

FEEDBACK STATEMENT

AUDITOR REPORTING POST-IMPLEMENTATION REVIEW



JUNE 2021

IAASB

International Auditing
and Assurance
Standards Board

PURPOSE OF THIS FEEDBACK STATEMENT

In January 2015, the IAASB issued new and revised Auditor Reporting Standards¹ to enhance the communicative value and relevance of the auditor's report. Additionally, in April 2015, the IAASB issued a revised standard addressing the auditor's responsibilities related to other information ISA 720 (Revised).² Given the significance of these standards and the importance of improving communication between auditors and users of auditor's reports, the IAASB is undertaking a post-implementation review (PIR) of these new and revised standards.³

This Feedback Statement summarizes key themes raised in response to the IAASB's Auditor Reporting PIR Stakeholder Survey. The matters set out within this Feedback Statement present the views of stakeholders in response to the Stakeholder Survey and feedback received at an IAASB facilitated roundtable discussion held in September 2020. The Auditor Reporting Implementation Working Group (ARIWG) will develop recommendations to the IAASB on the Auditor Reporting PIR based on the feedback described in this document, input received from other information gathering activities and the Board's views shared during the **February 2021 mid-quarter IAASB Board call**.

The IAASB welcomes the significant interest in our work related to Auditor Reporting and appreciates the thoughtful and informative feedback.

IAASB Auditor Reporting Resources

The IAASB has developed various implementation support and other non-authoritative materials (links here) to support the new and revised auditor reporting standards available on the [IAASB website](#):



AUDITOR REPORTING BASIS FOR CONCLUSIONS



AUDITOR REPORTING ON GOING CONCERN



NEW AUDITOR REPORTING STANDARDS - AT A GLANCE



MORE INFORMATIVE AUDITOR'S REPORTS



NEW AUDITOR REPORTING STANDARDS - FACT SHEET



NEW AUDITOR REPORT - COMPARISON BETWEEN ISA AND PCAOB



KEY AUDIT MATTERS



NEW AUDITOR REPORT: Q & A



DETERMINING AND COMMUNICATING KEY AUDIT MATTERS



ILLUSTRATIVE KEY AUDIT MATTERS

¹ The new and revised Auditor Reporting Standards comprise: ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*; ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*; ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*; ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 570 (Revised), *Going Concern*; ISA 260 (Revised), *Communication with Those Charged with Governance*; and conforming amendments to other ISAs.

² ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

³ The new and revised Auditor Reporting Standards and ISA 720 (Revised) became effective for audits of financial statements for periods ending on or after December 15, 2016. Some jurisdictions may have adopted the standards with a different effective date.

CONTENTS

A Word from the IAASB Chair	4
Section I – Overview of Respondents	5
Section II – Support for the Auditor Reporting Standards	6
Section III – Key Audit Matters	7
Section IV – Going Concern	9
Section V – Other Information Section of the Auditor’s Report	10
Section VI – Other Elements of the Auditor’s Report	12
Section VII – Information Beyond What is Required	13
Section VIII – Assurance Reports for Other Engagements	14
Section IX – Broad Reflections from the Feedback	14
Section X – Way Forward	15

The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high quality international standards which are generally accepted worldwide.

The IAASB follows a rigorous process in developing its standards, involving multistakeholder input, including from the IAASB’s Consultative Advisory Group, the International Federation of Accountants’ (IFAC) relevant committees and professional accountancy organizations, regulatory and oversight bodies, firms, national standard setters (NSS), governmental agencies, investors, preparers and the general public.

A WORD FROM THE IAASB CHAIR...

In response to calls from investors and other stakeholders for a more informative auditor's report, the IAASB undertook substantial revisions to its auditor reporting standards. In doing so, the IAASB added a requirement for Key Audit Matters to enhance the communication between auditors and investors, and with management and those charged with governance. The IAASB's aim was simple—improve transparency, enhance the value of the information provided in the auditor's report and increase user confidence in financial statements.

The auditor's report is the key deliverable that communicates the results of the audit process to the users of audited financial statements. Our auditor reporting post-implementation review stakeholder survey gained insight from a wide range of stakeholders globally, including from investors. This feedback is an important source of information for the IAASB to evaluate whether the revisions made are being consistently understood and implemented, and will help inform our considerations of any further possible actions.

Stakeholders across the world voiced their support for the enhancements made to the auditor's report. Three of the key areas of focus for stakeholders were key audit matters, going concern and other information in the auditor's report. The input on going concern from the stakeholder survey comes very timely as the IAASB currently has a project to explore targeted changes to the going concern auditing standard.

In addition, we continue to coordinate closely with the International Ethics Standards Board for Accountants (IESBA) on their project relating to the definitions of listed entity and public interest entity. We will consider the possible future implications for the IAASB Standards of IESBA's proposals and actions. The auditor's report may be an appropriate mechanism to achieve greater transparency when the entity is a public interest entity.

I believe all stakeholders have an important role to play in improving external reporting—entities and their management, those charged with their governance, investors, regulators, and others. We developed this feedback statement to acknowledge the important and constructive input received and to highlight the major points that will inform the IAASB's deliberations as part of our post-implementation review.

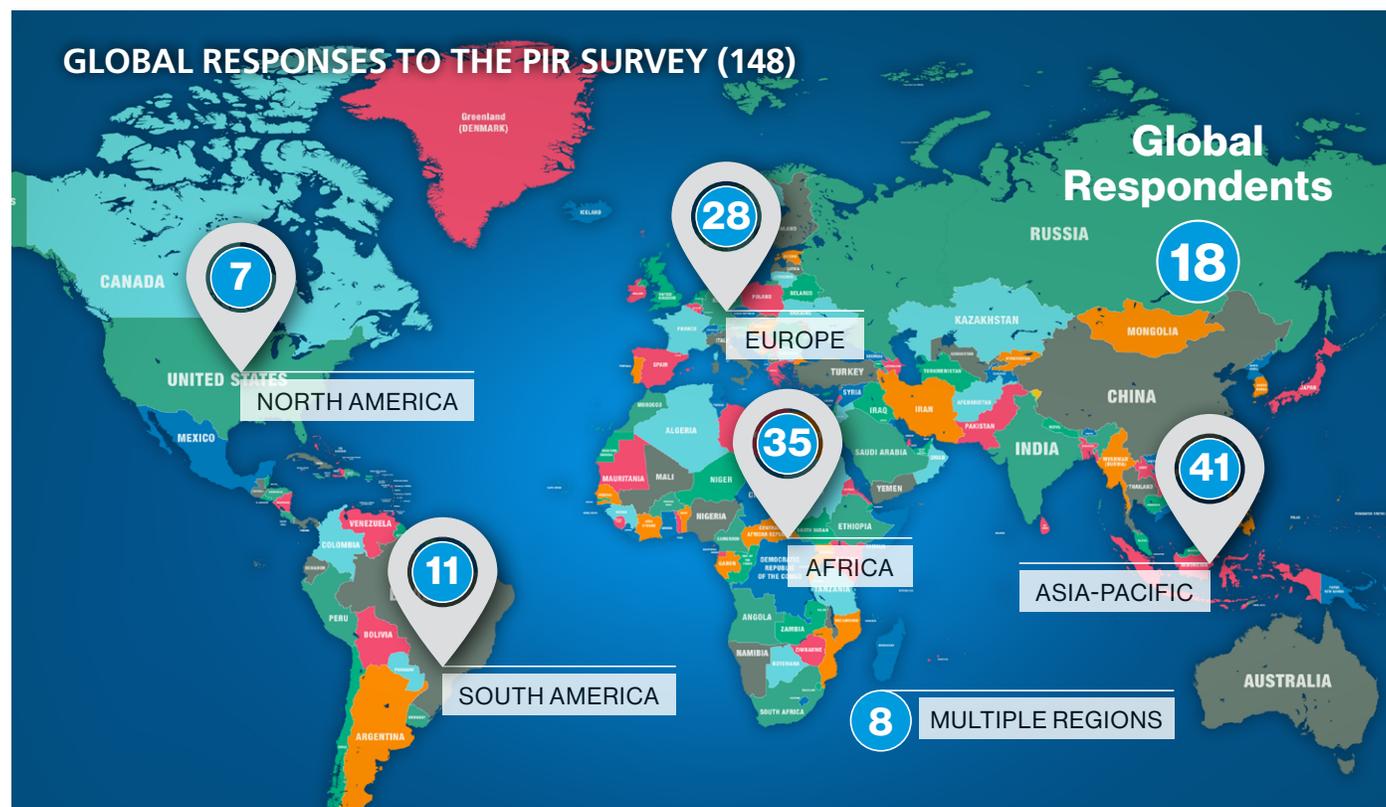


Tom Seidenstein
IAASB Chair



I. OVERVIEW OF RESPONDENTS

The online **Stakeholder Survey** was open for comments until November 23, 2020, and included conditional questions targeted at various stakeholder groups that could provide the most relevant input. Responses were received from a broad range of stakeholders across 48 jurisdictions. In some cases, stakeholders undertook further outreach in their jurisdictions to inform their responses to the IAASB online survey.



The main themes and feedback from the stakeholder survey and other information-gathering activities related to the Auditor Reporting PIR were discussed with the Board in its February 2021 meeting (for more information please refer to the details of the IAASB discussion below).



ISSUES PAPER



RECORDING

STAKEHOLDER GROUP

[Questions were presented in separate parts of the survey for each of the following groups]

No.

Investors and Other Users of Financial Statements	13
Regulators and Audit Oversight Bodies	9
Preparers and Those Charged with Governance (TCWG)	20
National Standard Setters (NSS) and Professional Accountancy Organizations (PAOs)	26
Practitioners, Auditors and Audit Firms	80

Also see the [Project-Update \(January 2020\)](#) that describes the objective of the PIR and global implementation of the new and revised auditor reporting standards.

II. SUPPORT FOR THE AUDITOR REPORTING STANDARDS

BROAD BENEFITS:

- Communication and information gaps narrowed; more insight provided into entities’ financial reporting risks
- Increased transparency about the audit performed
- Enhanced relevance and value of the auditor’s reports
- More focused and robust discussions with management and TCWG
- Improved financial reporting, including disclosures



“THE REPORT WE HAVE TODAY IS CERTAINLY ENHANCED COMPARED TO THE REPORT WE PREVIOUSLY HAD. IT BRINGS A BROADER VIEW TO THE PUBLIC OF CERTAIN RELEVANT MATTERS FOR THE AUDIT AND THE SCOPE OF THE WORK PERFORMED”



MOST VALUABLE ENHANCEMENTS:

- Communication of key audit matters (KAM)
- Changes to the presentation of the auditor’s report (placement of the opinion first)
- Including a separate section on ‘Material Uncertainty Related to Going Concern’

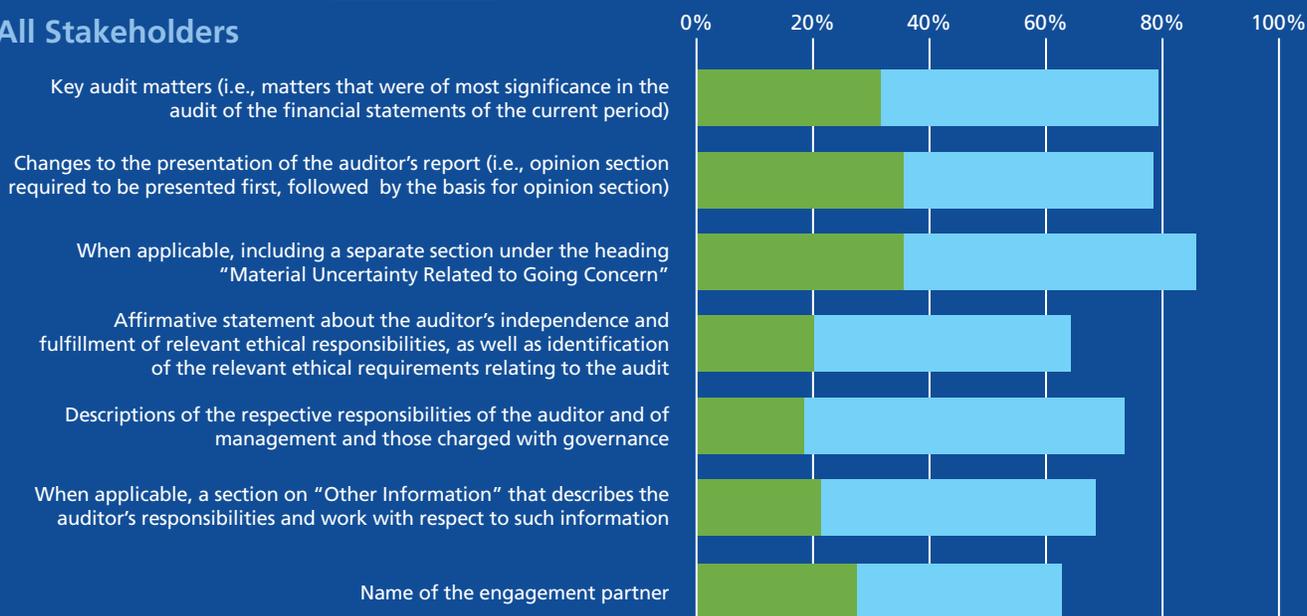
EVIDENCE THAT THE OBJECTIVES SET BY THE IAASB HAVE BEEN ACHIEVED:

- Consistent messages across all stakeholder groups (and other information sources)
- Broad support for all enhancement made

INFORMATION PROVIDED BY THE ENHANCED AUDITOR’S REPORT FOUND

“ VERY USEFUL” OR **“USEFUL”**

All Stakeholders



III. KEY AUDIT MATTERS

The new and revised auditor's report added a new section to communicate KAM. KAM are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.



WHAT STAKEHOLDERS TOLD US ABOUT KAM:

“AS A RESULT OF KAM, COMMUNICATIONS BETWEEN THE AUDITOR, MANAGEMENT AND TCWG HAVE [BEEN] ENHANCED AND BECOME MORE ROBUST.”

	OVERALL	<ul style="list-style-type: none"> • Broad support across stakeholder groups
	INVESTORS	<ul style="list-style-type: none"> • Has enhanced transparency about the audit • Greater confidence that the auditor had focused on those areas of higher risks • Provides more confidence about the matter disclosed in the financial statements • Many indirect benefits to the entity (e.g., strengthened internal controls, improved risk management, identification of new risks, and risk mitigation plans)
	PREPARERS AND TCWG	<ul style="list-style-type: none"> • Provides important information to management and those charged with governance • Earlier and ongoing dialogue by the auditor with management and TCWG on areas of higher assessed risks, significant risks, and areas of significant judgment and estimation uncertainty • Facilitates a better understanding of the financial statements, and disclosures in particular, for matters relating to KAM, as well as enhancing the quality of disclosures
	NSS, PAOs AND AUDITORS	<ul style="list-style-type: none"> • Enhanced the communicative value of the auditor's report • Provides greater insight to the reader about the audit • Well received and assimilated into the audit process

KEY AUDIT MATTERS – WHAT STAKEHOLDERS TOLD US

(continued)



“KAMS ARE MOST USEFUL WHEN THEY ARE SPECIFIC TO THE ENTITY”

DIFFERENCES BETWEEN KAM, MATERIAL UNCERTAINTY RELATED TO GOING CONCERN, EMPHASIS OF MATTER AND OTHER MATTER PARAGRAPHS

CHALLENGES WITH KAM

- Describing KAM in an informative, yet succinct manner
- Avoiding boilerplate descriptions
- Keeping KAM “fresh” and evolving year-to-year



- Overlap and interaction between these elements of the auditor’s report not always clear
- Differences seen as overly complex to be appropriately understood by users
- Clarity needed on communication about going concern in ‘close call’ situations



In accordance with ISA 701,⁴ in addition to the required information about why a matter is a KAM and how the matter was addressed in the audit, the auditor may also communicate information about the outcome of the audit procedures or key observations with respect to the matter. Also, the IAASB’s standards currently only require KAM to be communicated in the auditor’s reports for audits of listed entities. Jurisdictional obligations may require that auditors communicate KAM for certain other entities.

INCLUSION OF THE OUTCOME OF AUDIT PROCEDURES OR KEY OBSERVATIONS WITH RESPECT TO THE KAM

- Mixed views and a higher preference for inclusion expressed by certain investor and regulator respondents
- Some found the outcomes or observations useful as KAM appeared inconclusive and incomplete without them
- Some cautioned about the perceived risk of ‘piecemeal’ opinions on individual financial statement line items
- Inconsistencies noted in how auditors and different audit firm networks approach the reporting of outcomes or observations with respect to KAM

COMMUNICATING KAM FOR ENTITIES OTHER THAN LISTED ENTITIES

- Support for mandatory communication of KAM for public interest entities (PIEs) with a strong preference for this to remain a jurisdictional decision, i.e., retain focus in the ISA on listed entities
- Lack of broad support to extend the communication of KAM beyond PIEs as costs were considered to exceed benefits for entities other than PIEs
- Some support to require KAM for financial institutions, regulated entities, non-governmental organizations (or similar, depending on jurisdiction), and donor funded projects

⁴ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

IV. GOING CONCERN

The inclusion of a section on ‘Material Uncertainty Related to Going Concern’ as required by the revised standard on going concern was seen as helpful by respondents, and especially in the current circumstances where many entities are facing uncertainties related to the COVID-19 pandemic. Respondents indicated that having a separate section gives more prominence and visibility to this aspect in the auditor’s report, compared to the previously required Emphasis of Matter paragraph, which is relevant given the significant impact that going concern matters have on user confidence.

- Respondents found it critical that more accountability is needed from management and TCWG to make sure disclosures are appropriate and comprehensive
- There were mixed views on inclusion of additional information in the auditor’s report about the auditor’s procedures relating to management’s going concern assessment
- Aspects that were found to be challenging:
 - Some lack of clarity regarding how the ‘Material Uncertainty Related to Going Concern’ section differs from an ‘Emphasis of Matter’
 - Some calls for the ‘Material Uncertainty Related to Going Concern’ section to include how the auditor addressed the material uncertainty, similar to how the auditor has to describe how they addressed a KAM

The IAASB has a separate Going Concern workstream that is exploring targeted changes to ISA 570 (Revised).⁵ The Going Concern Working Group commenced its activities at the start of 2021 and will also be considering the results from the Auditor Reporting PIR as they progress their work. The consideration of auditor reporting implications relating to going concern will be augmented by respondents’ feedback to the IAASB Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor’s Responsibilities in a Financial Statement Audit*.

IMPACT OF COVID-19 PANDEMIC

The Stakeholder Survey also sought input from stakeholders on challenges and effects from the COVID-19 pandemic. Stakeholders noted that the uncertainties associated with the current COVID-19 pandemic are expected to ‘test’ the new auditor’s report and there is an expectation that auditor reporting will evolve as a result of these circumstances. Other feedback about the impact of the COVID-19 pandemic included:

- Too early for comprehensive assessment
- Scope limitations in certain instances
- Higher audit risk and longer KAM reporting

IAASB COVID-19 RESOURCES



AUDIT CONSIDERATIONS



AUDITOR REPORTING



GOING CONCERN



INTERIM REPORTING



SUBSEQUENT EVENTS

⁵ ISA 570 (Revised), *Going Concern*

V. OTHER INFORMATION SECTION OF THE AUDITOR'S REPORT

In accordance with ISA 720 (Revised), 'other information' comprises financial and non-financial information included in an entity's annual report, other than the financial statements and the auditor's report thereon. This includes, for example, the directors' report, audit committee report, corporate governance statement, and management commentary. When other information is included in the annual report, the auditor's report includes an Other Information section, which is required to include a statement that management is responsible for the other information; identify the other information; clarify that the auditor's opinion does not cover the other information; provide a description of the auditor's responsibilities; and to either state that the auditor has nothing to report or describe any uncorrected material misstatement of the other information.

DEGREES OF USEFULNESS OF THE OTHER INFORMATION SECTION VARIED BY STAKEHOLDER GROUP

FOUND AS "VERY USEFUL" OR "USEFUL":

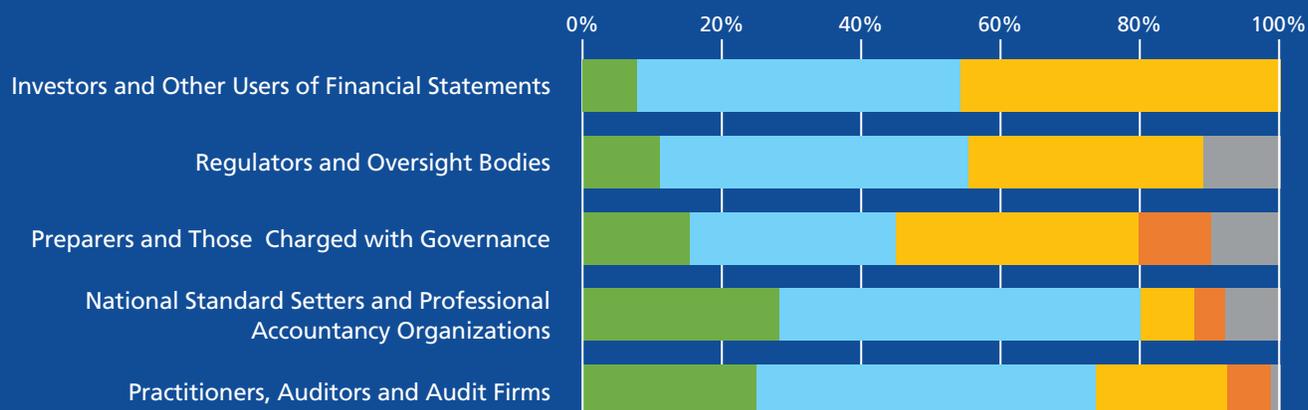
- Helped to clarify the scope of the audit, including the auditor's responsibility for the other information
- Narrowed the potential public expectation gap in which auditors could be seen to have audited all the information that is contained in the annual report
- Placement of this section, after the auditor's opinion and KAM helped further to distinguish the other information

FOUND OF "LIMITED VALUE" OR "NOT USEFUL":

- Did not appear to add value to some stakeholders, except by reference to possible inconsistencies with the financial statements
- The degree of usefulness was dependent on the timing and availability of the 'other information' at the date of auditor's report
- Some confusion for users who may not fully understand how this section is linked or relates to the overall audit opinion
- Lack of clarity about what comprises other information and variations in how it is identified in the auditor's report

EXTENT OF USEFULNESS OF THE OTHER INFORMATION SECTION

"Very Useful" "Useful" "Limited value" "Not useful" or "No Particular view"



OTHER INFORMATION SECTION OF THE AUDITOR'S REPORT (continued)

STAKEHOLDER PERSPECTIVES ON THE CHALLENGES RELATING TO OTHER INFORMATION



REGULATORS

- Did not indicate many findings with respect to the 'other information' section
- Some concern that there is a possible risk that users place reliance on non-financial narratives included in the 'other information' which is unaudited



NSS & PAOs

- Significant implementation challenges across jurisdictions and need to develop further implementation guidance, including continued coordination with NSS
- Variety of management reports issued by reporting entities makes identifying the other information very challenging



AUDITORS

- Auditors have noted significant implementation challenges with the standard and called for further clarity and guidance
- Difficulties encountered with identifying what constitutes other information (i.e., what is considered an 'annual report') and the completeness of the other information
- Inconsistencies on how the Other Information section is presented when the other information is not available at the date of the auditor's report.

MIXED VIEWS ABOUT WHETHER IT IS CLEAR THAT THE AUDITOR'S OPINION DOES NOT EXTEND TO THE OTHER INFORMATION

- Less clarity for investors, which may raise questions about the communicative value of this section
- Different users may have a very different impression about the extent of assurance provided on the other information

- Use of the words "we have nothing to report" can be interpreted by some stakeholders as constituting an assurance statement
- Position of this section (close to opinion in the middle of the report) may impact user perception that this information is audited

VI. OTHER ELEMENTS OF THE AUDITOR'S REPORT



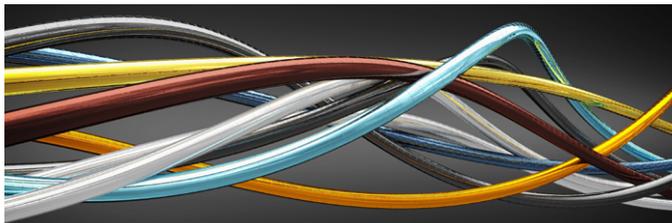
CHANGES TO THE PRESENTATION OF THE AUDITOR'S REPORT

- Broad support for the change in presentation, in particular positioning the opinion section first
- Provides important context for the reader
- Information of most relevance is now found upfront



AFFIRMATIVE STATEMENT ABOUT INDEPENDENCE AND OTHER ETHICAL RESPONSIBILITIES

- Seen as an important part of the auditor's report
- Some suggestions to expand the auditor's independence declaration (e.g., confirm that no prohibited non-audit services have been provided)



DESCRIPTION OF THE RESPECTIVE RESPONSIBILITIES OF THE AUDITOR, MANAGEMENT AND TCWG

- Helpful section but some concern that paragraphs are too long and contain technical language
- May be perceived as less valuable by users because of the non-entity specific information repeated in every auditor's report

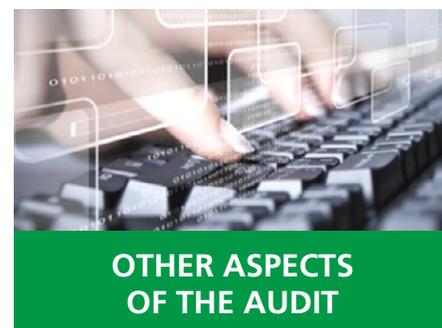
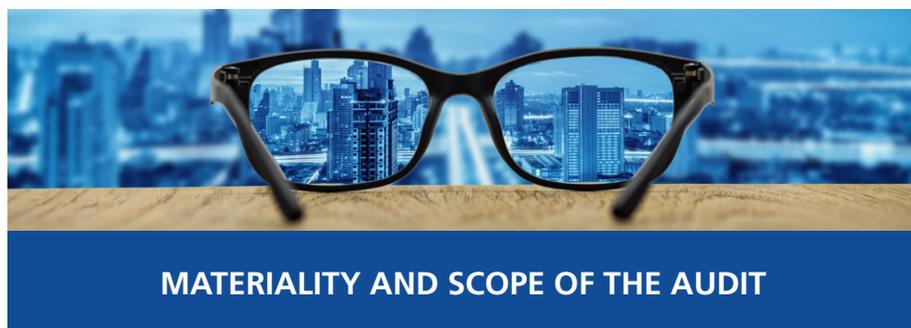


NAME OF ENGAGEMENT PARTNER

- Not always seen as a 'change' because it was mandated already across multiple jurisdictions
- In some cases, the individual signing the auditor report could be different from the engagement partner

VII. INFORMATION BEYOND WHAT IS REQUIRED

The Stakeholder survey explored stakeholder views relating to whether the communication of certain additional information in the auditor’s report would be useful in further enhancing the understanding of the audit that was performed and, if not otherwise required, whether there is a demand for such additional information. The relevant survey questions focused on materiality applied by the auditor in conducting the audit, inclusion of information about the scope of the audit (i.e., the auditor’s approach) and information about any other aspects of the audit.



Mixed views:

- Investors, regulators, and preparers and TCWG found the inclusion of materiality and scope of the audit useful or very useful
- NSS and PAOs, and auditors indicated that there had been limited or no demand in their jurisdictions for inclusion of additional information on materiality and the scope of the audit when not otherwise required

- Caution that more implementation experiences are needed and it may be too soon to propose further changes
- Some support to explore communication about what the auditor has done with respect to fraud given the existing ‘expectation gap.’
- Room to improve information needs outside of the financial statements, including sustainability and risk reporting

MATERIALITY

- Seen as a technical concept by stakeholders
- May cause confusion or unwarranted concerns for users when the concept of materiality is focused only on a single number

SCOPE OF THE AUDIT:

- Communication about audit scope is seen as a decision based on the firm’s preference
- Helpful to reduce the ‘expectation gap’⁶

“INSTEAD OF ADDING MORE, THERE IS A PREFERENCE FOR MAKING THE EXISTING CONTENT MORE ENGAGING AND ACCESSIBLE FOR THE USERS”



⁶ See pages 10-13 of IAASB Discussion Paper, *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor’s Responsibilities in a Financial Statement Audit*.

VIII. ASSURANCE REPORTS FOR OTHER ENGAGEMENTS

The IAASB sought stakeholder views about whether assurance reports for other types of engagements⁷ should contain elements similar to those in the auditor's reports on an audit of financial statements. Areas of interest could include the structure of the report i.e., opinion/conclusion first, and the communication of key matters that would, in the context of those engagements, be similar to KAM.

Concerns for inclusion of KAM in assurance reports for other engagements:

- Users may inappropriately perceive a greater level of assurance if KAM is presented for a limited assurance engagement
- Costs may outweigh benefits for these types of engagements
- Need to maintain the distinction between other types of assurance engagements and audits of financial statements
- Some support for inclusion of certain elements in assurance reports for other types of engagements:
 - Opinion / conclusion first,
 - Name of the engagement partner,
 - Independence and other ethical responsibilities statement
- For review engagements, a separate section under the heading “Material Uncertainty Related to Going Concern”

IX. BROAD REFLECTIONS FROM THE FEEDBACK



- Support for informative reporting and engagement by all stakeholders
- Future changes to Auditor Reporting Standards
 - IAASB should remain agile allowing for ongoing improvements
 - Targeted improvements (where justified) instead of lengthy projects
 - Consider the timing for any agreed changes in view of other IAASB projects, as well as the capacity of stakeholders to implement more changes in relatively quick succession
- Ongoing consideration of post-implementation experience
- More efforts needed for alignment and consistency between different auditor reporting regimes globally

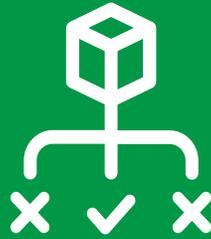
⁷ Other engagements consisting of review engagements (including a review of interim financial information), and other assurance engagements (e.g., assurance on greenhouse gas statements).

X. WAY FORWARD



CONTINUE TO MONITOR GLOBAL DEVELOPMENTS...

Especially in those jurisdictions that have more recently implemented enhanced auditor reporting standards



COORDINATION WITH OTHER WORKSTREAMS

- The IAASB's Going Concern and Fraud Workings Groups
- The IESBA's⁸ Public Interest Entity Task Force



NEXT STEPS

- ARIWG to further analyze and deliberate responses to the stakeholder survey and from other information-gathering activities, as well as input received from the Board in Q1 2021
- Develop recommendations for IAASB's consideration in Q3 2021

⁸ International Ethics Standards Board for Accountants

The IAASB logo consists of the letters 'IAASB' in a white, serif font, centered within a dark blue rectangular box with a thin white border.

The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants® or IFAC®.

The IAASB and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

International Standards on Auditing, International Standards on Assurance Engagements, International Standards on Review Engagements, International Standards on Related Services, International Standards on Quality Control, International Auditing Practice Notes, Exposure Drafts, Consultation Papers, and other IAASB publications are published by, and copyright of, IFAC.

Copyright © June 2021 by IFAC. All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: *“Copyright © July 2020 by the International Federation of Accountants® or IFAC®. All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.”*

The ‘International Auditing and Assurance Standards Board’, ‘International Standards on Auditing’, ‘International Standards on Assurance Engagements’, ‘International Standards on Review Engagements’, ‘International Standards on Related Services’, ‘International Standards on Quality Control’, ‘International Auditing Practice Notes’, ‘IAASB’, ‘ISA’, ‘ISAE’, ‘ISRE’, ‘ISRS’, ‘ISQC’, ‘IAPN’, and IAASB logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

For copyright, trademark, and permissions information, please go to [permissions](#) or contact permissions@ifac.org.

IAASB

International Auditing
and Assurance
Standards Board



@IAASB_News



@International Auditing and Assurance Standards Board



@International Auditing & Assurance Standards Board

529 Fifth Avenue, New York, NY 10017
T +1 (212) 286-9344 F +1 (212) 286-9570
www.iaasb.org