Meeting: IAASB
Meeting Location: New York
Meeting Date: June 15–19, 2015

Agenda Item 15

Auditor Reporting—Effective Date

Objective of Agenda Item
1. To consider issues relevant to the effective date of the new and revised Auditor Reporting standards.

Introduction
2. The new and revised Auditor Reporting standards and related conforming amendments (the standards or the International Standards on Auditing (ISAs) are effective for audits of financial statements for periods ending on or after December 15, 2016 (“2016 audits”). The related Basis for Conclusions document indicates that “...early adoption of the standards is permitted, though as a matter of practice, the IAASB does not explicitly state so in its standards.” The non-authoritative Preface deals with the issue of early adoption at the standard level, stating that “the scope, effective date and any specific limitation of the applicability of a specific International Standard is made clear in the Standard. Unless otherwise stated in the International Standard, the professional accountant is permitted to apply an International Standard before the effective date specified therein.”

3. When setting the effective date for its clarified ISAs, the IAASB considered the fundamental nature of the changes to the form and structure, and the effect on auditor performance, and determined it was necessary to view the changes to the ISAs as a package to become effective at the same time. While many of the new and revised Auditor Reporting requirements relate solely to reporting, changes to ISA 570, ISA 720 and ISA 260 will also affect auditor performance. In setting the effective date for the Auditor Reporting standards, consideration was also given to time that will be needed by stakeholders for translation, national adoption and convergence, changes in law and regulation, and implementation (including training and changes to accounting firms’ audit methodologies). This effective date also allowed for the IAASB’s plans to finalize revisions of ISA 720, the amendments to

1 Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements, paragraph 18
2 ISA 570 (Revised), Going Concern
3 ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information
4 ISA 260 (Revised), Communication with Those Charged with Governance
ISA 800\textsuperscript{5} and 805\textsuperscript{6} and changes as a result of the Disclosures project. Respondents to the Auditor Reporting Exposure Draft (ED), *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*, who commented on the proposed effective date were generally supportive of the proposal.

**Issues and Staff Recommendations**

*Issue*

4. The Auditor Reporting Implementation Working Group (WG) has received questions about the IAASB’s intention with respect to its decision to permit early adoption of the Auditor Reporting standards. In particular, a question has arisen as to whether it may be possible for an auditor to apply or early adopt one or more of the standards or certain enhancements to auditor reporting, but not the entire suite of standards – for example, by including a Key Audit Matters (KAM) section in the auditor’s report in accordance with ISA 701\textsuperscript{7} but not necessarily adopting the new form and content of the auditor’s report or the additional required statements and disclosures (e.g., the statement of independence, name of the engagement partner, enhanced description of the auditor’s responsibilities, etc.)

5. The WG and Staff acknowledges that investors and other users are likely most interested in the auditor’s communication of KAM and therefore allowing for auditor’s reports including KAM to come into the marketplace earlier would be in the public interest. Nothing currently precludes auditors from communicating additional information in the auditor’s report, including KAM. At a firm level, it would likely be possible to develop methodologies for reporting in accordance with ISA 701 globally that would be expected to be largely consistent with national equivalents\textsuperscript{8} given the approach taken in that standard. It would be envisaged that, due to the interaction with ISA 701, ISA 260 (Revised) would also need to be applied if KAM were to be provided in the auditor’s report in advance of the effective date.

6. However, the following considerations are also relevant:

- ISA 700 (Revised)\textsuperscript{9} allows for flexibility at the jurisdictional level. As such, NSS who use the ISAs as the basis for their national standards may need to further tailor requirements in the ISAs relating to other enhancements in light of law or regulation in their particular jurisdiction. As a result, firms might find it difficult to “early adopt” these provisions in a global format, with the concerns that doing so might be viewed as pre-empting how jurisdictions might implement the ISAs or resulting in an auditor’s report that might need to change the following year when the national standards would come into effect. For example, while a firm might practically refer to the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants* (IESBA Code) in the statement about independence and other relevant ethical

\textsuperscript{5} Proposed ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

\textsuperscript{6} Proposed ISA 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

\textsuperscript{7} ISA 701, *Communication of Key Audit Matters in the Independent Auditor’s Report*

\textsuperscript{8} With the exception of the US firms, which will need to align with US Public Company Accounting Oversight Board (PCAOB) standards when finalized

\textsuperscript{9} ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
requirements and could report on this basis, national auditing standards might require reference to more specific requirements applicable to the jurisdiction, thus creating a disconnect year-over-year in the same entity’s auditor’s report.

- The IAASB has always viewed its Auditor Reporting standards, as well as ISA 720 (Revised), would be adopted and implemented as a package. It may therefore be confusing to users to include some, but not all, of the enhancements to the auditor’s report for 2015 audits. For example, if a KAM section were to be provided, consideration would be needed as to how to incorporate the description of the auditor’s responsibilities relating to KAM in the auditor’s report if the rest of the enhanced description in accordance with ISA 700 (Revised) was not provided.

- While the Preface allows for early adoption of individual standards, explicitly permitting the early application or adoption of one but not all the new and revised Auditor Reporting standards could be viewed as a precedent in relation to other standards that are viewed as a package, e.g., the changes to the ISAs arising from the Disclosures project.

Process of Information-Gathering to Date

7. There is merit to having accounting firms be proactive and timely in undertaking efforts aimed at enhancing audit communication in auditor’s reports. This is in part due to the expected benefits of the Auditor Reporting project, such as enhanced communications between auditors and those charged with governance (TCWG), increased attention by management and TCWG to the disclosures in the financial statements to which reference is made in the auditor’s report, and a renewed focus of the auditor on the matters to be reported. Nothing would preclude firms from making changes to their methodologies to be proactive in relation to audit quality or auditor reporting, or to essentially “pilot test” KAM in certain jurisdictions in advance of the stated effective date, so long as the auditor’s report complies with extant ISA 700. Nor would NSS be prohibited to taking steps to improving auditor reporting in advance of the effective date of the IAASB’s standards.

8. Nevertheless, the question arises as to whether the IAASB should clarify its views in relation to early adoption if the integrity of the standards or their effective implementation could be viewed as being called into question as a result of earlier application or early adoption of some, but not all, of the new and revised Auditor Reporting standards. The IAASB’s Steering Committee (SC)\(^\text{10}\) had a preliminary discussion on this topic in anticipation of the March 2015 IAASB meeting. The SC was of a strong view that the IAASB should not be seen as stifling the enthusiasm towards innovation and the possibility that some auditors may want to early apply adopt some of the auditor reporting enhancements, in particular ISA 701. Therefore, the SC did not believe it would be appropriate for the IAASB to expressly prohibit earlier application of ISA 701, or permit its early adoption only when all of the Auditor Reporting standards are adopted.

9. Rather, the SC agreed that there may be merit in acknowledging the possibility of early application or adoption of one standard (provided that the auditor’s report continues to comply with extant ISA 700), but highlighting that such innovation (even though that innovation mirrors parts of incoming new

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\(^\text{10}\) The Steering Committee is a standing committee of the IAASB. The purpose of the Steering Committee is to formulate views and advise the IAASB on matters of strategic and operational importance to the IAASB. In addition, the Steering Committee acts as counsel and advisor to the IAASB Chair and Technical Director on matters and activities relating to achievement of the objectives of the IAASB.
standards) is not to be understood as a precedent that the Board promotes, encourages or accepts early application or adoption.

10. The SC also suggested that, while there may be merit to remaining silent on the issue and letting practice emerge as necessary, it might be useful for the Board to provide clarification at a high level and potentially acknowledge practical questions that may arise from early application or adoption to ensure that such efforts achieve their intended outcomes.

11. The SC agreed to explore this matter further with the CAG, the International Forum of Independent Audit Regulators (IFIAR), the Forum of Firms (FoF), and the NSS Liaison Working Group in advance of consideration by the Board to determine what action, if any, is necessary.

Feedback from CAG, IFIAR Standards Coordination Working Group, FoF and NSS

12. The CAG was generally supportive of permitting early application of ISA 701 in advance of the stated effective date, recognizing the public interest benefit of auditors providing investors with KAM and enhanced auditor’s reports as soon as practicable. There was support for an IAASB communication about the possibility of early adoption, in part to mitigate concerns over “piecemeal” adoption of some but not all requirements in ISA 700 (Revised).

13. Members of the IFIAR Standards Coordination Working Group expressed the view that the possibility of early application would depend on particular jurisdictions, noting that some jurisdictions (like the UK and France) already have mechanisms in relation to enhanced reporting. If early application were possible, it would be viewed as positive and the IAASB should not prohibit or otherwise set up any impediments to those jurisdictions doing so.

14. FoF Representatives did not object to the possibility of some firms early applying ISA 701. Some representatives explicitly noted there may be benefit to the firms doing so internally to learn from the experience and form the basis of discussions with clients about the expected implications of the changes to auditor reporting once effective. It was noted that efforts to early apply ISA 701 on an internal basis may also assist in developing training and providing sufficient advisory support for engagement partners who would be developing KAM. However, a concern was raised that, at the jurisdiction level, differences in KAM may emerge as a result of early or late adoption of ISA 701, including how the concept of KAM may be addressed at the national level.

15. At their May 2015 meeting, NSS representatives shared their plans for adoption and implementation of the Auditor Reporting standards. Most jurisdictions represented at the meeting are taking the necessary steps to adopt the standards at the stated effective date, with the exception of a few jurisdictions that are continuing to consult (and in some cases considering a staged approach to implementation for non-listed or entities) and those that are awaiting the US Public Company Accounting Oversight Board. None noted explicit plans to permit or prohibit early adoption of some but not all of the standards. NSS Representatives were generally of the view that an IAASB publication to further explain the IAASB’s intent with respect to early adoption of its new and revised Auditor Reporting standards was not necessary.

Staff Recommendation

16. Based on the feedback received to date, Staff is of the view that it would not be appropriate to prohibit early application of ISA 701 should firms or NSS be in a position to do so, as there is a public interest benefit to investors of such communications. Notwithstanding this view, Staff recognizes that this may
pose practical challenges in some respects. For example, if a firm in a particular jurisdiction wishes to early adopt ISA 701 for some or all of its engagements, it may need to consider the implications of doing so from a network firm perspective. As such, Staff recommends the matter be left to the firms and that, if considered necessary, the FoF or the Global Public Policy Committee (GPPC) undertake discussions amongst the firms or within their networks to determine what would be appropriate in the circumstances.

17. As such, Staff does not consider it appropriate for the IAASB to issue a formal communication to take a firm position on early application or attempt to address the practical challenges that may arise in doing so. However, Staff believes it would be useful for the Board’s consideration of this matter to be on the public record. Staff therefore recommends that the Board’s consideration of this paper and feedback thereon be included in the public minutes, with reference in the meeting highlights that are made publicly available after the meeting. Should further discussion by the GPPC or FoF indicate that more IAASB consideration is needed on the topic, Staff will raise with the Steering Committee and the Board as necessary.

**Matters for IAASB Consideration**

1. The IAASB asked to consider the issues outlined above and provide views on whether they agree:

   (a) That the IAASB should not prohibit early application or adoption of ISA 701 (see paragraph 8); and

   (b) With Staff’s recommendation of a way forward, including that it is not necessary to more formally clarify the IAASB’s views on early application or adoption (see paragraphs 16–17).