

**Auditor Reporting—Issues Relating to Proposed Revisions to ISA 700****Introduction and Background**

1. In its June 2012 Invitation to Comment: *Improving the Auditor's Report* (ITC), the IAASB suggested that auditors' reports should include certain elements mandated by the IAASB, but acknowledged that jurisdictions, through national law, regulation or standard setting, may tailor the content and layout of the auditors' reports to accommodate national financial reporting regimes.<sup>1</sup> **Agenda Item 2-G** includes the ISA 700 Drafting Team's (DT-700) suggested revisions to the requirements and application material as marked from extant ISA 700.<sup>2</sup> **Agenda Item 2-F** is a clean version of proposed ISA 700 (revised).
2. At its February 2013 meeting, the IAASB considered potential revisions to certain of the requirements of extant ISA 700. The proposed revisions address areas where new requirements are considered necessary to enable reporting in the manner contemplated in the illustrative report in the ITC, which received broad support from all stakeholder groups who responded to the ITC. In addition, some revisions were also considered necessary to clarify extant ISA 700 requirements, based on (i) the new requirements that were also developed, (ii) feedback from respondents to the ITC, and (iii) discussions of DT-700 and the former Task Force relating to areas where clarification to a requirement or additional application material was considered necessary to align with current practice. **Agenda Item 2-E** reflects the changes made based on DT-700's considerations of the IAASB's comments at its February 2013 meeting (i.e., changes marked from the version of ISA 700 presented at the February 2013 IAASB meeting).
3. This paper is intended to help guide the discussions and deliberations of the IAASB in conducting the first full read of proposed ISA 700 (Revised). This paper discusses the significant issues and the rationale for DT-700's proposed changes to extant ISA 700. The paper is structured as follows:
  - Section I: Consistency, relevance and flexibility, including the effect of law, regulation and national auditing standards on auditor reporting;
  - Section II: Enhanced descriptions of the responsibilities of management, those charged with governance (TCWG), and the auditor;
  - Section III: Disclosure of the name of the engagement partner (EP);
  - Section IV: Rationale for other significant changes to extant ISA 700; and
  - Section V: Conforming amendments to ISA 705.<sup>3</sup>

Complementing this paper is **Agenda Item 2-H**, which discusses issues relating to auditor reporting on going concern.

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<sup>1</sup> Appendix 4 to the ITC included a list of mandatory elements of an improved ISA auditor's report and highlighted opportunities for where those elements may be further tailored at the national level.

<sup>2</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*, paragraphs 20-42

<sup>3</sup> ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

**I. Consistency, Relevance and Flexibility, Including the Effect of Law, Regulation and National Auditing Standards on Auditor Reporting (Including Paragraphs 46 and 47 of Proposed ISA 700 (Revised))**

4. One of the most significant issues debated by DT-700 and the IAASB to date was the merits of having consistency in the layout (format) and content (wording) of an auditor's report when the audit has been conducted in accordance with ISAs (referred to as an "ISA auditor's report") versus allowing for greater flexibility. In this regard, the following is of note:
  - Consistency relates to not only comparability between auditors' reports of entities of all sizes in one jurisdiction, but also across jurisdictions, when the ISAs (or national standards based on ISAs) have been applied.
  - Flexibility relates not only to law, regulation or national auditing standards prescribing or encouraging a particular layout or wording, but also individual auditors having the ability to present the required elements within an auditor's report in the manner they view most appropriate in the circumstances of the entity under audit.
5. The objective of promoting consistency in auditor reporting is not new. Neither is the debate about the level of flexibility that should be permitted for tailoring the form and content of auditors' reports in light of national circumstances. At the time that extant ISA 700 was approved and issued, the IAASB viewed consistency in auditors' reports as being useful in promoting users' understanding and in making unusual circumstances more readily identifiable.<sup>4</sup> Therefore, extant ISA 700 included detailed requirements aimed at promoting consistency in the form and content of ISA auditors' reports.<sup>5</sup> Also, recognizing the influence that national circumstances have on the form and content of auditors' reports, extant ISA 700 also included requirements to address when those national circumstances apply.<sup>6</sup>
6. An important objective of the ITC was to obtain views to assist the IAASB in determining how to achieve an appropriate balance between global consistency and national flexibility in auditor reporting. The ITC described a mechanism referred to as the "Building Blocks"<sup>7</sup> approach, whereby an improved auditor's report would be developed:
  - Identifying the common elements in auditors' reports that are issued for audits conducted in accordance with ISAs and which would be mandated, making them easily identifiable to investors and other users around the world; and
  - Allowing national tailoring by law, regulation, or national auditing standards for greater

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<sup>4</sup> See paragraph 4 of extant ISA 700.

<sup>5</sup> Paragraphs 20–42 of extant ISA 700 address detailed requirements relating to the form and content of the auditor's report.

<sup>6</sup> Presuming that the financial statement audit has been conducted in accordance with the ISAs (i.e., claim compliance with the ISAs), extant ISA 700 permits auditors to refer to ISAs in their auditor's reports when:

- The law or regulation of a specific jurisdiction prescribes a specific layout or wording (i.e., the format and wording) of the auditor's report (i.e., paragraph 43 of extant ISA 700).
- Auditors conduct an audit in accordance with the national auditing standards of a specific jurisdiction but additionally comply with the ISAs and make reference to both in the auditor's report (i.e., paragraph 44 of extant ISA 700).

<sup>7</sup> See paragraphs 15–23 and 87–90 of the ITC for a further discussion of the IAASB's Building Blocks approach.

specificity in the content and layout of the auditor's report.

*DT-700's Views about Consistency Versus Flexibility in Auditor Reporting*

7. DT-700 members agreed that a certain degree of flexibility is needed in order for proposed ISA 700 (Revised) to be implemented globally, but had differing views about what the right level should be. In formulating a view on what the appropriate balance of consistency versus flexibility should be in proposed ISA 700 (Revised), DT-700 took into account:
  - Feedback on the ITC — Approximately 70 percent of respondents to the ITC across all stakeholder groups, in particular regulators and oversight authorities, expressed support for consistency in auditor reporting. However, specific views about the degree of consistency versus flexibility that should exist in auditor reporting, and how consistency should be achieved, were mixed. Because the IAASB's "Building Blocks" approach was designed to foster a global solution to improve auditor reporting, while accommodating existing and evolving changes in corporate or auditor reporting in various national environments, respondents to the ITC were of the view that it would achieve the right balance between the need for global consistency and national flexibility in auditor reporting.<sup>8</sup>
  - The views of the IAASB Consultative Advisory Group (CAG) — IAASB CAG Representatives were generally of the view that, while it is important to have an auditor's report that is consistent, it is also important that it is not "boilerplate," and therefore should be tailored to include more entity-specific information. However, there was concern raised that variation in practice may be created with increased flexibility in auditor reporting.<sup>9</sup>
  - The views of the IAASB — At its September 2012 meeting, the majority of IAASB members agreed that the balance between consistency and flexibility that exists within extant ISA 700 should be retained.
8. DT-700 members' views on the balance between consistency and flexibility regarding the format and wording of the auditor's report were mixed. Some DT-700 members were of a view that, while flexibility may facilitate greater adoption of the ISAs, it could also perpetuate differences in auditors' reports that may be difficult to understand or interpret in the global marketplace and has the disadvantage of not making an audit that was conducted in accordance with ISAs readily identifiable. Other members were of a view that restricting flexibility in auditor reporting would have the unintended consequence of preventing ISA 700 adoption in certain jurisdictions.

*Prescription and Flexibility in Requirements of Proposed ISA 700 (Revised)*

9. In developing the requirements of proposed ISA 700 (Revised), DT-700 noted that having ISA requirements and application material that are prescriptive and detailed would foster a higher degree of consistency in the format and wording of the ISA auditors' reports. On the other hand,

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<sup>8</sup> See paragraphs 4–12 of Agenda Item 6-C of the December 2012 IAASB meeting material for a further discussion of ITC respondents' views about consistency in auditors' reports.

<sup>9</sup> See discussion on Agenda Item L in the following: [http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda\\_Item\\_A\\_March%202012\\_Public%20Minutes-APPROVED.pdf](http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_A_March%202012_Public%20Minutes-APPROVED.pdf).

more principles-based requirements and less-detailed application material would allow a wider degree of flexibility for those jurisdictions and individual auditors using the ISAs.

10. At its December 2012 meeting, the IAASB reconsidered its position in the ITC and agreed that the ordering of the elements of the auditor's report will not be mandated, consistent with extant ISA 700 and representing a significant flexibility in presentation. The IAASB has received feedback that, in some countries, there is a cultural preference to place the auditor's opinion at the end of the auditor's report. Accordingly, DT-700 is not proposing requirements to mandate the ordering of elements in the auditor's report, but instead has intentionally presented the requirements in proposed ISA 700 (Revised) in a particular order that also aligns with the suggested presentation in the illustrative auditor's report. DT-700 has not included any guidance or illustration in proposed ISA 700 (Revised) to suggest an alternative presentation of the elements in the auditor's report, so as to encourage consistency in presentation.
11. However, DT-700 acknowledged that, in order to meet the objective of improving auditor reporting on a global basis, it was important to have certain requirements be prescriptive to result in particular wording in the auditor's report, and others be more principles-based to accommodate national circumstances. Consequently, DT-700 determined it necessary to have relatively prescriptive requirements (other than ordering) in paragraphs 20–45 of proposed ISA 700 (Revised) aimed at promoting a degree of consistency in the ISA auditor's report.
12. For example, the requirements addressing the title, address, and the wording of the auditor's opinion in paragraphs 21–24 of proposed ISA 700 (Revised) are intended to be prescriptive, while the requirements relating to responsibilities for the preparation of the financial statements in paragraphs 32–33 of proposed ISA 700 (Revised) are considered principles-based to accommodate national circumstances where management or TCWG, or both in some combination, may have these responsibilities.
13. DT-700 is of the view that, absent law, or regulation, or national standards (when auditors refer to both national standards and ISAs), application of the proposed requirements in paragraphs 20–45 of proposed ISA 700 (Revised) would result in an auditor's report that would essentially mirror the example included as Illustration 1 in Section A of **Agenda Item 2-A**, recognizing that auditors may choose to present the elements in a different order.

*Effect of Law and Regulation on the Content and Layout of Auditor's Report*

14. At its September 2012 meeting, the IAASB determined that it was necessary for proposed ISA 700 (Revised) to retain the level of flexibility in auditor reporting that exists in extant ISA 700, by allowing a departure from more detailed requirements in the following circumstances:
  - When an auditor claims compliance with the ISAs in performing the financial statement audit, but law or regulation prescribe a specific layout or wording of the auditor's report (see paragraph 46 of proposed ISA 700 (Revised)); or
  - When an auditor is required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the "national auditing standards") but may have additionally complied with the ISAs in the conduct of the audit and refers to both ISAs and the national auditing standards in the auditor's report (see paragraphs 47–48 of proposed ISA 700 (Revised)).

15. Having the level of flexibility allowed by paragraph 46 of proposed ISA 700 (Revised) enables the auditor to tailor the wording of the auditor's report to meet the legal and regulatory requirements of a particular jurisdiction while still making reference to ISAs in the auditor's report and complying with proposed ISA 700 (Revised). However, the majority of DT-700 members were of the view that it would be useful to limit the potential flexibility in such circumstances to require the auditor to comply with all the requirements in paragraph 20–45 of proposed ISA 700 (Revised) that are not explicitly addressed by law or regulation (see the 1<sup>st</sup> sentence of paragraph 46 of proposed ISA 700 (Revised)).<sup>10</sup> One DT-700 member was of a view that limiting flexibility in this manner may have unintended consequences for broader adoption of the ISAs and that promoting the "ISA brand" is best done by encouraging a reference to the ISAs in auditors' reports (in addition to national auditing standards) (see paragraph 17 below). The member also noted that having overly prescriptive requirements may cause difficulties in implementing proposed ISA 700 (Revised) at the national level.
16. For example, if law or regulation does not prescribe a specific description of the auditor's responsibilities, the auditor would be expected to use the words prescribed by paragraphs 35–38 of proposed ISA 700 (Revised). DT-700 is of the view that the result of this limitation will be greater consistency in auditor reporting, while still allowing flexibility for those elements for which the layout or wording is prescribed by law or regulation. Because of the IAASB's suggested improvements to auditor reporting (e.g., reporting on going concern, other information and key audit matters (KAM) for listed entities) and related new requirements in proposed ISA 700 (Revised), DT-700 also determined that additions to the minimum elements included in paragraph 43 of extant ISA 700 were necessary (see paragraph 46 of proposed ISA 700 (Revised)).

#### Considerations When National Auditing Standards Also Apply in the Conduct of An ISA Audit

17. Extant ISA 700 addresses circumstances where the auditor complies with both national auditing standards and the ISAs, and refers to both in the auditor's report. DT-700 considered whether this requirement was also intended to apply in circumstances when auditors' reports are issued in accordance with national auditing standards developed by national standard setters (NSS) who have asserted that those standards are the same as, or conform to, the ISAs. DT-700 concluded that it does not apply, as in such circumstances the auditor's report does not refer to ISAs. Rather, in order for NSS to be able to assert compliance with ISA 700, reference needs to be made to the IAASB Policy Position, *Modifications to International Standards of the IAASB: A Guide for National Standard Setters that Adopt the IAASB's International Standards but Find It Necessary to Make Limited Modifications*.
18. The possibility of encouraging NSS to require auditors to refer to ISAs in auditors' reports when national auditing standards are the same as, or conform to, ISAs is a matter worthy of further consideration. Accordingly, DT-700 intends to discuss this matter further at the May 2013 NSS meeting and will consider whether further revisions are needed to proposed ISA 700 (Revised) or whether additional guidance could be provided by other means.

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<sup>10</sup> A similar limitation is proposed in the circumstances envisaged by paragraph 47 of proposed ISA 700 (Revised) (see paragraph 47(b)).

**Matters for IAASB Consideration**

1. Does the IAASB agree that the appropriate balance between the need for consistency and flexibility in auditor reporting has been achieved by the manner in which the requirements of proposed ISA 700 (Revised) have been drafted?
2. Does the IAASB agree with how the additional minimum elements included in paragraph 46 of proposed ISA 700 (Revised) have been drafted?
3. Does the IAASB agree with the provisions of the continued flexibility, as exists in extant ISA 700 to individual auditors, when not otherwise prescribed by law, regulation or national standards (when auditors refer to both national standards and ISAs), to order the elements of the auditor's report differently?

**II. Enhanced Descriptions of the Responsibilities of Management, TCWG, and the Auditor**

19. At its February 2013 meeting, the IAASB supported requiring specific language to be used in the auditor's report to describe the auditor's responsibilities for the audit of the financial statements based on the enhanced descriptions in the ITC. To address concerns about the length of this standardized material, the IAASB agreed that the auditor could be permitted to include this material in an Appendix to the auditor's report. The IAASB also acknowledged that law, regulation, or national auditing standards may explicitly permit the auditor to exclude this material from the auditor's report, and instead include a reference in the auditor's report to a website of an appropriate authority where this information is made available.
20. Questions were raised about the suggested requirements presented to the IAASB at its February 2013 meeting, including whether:
  - The section describing the responsibility for the financial statements could be also be relocated;
  - The wording of the description of the auditor's responsibilities section could be further refined based on suggestions provided by ITC respondents; and
  - DT-700 had given sufficient consideration to the concerns raised by certain respondents to the ITC who cautioned against permitting the description of the auditor's responsibilities section to be relocated, in light of the view that users are less likely to read this important and necessary information if it is on a website or in an Appendix.
21. DT-700 considered the IAASB's input as part of their deliberations and recommends the following.

*Relocation of the Description of Responsibility for the Financial Statements*

22. DT-700 concluded that it would not be appropriate to explicitly permit the relocation of the description of responsibilities for the preparation of the financial statements. This is because the delineation of the responsibilities for the preparation of the financial is of the utmost importance in explaining the respective roles of the preparer and auditor. Additionally, DT-700 was of a view that the information in this section of the auditor's report is already concise, and that there was not much merit to having it relocated elsewhere. DT-700 is also of the view that the additional revisions

included in paragraph 33 of proposed ISA 700 (Revised) are necessary to emphasize the role of TCWG and take into account the additional material presented in the illustrative report about oversight of the financial reporting process. Acknowledging the diversity in corporate governance structures across jurisdictions and entities, DT-700 incorporated additional application material drawing on existing guidance in ISA 260.<sup>11</sup>

*Refining the Wording of the Description of the Auditor's Responsibilities*

23. DT-700 considered and incorporated a limited number of changes where it deemed appropriate to paragraphs 37–38 of proposed ISA 700 (Revised). For example, detailed comments received from an IAASB member suggested a need to bring in additional language from paragraph 31 of extant ISA 700 to new paragraph 37(b)(ii) of proposed ISA 700 (Revised). However, DT-700 did not significantly alter the wording in the illustrative report or reduce its length substantively.

*Relocation of the Description of the Auditor's Responsibilities*

24. DT-700 agreed to some refinements within the requirements relating to the auditor's responsibilities section in order to clarify how the option to relocate the auditor's responsibilities section could be operationalized (see paragraphs 39–40 of proposed ISA 700 (Revised)). DT-700 also agreed that it would be helpful to illustrate by way of additional application material how the description of the auditor's responsibilities could be relocated to (a) an Appendix; and (b) where law or regulation permits, a website of an appropriate authority.
- In deliberating about the relocation of the description of the auditor's responsibilities section, DT-700 determined that it would be necessary for the body of the auditor's report to always include statements about the objectives of an audit, reasonable assurance and misstatements as required by paragraph 36 of proposed ISA 700 (Revised). While some DT-700 members were of a view that having such a requirement was overly prescriptive, on balance, DT-700 agreed that it was important for the body of an ISA auditor's report to have a minimum description of the auditor's responsibilities that would be consistent across all auditors' reports. The illustrative wording that DT-700 developed as application material relating to relocation of the description of the auditor's responsibilities to an Appendix is included in paragraph A36 of proposed ISA 700 (Revised).
  - DT-700 also agreed that when law, regulation or national auditing standards explicitly permits reference to a description of the auditor's responsibilities on a website of an appropriate authority, some flexibility is necessary to allow for the possibility that the information on the website could be more detailed so as to describe the auditor's work more broadly. However, DT-700 was of the view that the information on a website should not be inconsistent with the statements required by paragraphs 37–38 of proposed ISA 700 (Revised). The illustrative wording that DT-700 developed as application material relating to relocation of the description of the auditor's responsibilities to a website of an appropriate authority is included in paragraph A38 of proposed ISA 700 (Revised).

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<sup>11</sup> ISA 260, *Communication with Those Charged with Governance*

#### **Matters for IAASB Consideration**

4. Does the IAASB agree with the revised wording to the requirements and application material that address:
  - (a) The description of the responsibilities for the financial statements?
  - (b) The description of the auditor's responsibilities for the audit of the financial statements?
  - (c) Relocation of the description of the auditor's responsibilities for the audit of the financial statements to an Appendix?
  - (d) Where law or regulation permits, relocation of the description of the auditor's responsibilities for the audit of the financial statements to a website of an appropriate authority?
  - (e) Providing greater flexibility for what is included as the description of the auditor's responsibilities for the audit of the financial statements when such description is relocated to a website of an appropriate authority, rather than when it is included in the body of the auditor's report or an appendix thereto?

### **III. Disclosure of the Name of the Engagement Partner**

25. At its February 2013 meeting, the IAASB explored an alternative whereby, rather than the IAASB requiring the name of the engagement partner (EP) to be disclosed in auditors' reports of listed entities, the requirement in proposed ISA 700 (Revised) could introduce a level of flexibility by requiring that disclosure of the EP name be made publicly available for listed entities, either through disclosure in the auditor's report or by some other means. The IAASB asked that DT-700 further study:
  - Concerns about whether such a requirement would increase, or alternatively effectively mitigate, auditor liability exposure arising from having such a requirement, particularly within major jurisdictions that do not already have in place a requirement to disclose the name of the EP in the auditor's report;
  - The mechanisms by which the EP's name might be "publicly disclosed" other than the auditor's report; and
  - Consideration of a harm's way exemption for auditors.

#### *Consideration about Concerns Raised Regarding Increased Liability – Major Jurisdictions that Do Not Require Disclosing the Name of the EP in the Auditor's Report*

26. DT-700 noted that many of the respondents to the ITC who raised concerns about risks of increased personal liability arising from disclosure of the name of the EP were from North America, in particular the US. Using the participants of the 2012 IAASB NSS meeting as a test sample, the information provided by respondents to the ITC and further research where appropriate, DT-700 sought to identify how many jurisdictions other than the US would likely be affected by a proposal to disclose the EP's name in the auditor's report. It was noted that, of the fifteen countries represented at the IAASB-NSS meeting, other than the US, only three do not currently require the auditor's

report to disclose the name of the EP: Canada, New Zealand, and certain jurisdictions within the Nordic Federation.<sup>12</sup> Of those three jurisdictions drawing from the feedback to the ITC, DT-700 noted that, similar to the US, concerns were also raised about increased liability exposure for the auditor in Canada and New Zealand.

27. DT-700 also sought to further understand the US stakeholders' concerns by exploring the responses to the US Public Company Accounting Oversight Board's (PCAOB) 2011 Proposed Rule on *Improving Transparency Through Disclosure of Engagement Partner and Certain Other Participants in Audits* (the proposed rule).<sup>13</sup>
28. DT-700 noted that the feedback on the PCAOB's proposed rule was relatively consistent with feedback received in response to the ITC. DT-700 noted the comment letter provided by the US Center for Audit Quality (CAQ) provided helpful context about the liability concerns in the US and also described an alternative way of disclosing the EP's name to users.

#### The Basis for DT-700's Recommendation of an Alternative to Disclosure in the Auditor's Report

29. The CAQ suggested that, for listed entities in the US, the EP name could be included in, and be made publicly available on the PCAOB website via, the PCAOB's Form 2 – *Annual Report Form* submission process, but not in the auditor's report.<sup>14</sup> This annual submission provides the PCAOB with information about the accounting firm, its clients, offices, etc. Information submitted as a result of this process is made publicly available via the PCAOB's website free of charge, unless the accounting firm requests that the PCAOB treat it confidentially.<sup>15</sup> The CAQ suggested that supplemental disclosure in Form 2 of the EP name of the respective clients of the registered accounting firm would be a viable alternative to disclosure in the auditor's report.
30. While finding merit in the CAQ's suggestion, DT-700 acknowledges that:
  - A mechanism whereby the EP's name would be made publicly available through a means other than the auditor's report may not exist in all jurisdictions; and

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<sup>12</sup> DT-700 acknowledged that certain jurisdictions within the Nordic Federation are required to follow the European Union's (EU) Eighth Directive and accordingly are required to disclose the name of the EP in their auditors' reports. Specifically, the larger jurisdictions (Denmark, Sweden and Finland) are subject to the EU's Eighth Directive, and only the two smallest jurisdictions (Norway and Iceland) are not.

<sup>13</sup> The 2011 PCAOB [proposed rule](#), a follow up to its 2009 [Concept Release](#), would require the name of the engagement partner to be disclosed in auditors' reports, in a manner that is consistent with the IAASB's June 2012 ITC suggested improvement. Specifically, the PCAOB proposed a requirement to have a statement in its auditor's reports that reads "The engagement partner responsible for the audit resulting in this report was [name]." In its press release to the proposed rule, the PCAOB notes that the approach would meet the potential public interest transparency benefits while mitigating concerns about having the engagement partner sign their name in the auditor's report. As part of its proposed rule, the PCAOB proposed an amendment to have the name of the EP included in the PCAOB Form 2 (described in paragraph 29 of this paper).

<sup>14</sup> PCAOB Rule 2200, *Annual Report*, requires that all its registered accounting firms submit an annual report using PCAOB Form 2 – *Annual Report Form* via its web-based electronic system.

<sup>15</sup> PCAOB Rule 2300, *Public Availability of Information Submitted to the Board, Confidential Treatment Requests* permits accounting firms to submit requests for confidential treatment of the information they provide.

- Having the name of the EP identified and be made publicly available through means other than the auditor’s report may not be a sufficient way of assuaging concerns about increased risks of liability exposure, or security threats for the EP.<sup>16</sup>
31. Notwithstanding these concerns, DT-700 determined that is important for the IAASB to find a suitable way to respond to requests for transparency about the EP name, while mitigating concerns raised by respondents to the ITC, in particular in light of feedback received the Public Interest Oversight Board (PIOB) and the IAASB CAG who cited the public interest merits of having this information available in the auditor’s report. Consequently, DT-700 determined that the “otherwise publicly available” option was a reasonable compromise between taking a global leadership role on a matter relating to transparency in auditor reporting and being sympathetic to liability concerns at the national level, recognizing that policymakers and NSS would continue to have the option to explicitly require such disclosure in the auditor’s report.

*Further Consideration of Mechanisms for Public Disclosure of EP’s Name*

32. To respond to the IAASB’s concerns that the term “otherwise publicly disclosed” was unclear, DT-700:
- Determined that the requirement would be enhanced by using the term “otherwise publicly available” versus “otherwise publicly disclosed” (see paragraph 42 of proposed ISA 700 (Revised)).
  - Added application material to acknowledge that, for audits of listed entities, the name of the EP may be made publicly available through means other than the auditor’s report, as established by the law or regulation in that specific jurisdiction. The application material notes that such law or regulation may require that the EP’s name be made available via a website or by submission to a regulatory authority, which then discloses the information on its website (see paragraph A42 of proposed ISA 700 (Revised)).
33. However, DT-700 recognized potential challenges of its approach for jurisdictions where law or regulation prohibits disclosing the name of the EP in the auditor’s report, or a mechanism does not exist for the EP’s name to be made “otherwise publicly available.” In such circumstances, it would likely be necessary for law or regulation to either (1) require a NSS, regulatory, audit oversight body, or accounting firm to maintain a database or website to make this information publicly available; or (2) override this ISA requirement. As a result, DT-700 agreed to solicit views on this alternative approach in the exposure draft, as well as in outreach and liaison efforts, particularly to jurisdictions who adopt this “otherwise publicly available” approach or for whom such a requirement would be a change in current practice, to determine whether such an approach is feasible on a global basis.

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<sup>16</sup> Two of the six largest accounting firm respondents to the PCAOB proposed rule did not support having the EP’s name identified in either the auditor’s report or the PCAOB’s Form 2, while the other four were more favorable to the latter.

*Consideration for Harm's Way Exemption For Auditors*

34. Some respondents to the ITC, in particular auditors, expressed concerns about disclosing the name of the EP in the auditor's report in situations where the EP might be placed in a situation of personal danger as a result of disclosing this information. DT-700 considered whether proposed ISA 700 (Revised) should include an exemption to providing the EP's name in the auditor's report in certain circumstances. DT-700 considered the wording of similar exemptions that exist in some jurisdictions where the auditor is already required to name the EP in the auditor's report.<sup>17</sup>
35. DT-700 agreed to include a conditional requirement to acknowledge that, in exceptional circumstances, the EP's name need not be included in the auditor's report if having this information publicly available could lead to a significant threat to the person (see paragraph 42 of proposed ISA 700 (Revised)).

**Matters for IAASB Consideration**

5. What are the IAASB's views regarding the operability of the proposed requirement and application material that addresses naming the EP in proposed ISA 700 (Revised)? In particular, does the IAASB agree that the "otherwise publicly available" option suggested by DT-700 is a practical alternative that would be effective in responding to the public interest call for disclosure, while responding to the concerns raised by respondents to the ITC?

**IV. Rationale for Other Significant Changes Reflected in Proposed ISA 700 (Revised)**

36. As explained at the February 2013 IAASB meeting, the proposed changes suggested by DT-700 as part of this auditor reporting project are within the current structure of extant ISA 700. The nature of the changes relate to form, structure, and elements of auditors' reports, focusing suggested requirements on the use of headings and subheadings, and the implications of law or regulation. References to where more specific reporting requirements are included in other ISAs (e.g. ISA 260, ISA 570,<sup>18</sup> new ISA 701,<sup>19</sup> ISA 705, ISA 706,<sup>20</sup> and ISA 720<sup>21</sup>) are incorporated in proposed ISA

<sup>17</sup> Jurisdictions where exemption are currently in place, or are being considered include:

- EU: The EU's Eighth Directive requires that the auditor's report be signed in the EP's name, except in exceptional circumstances Member States may provide that this signature need not be disclosed to the public if such disclosure could lead to an imminent and significant threat to the personal security of any such person.
- UK: The Company Act of 2006 allows, where serious risk of violence or intimidation to the registered auditor or responsible individual, for their names not to be given in published copies of the auditor's report or the copy files at company houses.
- US: The release to the PCAOB's proposed rule acknowledges the UK's Company Act of 2006 but did not include an exemption to its proposed rule to require the identification of the EP's name in the auditor's report. The release to the PCAOB's proposed rule further notes that the PCAOB "is not aware that these disclosures have posed significant safety concerns, or that auditors are subject to any greater risks than others who may be publicly associated with their jobs," but that the PCAOB "continues to consider" and takes this issue seriously and is seeking additional public comment.

<sup>18</sup> ISA 570, *Going Concern*

<sup>19</sup> Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>20</sup> ISA 706, *Emphasis of Matter and Other Matter Paragraphs in the Independent Auditor's Report*

700 (Revised) for completeness. **Agenda Item 2-G** indicates by way of marked text the changes and refinements made to extant ISA 700.

37. As noted at the February 2013 meeting, DT-700's suggested revisions to extant ISA 700 can be characterized as:
- Revisions to existing ISA 700 requirements to clarify or provide more guidance to auditors where DT-700 determined necessary based on their deliberations; and
  - New requirements to operationalize the IAASB's suggested improvements that were featured in the ITC.
38. Proposed ISA 700 (Revised) also reflects changes made by DT-700 to address feedback received from the IAASB at its February 2013 meeting on the requirements in paragraphs 20–45 (see **Agenda Item 2-E**). At the April 2013 meeting, the IAASB is seeing for the first time DT-700's suggested changes to the requirements in paragraphs 43–44 of extant ISA 700 (now paragraphs 46–47), as well as the application material to proposed ISA 700 (Revised).

*Objectives, Definitions, Forming an Opinion on the Financial Statements, Form of Opinion, and Supplemental Information*

39. Based on a review of the full extant ISA 700, DT-700 thought that it was not necessary to revisit the definitions or the requirements in extant ISA 700 relating to forming an opinion on the financial statements,<sup>22</sup> the form of the opinion (i.e., unmodified/modified),<sup>23</sup> or supplemental information.<sup>24</sup>
40. However, DT-700 determined that a minor conforming change was needed to the objectives of extant ISA 700, because proposed ISA 700 (Revised) utilizes the title “Basis for Opinion” as a heading of a required section. As a result, DT-700 determined that it was best to avoid the use of the phrase “basis for that opinion” within the objective of the revised standard.

*Addressee*

41. DT-700 determined that it was necessary, in light of the diversity among the users, to add new application material to address circumstances when law or regulation does not specify the addressee, with linkage to the parties with whom the auditor agrees the terms of the audit engagement in ISA 210<sup>25</sup> (see paragraphs 22 and A16 of proposed ISA 700 (Revised)).

*Auditor's Opinion*

42. Based on feedback from the IAASB at its February 2013 meeting, DT-700 reinstated the requirement in paragraph 23 of extant ISA 700, with a few minor changes to align with the IAASB's suggested improvement relating to the explicit reference to the notes. DT-700 determined that

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<sup>21</sup> ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

<sup>22</sup> Proposed ISA 700 (Revised), paragraphs 10–15

<sup>23</sup> Proposed ISA 700 (Revised), paragraphs 16–19

<sup>24</sup> Proposed ISA 700 (Revised), paragraphs 49–50

<sup>25</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

refinement was needed to existing requirements and application material to clarify the wording to be used when an unmodified opinion is expressed.

#### *Basis for Opinion*

43. DT-700 determined that revisions were necessary to the requirements in this section to:
- Address IAASB feedback on the new requirement intended to establish a heading to be used in all cases and facilitate the statement indicating compliance with relevant ethical requirements, including independence. The IAASB also added new application material indicating that, when indicating compliance with relevant ethical requirements, the auditor may provide more information such as identification of the particular ethical code with which the auditor is required to comply (see paragraphs 28(c) and A28 of proposed ISA 700 (Revised)).
  - Make a stronger link between the requirements to state that the audit was conducted in accordance with ISAs and to refer to the section of the auditor's report that describes the auditor's responsibilities for the audit of the financial statements under the ISAs (see paragraphs 28(a)-(b) of proposed ISA 700 (Revised)).

#### *Going Concern, Key Audit Matters, and Other Information*

44. DT-700 refined the wording of the new requirements in paragraphs 29–31 of proposed ISA 700 (Revised), which are aimed at operationalizing IAASB's suggested improvements related to going concern, key audit matters (formerly auditor commentary) and other information, based on feedback from IAASB members.

#### *Auditor's Location and Jurisdiction*

45. DT-700 determined it appropriate to change the title of the heading above paragraph 42 of extant ISA 700 from "Auditor's Address" to "Auditor's Location and Jurisdiction" to address issues in implementation of the requirement. Further, clarification was made to the requirement, along with a new paragraph added to the application material, to address the circumstances in practice in which the engagement partner may be located elsewhere, but the auditor's report is required to refer to the jurisdiction in which the audit was conducted or where the issuing office is located (see paragraphs 44 and A45 of proposed ISA 700 (Revised)).

#### *Other Reporting Responsibilities (ORR)*

46. In light of the fact that some of the topics to be addressed by the new auditor reporting requirements may also be addressed by ORR (e.g., going concern and other information), DT-700 determined that refinements were necessary to better articulate the change being proposed relating to the presentation of ORR in the auditor's report. Thus, proposed ISA 700 (Revised) includes a redrafted requirement that is more principles-based and is intended to permit ORR to be presented together with the auditor's reporting responsibilities under the ISAs, rather than in a section of the auditor's report under a separate heading. However, the requirement continues to specify that the auditor's report shall clearly distinguish between reporting required by the ISAs and other reporting required by law or regulation (see paragraphs 41 and A39–A41 of proposed ISA 700 (Revised)).

*Other Requirements and Application Material Relating to the Auditor's Report*

47. Substantive changes were not proposed to the requirements in extant ISA 700 relating to the auditor's report being in writing, or the title, signature, or date of the auditor's report. However, changes were made to the extant application material supporting these requirements, or additional application material was developed. For example, additional application material related to the use of electronic signatures was added in paragraph A44 of proposed ISA 700 (Revised).

**Matters for IAASB Consideration**

6. During the IAASB meeting, the DT Chair will walk through the full draft of proposed ISA 700(Revised) in **Agenda Item 2-F**. IAASB members are asked to share their views on:
- (a) The appropriateness of the changes in light of DT-700's rationale described above.
  - (b) The proposed requirements and application material, indicating where further refinement may be necessary.
  - (c) Whether there are additional considerations relating to small- and medium-sized entities (SMEs) and public sector organizations that should be addressed.

**V. Conforming Amendments to ISA 705**

48. Section B of **Agenda Item 2-A** includes illustrative examples of auditors' reports when the auditor expresses a qualified or adverse opinion or disclaims an opinion on the financial statements. These have been developed to align with the preferred presentation of the illustrative report when the auditor expresses an unmodified opinion, tailored as appropriate to take into account unique circumstances when an opinion other than an unmodified opinion is expressed.
49. The most substantive point to note is that, in the case of a disclaimer of opinion, the new sections addressing going concern and other information are proposed to be omitted from the auditor's report. DT-700 was of the view that, because of the nature of a disclaimer of opinion,<sup>26</sup> it would be inappropriate and potentially misleading for the auditor's report to suggest that the auditor had obtained sufficient appropriate audit evidence or performed audit procedures sufficient to include statements on going concern or other information. In addition, proposed ISA 701 prohibits auditors from communicating KAM in the auditor's report when a disclaimer of opinion is expressed.
50. DT-700's considerations of the effect of the changes resulting from proposed ISA 700 (Revised), including the IAASB's preferred presentation in the illustrative auditor's report, on ISA 705 indicated that it will be necessary to:
- Revise the requirement in paragraph 16 of extant ISA 705 relating to the need for, and placement of, the Basis for Opinion – Previous DT-700 discussions about having an unmodified auditor's report that includes a new Basis for Opinion section and does not

<sup>26</sup> ISA 705 explains that the auditor disclaims 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.

mandate the placement of the auditor's opinion indicate that, in the case of a modified opinion, amendments will be needed to ISA 705 to require that the Basis for the Opinion section be kept within close proximity to the auditor's opinion.

- Revise the illustrative auditor's reports in ISA 705 to align with the required presentation in proposed ISA 700 (Revised), including the terminology used in headings and sections within the reports.
- Determine how requirements included in proposed ISA 701 relating to the interaction between matters that give rise to modified opinion and key audit matters may need to be acknowledged in ISA 705.
- Revise requirements in order to omit the auditor's responsibilities for the audit of the financial statements section in situations when the auditor's opinion is a disclaimer.

There may also be changes of an editorial nature or additional application material that may be helpful; however, a substantive revision of ISA 705 is not contemplated.

51. DT-700 is of a view that, given the limited amendments needed to ISA 705 and the interrelationship of those amendments to proposed ISA 700 (Revised), it would be preferable to obtain the IAASB's input on proposed ISA 700 (Revised) before processing changes to ISA 705. Accordingly, DT-700 plans to present proposed revised requirements and application material to extant ISA 705 at its June 2013 meeting, taking into account the feedback that IAASB provides on the illustrative modified auditors' reports.

**Matter for IAASB Consideration**

6. The IAASB is asked for its views on the placement of the elements in the modified auditors' reports included in Section B of **Agenda Item 2-A**.