

**Meeting:** IAASB  
**Meeting Location:** New York  
**Meeting Dates:** June 24–28, 2013

# Agenda Item **2**

## Auditor Reporting

### Objective of Agenda Item

- To approve the auditor reporting exposure draft (ED), including related conforming amendments.

### Drafting Teams and Respective Responsibilities

- Dan Montgomery, IAASB Deputy Chair, has overall responsibility for leadership of the Auditor Reporting project. The DTs are comprised of the following members:

ISA 700 Drafting Team (DT-700)	ISA 701 Drafting Team (DT-701)
<ul style="list-style-type: none"> <li>• Bruce Winter, IAASB Member and Chair of DT-700</li> <li>• Dan Montgomery, IAASB Deputy Chair, Chair of DT-701 and Overall Project Chair</li> <li>• Jon Grant, IAASB Member</li> <li>• Annette Köhler, IAASB Member</li> <li>• Chuck Landes, IAASB Member</li> <li>• Brendan Murtagh, IAASB Member</li> <li>• Len Jui, KPMG Beijing (correspondent member)</li> </ul>	<ul style="list-style-type: none"> <li>• Dan Montgomery, IAASB Deputy Chair, Chair of DT-701 and Overall Project Chair</li> <li>• Cédric Gélard, IAASB Member</li> <li>• Marc Picqueur, IAASB Member</li> <li>• Tomo Sekiguchi, IAASB Member</li> <li>• Marek Grabowski, IAASB Technical Advisor</li> </ul>
<p><i>Responsible for revisions to ISA 700,<sup>1</sup> ISA 705,<sup>2</sup> ISA 570,<sup>3</sup> and conforming changes to other ISAs as necessary</i></p>	<p><i>Responsible for development of new ISA 701<sup>4</sup> and revisions to ISA 706,<sup>5</sup> ISA 260<sup>6</sup> and conforming changes to other ISAs as necessary</i></p>

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

<sup>2</sup> Proposed ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>3</sup> Proposed ISA 570 (Revised), *Going Concern*

<sup>4</sup> Proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>5</sup> Proposed ISA 706 (Revised), *Emphasis of Matter and Other Matter Paragraphs in the Independent Auditor's Report*

<sup>6</sup> Proposed ISA 260 (Revised), *Communication with Those Charged with Governance*

*Revisions to auditor reporting requirements in proposed ISA 720 (Revised)<sup>7</sup> will be further progressed by the ISA 720 TF based on comments received to the ED of proposed ISA 720 (Revised). However, it will be important for DT-700 members and staff to coordinate with ISA 720 TF to finalize the reporting requirements in relation to other information in a manner consistent with other reporting elements.*

### Activities since Last IAASB Discussion

3. Each DT held one physical meeting and three teleconferences to develop materials for the April 2013 National Auditing Standard Setters (NSS) Liaison Group meeting and the materials presented in this agenda item, taking into account comments from the April 2013 Consultative Advisory Group (CAG) and IAASB meetings.

### Matters for IAASB Consideration

4. The DT Chairs will walk IAASB members through the full drafts of the proposed standards and illustrative auditors' reports to be included in the ED. The matters highlighted in this section are those areas with the most significant change from the IAASB's April 2013 meeting or new matters that have not previously been considered by the IAASB. IAASB members are asked, where possible, to provide editorial comments to Staff in advance of the June 2013 meeting.
5. During the meeting, IAASB members will also be asked for their views on the matters to be addressed in the explanatory memorandum (EM) accompanying the ED, as well as the questions that should be included to solicit feedback on the IAASB's proposals.

#### I. Key Audit Matters (KAM)

##### *Objectives*

6. Since the April 2013 IAASB meeting, DT-701 has considered how best to structure the objectives in proposed ISA 701 to address the fact that auditors of financial statements of listed entities are required to comply with the ISA, as well as the possibility that auditors of financial statements of entities other than listed entities may be required, or may choose, to communicate KAM in the auditor's report. The IAASB has previously expressed the view that, if KAM is provided in audits of financial statements of entities other than listed entities, proposed ISA 701 would apply in its entirety (see paragraphs 5 and A4–A5 of **Agenda Item 2-A**).
7. Accordingly, the proposed objectives in paragraph 8 of **Agenda Item 2-A** are first aimed at auditors of financial statements of listed entities. A second paragraph within the Objectives section acknowledges the circumstance when auditors of financial statements of entities other than listed entities communicate KAM (see paragraph 9 of **Agenda Item 2-A**). DT-701 is of the view that this approach is preferable to referring specifically to audits of listed entities in multiple requirements throughout proposed ISA 701 or otherwise complicating the structure and wording of the requirements of the ISA.

---

<sup>7</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*

**Matter for IAASB Consideration**

1. Does the IAASB believe the objectives in proposed ISA 701 are sufficiently clear, in view of the fact that the proposed ISA is required for audits of listed entities, but would be applied in its entirety when key audit matters are communicated for audits of other than listed entities?

*Determining KAM*

8. Previous IAASB discussions and feedback from NSS and others reiterated the need for the requirements and guidance in proposed ISA 701 to be sufficient to guide the auditor's determination and communication of KAM in the auditor's report. Importantly, it was acknowledged that the requirements cannot be read in isolation – application material supports the principles-based requirements, and the illustrative examples provide a sense of the how the standard is expected to be operationalized in practice. Regulators and audit inspection bodies will also likely have views as to the extent of prescription needed to enforce the requirements in the proposed ISA. It is therefore necessary to find an appropriate balance between what is required to be taken into account to inform the auditor's professional judgment, and what other considerations may be relevant to the auditor's determination of which matters discussed with those charged with governance are KAM.
9. DT-701 has sought to further refine the requirement in paragraph 11 of **Agenda Item 2-A** to ensure it is sufficient to enable auditors to appropriately exercise professional judgment in determining KAM. Upon reflection, DT-701 believes that in determining KAM the auditor will always need to take into account areas of significant auditor attention or effort in performing the audit (i.e., that this is the primary filter in determining KAM), along with other considerations to further inform the auditor's thought process in determining which of those areas are of most significance in the audit of the financial statements (and therefore KAM) (see paragraphs 11(a)–(c) of **Agenda Item 2-A**). Taken with the related application material, DT-701 believes that this will assist the auditor in narrowing the matters communicated with TCWG, to what has been referred to as the “matters that kept the auditor awake at night.” Proposed ISA 701 also specifies that one or more of these factors may be applicable in the context of a matter, as the factors may be interrelated. See application material supporting this requirement in paragraphs A6–A29 of **Agenda Item 2-A**.
10. An alternative suggested in preliminary discussions with practitioners would be to move the factors included in paragraphs 11(a)–(c) to application material. The rationale for doing so is that, by including these considerations in the requirement, practitioners may lose the focus on the “primary filter” of areas of significant auditor attention or effort in performing the audit, and there may be a perception that any one of the factors by itself is expected to always result in a KAM. One drawback of this alternative is that the requirement would no longer specifically mention significant risks, something that has been considered to be important in the public interest in prior discussions with the Board and CAG.
11. Based on feedback from the IAASB and the CAG, DT-701 also has evaluated how proposed ISA 701 should address KAM when comparative financial information is presented in accordance with

ISA 710.<sup>8</sup> In considering an appropriate way forward, it was noted that, in particular when comparative financial statements are presented, some are of the view that there may be merit in including the auditor's description of KAM for both periods. However, there are likely practical challenges in doing so that could result in further lengthening the auditor's report and a presentation that could be potentially confusing to users. Some of the practical challenges include the following:

- Whether there would be an expectation that the auditor would update KAM from the prior year, for example to explain the matter's effect in the current year audit. DT-701 acknowledged that a KAM in one year may not necessarily be a KAM in the following year.
  - Whether the inclusion of a KAM in a subsequent year relating to a matter that existed in both years could call into question the validity of the auditor's judgment to exclude it as a KAM in the prior year. DT-701 noted that it would not be desirable to put the auditor in a position whereby there might be an expectation that the auditor would "restate" prior year KAM to include new items that were not, in the auditor's professional judgment, of most significance to the audit in the prior year, or otherwise describe why a matter was not a KAM in one year but was in the next.
  - The potential consequences when the prior period financial statements were audited by a predecessor auditor. In such circumstances, the determination of KAM would have been made by another auditor based on the audit conducted and the current auditor would not have a basis of communication with those charged with governance for determining KAM.
12. On balance, the majority of DT-701 agreed that, when comparative financial information is presented, the auditor's communication about KAM should be limited to the audit of the financial statements of the current period, primarily because users are interested in the most recent information possible to make informed decisions, and therefore are more likely to value information from the auditor about matters of significance in the audit of the current period (see paragraph 11 and A15 of **Agenda Item 2-A**). When comparative financial information (whether it be corresponding figures or comparative financial statements is presented), the introductory language in the KAM section of the auditor's report would explain that key audit matters are those matters communicated with those charged with governance that the auditor has determined, in the auditor's professional judgment, were of most significance in the audit of the financial statements for the most recent financial period (e.g., the year ended December 31, 20X1).
13. DT-701 is of the view that it would be appropriate to explicitly seek feedback on this point in the EM, with a longer-term view of considering the matter as part of a post-implementation review.

---

<sup>8</sup> ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*. In the case of corresponding figures, the auditor's opinion generally refers only to the financial statements of the current period. In the case of comparative financial statements, the auditor is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.

**Matters for IAASB Consideration**

2. The IAASB is asked for its views on whether:
  - (a) The focus on areas of significant auditor attention or effort in performing the audit is appropriate; and
  - (b) The factors including in paragraphs 11(a)-(c) of proposed ISA 701 should be included in the requirement or moved to application material.
3. Does the IAASB agree with DT-701's recommendation that the communication of KAM in the auditor's report be limited to the most recent period presented in the financial statements?

*Illustrative Examples of KAM*

14. The requirement in paragraph 13 of **Agenda Item 2-A** is intended to be sufficiently principles-based to allow for auditor judgment as to the level of detail to include in the auditor's report about individual KAM. However, the IAASB has previously expressed the view that, in order for the communication of KAM to have value to users, it is necessary for the auditor to explain why a matter was considered to be a KAM, including, to the extent necessary, its effect on the audit. The factors in paragraph 11 of proposed ISA 701, as well as the manner in which the matter was communicated to TCWG and the underlying audit documentation about the matter, may assist the auditor in considering how best to explain the KAM in the auditor's report. Additional application guidance has also been developed to assist the auditor in determining how to describe KAM (see paragraphs A33–A45 of **Agenda Item 2-A**).
15. DT-701 has further revised the illustrative examples presented to the IAASB and CAG at their respective April 2013 meetings. Two new examples have been developed to replace the previous example addressing discontinued operations, one of which addresses fraud risks in the audit. The illustrative examples of KAM will be included in the main illustrative auditor's report in proposed ISA 700 (Revised) (see Appendix 1 of **Agenda Item 2-E**). The manner in which the introductory wording of the KAM section is presented when the auditor expresses a modified opinion or a material uncertainty related to going concern has been identified is illustrated in auditors' reports within proposed ISA 570 (Revised) and proposed ISA 705 (Revised) (see paragraph 14 of **Agenda Item 2-A** and the Appendices in **Agenda Items 2-C and 2-H**). Based on feedback received from the CAG, NSS and others, when no material uncertainty relating to going concern has been identified, the illustrative auditors' reports now present the KAM section before the Going Concern section, as it was suggested KAM would be of greater value to users in such circumstances.

**Matter for IAASB Consideration**

4. What are the IAASB's views on the illustrative examples of KAM, including how the introductory language is tailored when modified opinions or going concern issues are present?

*Amendments Proposed to ISA 260*

16. DT-701 has further considered the nature and extent of changes necessary to ISA 260 to underpin the auditor's determination and communication of KAM, and believes that a limited number of

amendments would be appropriate to strengthen practice in key areas of communication with TCWG (see **Agenda Item 2-D**). In many audits, communication with TCWG about significant risks is likely already occurring; however, ensuring this takes place on a consistent basis is viewed as being in the public interest (see paragraph 17 below) and also supports the auditor's thought process for determining KAM. Accordingly, DT-701 continues to propose requiring auditors to communicate about significant risks with TCWG. However, because significant risks are generally identified at the planning stage of the audit, DT-701 is of the view that it would be more appropriate to expand the requirement in paragraph 15 of ISA 260 to communicate an overview of the planned scope and timing of the audit to explicitly require the auditor to communicate significant risks identified by the auditor and the auditor's planned response.

17. DT-701 believes this new requirement would not have a significant burden on auditors who are not required to communicate KAM in the auditor's report (e.g., auditors of small- and medium-sized entities (SMEs)), as proposed ISA 260 (Revised) remains flexible for such communication to be made orally. In any event, previous DT-701 and IAASB discussions suggest that it is in the public interest to establish this requirement for all entities, to ensure TCWG have insight into those areas for which the auditor determined special audit consideration was necessary.

**Matter for IAASB Consideration**

5. What are the IAASB's views as to the appropriateness of the changes proposed to ISA 260?

*Revisions to ISA 706 to Address the Relationship between Emphasis of Matter (EOM) and Other Matter (OM) Paragraphs and KAM*

18. Many IAASB members and respondents to the ITC were of the view that the mechanism of an EOM paragraph should be retained for audits of financial statements of listed entities to alert users to matters that would not otherwise be considered KAM in the event the auditor considers it necessary to do so. In addition, because KAM will initially be required only for auditors of financial statements of listed entities, it is necessary to retain this mechanism for auditors of non-listed entities. However, DT-701 understands that the most common use of EOM paragraphs currently is to highlight material uncertainties relating to GC, and that "discretionary" EOM paragraphs are used less frequently in practice. In addition, in many instances, KAM will relate to specific areas of the financial statements and therefore will be fundamental to users' understanding of the audited financial statements. Accordingly, when a KAM section is included in the auditor's report, EOM paragraphs are expected to be rare, except when otherwise required by other ISAs or by law or regulation. Feedback from NSS supported this view.
19. DT-701 has carefully considered the interaction between KAM, EOM paragraphs and OM paragraphs, including reference to circumstances in which the ISAs require the auditor to include an EOM paragraph or OM paragraph in the auditor's report (see Section IV of this paper). No changes are being proposed to the underlying concepts in ISA 706, including the definition of EOM and OM paragraphs. Rather, DT-701 is proposing that clarification be made within proposed ISA 706 (Revised) to ensure that auditors are not using EOM or OM paragraphs for matters determined to be a KAM in accordance with proposed ISA 701 when applicable (see paragraphs 7(b), 9(b) and A1 of **Agenda Item 2-I**).

20. DT-701 also further considered the IAASB's previous discussions about whether certain matters related to the planning and scoping of the audit (such as a description of the materiality applied to the engagement) would meet the definition of a KAM. Based on the requirement in paragraph 11 of proposed ISA 701 and related application guidance, DT-701 concluded that these matters would be unlikely to be determined to be matters of most significance in the audit of the financial statements (and therefore would not be KAM). Accordingly, such matters would be more appropriately communicated in an OM paragraph if the auditor chose to do so or was required to do so by law, regulation or national auditing standards. These matters are now specifically acknowledged in proposed ISA 706 (Revised) as further examples of OM paragraphs (see paragraph A6 of **Agenda Item 2-I**).

#### **Matter for IAASB Consideration**

6. Does the IAASB believe that the proposed amendments to ISA 706 clearly differentiate the concepts of EOM and OM paragraphs from the concept of KAM in proposed ISA 701?

## **II. Going Concern (GC)**

21. At its April 2013 meeting, the IAASB agreed on the wording of the two required statements in relation to GC that would be included in the auditor's report. As requested at the April meeting, DT-700 held a conference call with Michael Stewart and April Pitman (IASB staff) to seek any input on the proposed wording. No changes resulted from this discussion. The IAASB also agreed that the identification of a material uncertainty relating to GC would, by its nature, be a key audit matter when such matters are communicated in the auditor's report, but should be presented as part of the GC section of the auditor's report to give it appropriate emphasis. The identification of a material uncertainty relating to GC will therefore no longer be a required EOM paragraph.
22. With respect to the overall approach relating to GC, the IAASB agreed to develop the proposals using extant ISA 570 as the base, which makes reference to extant IAS 1.<sup>9</sup> This approach contemplates making minimal conforming amendments to ISA 570 for purposes of the IAASB's June 2013 ED with the possibility of additional changes to ISA 570 once future amendments to the underlying accounting standards are clearer.
23. DT-700 has developed amendments to ISA 570 to operationalize the reporting aspects of GC based on the agreed illustrative wording (see **Agenda Item 2-B**). Of note, a new appendix in proposed ISA 570 (Revised) has been developed to provide illustrative auditors' reports that address in full context the following circumstances (rather than including excerpts of illustrative wording in application material):
- (a) An auditor's report containing a statement regarding a material uncertainty identified when disclosure is adequate in the financial statements.
  - (b) An auditor's report containing a qualified opinion when disclosure of a material uncertainty is inadequate in the financial statements.

---

<sup>9</sup> International Accounting Standard (IAS 1), *Presentation of Financial Statements*

- (c) An auditor's report containing an adverse opinion when disclosure of a material uncertainty is inadequate in the financial statements.

*Liaison with Accounting Standard Setters on GC Developments*

- 24. Because many respondents emphasized the need for a more holistic approach to GC, the IAASB continues to actively liaise with the accounting standard setters. There are some underlying accounting issues, including a lack of consistent understanding of certain concepts, for which clarification or additional guidance from the accounting standard setters would help to underpin the IAASB's proposed statements about GC in the auditor's report. Both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have active projects addressing GC; however, the scheduled timelines to finalize and implement the revised accounting standards are still unclear.
- 25. There is also a risk that the requirements of International Financial Reporting Standards (IFRSs) and US GAAP ultimately will differ as to what is considered a GC, with a consequential impact on the definition of, or threshold for, a material uncertainty. In any case, as the accounting standards continue to develop, there may be a need for the IAASB to revisit the underlying concepts in proposed ISA 570 (Revised) and consider whether further amendment may be needed to the requirements addressing the auditor's work effort to ensure they are appropriate in light of the different financial reporting frameworks.

**Matter for IAASB Consideration**

- 7. Does the IAASB agree with the proposed amendments to ISA 570, including the addition of the Appendix?

**III. Matters Relating to ISA 700**

*Independence and Other Relevant Ethical Requirements*

- 26. As a result of the April 2013 IAASB deliberations, DT-700 has reconsidered the requirement in proposed ISA 700 (Revised) and the wording of the illustrative report relating to the statement of compliance with relevant ethical requirements, including independence requirements. Having considered the IAASB and CAG comments on the potential unintended consequences of the proposed statement, DT-700 recommends that proposed ISA 700 (Revised) require a more explicit statement that the auditor is independent of the entity within the meaning of the relevant ethical requirements or applicable law or regulation and has fulfilled the auditor's other ethical responsibilities under relevant ethical requirements. Auditors would be required to disclose the specific relevant ethical requirements or applicable law or regulation in such statement (see paragraph 28(c) and related application material in **Agenda Item 2-E**).
- 27. It was noted in discussions with members of the International Ethics Standards Board for Accountants (IESBA) that making reference to the relevant ethical requirements that applied to the audit can provide transparency in a manner consistent with requiring the auditor to state that the audit was conducted with ISAs in the auditor's report and name the financial reporting framework used in the preparation of the financial statements. The IESBA will discuss the proposed revised

statement at its June 2013 meeting and the DT Chair will report their feedback during the IAASB meeting.

**Matter for IAASB Consideration**

8. Does the IAASB agree with the proposal to require the auditor to explicitly state that the auditor is independent within the meaning of the relevant ethical code, name the source of the relevant ethical requirements, and state that the auditor has fulfilled the auditor's other ethical responsibilities under those (or other) ethical requirements? Is the proposed application material sufficient to enable auditors to operationalize this requirement?

*Identification of the Engagement Partner*

28. At its April 2013 meeting, the IAASB concluded it would be appropriate to limit the requirement to include the name of the engagement partner in the auditor's report as proposed in ISA 700 (Revised) to audits of financial statements of listed entities. DT-700 is also suggesting the need for a "harm's way" exemption, consistent with what is done in some national jurisdictions (see paragraph 42 and related application material in **Agenda Item 2-E**).

*Other Information (OI)*

29. The IAASB continues to pursue auditor reporting on OI. The proposed reporting requirements will be finalized when proposed ISA 720 (Revised) is finalized; however, an overarching requirement to report in accordance with that ISA has been included in proposed ISA 700 (Revised) (see paragraph 31 of **Agenda Item 2-E**). The illustrative reports included in **Agenda Item 2-E** contain a placeholder in the "Other Information" section indicating the illustrative wording will continue to be refined.

*Revisions to ISA 705 as a Result of Proposed ISA 700 (Revised)*

30. The IAASB previously agreed it was necessary to ensure it was clear to auditors how reports containing modified opinions would incorporate the new auditor reporting requirements. DT-700 has undertaken a review of ISA 705 to determine what changes were necessary to the reporting requirements in that standard to ensure that the improvements to auditor reporting included in proposed ISA 700 (Revised) and proposed ISA 701 are appropriately taken into account in proposed ISA 705 (Revised). Proposed amendments are included in **Agenda Item 2-H**. The illustrative reports in the Appendix of **Agenda Item 2-H** highlight the DT-700's suggested presentation when modified opinions are issued, and the interaction between matters for which the auditor's opinion is modified and KAM.
31. Proposed ISA 705 (Revised) seeks to clarify the reporting requirements when the auditor disclaims an opinion on the financial statements. While the requirements relating to the auditor's determination of the need for a disclaimer of opinion are unchanged, a change from extant ISA 705 is proposed, requiring the auditor to state: "Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing and to issue an auditor's report," rather than "Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing."

This is because, when the auditor disclaims an opinion, the auditor does not express an opinion on the financial statements, and the other illustrative reports do not make reference to the auditor “expressing an opinion” but rather to “issuing a report”. Also, the proposed required statement relating to independence would be placed in the Auditor’s Responsibilities section rather than the Basis for Disclaimer of Opinion section (see Illustrations 4 and 5 of **Agenda Item 2-H**).

32. In addition, proposed ISA 570 (Revised), proposed ISA 701, and proposed ISA 720 (Revised) prohibit the auditor from including additional information on GC, KAM and OI in the auditor’s report when the auditor disclaims an opinion. Consistent with prior IAASB discussions relating to KAM when a disclaimer of opinion is expressed, DT-700 is of the view that details about other aspects of the audit that was performed, including information relating to GC, OI, or providing an extensive description of the auditor’s responsibilities, may overshadow the disclaimer of opinion on the financial statements as a whole.

#### **Matter for IAASB Consideration**

9. Does the IAASB agree with the proposed revisions to ISA 705, including the changes relating to disclaimer of opinions?

#### **IV. Conforming Amendments to Other ISAs a Result of the Auditor Reporting Proposals**

33. At its April 2013 meeting, the IAASB asked the DTs to consider the broader implications of proposed ISA 700 (Revised) and proposed ISA 701 on other ISAs. **Agenda Item 2-J** includes DT-701’s analysis of such matters and recommendations on conforming amendments to be included in the ED. Agenda Item 2-J is organized in relation to:
- (i) Conforming amendments to address the relationship between KAM, EOM and OM paragraphs.
  - (ii) Other conforming amendments as described below.
34. In relation to (i), DT-701 has determined that minor conforming amendments could be made to application material in ISAs 540<sup>10</sup> and 710 to better explain the auditor’s judgment as to whether certain matters may be discussed in the auditor’s report in the KAM section rather than an EOM or OM paragraph.

#### When Auditors of Entities Other than Listed Entities Communicate KAM

35. As a result of discussions about the possibility of auditors of other than listed entities deciding to communicate KAM in the auditor’s report, or being requested by management or TCWG to do so, DT-701 is of the view that amendments to ISA 210<sup>11</sup> would be appropriate. Paragraph 10(e) of ISA 210 requires the auditor to make reference in the audit engagement letter to the expected form and content of any reports to be issued by the auditor and include a statement that there may be circumstances in which a report may differ from its expected form and content. New application

<sup>10</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>11</sup> ISA 210, *Agreeing the Terms of Audit Engagements*

material is being proposed to support this requirement, to explain why auditors may want to explicitly make reference to communicating KAM in the audit engagement letter. Revisions are also proposed to the Appendix in ISA 210 that contains an example of an audit engagement letter to further align with changes in proposed ISA 700 (Revised).

#### Documentation

36. Proposed ISA 701 notes that the determination of KAM is a significant professional judgment that shall be documented in accordance with ISA 230.<sup>12</sup> When applicable, this documentation shall include the rationale for the auditor's conclusion that there are no key audit matters to communicate in the auditor's report. DT-701 is of the view that enhancements to the application material in ISA 230 would be useful to support the documentation requirement in proposed ISA 701. The Appendix to ISA 230 will also be amended to make reference to the documentation requirement in proposed ISA 701.

#### *Conforming Amendments to Illustrative Reports in Other ISAs*

37. Appendices in ISAs 510,<sup>13</sup> 600,<sup>14</sup> and 710 include seven illustrative auditors' reports that will need to be conformed to illustrative reports the IAASB's preferred presentation as illustrated in proposed ISAs 700 (Revised) 705 (Revised). The nature of such conforming amendments relate solely to updating the placement and structure of the content of those illustrative reports and incorporating the new ISA 700 elements. No changes are to be made to the requirements of those ISAs or the examples included in the illustrative reports as a result of those requirements. The EM will explain that these conforming amendments will be issued at the time the IAASB finalizes its revised ISAs.

#### **Matter for IAASB Consideration**

10. Does the IAASB agree with proposed conforming amendments noted above, and the approach to be taken in relation to the conforming changes to the illustrative reports in the other ISAs?

#### *Effect on ISA 800 Series*

38. When approving the auditor reporting project proposal in December 2011, the IAASB signaled that the scope of the auditor reporting project "did 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."
39. However, the reporting requirements in ISAs 800<sup>15</sup> and 805<sup>16</sup> are explicitly linked to ISA 700, and there is need to further consider whether all of the proposed improvements to auditor reporting for

<sup>12</sup> ISA 230, *Audit Documentation*, paragraph 8

<sup>13</sup> ISA 510, *Initial Audit Engagements—Opening Balances*

<sup>14</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>15</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

general purpose financial statements would be applicable for special purpose reporting frameworks or when special reports are issued. In addition, further consideration is needed as to whether limited conforming amendments to ISA 810<sup>17</sup> are required as a result of proposed changes to ISAs 570 and 705. Accordingly, DT-700 is of the view that it is premature to propose conforming changes to these ISAs in the June 2013 ED.

40. To address issues, if any, relating to the ISA 800 series before proposed ISA 700 (Revised) and other ISAs become effective, the following steps could be taken, (subject to DT resources and staff availability):

- Undertake an initial review of relevant issues, including possible conforming amendments to the ISA 800 series at the September 2013 IAASB meeting.

Depending on the nature of the issues and the IAASB's views:

- If they are relatively limited, conforming amendments could be approved at that meeting, released for exposure in mid-October 2013 for a short comment period, and finalized in connection with the IAASB's deliberations on the primary ED; or
- If resources are not available or a more substantive review is determined to be necessary, further work on the ISA series will need to be deferred until 2014, and substantive revisions thereto exposed (for a short comment period) at the time proposed ISA 700 (Revised) is nearing finalization. In this scenario, the effective dates of proposed ISA 700 (Revised) and any revisions to ISA 800 series would need to be aligned.

Staff's assessment is that the latter is the more practical approach.

#### **Matter for IAASB Consideration**

11. What are the IAASB's views on how the matter of possible amendments to the ISA series should be addressed?

#### **V. Other Matters**

##### *Implications of Auditor Reporting on Other IAASB Standards*

41. The DT Chairs and Staff have also considered the implications of the auditor reporting proposals on the IAASB's other standards. The following views are put forward for the IAASB's consideration:

- Interim reporting in accordance with ISRE 2410<sup>18</sup> – ISRE 2410 has not been redrafted in the Clarity format. In addition, attempting to include new reporting requirements, in particular in relation to KAM, would be inconsistent with the work effort that is required by the standard.

<sup>16</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

<sup>17</sup> ISA 810, *Engagements to Report on Summary Financial Statements*

<sup>18</sup> International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information by the Independent Auditor of the Entity*

The IAASB has discussed the possibility of a post-implementation review and such a review may inform the IAASB's broader consideration of whether it would be appropriate to amend ISRE 2410 to require the inclusion of KAM or other reporting elements in interim reports.

- Reporting addressed by other assurance, review and related services standards – No changes have been proposed to attempt to align the illustrative reports in these standards with the presentation in proposed ISA 700 (Revised). Should the IAASB believe it would be appropriate to do so, it would need to be undertaken as a separate project when changes to the auditor reporting ISAs are finalized.

#### *Effective Date*

42. In light of the nature of the revisions to the standards and the significant change in practice that will result from the implementation of proposed ISA 701 (as well as the need for national due process and translation, as applicable), an appropriate effective date for the standard would be at least 15–18 months after issuance of the final standards. Earlier application would be permitted. The EM will solicit feedback on whether this would provide a reasonable minimum period for effective implementation.

#### *Exposure Period*

43. The IAASB normally exposes its proposed standards for no less than 120 days. If a 120-day exposure period is adopted (assuming ED approval at the June 2013 meeting), the comment period would extend through mid-November 2013. A longer exposure period will have implications on the nature of what can be discussed at the March 2014 IAASB and CAG meetings and the timing of approval of the final standards.

#### **Matter for IAASB Consideration**

12. What are the IAASB's views on the above matters, in particular the exposure period to be set for the ED?

#### **Material Presented**

Agenda Item 2-A	Proposed ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Clean)
Agenda Item 2-B	Proposed ISA 701, <i>Communicating Key Audit Matters in the Independent Auditor's Report</i> (Marked from April 2013 IAASB Meeting)
Agenda Item 2-C	Proposed ISA 570 (Revised), <i>Going Concern</i> (Marked from Extant)
Agenda Item 2-D	Proposed ISA 260 (Revised), <i>Communication with Those Charged with Governance</i> (Marked from Extant)
Agenda Item 2-E	Proposed ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i> (Clean)
Agenda Item 2-F	Proposed ISA 700 (Revised), <i>Forming an Opinion and Reporting on</i>

*Financial Statements* (Marked from April 2013 IAASB Meeting)

- |                 |   |
|-----------------|---|
| Agenda Item 2-G | Proposed ISA 700 (Revised), <i>Forming an Opinion and Reporting on Financial Statements</i> (Marked from Extant)                                      |
| Agenda Item 2-H | Proposed ISA 705 (Revised), <i>Modifications to the Opinion in the Independent Auditor's Report</i> (Marked from Extant)                              |
| Agenda Item 2-I | Proposed ISA 706 (Revised), <i>Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report</i> (Marked from Extant) |
| Agenda Item 2-J | Conforming Amendments to Other ISAs as a Result of the Auditor Reporting Proposals  |