

THE NEW AUDITOR'S REPORT: Greater Transparency into the Financial Statement Audit

JANUARY 2015



This publication provides a high level overview of the IAASB's work on and the changes to the auditor's report. For a more detailed overview of the changes to the auditor's report refer to the final standards and other IAASB publications at www.iaasb.org/auditor-reporting.

Why Change the Auditor's Report Now?

The auditor's report is the key deliverable addressing the output of the audit process. Investors and other users of financial statements have called for the auditor's report to be more informative – in particular, for auditors to provide more relevant information to users based on the audit that was performed.

The IAASB agrees that enhanced auditor reporting is critical to influencing the value of the financial statement audit, and to the continued relevance of the auditing profession. Therefore, the overall objective of the IAASB's auditor reporting project has been to enhance the communicative value of the auditor's report, in the public interest.

What are the Intended Benefits?

The IAASB intends for its [new and revised Auditor Reporting standards](#) to result in an auditor's report that increases confidence in the audit and the financial statements. The IAASB believes that in addition to the increased transparency and enhanced informational value of the auditor's report, changes to auditor reporting will also have the benefit of:

- Enhanced communications between investors and the auditor, as well as the auditor and those charged with governance
- Increased attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report
- Renewed focus of the auditor on matters to be communicated in the auditor's report, which could indirectly result in an increase in professional skepticism

Informed by international academic research, public consultations, and stakeholder outreach, the IAASB developed the new and revised Auditor Reporting standards that represents and supports an important change in practice.

What's New About the IAASB's Auditor's Report?

Mandatory for audits of financial statements of listed entities, voluntarily application allowed for entities other than listed entities:

- New section to communicate **key audit matters** (KAM). KAM are those matters that, in the auditor's judgment, were of most significance in the audit of the current period financial statements
- Disclosure of the **name of the engagement partner**

For all audits:

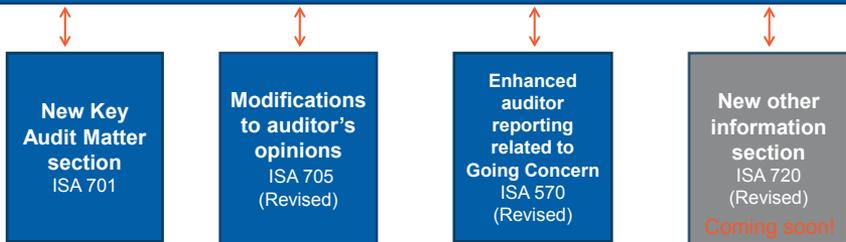
- **Opinion section** required to be **presented first**, followed by the Basis for Opinion section, unless law or regulation prescribe otherwise
- Enhanced auditor reporting on **going concern**, including:
 - Description of the respective **responsibilities of management and the auditor for going concern**
 - A separate section **when a material uncertainty exists** and is adequately disclosed, under the heading "Material Uncertainty Related to Going Concern"
 - New requirement to **challenge adequacy of disclosures for "close calls"** in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern
- Affirmative **statement about the auditor's independence** and fulfillment of relevant **ethical responsibilities**, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*
- **Enhanced description of the auditor's responsibilities** and key features of an audit. Certain components of the description of the auditor's responsibilities may be presented in an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority

Which ISAs are Changing?

- [ISA 700 \(Revised\)](#), *Forming an Opinion and Reporting on Financial Statements*
- [New 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*
- [Conforming amendments](#) to other ISAs

ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, which was approved by the IAASB at its [December 2014 meeting](#), includes new and revised reporting requirements relating to other information that is included in an entity's annual report. Subject to the Public Interest Oversight Board's (PIOB) consideration of due process followed, ISA 720 (Revised) will be issued in April 2015 and will come into effect at the same time as the new and revised Auditor Reporting standards.

ISA 700 (Revised) – Overarching Standard for Auditor Reporting



Revisions to ISA 260 and 706 as a result of ISA 701, and conforming amendments to related ISAs 210, 220, 230, 510, 540, 580, 600, 710

Later this month, the IAASB will release an Exposure Draft, *Proposed ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks and Proposed ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* with a 90-day comment period.

Helpful Resources

During 2015 and 2016, several publications¹ and other materials aimed at promoting awareness, understanding and effective implementation of the IAASB's new and revised Auditor Reporting standards are planned, including:

- Publication providing further insights about the auditor reporting requirements related to going concern
- Publication highlighting the nature and intent of KAM, including the relevant requirements in ISA 701
- Publication with a limited number of illustrative KAM examples
- Listings and extracts of illustrative ISA auditor's reports, drawn from the new and revised Auditor Reporting standards
- Other resources explaining various aspects of, or key topics in, the new and revised Auditor Reporting standards, including a webcast and podcasts

Please visit www.iaasb.org/auditor-reporting for a list of upcoming publications and for the following publications released concurrently with the standards:

- [Basis for Conclusions](#), providing background for, and a summary of, the rationale for the IAASB's conclusions
- “[At a Glance](#)” publication summarizing the key provisions in the new and revised Auditor Reporting standards

When Will the Standards Become Effective?

The [new and revised Auditor Reporting standards](#) will be effective for audits of financial statements for periods ending on or after December 15, 2016.

¹ The publications and other materials will be non-authoritative documents issued for information purposes only, but are intended to highlight important aspects of the new and revised Auditor Reporting standards.

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

International Auditing
and Assurance
Standards Board®

About the IAASB

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by the International Federation of Accountants (IFAC).

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About IFAC

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of over 175 members and associates in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce.