

**Meeting:** IAASB  
**Meeting Location:** New York  
**Meeting Dates:** June 16–20, 2014

# Agenda Items 2–4

## Auditor Reporting

### Objective of Agenda Items

- To discuss issues and revised drafts of the proposed standards included in the July 2013 Exposure Draft (ED), *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*.

### Drafting Teams and Respective Responsibilities

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

ISA 700 Drafting Team (DT-700)	ISA 701 Drafting Team (DT-701)	ISA 570 Drafting Team (DT-570)
<ul style="list-style-type: none"> <li>• Bruce Winter, IAASB Member and Chair of DT-700</li> <li>• Annette Köhler, IAASB Member</li> <li>• Brendan Murtagh, IAASB Member</li> <li>• Jianhua Tang, IAASB Member</li> <li>• Susan Jones, IAASB Technical Advisor</li> <li>• Denise Weber, IAASB Technical Advisor</li> <li>• Correspondent member: Gary Hannaford, International Ethics Standards Board for Accountants (IESBA)</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>• Marek Grabowski, IAASB Member</li> <li>• Marc Pickeur, IAASB Member</li> <li>• Megan Zietsman, IAASB Member</li> </ul>	<ul style="list-style-type: none"> <li>• Chuck Landes, IAASB Member and Chair of DT-570</li> <li>• Jean Blascos, IAASB Member</li> <li>• Karin French, IAASB Member</li> <li>• Wolf Böhm, IAASB Technical Advisor</li> </ul>
Staff: Diane Jules	Staff: Kathleen Healy and Jasper van den Hout	Staff: Sara Ashton

ISA 700 Drafting Team (DT-700)	ISA 701 Drafting Team (DT-701)	ISA 570 Drafting Team (DT-570)
<i>Responsible for revisions to ISA 700,<sup>1</sup> ISA 705,<sup>2</sup> ISA 800<sup>3</sup> series and conforming changes to other ISAs as necessary.</i>	<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>	<i>Responsible for revisions to ISA 570<sup>7</sup> and conforming changes to other ISAs as necessary.</i>
<i>Revisions to auditor reporting requirements in proposed ISA 720 (Revised)<sup>8</sup> are being further progressed by the ISA 720 Task Force (TF) as part of the re-ED issued in April 2014. 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.</i>		

### Activities since Last IAASB Discussion

3. Auditor reporting continues to feature heavily in the IAASB's outreach activities, as highlighted in Agenda Item 1. Most recently, discussion was held with Staff of the US Public Company Accounting Oversight Board (PCAOB) to discuss topics of mutual interest.
4. A number of issues addressed in these papers were also raised for discussion at the May 2014 IAASB-National Auditing Standard Setters Liaison Group Meeting. The DT Chairs will report back on these discussions as appropriate.
5. DT-700 and DT-570 have each held a physical meeting and two teleconferences, and DT-701 has held two physical meetings and one teleconference and a physical meeting to develop the material contained in these agenda papers.

### Format of the Board Discussion

6. Auditor reporting will be a significant portion of the IAASB's June 2014 agenda. The various issues papers presented in relation to ISA 700, Going Concern (GC), and Key Audit Matters (KAM) (**Agenda Items 2-A, 3-A, and 4-A**) include *Matters for the IAASB Consideration* that will be

<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> The phrase "ISA 800 Series" incorporates the following ISAs: ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*; ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and ISA 810, *Engagements to Report on Summary Financial Statements*.

<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 Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

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

<sup>7</sup> Proposed ISA 570 (Revised), *Going Concern*

<sup>8</sup> Proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

highlighted as the DT Chairs walk through the revised ISAs included in **Agenda Items 2-B, 2-E, 3-B, 4-B, 4-C, 4-D, and 4-E**.

7. During the discussion of revisions to ISA 700 (**Agenda Item 2**), reference will be made to issues relevant to both going concern and key audit matters. Where changes proposed to ISA 700 are arising from recommendations of DTs other than DT-700, reference has been made to the relevant issues paper. An illustrative report is also included as **Agenda Item 2-D**, which includes illustrative wording of the auditor's responsibilities for GC and KAM, as well as management responsibilities for GC.
8. During the meeting, DT-700 will revise drafts of proposed ISA 700 (**Agenda Item 2-B**) and the illustrative report. DT-701 will revise proposed ISA 701 (**Agenda Item 4-B**).

### ISA 800 Series

9. The Explanatory Memorandum (EM) to the ED acknowledged the need to give due consideration to the potential effect on the ISA 800 Series of changes arising from the proposed ISAs. The IAASB concluded that this should be progressed after feedback is received on the proposed ISAs in the ISA 700 Series. The June 2014 IAASB meeting is therefore the IAASB's first opportunity to consider possible changes to the ISA 800 series as recommended by DT-700, included in **Agenda Item 2-F**.
10. DT-700 intends to propose any necessary changes to the ISA 800 Series through a separate ED (tentatively planned for approval at the September 2014 IAASB meeting, with a 90-day exposure period), with the aim of having the effective dates of all of the ISA reporting standards aligned to the extent practicable.

### Effective Date

11. The EM to the ED explained that, in setting the effective date for a new or revised ISA that affects the work effort of the auditor in performing an audit, the IAASB typically provides a period of at least 12–15 months after issuance of the final standard<sup>9</sup> for purposes of translation, national adoption, and implementation (including training and changes to firms' audit methodologies). This implementation period typically ends, and the new or revised ISA comes into effect, at the beginning of the applicable audit cycle – that is, “for audits of financial statements for periods beginning on or after [date]”.
12. While the Proposed ISAs deal mainly with reporting considerations, which typically involve decisions by the auditor towards the end of the audit process, there are aspects of the Proposed ISAs (in particular proposed ISA 701, related revisions to ISA 260 and conforming amendments to ISA 210)<sup>10</sup> that may have implications for auditor actions at or near the beginning of the audit engagement. For example, in applying proposed ISA 701, the IAASB believes that auditors will be considering matters that are likely to be determined as KAM, and how they would be communicated, as they are developing the audit plan.

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<sup>9</sup> Final standards are issued after they are approved by the IAASB and the Public Interest Oversight Board has confirmed that due process has been followed in their development (which typically occurs in the quarter following IAASB approval).

<sup>10</sup> ISA 210, *Agreeing the Terms of the Audit Engagements*

13. Accordingly, assuming the Proposed ISAs are issued as final standards in the fourth quarter of 2014, the EM suggested the standards could become effective for audits of financial statements for periods beginning on or after December 15, 2015 – that is, for December 31, 2016 reporting periods. Should this be the effective date, the enhanced auditor's reports would be available to users in early 2017.

*Preliminary Staff Recommendations*

14. As noted above, there is a need to align the effective date of both the ISA 700 and ISA 800 series. Work on other IAASB projects, in particular the revision of ISA 720 and the Disclosures project, also needs to be taken into account in light of the recently released EDs. The IAASB intends to finalize the standards relating to these projects in December 2014 and March 2015, respectively.
15. The IAASB received limited feedback on the matter of effective date in the responses to the ED. While there is a view that enhancements to auditor reporting should come into effect as soon as possible, there is also strong acknowledgement of the need for ample time to support effective implementation.
16. For example, the March 2014 IAASB agenda material acknowledged the strong call from respondents to the ED for the IAASB to consider how best to educate investors, as well as preparers and those charged with governance, about the intent of the auditor determining and communicating KAM, in particular to alleviate their concerns about including KAM in the auditor's report. The IAASB was also asked to consider what other initiatives could be undertaken to ensure the final standards are achieving their intended objectives, including in relation to guidance and training for auditors. The IAASB intends to give further thought to how best to do so, for example what an appropriate "roll-out plan" for 2015 may look like, including how this may be done in conjunction with firms, NSS, regulators and others, and the timing of such initiatives.
17. In light of the various developments that need to be taken into account, Staff therefore proposes that the date set forth in the ED (i.e., for audits of financial statements for periods beginning on or after December 15, 2015) should tentatively be the effective date for the auditor reporting standards, provided they are finalized as expected in 2014. The final decision will need to be made at the time the new and revised standards are approved.

**Matters for IAASB Consideration**

1. The IAASB is asked to share views on the other *Matters for IAASB Consideration* included in the various issues papers presented as part of **Agenda Items 2–4**.
2. The IAASB is asked to share views on the initial Staff recommendation in relation to the effective date.

## **Material Presented**

### **Matters Related to the Revision of ISA 700**

Agenda Item 2-A	ISA 700 – Issues and Drafting Team Recommendations
Agenda Item 2-B	Revised Draft of ISA 700 (Clean)
Agenda Item 2-C	Revised Draft of ISA 700 (Marked from ED)
Agenda Item 2-D	Illustrative Auditor’s Report (Marked from ED)
Agenda Item 2-E	Revised Draft of ISA 705 (Marked from ED)
Agenda Item 2-F	ISA 800 Series – Issues and Drafting Team Recommendations

### **Going Concern – Matters Related to the Revision of ISA 570**

Agenda Item 3-A	ISA 570 – Issues and Drafting Team Recommendations
Agenda Item 3-B	Revised Draft of ISA 570 (Clean)
Agenda Item 3-C	Revised Draft of ISA 570 (Marked from ED)

### **Key Audit Matters – Matters Related to the Revision of ISA 701**

Agenda Item 4-A	ISA 701 – Issues and Drafting Team Recommendations
Agenda Item 4-B	Revised Draft of ISA 701 (Clean)
Agenda Item 4-C	Revised Draft of ISA 706 (Marked from ED)
Agenda Item 4-D	Revised Draft of ISA 260 (Marked from ED)
Agenda Item 4-E	Proposed Changes to Other ISAs as a Result of ISA 701