by some respondents.
26. The use of a building blocks approach acknowledges that some the enhancements to auditor reporting discussed in the CP might not be applicable for all audits, specifically those of SMEs. Such an approach would likely mitigate concerns that perceived shortcomings in the PIE market may drive an unnecessary and potentially costly change in the SME sector.
27. One likely consequence of applying a "building blocks approach" is that it may be less feasible for a revised ISA 700 to provide illustrative auditors' reports (currently included in the Appendix to extant ISA 700), given the increased range of diverse situations that would have to be considered. There would need to be an understanding that any illustrative auditor's reports included as an Appendix to ISA 700 would not necessarily provide a template auditor's report for an increasingly diverse range of situations. Although it was the intent of extant ISA 700, there is not currently one universal auditor's report used in practice for the reasons set out above. A "building blocks approach" would further move any illustrative reports into a role that is distinct from any notion of prescription.

Enhancing the Communicative Value and Relevance of the Auditor's Report

28. A key aspect of improving the communicative value of the auditor's report will be confirming what additional information users, in particular investors and analysts, believe should be included in it. Though the views of users were strong and consistent in broadly recommending change in auditor reporting, how such change might be achieved is less clear. There is a wide range of views among users as to the nature and extent of additional matters that could usefully be included in a revised auditor's report. Specifically, those additional matters ranged from (i) clarifying and expanding the technical terms and other language currently used in the standard auditor's report; (ii) improving transparency about the audit process (i.e., further describing what the auditor does in an audit) and (iii) providing auditor insights about key aspects of the audit, the entity and the entity's financial statements. Further discussion of how the project TF will explore these matters is included below.

Clarifying and Expanding on the Technical Terms Used in the Auditor’s Report

29. Recognizing that any efforts to clarify technical terms will need to be combined with other changes to the auditor’s report, and possibly educational initiatives, in order to represent a meaningful change to users, the project TF will:
- Explore how technical terms in the auditor’s report might be clarified and simplified to assist users’ understanding of the fundamental concepts of an audit, for example “reasonable assurance” and “materiality.”
 - Consider and balance views that (i) further language could add unnecessary volume to the auditor’s report without significant benefit; (ii) it may be difficult to reach common agreement as to the definition of certain terms because the application of judgment inherently underpins them; and (iii) previous attempts to clarify such wording did not improve the understandability or address the expectations gap in a measurable way.
 - Leverage the work of others in this area, for example, the FRC and the PCAOB.¹⁸

Improving Transparency about the Audit Process

30. The project TF will explore whether and, if so, how transparency about the audit process can be enhanced, for example by describing or identifying:
- The auditor’s responsibilities relating to fraud, disclosures,¹⁹ other information,²⁰ and going concern (see paragraph 31).
 - Consideration will be given to the merits of including statements ranging from a description of the auditor’s responsibilities in the above listed areas to more broadly describing aspects of the auditor’s work effort.²¹ The project TF will also consider whether such additional communications are effective in addressing users’ needs and whether a revised auditor’s report can adequately reflect the breadth of auditor effort with respect to these matters in a meaningful way. Legal and confidentiality considerations will also be taken into account.

¹⁸ Suggestions have been made that the IAASB consider adopting the U.K. approach, that is, to relocate expanded discussions about general matters relating to the audit, including the auditor’s and management’s responsibilities, to a location outside of the auditor’s report, such as a print or online glossary. The PCAOB is also exploring the need to clarify terms in the auditor’s report.

¹⁹ The IAASB has on its agenda a separate initiative to address broader issues regarding financial statement disclosures and, as an initial step, issued a Discussion Paper (DP), *The Evolving Nature of Financial Reporting: Disclosures and Its Audit Implications*, in January 2011. As this project TF explores how to describe the auditor’s responsibilities in relation to disclosures in the auditor’s report, coordination with the Disclosures WG may be necessary.

²⁰ See paragraph 11.

²¹ In relation to other information, in some jurisdictions (for example, countries in the European Union (EU) as required by the Fourth Directive) auditors are required to include in their auditor’s reports statements about other information that include conclusions about the procedures that they performed thereon. While users may find value in assurance on some or all aspects of other information, given the premise of the project (see paragraph 8), this would be considered to be outside its scope.

- The responsibilities of TCWG regarding financial reporting and the external audit.²²
- The auditor’s independence in the context of regulatory and legal requirements.²³
- The name of the engagement partner²⁴ and the role of any affiliated firm(s) that participated in the audit.²⁵

Going Concern

31. With respect to going concern,²⁶ the TF will explore and evaluate:

- Whether and, if so, how transparency about the auditor’s responsibility to evaluate management’s assessment of the entity’s ability to continue as a going concern²⁷ can be enhanced, in light of the work effort required by extant ISA 570.
- Enhancements to the auditor’s report ranging from (i) factually describing the auditor’s responsibilities regarding going concern and the procedures performed, (ii) better explaining the nature of the going concern assessment and the meaning of a going concern Emphasis of Matter (EOM) paragraph, or (iii) including more information about the auditor’s procedures and conclusions with respect to going concern.
- ~~Whether there is an opportunity for further guidance to improve auditor application of both ISA 706 with regard to going concern EOM paragraphs and expressing a qualified (or adverse) opinion when required in accordance with ISA 705, in light of the work effort required by ISA 570 and specific to calls from some investors and policymakers for auditors to provide them “early warning signals.”~~
- Means, including through targeted outreach activities, to seek to further understand whether changes to reporting requirements will be appropriate and meaningful,²⁸ or

²² Given that the responsibilities of TCWG vary across entities and jurisdictions and that the role of TCWG is still evolving, the project TF might find it useful to consider such an addition as incremental to the core elements of a revised auditor’s report. See further discussion in paragraphs 22–27 and 37.

²³ The project TF will need to give further consideration to the nature of information requested and the interaction with the International Ethics Standards Board for Accountants’ work on independence in the context of the *Code of Ethics for Professional Accountants*.

²⁴ Existing requirements of the EU’s Eighth Directive currently require the engagement partner to sign the auditor’s reports.

²⁵ Some respondents suggested that the IAASB consider whether there is merit to adopt proposals similar to that of the PCAOB on a global basis relating to requiring identification of engagement partner and the role of any affiliated firm(s) that participated in the audit. Important to consider are (i) the impact that such requirements might have on some audit firms in light of the legal and regulatory environments in which they operate; and (ii) the practical implications of applying such requirements in practice.

²⁶ Because this project is premised on the current scope of the audit (as noted in paragraph 8), the project TF’s consideration of potential enhancements to auditor reporting with respect to going concern will not extend to providing the auditor’s views about the future viability or financial health of the entity.

²⁷ Some have challenged the traditional role of auditors with respect to going concern in light of their experiences with the financial crisis, suggesting that they would have expected more signals from auditors in this regard.

²⁸ For example, the Sharman Panel of Inquiry, established at the invitation of the FRC to consider *Going Concern and Liquidity Risks: Lessons for companies and auditors*, in its preliminary report and recommendations has recommended that the APB consider having U.K. auditing standards include a statement in the auditor’s report

whether the issues raised by respondents are more related to going concern in the context of the financial reporting framework.

Providing Auditor Insights about Key Aspects of the Audit, the Entity and the Entity’s Financial Statements

32. Requests for auditor communications in this area stem from the view that the auditor possesses a great deal of information about the entity and the audited financial statements that would be of value to users in their decision-making, and is often already providing this information to audit committees/TCWG. Information needs of users that have been identified include:
- The ability to better navigate financial information, for example a “roadmap,” and discussion that facilitates further understanding of the auditor’s work.
 - Greater insight into materiality, both generally and relation to quantitative and qualitative materiality levels and factors that the auditor considered in establishing materiality levels in conducting the audit.²⁹
 - Identification and further description of the auditor’s:
 - Risk assessment;
 - Responses to assessed risks (including audit procedures); and
 - Conclusions reached in relation to these areas;in particular in relation to significant risks.³⁰
 - In-depth auditor views on entity-specific matters, including:
 - Significant matters in the entity’s financial statements, such as the accounting policies and management’s critical accounting estimates;
 - Those areas where significant judgments were made by management; and
 - Unusual transactions and other significant changes in the entity’s financial statements.
33. Before considering how additional information may be delivered to users, the project TF will:

as to whether the auditor is satisfied that, having considered the directors’ going concern assessment process, they have nothing to add to the disclosures made by the directors about the robustness of the process and its outcome; and has encouraged the IAASB to accommodate this approach in the ISAs.

²⁹ Paragraph 2 of ISA 320, *Materiality in Planning and Performing an Audit*, explains that judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.

³⁰ Users and others have in some cases used the term “significant risk” to describe broader categories of “financial statement” or “business” risks, rather than what is defined in ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*. Further consideration of how to address this difference in use of terminology may be necessary.

- Evaluate the nature and extent of the additional information that could be provided to users, including the suggestion that the “audit summary memo” would be another useful basis from which additional reporting matters could be derived;
- Seek to further understand what information is being requested and how users would factor such information into their decision-making process; and
- Explore whether auditors can adequately address those information needs, in order to ensure that any proposals considered by the IAASB would likely meet the objective of enhancing the communicative value and relevance of the auditor’s report.

For example, determining the appropriate level of detail to communicate to investors and other users about subjective and qualitative matters relating to significant risks, areas of uncertainty and contentious matters in the entity’s financial statements would require the auditor to develop a process by which the auditor would exercise judgment. The resulting auditor’s reports developed through such a process could differ in length and complexity and therefore lack comparability in structure and appearance, even among entities in the same industry.

34. Notwithstanding the merits of providing additional “audit engagement-specific” information, the project TF will also consider the potential for unintended consequences including:³¹
- The impact that providing such information has on the timing of filings and the overall costs of the audit; and
 - That the provision of original information by the auditor could blur the different roles of management, the auditor and TCWG, and may compete with management’s disclosures, thereby resulting in “dueling information.”
35. Once the project TF develops a view as to whether and to what extent the auditor can provide additional information, including the nature of information that could be provided, how such information is communicated, and to whom, will also require deliberation.³² The project TF will need to consider which option might be best suited for use in light of the information it determines needs to be delivered. For example, the project TF might determine that enhanced use of EOM paragraphs could provide an appropriate way forward, in particular in the context of the “building blocks approach.”
36. In determining how additional information could be delivered, the project TF will consider the following relevant matters:

³¹ For example, relevant matters for further consideration include that (i) a discussion of materiality would introduce further complexities and possibly further ambiguity among auditor report readers; and (ii) making the quantitative amount for materiality available to users may give the impression that quantitative considerations overshadow qualitative factors, which can be of greater relevance in particular circumstances.

³² For example, the project TF may consider the roles of NSS and others develop proposals in this area. The CP explored possibilities as to how this information is communicated, including increased or mandatory use of EOM and OM paragraphs and models similar to the French “justification of assessments;” to a long-form report to TCWG (e.g., audit committees).

- Further use of EOM or Other Matter (OM) paragraphs, or other narrative reporting, will require the development of criteria or principles for what is to be included in order to ensure reasonably consistent application by auditors.
- Any additional information to be provided should not be seen as diluting the opinion or providing specific assurance on the matters that are highlighted.
- Disclosure requirements of commonly used financial reporting frameworks may provide useful boundaries for what can be achieved.

In light of those matters discussed above, it is anticipated that the project TF's and IAASB's deliberations in relation to providing auditor insights will require substantive debate and targeted outreach in order to develop proposals.

~~Enhancing communications between auditors and TCWG~~

37. ~~In light of strong support for enhanced corporate governance reporting models, the project TF will consider auditor communications with TCWG³³ specifically in relation to the types of matters highlighted in paragraph 32. This may result in Enhancing communications between auditors and TCWG, through revisions to requirements or guidance in ISA 260 or promoting long-form reporting to TCWG, may be a meaningful step for the project TF to explore, in light of strong support for enhanced corporate governance reporting models and the proposition from~~ Users have suggested that matters that form part of required communications to TCWG could be used as the basis for the auditor more publicly providing in-depth auditor views on entity-specific matters.³⁴ Doing so recognizes the role of auditor communication in enabling TCWG to discharge their responsibilities and could provide them with a stronger basis on which to do so, if enhancements to the ISA are deemed necessary by the project TF. Work in this area It would also likely be beneficial in jurisdictions seeking to enhance the role and reporting responsibilities of TCWG.

Impact Analysis Considerations

38. The primary benefit of this project stems from the potential improvements that may be made to the quality of communication about the audit through responding to the demands of users, particularly investors and analysts. The benefit to be derived depends on the information needs of individual users, the extent to which they would value the additional information to be provided, and how such information would be used in decision-making.

³³ Paragraph 16 of ISA 260 describes significant findings that the auditor is required to communicate with TCWG. This includes the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates, and financial statement disclosures, significant matters arising from the audit, and matters about auditor independence. The IAASB's ISA Implementation Monitoring Project is seeking to obtain feedback during 2012 from TCWG about the effectiveness of the revised standard in promoting two-way dialogue between the auditor and TCWG. In the context of this project, the project TF would be exploring whether there is scope for incremental improvement to the standard in light of its objectives, rather than a substantive revision.

³⁴ Although this may prove to be appropriate, auditors would likely need guidance to enable them to provide a sufficient level of detail and context for users to receive that information, as such users would not have the benefit of the two-way dialogue that exists between audit committees/TCWG and auditors.

39. Regardless of whether the outcome of this project results in new audit requirements, there are likely to be implications for the cost of the audit as it relates to the auditor and the entity. This is because any new communication requirements that deviate from the standardized language of the current auditor's report would likely require additional auditor effort to prepare and review. It is further anticipated that these costs would vary depending on the size and complexity of the entity as well as other entity-specific factors, for example whether entities are publicly listed or public interest entities compared with private or SME entities. The proposed "building blocks approach" is intended to mitigate some of these costs.
40. Further consideration of costs and benefits will be an important part of the IAASB's evaluation of proposals in progressing the project. IFAC is currently developing an impact analysis framework for the standard-setting bodies that it supports. This project will be a test case for this purpose.

V. Implications for any Specific Persons or Groups

41. The project has particular implications for national standard setters who have adopted ISAs, or use them as a basis for their own standards, including the International Organization of Supreme Audit Institutions (INTOSAI).
42. Depending on the nature of the proposals, there may be specific implications to audits of SMEs. IFAC's Small and Medium Practices (SMP) Committee will be kept apprised of developments to ensure appropriate input is received at key stages of the project.
43. This project also has implications and linkages with activities of several IAASB WGs and TFs including Disclosures, SWG, ISA 720, Audit Quality and the IAASB-IASB liaison initiative.
44. The project will also have specific implications to several stakeholders in the financial reporting supply chain, in particular investors, auditors and TCWG.

VI. Development Process, Project Timetable and Project Output

Development Process

45. It is anticipated that the project will follow the normal developmental process of the IAASB for revising an ISA, on an accelerated basis to the extent practicable.

Public Consultation

46. Due to the nature and potentially wide scope of the project, obtaining further stakeholder views will be fundamental to the IAASB's objectives in undertaking the project. For example, consultation with members of the user/investor community, as well as preparers, TCWG, regulators, and auditors of financial statements, will inform the project TF's and IAASB's deliberations in exploring various proposals. Accordingly, the project TF will need to consider, on a priority basis, how best to target these groups, at what stage(s) of the project, and on what issues. Such targeted outreach will assist the project TF in debating the merits of particular courses of action and developing proposals for recommendation to the IAASB. For example, consideration will be given as to how IAASB members, NSS and

others can assist the project TF in obtaining feedback on specific proposals through outreach with investors, preparers, TCWG and others in their respective jurisdictions.

47. ~~Over its course, the project will also be discussed with key stakeholders~~The activities described in paragraph 46 will supplement but not replace as part of the IAASB’s ongoing outreach, liaison and consultation activities, to include the IAASB CAG, NSS, public authorities, international regulators, audit oversight bodies (including the International Forum of Independent Audit Regulators (IFIAR)), and others relating to this project.

Project Timetable

48. Subject to the IAASB’s approval of a project proposal, this project will commence immediately with an accelerated timeline aimed at progressing resolution on all issues as soon as practicable. The specific project milestones and outputs will be dependent on the matters that the project TF ultimately determines are appropriate to address as part of the project, and the priorities assigned to those matters. As part of an initial discussion with the IAASB, planned for ~~June~~March 2012, the project TF will present its detailed timetable, including how it plans to deal with the matters explained in the “Major Problems and Issues that Will Be Addressed” section of this project proposal.
49. As discussed at paragraphs 46-47, an important part of the project TF’s deliberations in 2012 will be targeted outreach and consultation on specific matters to seek feedback from key stakeholders, including users who make investment decisions, in an effort to test proposals before the issuance of an ED. For example, the project TF may consider it appropriate to solicit feedback on the core elements of the auditor’s report under the “building blocks approach” or develop illustrative examples of how EOM paragraphs could be used to provide more transparency about the audit. For those areas that may require further study (e.g., providing auditor insights about key aspects of the audit, the entity and the entity’s financial statements), the project TF will consider seeking further public input before issuing a proposed ED, and may determine there is a need for an additional consultation paper as a means for doing so.
50. The project TF and/or the IAASB may also determine that other forms of outreach (such as focus groups or roundtables) to engage stakeholders before, or concurrent with, a proposed ED may be appropriate. The project TF will also continue to monitor the developments of others (see paragraph 5), including any formal proposals they may issue, and consider the implications for this project as appropriate.
51. Such an approach would enable the project TF to make progress on those areas where obvious improvements can be concluded on, while exploring further steps on the more challenging aspects of the project. Accordingly, by mid-2013, the goal would be for the IAASB to have deliberated on, and developed proposed requirements and guidance as appropriate, in relation to most, (if not all) of the matters covered by this project proposal. Accordingly, while the project TF will ultimately be responsible for developing a detailed project timetable, it will take into account the need for due process based on the following:

Period	Focus
January 2012-	<ul style="list-style-type: none"> • Prioritize issues and commence development of options for change

<u>June 2012</u>	<ul style="list-style-type: none"> • <u>Consultation with CAG, NSS and Forum of Firms and other stakeholders</u>
<u>April-June 2012</u> – <u>March 2013</u> <u>December 2012</u>	<ul style="list-style-type: none"> • Deliberation of issues • Exploration of different proposals <u>options</u> in relation to: <ul style="list-style-type: none"> ○ Wording in developing revised illustrative auditor’s report(s); and ○ Revised requirements in ISA 700 and other ISAs as appropriate • <u>Dialogue with stakeholders on key issues and proposals <u>options for change</u></u>³⁵ • <u>Consideration of the need for consultation on one or more of the options debated by the IAASB</u> • <u>Regular updates to the IAASB at each of its quarterly meetings</u>
<u>January 2013 – June 2013</u>	<ul style="list-style-type: none"> • <u>Further refinement of options and development of Exposure Draft or Consultation Paper</u>
June 2013 [*]	Issuance of Exposure Draft or Consultation Paper or both, for public comment
December 2014 [*]	Final Standard(s)

Project Output

52. The output of the project is a revised ISA 700 with possible revisions, or conforming amendments, to other ISAs as necessary. Consideration will also be given throughout the project as to whether feedback statements, or formal recommendations to others in the financial reporting supply chain who may be able to address the information needs of users, may be appropriate. In addition, the project TF will ~~consider whether issue~~ project updates or other publications ~~may be useful in to communicating~~ the IAASB’s progress on the project over its course.

Related Initiatives

53. [The IAASB plans to explore in 2012 whether to develop a communication about the value and benefit of an audit conducted in accordance with the ISAs to better explain the role of the audit and more clearly contrast the various services and the assurance that can be derived from them.] This publication is a potential opportunity to educate investors and other users by explaining the meaning of a financial statement audit, including management and auditor responsibilities, in order to narrow the expectations gap.

³⁵ To include discussion with the IAASB CAG, IAASB-NSS Liaison Group, and targeted outreach as explained in paragraph 47

^{*} Or earlier, to the extent practicable

54. Such a publication would likely be largely driven by IAASB Staff, with input from the IAASB as necessary. In developing any publication, Staff may determine it appropriate to leverage the work of others, such as NSS and the U.S. CAQ. Further consideration would also be needed as to how such a publication could be promulgated to those it is intended to educate. In this regard, the IAASB CAG may play a useful role.

VII. Resources Required

55. A project TF will be established, consisting of 5-6 individuals including IAASB members and technical advisors. The project will be chaired by an IAASB member. INTOSAI will also be invited to nominate a representative to the project TF. Consideration will be given to including as a member an individual or group representing investors and / or TCWG.
56. Consideration will also be given as to how best to obtain appropriate input from global investor representatives and international and national bodies who have similar projects. This may be through membership on the project TF, correspondent membership, or by other means.
57. IAASB Staff will provide support to the project TF. Depending on the project TF's exploration of the emerging topic of providing auditor insights, further Staff resources and mechanisms, such as subgroups to the project TF, may be considered to progress debates as necessary.

Appendix 1

Other Relevant Sources of Information

The following developments and activities of international and national bodies and groups are relevant to the project.

EC

- Green Paper, *The Role, the Position and the Liability of the Statutory Auditor within the European Union*,³⁶ June 1996
- Green Paper, *Audit Policy: Lessons from the Crisis*³⁷ October 2010, and related Feedback Paper³⁸
- Conference on accounting and auditing,³⁹ February 2011

IOSCO

- Consultation Report, *Auditor Communications*,⁴⁰ September 2009, and Summary Document of Highlights⁴¹

PCAOB

- Findings on initial outreach, Open Meeting on March 22, 2011⁴²
- Discussions of PCAOB Standard Advisory Group (SAG) meetings in February 2005,⁴³ April 2010,⁴⁴ and June 2010⁴⁵ and March 2011⁴⁶
- Discussions of PCAOB Investor Advisory Group (IAG) meeting in May 2010⁴⁷
- Discussions of a working group of the PCAOB's IAG in March 2011⁴⁸
- Concept Release on *Possible Revisions to PCAOB Standards Related to Reports on Audited Financial Statements and Related Amendments to PCAOB Standards*,⁴⁹ June 2011

³⁶ http://europa.eu/documents/comm/green_papers/pdf/com96_338_en.pdf and

³⁷ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0561:FIN:EN:PDF>

³⁸ http://ec.europa.eu/internal_market/consultations/docs/2010/audit/summary_responses_en.pdf

³⁹ http://ec.europa.eu/internal_market/accounting/conference_20110209_en.htm

⁴⁰ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD303.pdf>

⁴¹ <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD337.pdf>

⁴² http://pcaobus.org/News/Events/Pages/03222011_OpenBoardMeeting.aspx

⁴³ http://pcaobus.org/News/Events/Pages/02162005_SAGMeeting.aspx

⁴⁴ http://pcaobus.org/News/Events/Pages/04072010_SAGMeeting.aspx

⁴⁵ http://pcaobus.org/News/Events/Pages/07152010_SAGMeeting.aspx

⁴⁶ http://pcaobus.org/News/Events/Pages/03232011_SAGMeeting.aspx

⁴⁷ http://pcaobus.org/News/Events/Pages/05042010_IAGMeeting.aspx

⁴⁸ http://pcaobus.org/News/Events/Pages/03162011_IAGMeeting.aspx

⁴⁹ http://pcaobus.org/Rules/Rulemaking/Docket034/Concept_Release.pdf

- Concept Release on *Auditor Independence and Audit Firm Rotation*,⁵⁰ August 2011
- Auditor Reporting Model Roundtable,⁵¹ September 2011

U.K. FRC

- *Effective Company Stewardship: Enhancing Corporate Reporting and Audit*,⁵² January 2011, and related responses⁵³
- *Effective Company Stewardship: Next Steps*,⁵⁴ September 2011
- “Financial Reporting Lab,”⁵⁵ established October 2011

CNCC

- *Study on the Perception of the Statutory Auditor’s «Justification of Assessments»*,⁵⁶ February 2011

U.S. CAQ

- *Observations on the Evolving Role of the Auditor, A Summary of Stakeholder Discussions*,⁵⁷ September 2011
- *In-depth Guide to Public Company Auditing: A Financial Statement Audit*,⁵⁸ May 2011
- “For Investors” area of the CAQ website⁵⁹

CFA Institute

- *Independent Auditor’s Report Survey Results*,⁶⁰ February 2008, March 2010, March 2011

GAID

- *Developments in the Financial Reporting Supply Chain – Results from a Global Study among IFAC Member Bodies*,⁶¹ February 2009

⁵⁰ http://pcaobus.org/Rules/Rulemaking/Docket037/Release_2011-006.pdf

⁵¹ A transcript and webcast of the event is available at http://pcaobus.org/Rules/Rulemaking/Docket034/09152011_Roundtable_Transcript.pdf and http://pcaobus.org/News/Webcasts/Pages/09152011_Roundtable.aspx respectively.

⁵² <http://www.frc.org.uk/press/pub2485.html>

⁵³ <http://www.frc.org.uk/about/respeffcompsteward.cfm>

⁵⁴ <http://www.frc.org.uk/press/pub2632.html>

⁵⁵ <http://www.frc.org.uk/press/pub2649.html>

⁵⁶ http://www.cncc.fr/download/footprintconsultant_reportstudy_va_cncc_fev2011.pdf

⁵⁷ <http://www.thecaq.org/publications/EvolvingRoleoftheAuditor.pdf>

⁵⁸ http://www.thecaq.org/publications/In-Depth_GuidetoPublicCompanyAuditing.pdf

⁵⁹ <http://www.thecaq.org/resources/ForInvestors.htm>

⁶⁰ http://www.cfainstitute.org/Survey/independent_auditors_report_survey_results.pdf

⁶¹ <http://www.ifac.org/sites/default/files/publications/files/developments-in-the-financi.pdf>

Association of Chartered Certified Accountants (ACCA)

- *Re-shaping the audit for the new global economy*,⁶² November 2010
- *The Value of Audit: Views from Retail (Private) Investors*,⁶³ July 2011
- Commissioned research report, *A Framework for Extended Auditor Reporting*,⁶⁴ July 2011 by Maastricht Accounting, Accounting, Audit and Information Research Center (MARC) of Maastricht University

Institute of Chartered Accountants of Scotland (ICAS)

- *The Future of Assurance*,⁶⁵ December 2010

IASB and U.S. Financial Accounting Standards Board (FASB)

- These groups have taken action to issue guidelines in this regard targeted at assisting stakeholders improve the nature, timing and extent of their disclosures with particular consideration for the extant economic environment.⁶⁶

IIRC

- *Towards Integrated Reporting, Communicating Value in the 21st Century*,⁶⁷ September 2011

The International Federation of Accountants (IFAC)

- *Integrating the Business Reporting Supply Chain*,⁶⁸ March 2011
- *Financial Reporting Supply Chain: Current Perspectives and Directions*,⁶⁹ February, 2008

⁶² <http://www2.accaglobal.com/pdfs/international/singapore/RA.pdf>

⁶³ http://www2.accaglobal.com/pubs/general/activities/library/audit/audit_pubs/views_from_retail.pdf

⁶⁴ http://www2.accaglobal.com/pubs/general/activities/library/audit/audit_pubs/extended_audit_reporting.pdf

⁶⁵ http://www.icas.org.uk/site/cms/download/aa/2010/Future_of_Assurance_Report.pdf

⁶⁶ <http://www.ifrs.org/Current+Projects/IASB+Projects/IASB+agenda+consultation/agenda+consultation+2011/agenda+consultation+comment+letters+2011.htm>

⁶⁷ http://unglobalcompact.org/docs/news_events/9.1_news_archives/2011_09_12/Towards_Integrated_Reporting_12Sep11.pdf

⁶⁸ The survey and report of the IFAC project working group are available at: <http://www.ifac.org/publications-resources/integrating-business-reporting-supply-chain>.

⁶⁹ <http://www.ifac.org/sites/default/files/publications/files/financial-reporting-supply.pdf>

Appendix 2

Comments by IFAC Technical Managers

The comments of IFAC Technical Manager from each technical area are required before this Project Proposal is considered by the board or committee proposing to undertake the project.

Technical Manager to the Compliance Advisory Panel and Professional Accountancy Organization Development Committee

Thank you for the opportunity to review and comment on the project. We strongly believe it is a very timely project and in particular applaud the approach summarized in paragraphs 19-21, to “explore new ways in which auditor reporting could accommodate evolving national reporting regimes and facilitate enhanced approaches in corporate reporting, allowing for the use of the ISAs in those jurisdictions.” In this regard especially, we believe that revision’s approach seems very pragmatic.

We also support the approach indicated in paragraph 24. In our opinion, ISA 700 should continue to require minimum elements within a standard auditor’s report that can then be supplemented with additional requirements; be in for PIE or other reporting requirements. International standards, when too rigid in their structure or approach, cannot be easily implemented at the national level due to the specificity of the national / regional regulatory frameworks. Therefore, the flexibility potentially resulting from the revision, including consideration of SMEs, and other sectors of economy will, in our opinion, enhance the value of this ISA.

We fully agree, of course, that the project should focus on further meeting demands of users and investors for more information that is relevant for making their investing decision. In this respect, perhaps, IAASB should consider, if not done already, whether the project would further develop the approach to integrated audit (or generally integrated reporting).

And last, but not least, we would like to encourage the IAASB, TF and staff to proactively seek input from developing economies and economies in transition.

Signed: Szymon Radziszewicz and Gabriella Kusz

Date: November 17, 2011

Technical Manager to the International Accounting Education Standards Board (IAESB)

The project as described will not have a direct impact on the IAESB 2010-2013 Work Program. The IAESB is always concerned about projects which may have an impact on:

- Educational content and experience benchmarks for entry to the auditing profession.
- Ongoing continuing professional development/life-long learning content requirements.
- Competence requirements for the audit of financial statements (e.g., International Education Standard (IES) for Professional Accountants 8, *Competence Requirements for Audit Professionals*).

The project to revise ISA 700 may have the potential of impacting IESs 2, 3 and 8 if new competences, academic subject material, or the application of professional skills are required to

be developed by audit professionals. For example, the project proposal identifies possible areas which may require further clarifying and expanding:

- Technical Terms Used in the Auditor’s Report (paragraph 29 of IAASB Project Proposal);
- Significant matters in the entity’s financial statements, such as the accounting policies and management’s critical accounting estimates;
- Unusual transactions and other significant changes in the entity’s financial statements; and
- Description of the auditor’s risk assessment, responses (including audit procedures) and conclusions reached in relation to these areas (paragraph 32 of IAASB Project Proposal).

The IAASB should keep the IAESB updated on whether changes in direction are contemplated from the extant ISA 700 so as to ensure that accounting curriculum of Universities and competency frameworks of IFAC member bodies are updated when developing the professional accountant and audit professional. It should be noted that changes or updates to accounting curriculum and competency frameworks can sometimes take 3-5 years to be changed and providing advance notice to Universities and IFAC member bodies is highly desirable.

Signed: David McPeak

Date: November 16, 2011

Technical Manager to International Ethics Standards Board for Accountants (IESBA)

There are three matters in the project proposal which are of mutual interest to IESBA and IAASB. These are independence, the definition of a public interest entity, and confidentiality.

Independence

Paragraph 30 references the connection the PCAOB is making between its auditor independence/audit firm rotation project and its auditor reporting project. The disclosure in the auditor’s report of any information relating to auditor independence is of interest to IESBA and we are pleased to see that the project proposal indicates that consultation with the IESBA will be necessary if the IAASB project addresses this matter.

Public Interest Entities

While the ISAs do not define the term “public interest entities” it is defined in the Code as follows:

- (a) All listed entities
- (b) Any entity:
 - (i) Defined by regulation or legislation as a public interest entity; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

Confidentiality

Confidentiality is one of the fundamental principles in the Code of Ethics. Some of the paragraphs in the proposal indicate that the auditor may be required to “more publicly” provide views on entity-specific matters. IESBA has a current project examining how professional accountants should respond to suspected illegal acts and whether there are instances where there should be a right or a responsibility to report certain illegal acts to an appropriate authority. This has raised the issue of the conflict between maintaining client confidentiality and acting in the public interest. The IESBA’s debates on this issue may be of interest to the IAASB.

Signed: Chris Jackson

Date: November 16, 2011

Technical Manager to the Professional Accountants in Business (PAIB) Committee

We support the IAASB’s efforts to consider auditor reporting and to revise ISA700. Given this project (and other aspects of the IAASB’s work program) touches upon, and links to, governance and oversight of financial management and reporting processes within an organization, we suggest that the IAASB considers the involvement of PAIBs on the proposed Strategy Working Group.

Signed: Stathis Gould

Date: November 11, 2011

Technical Manager to the International Public Sector Accounting Standards Board

No substantive comments on the project proposal, which seems very thorough and clear. Consider the need for public sector representation on the project Task Force and Strategy Working Group.

Signed: John Stanford and Stephenie Fox

Date: November 16, 2011

Technical Manager to the Small and Medium Practices Committee

We support the project proposal. Given also the relevance of the subject matter to the users of SME audited financial statements (and therefore to SMPs), we welcome the IAASB’s commitment to keep the SMP Committee apprised of developments and seek the SMP Committee’s input at key stages of the project.

Signed: Paul Harrison

Date: November 11, 2011

Technical Manager to the Transnational Auditors Committee (TAC)

As TAC Staff, I’ve reviewed the Project Proposal and have no additional comments. As the project progresses, closer collaboration using the TAC/Forum of Firms might be of use. This will be a topic of immense interest to the Forum which I envisage becoming an item we would give specific focus to in future agendas over and above regular IAASB Updates.

Signed: Barry Naik

Date: November 16, 2011

Technical Manager for Regulations and Public Policy

My initial thoughts are (from the policy standpoint) that the paper and/or the changes the IAASB will consider should take into account the broad themes noted by the EC in regard to auditor reporting. Even if the IAASB does not make any substantial technical changes, I imagine that the

expectations gaps should somehow be addressed in principle. Our department has been rather broad in this area. We have stated:

- “A greater understanding of the value of audit, the methodologies applied, and qualifications may enable the reader to form an appropriate judgment of the significance of a specific qualified opinion.” (EC Green Paper Response)
- IFAC supports the work currently undertaken by the IAASB, which is exploring user perceptions of the standard auditor’s report prepared in accordance with ISA 700. We hope this research will shed greater light on potential improvements to the auditor’s report as well as additional information that might be provided regarding the work of the auditor.

The IAASB might also take into consideration the responses that the EC reviewed (the EC’s Green Paper responses) in regard to Question #7 and #8 to get a feel for how the full spectrum of respondents replied to this question. It will also be useful to review the proposed EC regulation to compare/contrast the types of information they seek against the current ISA 700.

Signed: Eli Khazzam

Date: November 8, 2011