

## Auditor Reporting—Preliminary Analysis of the European Commission’s (EC) Proposed Article 22<sup>1</sup>

### For Reference Purposes Only

Note: Except where noted, the proposed Article 22 requirements have been provisionally allocated to the four Auditor Reporting subcommittees for further consideration (“Subcom” column).

Key: BB: Building Blocks; CL: Clarifications/Transparency; GCOI: Going Concern/Other Information; INS: Insights; TBD: To be Determined.

¶	Article 22 Requirement	Relevant ISA Reporting Requirements	Likely Addressed by Extant ISAs?	Subcom	Proposed Subcommittee/Task Force Actions
1.	The statutory auditor or the audit firm shall present the results of the statutory audit of the public-interest entity in an audit report.	700.6: The objectives of the auditor are to (a) form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and (b) express clearly that opinion through a written report that also describes the basis for that opinion.	Yes	BB	No further action needed.
2.	The audit report shall be in writing. It shall at least:	700.20: The auditor’s report shall be in writing.	Yes	BB	No further action needed.
(a)	identify the entity whose annual or consolidated financial statements have been audited;	700.23(a): The introductory paragraph in the auditor’s report shall identify the entity whose financial statements have been audited.	Yes	BB	No further action needed.
(b)	specify the annual or consolidated financial statements and the date	700.23(c): The introductory paragraph in the auditor’s report shall identify the title of each statement that comprises the financial statements.	Yes	BB	No further action needed.

<sup>1</sup> November 2011 Proposed EC Regulation on Specific Requirements Regarding Statutory Audit of Public-Interest Entities

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	and period they cover;	700.23(e): The introductory paragraph in the auditor’s report shall specify the date or period covered by each financial statement comprising the financial statements.			
(c)	explain, where additional reports have been reviewed, the scope of such review;	<p>If such work is required by law or regulation, this may be implicitly covered by the broad requirement in ISA 700 regarding other reporting responsibilities:</p> <p style="padding-left: 40px;">700.38: If the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibility under the ISAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor’s report that shall be sub-titled “Report on Other Legal and Regulatory Requirements,” or otherwise as appropriate to the content of the section.</p>	Partly	BB	Further understanding of the intent of this proposed requirement needed.
(d)	identify which body within the audited entity appointed the statutory auditor(s) or the audit firm(s);	No corresponding requirement.	No	BB	Subject to further Subcommittee and Task Force consideration.
(e)	indicate the date of the appointment and the period of total uninterrupted engagement including	No corresponding requirement.	No	BB	Subject to further Subcommittee and Task Force

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	previous renewals and reappointments;				consideration.
(f)	indicate that the statutory audit was conducted in accordance with the international standards on auditing as referred to in Article 20;	700.30: The auditor's report shall state that the audit was conducted in accordance with International Standards on Auditing. ...	Yes	BB	No further action needed.
(g)	identify the financial reporting framework that has been applied in the preparation of the financial statements;	700.35: When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:  (a) The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or (b) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].	Yes	BB	No further action needed.
(h)	describe the used methodology, including how much of the balance sheet has been directly verified and how much has been based on system and	No corresponding requirement, other than a requirement in ISA 700.31 for a generic description of an audit that is at a relatively high level:  (a) An audit involves performing procedures to obtain audit evidence about the amounts and	No	TBD	Further understanding of the intent of this proposed requirement needed.

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	compliance testing;	<p>disclosures in the financial statements;</p> <p>(b) The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements 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 internal control; and</p> <p>(c) An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements.</p>			
(i)	explain any variation in the	No corresponding requirement.	No	INS	Further understanding

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	weighting of substantive and compliance testing when compared to the previous year, even if the previous year's statutory audit had been conducted by another statutory auditor(s) or audit firm(s);				of the intent of this proposed requirement needed.
(j)	lay out the details of the level of materiality applied to perform the statutory audit;	No corresponding requirement.	No	CL	See Agenda Item 4-D for the Task Force's tentative proposal regarding clarifying the meaning of materiality.
				INS	Description of specific materiality level(s) applied in the audit to be further considered by the Insights Subcommittee and the Task Force.
(k)	identify key areas of risk of material misstatement of the annual or consolidated financial statements, including critical accounting estimates or areas of	No corresponding requirement.	No	INS	See Agenda Item 4-A for the Task Force's tentative proposals.

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	measurement uncertainty;				
(l)	provide a statement on the situation of the audited entity or, in case of the statutory audit of consolidated financial statements, of the parent undertaking and the group, especially an assessment of the entity's or the parent undertaking's and group's ability to meet its/their obligation in the foreseeable future and therefore continue as a going concern;	No corresponding requirement.	No	GCOI	Further understanding of the intent of this proposed requirement needed.  The Task Force's preliminary consideration of options for reporting on going concern and tentative proposals are set out in Agenda Item 4-B.
(m)	assess the entity's or, in case of consolidated financial statements, the parent undertaking's internal control system, including significant internal control deficiencies identified during the statutory audit, as well as the bookkeeping and accounting system;	Closest requirement appears to be that in ISA 700 for the auditor to describe the auditor's consideration of internal control as part of the audit:  700.31(b): The auditor's report shall describe an audit by stating that the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements ... In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that	Probably no	CL	Further understanding of this proposed requirement in relation to the current scope of the audit needed.

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		<p>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 internal control.</p>			
(n)	<p>explain to what extent the statutory audit was designed to detect irregularities, including fraud;</p>	<p>No explicit requirement. However, ISA 700, paragraph 31(b), requires that the auditor's report describe an audit by stating that the procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to <i>fraud</i> or error.</p>	Partly	CL	<p>See Agenda Item 4-D for the Task Force's tentative proposal regarding describing the auditor's responsibility for fraud in the auditor's report.</p>
(o)	<p>indicate and explain any violation of accounting rules or violation of laws or the articles of incorporations, accounting policy decisions and other matters that are significant for the governance of the entity;</p>	<p>Closest requirement appears to be in relation to circumstances requiring modification to the audit opinion:  705.16: When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA 700, include a paragraph in the auditor's report that provides a description of the matter giving rise to</p>	Partly	INS	<p>See Agenda Item 4-A for the Task Force's tentative proposals regarding auditor commentary. However, further understanding of the intent of this proposed requirement needed.</p>

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		the modification. ...			
(p)	confirm that the audit opinion is consistent with the additional report to the audit committee referred to in Article 23;	No corresponding requirement.	No	BB	Further understanding of the intent of this proposed requirement needed.
(q)	declare that the non-audit services referred to in Article 10(3) were not provided	No corresponding requirement.	No	BB	Subject to further Subcommittee and Task Force consideration.
	and that the statutory auditor(s) or the audit firm(s) remained completely independent in conducting the audit.	700.30: The auditor's report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.	Partly	CL	Further understanding of the intent of this proposed requirement needed.  See Agenda Item 4-D for the Task Force's preliminary consideration of an explicit statement of independence.
	Where the statutory audit was carried out by an audit firm, the report shall identify each member of the audit engagement team and shall	No corresponding requirement.	No	CL	Further understanding of the practical implications of this proposed requirement is needed.

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	state that all members remained completely independent and had no direct or indirect interest in the audited entity;				
(r)	indicate the non-audit services referred to in Article 10(3)(b)(i) and (ii) that the audit committee allowed the statutory auditor or the audit firm to provide to the audited entity;	No corresponding requirement.	No	BB	Subject to further Subcommittee and Task Force consideration.
(s)	indicate the non-audit services referred to in Article 10(3)(b)(iii) and (iv) that the competent authority referred to in Article 35(1) allowed the statutory auditor or the audit firm to provide to the audited entity;	No corresponding requirement.	No	BB	Subject to further Subcommittee and Task Force consideration.
(t)	give an opinion which shall state clearly the opinion of the statutory auditor(s) or the audit firm(s) as to whether the annual or consolidated financial	700.35: When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:	Yes	BB	No further action needed.

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	statements give a true and fair view and have been prepared in accordance with the relevant financial reporting framework ...	... (b) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].			
	and, where appropriate, whether the annual or consolidated financial statements comply with statutory requirements;	May be implicitly covered by the broad requirement in ISA 700.38 regarding other reporting responsibilities.	Perhaps	BB	Further understanding of the intent of this proposed requirement needed.
	the audit opinion shall be either unqualified, qualified, an adverse opinion or, if the statutory auditor(s) or audit firm(s) are unable to express an audit opinion, a disclaimer of opinion. In case of a qualified or an adverse opinion or a disclaimer of opinion, the report shall explain the reasons of such decision;	705.7: The auditor shall express a qualified opinion when: (a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.  705.8: The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that	Yes	BB	No further action needed.

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		<p>misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.</p> <p>705.9: The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.</p> <p>705.10: The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.</p> <p>705.16: When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA 700, include a paragraph in the auditor's report that provides a description of the matter giving rise to the modification. The auditor shall place this paragraph immediately before the opinion paragraph in the auditor's report and use the</p>			

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		<p>heading “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” as appropriate.</p> <p>(Also related requirements dealing with the Basis for Modification Paragraph in ISA 705.17-21.)</p>			
(u)	<p>refer to any matters to which the statutory auditor(s) or the audit firm(s) draw attention by way of emphasis without qualifying the audit opinion;</p>	<p>706.6: If the auditor considers it necessary to draw users’ attention to a matter presented or disclosed in the financial statements that, in the auditor’s judgment, is of such importance that it is fundamental to users’ understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor’s report provided the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated in the financial statements. Such a paragraph shall refer only to information presented or disclosed in the financial statements.</p>	Yes	INS	<p>No further action needed under extant ISAs. However, see Agenda Item 4-A for the Task Force’s signal that further consideration will be needed regarding the implications for EOMs of providing for auditor commentary in the auditor’s report.</p>
(v)	<p>give an opinion concerning the consistency or otherwise of the annual report<sup>2</sup> with the annual financial statements for the same fiscal year;</p>	<p>No corresponding requirement.</p>	No	GCOI	<p>See Agenda Item 4-C for the Task Force’s tentative proposal.</p>

<sup>2</sup> The term “annual report” has a more limited meaning within EC regulation than in other contexts.

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(w)	identify where the statutory auditor(s) or audit firm(s) is established.	May be covered by the requirement in ISA 700.42:  The auditor’s report shall name the location in the jurisdiction where the auditor practices.	Perhaps	CL	Clarification needed regarding whether “established” has the same meaning as “where the auditor practices.”
3.	When more than one statutory auditor or audit firm have been appointed to carry out the statutory audit of the public-interest entity, they shall agree on the results of the statutory audit and submit a joint report and opinion. In case of disagreement, each statutory auditor or audit firm shall submit his, her or its opinion separately. If one statutory auditor or audit firm qualifies his, her or its opinion, submits an adverse opinion or a disclaimer of opinion, the overall opinion shall be considered as qualified, adverse opinion or a disclaimer of opinion. In a separate paragraph each	No corresponding requirement.	No	TBD	ISAs currently do not deal with joint audits. Further understanding of the intent of this proposed requirement needed.

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	statutory auditor or audit firm shall state the reasons of disagreement.				
4.	The audit report shall not be longer than four pages or 10000 characters (without spaces). It shall not contain any cross-references to the additional report to the audit committee referred to in Article 23.	No corresponding requirement.	No	BB	To be further considered by the Subcommittee and the Task Force.
5.	The audit report shall be signed and dated by the statutory auditor(s) or the audit firm(s). 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.	700.40: The auditor's report shall be signed. (700.A37: The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both ...) 700.41: The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements ...	Yes	CL	See Agenda Item 4-D for the Task Force's preliminary consideration of the matters of engagement partner signature and naming of the engagement partner.
6.	Article 35 of Directive [XXX] on the annual financial statements, consolidated financial statements and related reports of certain	No corresponding requirement.	No	BB	Specific legal or regulatory requirement at the national level – no further action needed.

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	types of undertakings shall not apply to audit reports of public-interest entities.				
7.	The statutory auditor or audit firm shall not use the name of any competent authority in such a way that would indicate or suggest endorsement or approval by that authority of the audit report.	No corresponding prohibition.	No	BB	To be further considered by the Subcommittee and the Task Force.