

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: April 8–9, 2013

Agenda Item B

Auditor Reporting

Objectives of Agenda Item

1. To discuss issues relating to communicating key audit matters (formerly referred to as “Auditor Commentary”) in the auditor’s report, in the context of new proposed ISA 701,¹ as well as corresponding revisions to ISA 260² that are likely necessary to underpin the auditor’s communication of key audit matters in the auditor’s report.
2. To discuss matters of consistency, clarification and transparency in the auditor’s report, as well as a full draft of proposed ISA 700 (Revised).³
3. To consider illustrative auditors’ reports addressing both unmodified opinions issued in accordance with ISA 700 and modified opinions issued in accordance with ISA 705.⁴
4. To discuss recommendations relating to auditor reporting on going concern, including the effect on ISA 570.⁵

Overview

5. The topic of auditor reporting will be an important and substantive part of the CAG’s agenda at its April 2013 meeting. The purpose of this paper is to provide an overview of the various papers presented for discussion at the meeting. A description of the project status and timelines, as well as a history of previous discussions with the CAG on this topic, can be found in paragraphs 5–8 and Appendix 1 of **Agenda Item B.1**, respectively.
6. After the December 2012 IAASB meeting, a new structure was put in place for the Auditor Reporting Project. Two Drafting Teams (DTs) were established to make progress on the overall revisions of ISA 700 (referred to as DT-700) and the development of requirements and guidance supporting key audit matters (KAM) (referred to as DT-701), considered to be the key components of the planned June 2013 Exposure Draft (ED). Nine IAASB members (50% of the Board) are participating between the two DTs, which have been tasked with progressing the project on a priority basis and on an accelerated timetable.

¹ Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

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

³ Proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁴ ISA 705, *Modifications to the Opinion in the Independent Auditor’s Report*

⁵ ISA 570, *Going Concern*

7. Dan Montgomery, IAASB Deputy Chair, has overall responsibility for leadership of the Auditor Reporting project and is also the Chair of DT-701. He will present a brief overview of the status of the project and how the various sessions will be structured. **Agenda Item B.1** was intended to serve as an overview to bring the CAG Representatives up to speed with the IAASB's deliberations from its three meetings spanning September 2012–February 2013, which took into account the 165 responses received to the June 2012 Invitation to Comment (ITC), *Improving the Auditor's Report*. **Agenda Item B.1** will not be discussed in detail. Rather, Representatives are invited to raise relevant comments in the context of the more detailed agenda material addressing key audit matters, going concern, and revisions to ISA 700, as such material reflects the DT's current recommendations.
8. Outreach continues to be an important aspect of the auditor reporting project, with the following key interactions noted since the February 2013 IAASB meeting:
 - Meeting with representatives of the US Public Company Accounting Oversight Board (PCAOB)
 - Meeting with European Commission Head of Audit
 - Discussion with US Financial Accounting Standards Board (FASB) Staff
 - Observing the March 21, 2013 International Accounting Standards Board (IASB) meeting

Matters for CAG Consideration

9. Due to the importance of the topic and the IAASB's plans to seek to approve an ED of revised auditor reporting standards in June 2013, the papers distributed to the CAG are substantially the same as those that will be deliberated by the IAASB at its April 15–19, 2013 meeting. During the meeting, the CAG will be asked to first consider the issues presented in relation to key audit matters (**Agenda Item B.2**) and proposed ISA 701 (**Agenda Item B.3**),⁶ including whether the CAG supports the proposal to amend ISA 260 to enhance auditor communications with those charged with governance as the basis for key audit matters (**Agenda Item B.4**). The second session on auditor reporting will relate to other suggested improvements to auditor reporting that relate to revisions to ISA 700, with reference to an issues paper (**Agenda Item B.6**) and revised proposed ISA 700 (**Agenda Item B.7**).⁶ The final session on auditor reporting will address issues and proposals related to auditor reporting on going concern (**Agenda Item B.8**).
10. The illustrative auditors' reports included in **Agenda Item B.5** are likely to be of particular interest to the CAG, as they illustrate the DTs' response to feedback received on the ITC and illustrate how the proposed changes would be reflected in the auditor's report. Specific questions in relation to the suggested presentation in the illustrative reports are included in the issues papers in the context of key audit matters, going concern and other suggested improvements addressed by ISA 700, and the CAG is invited to provide feedback on the illustrative reports during those sessions.

⁶ The proposed ISAs included as **Agenda Items B.3 and B.7** are not anticipated to be discussed in great detail, however, they are included to illustrate how the issues highlighted in **Agenda Items B.2, B.6 and B.8** are proposed to be addressed.

Matters for CAG Consideration

The CAG is asked to:

1. Consider the recommendations and questions posed Agenda Items **B.2, B.4, B.6 and B.8**; and
2. Raise any other matters considered relevant to the project and the plans for a June 2013 ED.

Material Presented – IAASB CAG PAPERS

Agenda Item B.1	Auditor Reporting—Summary of IAASB Discussions through February 2013
Agenda Item B.2	Auditor Reporting—Key Audit Matters [CAG Issues Paper]
Agenda Item B.3	Proposed ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i>
Agenda Item B.4	Auditor Reporting—Proposed Changes to ISA 260 to Underpin the Auditor's Communication of Key Audit Matters in the Auditor's Report [CAG Issues Paper]
Agenda Item B.5	Auditor Reporting—Illustrative Auditors' Reports
Agenda Item B.6	Auditor Reporting—Issues Relating to Proposed Revisions to ISA 700 [CAG Issues Paper]
Agenda Item B.7	Proposed ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i> (Clean)
Agenda Item B.8	Auditor Reporting—Going Concern [CAG Issues Paper]

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 2-G of the April 2013 IAASB Meeting – Proposed ISA 700 (Revised) – Marked to show all changes from Extant ISA 700 [\[link to follow\]](#)

Agenda Item 2-J of the April 2013 IAASB Meeting – Proposed ISA 260 (Revised) – Marked to show all changes from Extant ISA 700 [\[link to follow\]](#)