Auditor Reporting: Update on Global Trends and Initial Planning for the Post-Implementation Review

Objective of the IAASB discussion

The objective of this Agenda Item is to obtain the views of the IAASB regarding the plans for the auditor reporting post-implementation review (PIR), as proposed by the Auditor Reporting Implementation Working Group (ARIWG). This Agenda Item also provides an overview of global trends and key themes identified from research on auditor reporting undertaken by various stakeholder groups.

Background

1. In January 2015, the new and revised Auditor Reporting standards\(^1\) were issued, with an effective date of periods ending on or after December 15, 2016. ISA 720 (Revised)\(^2\) was issued in April 2015 with the same effective date as the new and revised Auditor Reporting standards. For the purposes of this paper, “the Standards” refers to the new and revised Auditor Reporting standards and ISA 720 (Revised).

2. Following the issuance of the Standards, the ARIWG was established to promote awareness, understanding and support effective implementation of the Standards. The scope of the ARIWG’s work also included undertaking the planned PIR of the Standards.

3. In September 2016, the ARIWG provided an update on its activities to the IAASB to support the implementation of the Standards and presented its initial proposals related to the planned PIR. Appendix A includes an extract of the minutes of the September 2016 meeting regarding the discussion on auditor reporting.

Global Trends

4. In the update provided to the IAASB in September 2016, the ARIWG provided highlights of the global activities related to auditor reporting, including early adopters of the Standards and examples of where jurisdictions were extending the requirements of the Standards, for example:

   - Some jurisdictions were encouraging or mandating more extensive application of ISA 701, i.e., the inclusion of key audit matters (KAMs) for entities other than listed entities.
   - Some jurisdictions had imposed additional reporting requirements, such as the communication of matters related to independence, provision of non-audit services, audit scope and materiality, and inclusion of key observations about KAMs (i.e., outcome of audit procedures related to these matters), when relevant.

---

\(^1\) 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
5. Since September 2016, global adoption of the Standards has continued. While some jurisdictions have used the new auditor’s report for multiple years, there are others that have adopted the Standards but the effective dates have not yet been reached. For example:

- In Canada, the Standards were effective for audits of financial statements for periods ending on or after December 15, 2018. However, paragraph 30 of ISA 700 (Revised) dealing with the communication of KAM was not adopted at the time. It is expected that KAMs will become effective for listed entities for financial statement periods ending on or after December 15, 2020.

- In July 2018, the Business Accounting Council of Japan issued its revised auditor reporting standards. The new requirements for KAM will be effective for periods ending on or after March 31, 2021 and the remaining revisions will be effective for periods ending on or after March 31, 2020. However, Japan has not introduced ISA 720 (Revised).

- In India, the Standards are effective for audits of financial statements for periods beginning on or after April 1, 2018.

6. In the United States (US), the Public Company Accounting Oversight Board (PCAOB) issued its revised auditor reporting standards in June 2017, and the communication of critical audit matters (CAMs) is required for audits of fiscal years ending on or after June 30, 2019 (for audits of large accelerated filers) or December 15, 2020 (for audits of all other companies to which the requirements apply). The American institute of certified public accountants’ (AICPA) Auditing Standards Board recently approved its revised auditor reporting standards that are applicable for audits of non-issuers in the US, and which will be effective for audits of financial statements for periods ending on or after December 15, 2020.

7. Some jurisdictions have also continued to expand the reporting responsibilities beyond the requirements in the ISAs, or are currently exploring the expansion of the requirements. For example:

(a) In Brazil, the Instituto dos Auditores Independentes do Brasil (IBRACON) issued a circular that strongly recommends that auditors include the outcome of audit procedures for KAMs.

(b) In the United Kingdom (UK), the Financial Reporting Council (FRC) is currently consulting on increasing the auditor’s responsibilities related to going concern, which includes new proposed requirements for the auditor to provide a conclusion in the auditor’s report on whether management’s use of going concern basis of accounting is appropriate, and an explanation of how the auditor evaluated management’s assessment of the entity’s ability to continue as a going concern. Further to the above, the auditor should also state that no material uncertainty has been identified related to going concern in the auditor’s report. Furthermore, the Kingman Review has recommended that the FRC consider requiring the inclusion of “graduated findings” in auditor’s reports (“graduated findings” are described as judgmental views by the auditor on the KAMs, for example, describing an estimate as being cautious, balanced or optimistic).

---

3 The ARIWG is aware that many jurisdictions have already adopted the standards globally. The ARIWG is planning to obtain further information about the extent of adoption of the Standards, through requests to the IAASB National Standard Setters group and the International Federation of Accountants (IFAC) Membership and Compliance Program.

4 The IAASB has prepared a comparison between the IAASB and PCAOB standards.

5 Exposure Draft: Proposed ISA (UK) 570 (Revised) – Going Concern

Global Research Undertaken on Auditor Reporting

8. The ARIWG has been monitoring global activities regarding the Standards, including research that has been undertaken on this topic. Since the last discussion with the IAASB in September 2016, many organizations, such as firms, national standard setters, regulators and member bodies have undertaken research on auditor reporting, and academic research is continuing. The ARIWG has reviewed these publications that included surveys of management, those charged with governance and shareholders, as well as desktop reviews of auditor’s reports to identify trends in KAMs communicated (e.g., average number of KAMs, nature of KAMs and KAMs across industries). The overall themes and trends identified in these publications have been summarized below.

Benefits

9. Most of the publications highlighted the benefits that have been observed as a result of the communication of KAMs, and in general the new auditor’s reports appear to have been well received across stakeholder groups, including management, those charged with governance and users. The key benefits highlighted in the publications include:

(a) Improved communications among management, those charged with governance and the auditor

Most of the publications highlight that the introduction of KAMs has promoted more robust discussions among management, those charged with governance and auditors, including more timely and frequent discussion on KAMs. It was noted that in some cases, audit committee members have indicated that they have a deeper insight into the financial reporting risks of the entity as a result of the robust discussions with the auditors.

(b) Improvements in the disclosures in the financial statements and other communications by management or those charged with governance

Most of the publications highlight that as a result of the communication of KAMs, there appears to be an improvement in the disclosures in the financial statements on the matters to which the KAMs relate. In addition, many publications highlight improvements in the communications by those charged with governance who, in many cases, have voluntarily commented in their reports on the same matters that are included in the auditor’s reports as KAMs. Investors have noted that this information is valuable.

(c) Improved transparency

Generally, the publications highlight that users have found the KAMs useful as they provide transparency about the audit and highlight areas of attention for users, including helping users to navigate the financial statements and better understand the risks associated with their investments.

(d) Greater confidence over other information

Some of the publications explored stakeholders’ views on the other information disclosures in the auditor’s reports and found that those charged with governance and users considered that the new disclosures provided them with greater confidence about the other information. However, some of the feedback suggested a need for the auditor to provide an update on the other information received after the auditor’s report has been issued.
(e) **Positive effect on audit quality**

Some publications noted an improvement in users’ confidence in audit quality. However, there were mixed views about whether audit quality had actually been improved, with some publications indicating that it is too early to determine the impact on audit quality. In cases where it was reported that KAMs had positively affected the audit, it was highlighted that:

i. The communication of KAMs brings the matters into focus and challenges auditors to consider whether the audit procedures performed to address the matters are appropriate.

ii. There has been noticeable increased involvement from engagement partners or other senior audit personnel on the engagement.

**Number and Nature of KAMs**

10. As indicated, many publications focused on the number and nature of KAMs communicated and, for the most part, there appears to be consistent global trends in this regard. However, some publications highlighted misconceptions about KAMs, for example, that a high number of KAMs is an indication that the entity is poorly managed or might have more problems compared with similar entities with fewer KAMs. This has raised concern that preparers may try to negotiate with auditors on the number of KAMs communicated and how much detail is provided by the auditor.

11. With respect to the informative nature of the KAMs, some reports noted that the KAMs that users found the most informative relate to those:

   (a) Not related to the financial statements (e.g., KAMs about the high turnover of staff in key financial roles).

   (b) Linked to the entity’s strategic goals or wider macro-economic or environmental factors.

   (c) Highlighting the reliance of the entity and the auditor on complex IT systems and controls.

   In reports that considered subsequent years, it was noted that explanations about changes in the audit approach or KAM from the previous audit were particularly useful.

**Challenges**

12. The most consistent challenge highlighted across the various publications relates to describing the KAMs in an informative, yet succinct, manner, and avoiding boilerplate descriptions. Many reports highlighted observations from users and those charged with governance that some KAMs were described in a standardized manner and did not provided much insight about the auditor’s judgments in determining why the matter was a KAM, how the matter was addressed in the audit and how the matter was affected by the nature and circumstances of the entity. In one publication, it is noted that the generic descriptions of audit procedures raise more concern about the robustness of the audit procedures undertaken to address the KAM.

13. In anticipation of the implementation of CAM in the US, the PCAOB released a review of audit firm methodologies,\(^7\) which notes the need for auditors to discuss *why* the matter involved especially

---

\(^7\) *Implementation of critical audit matters: Staff observations from review of audit methodologies* by the PCAOB in March 2019. Also note that the PCAOB issued *staff guidance* in advance of CAM effective date.
challenging, subjective, or complex auditor judgment, and that simply stating that the matter was challenging, subjective or complex is insufficient.

14. Other implementation challenges noted in the publications include:

(a) The interaction between the going concern paragraph, KAM and emphasis of matter paragraphs. Examples were noted of cases when a material uncertainty related to going concern was included in multiple places across the auditor’s report. This highlights a possible need for further guidance to explain the interactions between ISA 570, ISA 701 and ISA 706.

(b) The auditor’s responsibilities for other information, including what is meant by “reading for consistency” and dealing with other information obtained after the auditor’s report date.

Disclosures in the Auditor’s Report Beyond the Requirements of the Standards

Outcome of Audit Procedures

15. Appendix B includes a summary of the findings from research undertaken across various jurisdictions about the outcome of audit procedures performed regarding KAMs. For the most part, across all of the publications there was an indication that users of financial statements, especially investors, prefer that auditors include the outcome of audit procedures performed regarding KAMs because they are otherwise unable to assess whether management appropriately dealt with the matter. However, there were observations that the outcomes of the audit procedures were often described in a generic way.

16. As noted in paragraph 7, in Brazil auditors are strongly encouraged to include the outcome of audit procedures regarding KAMs and the Kingman Review has recommended that the FRC consider requiring the inclusion of “graduated findings” in auditor’s reports. Furthermore, in the European Union, auditors are required to disclose key observations, where relevant, although there appears to be varying interpretations of this requirement and the meaning of “where relevant.”

Materiality and Scope of the Audit

17. Some of the publications explored the voluntary disclosure of audit materiality and the scope of the audit in the auditor’s report, as this is required for auditor’s reports issued in the UK. For jurisdictions where the disclosure of materiality is not required, the publications indicated that there are varying views from users about whether the disclosure of materiality is useful. However, in the UK, where the disclosure of materiality is required, users noted that the materiality disclosures could be more useful if additional information such as the following was disclosed:

(a) The rationale for the level of materiality chosen by the auditor.

(b) More information on the qualitative aspects considered by the auditor in arriving at the level of materiality.

(c) Clearer explanations of how the scope of the audit was affected by the risk assessment and materiality judgments.

(d) Reasons for using or changing particular materiality benchmarks or changes in the overall materiality level year on year.
Matter for IAASB Consideration:
1. The IAASB is asked to share relevant insights about the Standards that have not been identified from the research above, or that are inconsistent with the trends observed by the ARIWG.

PIR

18. As indicated earlier in this paper, the ARIWG presented its initial proposals to the IAASB in September 2016 regarding the PIR. Below is an extract of the proposals included in the September 2016 paper:

| Objective of the PIR | (a) Determine whether the Standards are being consistently understood and implemented in a manner that achieves the IAASB’s intended purpose in developing them so that the IAASB can determine what, if any, changes are needed:  
| | i. To increase the consistency of practitioners’ understanding of the Standards; and  
| | ii. For the Standards to achieve the intended purpose.  
| | (b) Determine whether further enhancements to the Standards are warranted to improve the transparency of the audit (e.g., the disclosure of materiality and the scope of the audit).  
| | (c) Determine whether requiring wider application of the requirements to audits of financial statements of other than listed entities (i.e., communication of KAM and, when applicable, specific matters relating to other information) would be in the public interest.  
| | (d) Identify how practical challenges and concerns are being addressed (by auditors, management and audit committees), and whether further enhancements or refinements to the Standards, or additional implementation support, is needed. |

| Standards addressed by the PIR | ISA 700 (Revised), ISA 701, ISA 705 (Revised) and ISA 706 (Revised), ISA 570 (Revised), ISA 260 (Revised) and ISA 720 (Revised).  
| | (Note that the PIR excludes ISA 800, ISA 805 (Revised) and ISA 810). |

| Phase 1 of PIR | A review of initial reactions and experiences through existing mechanisms, i.e., continuing monitoring activities, outreach and possibly undertaking informal surveys to stakeholders. |

| Phase 2 of PIR | More detailed information gathering, commencing early 2019, to understand |

---

8 ISA 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

9 ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

10 ISA 810 (Revised), Engagements to Report on Summary Financial Statements
the matters highlighted in the objective of the PIR. Information would be gathered across all stakeholder groups (practitioners, preparers, those charged with governance and users) through varying mechanisms tailored for each stakeholder group (existing outreach, targeted engagement or surveys).

Revised Objective of the PIR

19. The ARIWG is of the view that the objective of the PIR requires further refinement because standard-setting activities may not be the most appropriate response to the information gathered to date. In particular, the IAASB’s Proposed Strategy for 2020-2023 and Work Plan for 2020-2021 suggests a new framework for activities that considers other actions, such as guidance or communications, which may be more timely, relevant and appropriate in response to the information gathered. Furthermore, as highlighted in the section “Global Trends,” there are some jurisdictions that are in the process of implementing the Standards, or have recently done so, and more time may be needed for practice to evolve.

20. As a result, the ARIWG has proposed a revised objective of the PIR as follows (marked changes represent changes from the objective of the PIR discussed by the IAASB in September 2016):

(a) Determine whether the Standards are being consistently understood and implemented in a manner that achieves the IAASB’s intended purpose in developing them so that the IAASB can determine what actions, if any, changes are needed:
   i. To increase the consistency of practitioners’ understanding of the Standards; and
   ii. For the Standards to achieve the intended purpose.

(b) Identify how practical challenges and concerns are being addressed (by auditors, management and audit committees), and whether further action by the IAASB enhancements or refinements to the standards, or additional implementation support, is needed.

(c) Understand the extent of global demand for additional information in the auditor’s report Determine whether further enhancements to the Standards are warranted to improve the transparency of the audit (e.g., including the outcome of audit procedures with respect to KAMs, additional communications about going concern, the disclosure of materiality, and information about the scope of the audit).

(d) Understand the extent of global demand for Determine whether requiring wider application of the requirements that currently apply only to audits of financial statements of other than listed entities (i.e., communication of KAM, the name of the engagement partner and, when applicable, communicating specific matters relating to other information) would be in the public interest.

Standards Addressed by the PIR

21. The ARIWG is of the view that the scope of the PIR remains appropriate. However, the ARIWG suggests further clarifying the scope of the standards to be included as follows:

(a) The requirements and guidance in ISA 700 (Revised), ISA 701, ISA 705 (Revised), ISA 706 (Revised) and ISA 720 (Revised). The ARIWG believes it is appropriate to include all aspects
of ISA 720 (Revised) in the PIR, given the fundamental revisions to the performance requirements of the standard at the time, and questions that have arisen about the reporting requirements on the auditor’s report. Appendix C includes a summary of challenges noted by the ARIWG regarding ISA 720 (Revised).

(b) The auditor reporting aspects of ISA 570 (Revised) and the amendments to ISA 260 (Revised) that were made in connection with the auditor reporting project, although additional feedback on other aspects of these standards would also be considered by the ARIWG (refer also to paragraphs 23–24 below for considerations of ISA 570 (Revised)).

(c) The PIR does not include ISA 800, ISA 805 (Revised) and ISA 810, although feedback on the auditor reporting aspects of the standards would also be considered by the ARIWG.

22. The ARIWG also recommends extending the PIR beyond the ISAs and seeking information about the reporting aspects of the IAASB’s Other Standards,11 i.e., whether there is demand for the reporting requirements of the IAASB’s Other Standards to be aligned with those in the ISAs. In this regard, the ARIWG notes Agenda Item 3–B of the March 2019 IAASB meeting that sets out the plan to address the conforming and consequential amendments to the IAASB’s Other Standards arising from the quality management projects, proposed ISA 315 (Revised)12 and other projects completed by the IAASB since 2012 (including the auditor reporting standards). These proposals indicated that only conforming amendments would be made at this time to address the quality management projects, and amendments to the IAASB’s Other Standards to address the other ISA projects undertaken since 2012 would be deferred. The proposals also noted the PIR, indicating that it would provide information that may inform the need to update the Other Standards in the future.

ISA 570 (Revised)

23. The ARIWG notes that in the Proposed Strategy for 2020–2023 and Work Plan for 2020-2021, as part of the IAASB’s focus on the fundamentals of the standards (Theme B), the role of auditors in connection with going concern was identified as a possible area to be further explored in the next strategy period. Feedback from the Strategy will therefore provide an indication of the need for further activities related to going concern.

24. The ARIWG is of the view that the role of the ARIWG should remain focused on auditor reporting, and additional feedback related to ISA 570 (Revised) that is brought to the attention of the ARIWG through its PIR activities would be considered as part of any future research activities on going concern.

Matters for IAASB Consideration:

2. The IAASB is asked to share views on:
   (a) The revised objective of the PIR.
   (b) The proposed clarification of the scope of standards to be addressed by the PIR, including the proposals for ISA 570 (Revised) and the IAASB’s Other Standards.

---

11 The IAASB’s Other Standards comprise the International Standards on Review Engagements (ISREs), the International Standards on Assurance Engagements (ISAEs) and the International Standards on Related Services (ISRS).

12 Proposed ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement
Approach to the PIR

Monitoring and Information-Gathering Activities

25. In its September 2016 discussions, the IAASB had agreed that a two-phase approach to the PIR would be appropriate. However, in considering the next steps for the PIR, the ARIWG determined that discrete phases are no longer appropriate, and recommends that the principal focus of the PIR should be ongoing monitoring and information-gathering activities and consideration of further actions, as appropriate. The basis for the ARIWG’s recommendations includes the following:

(a) Since the Standards were issued, the ARIWG has actively monitored developments in auditor reporting and undertaken extensive outreach, as originally contemplated for Phase 1 of the PIR. This has included monitoring publications and research on the topic and engaging with National Standards Setters (NSS). The ARIWG is of the view that such activities should continue, as these have yielded important and valuable input.

(b) There are many jurisdictions for which the standards have been in effect for multiple years. For these stakeholders, there is a need for the IAASB to obtain feedback about the success of the Standards and for the IAASB to understand areas of challenge. Thus, in order to respond more proactively to these stakeholders, the ARIWG would need to initiate activities originally contemplated by Phase 2 of the PIR.

(c) While there are some jurisdictions that have yet to reach the effective dates for the Standards, the ARIWG is of the view that the feedback that would be received from the jurisdictions that have already adopted would be comprehensive and representative of general global themes. Furthermore, those jurisdictions that have yet to implement the Standards could benefit from the feedback from other jurisdictions that have already implemented the Standards.

(d) There have not been any issues or global trends identified to date for which an urgent analysis or response is needed from the IAASB. This allows more time for the ARIWG to continue its monitoring and information-gathering activities.

26. If the IAASB supports the ARIWG’s recommendations described in paragraph 25, the PIR would comprise the following actions:

(a) Continue ongoing monitoring activities, including monitoring research activities being undertaken globally by stakeholders.

(b) Issue a project update or feedback statement to inform stakeholders of the IAASB’s activities, and highlight global trends identified to date.

(c) Initiate focused information gathering, as described further in paragraphs 27–29 below. The ARIWG notes that in 2019, stakeholders have been extensively engaged in commenting on various IAASB proposals, and therefore outreach and engagement with stakeholders would be undertaken in the first half of 2020. The ARIWG recognizes that sufficient time will be needed to plan outreach and engagement with stakeholders, and therefore would actively plan these activities throughout the remainder of 2019.

(d) Consider the further actions to be taken, if any. Such actions may include, for example, updates to the “Frequently Asked Questions” to help practitioners to better understand and consistently implement the Standards, other forms of communication to stakeholders (e.g., additional feedback statements), or, if necessary, considering the need to revise the Standards.
Further Focused Information Gathering

27. Although much research has already been undertaken globally, the ARIWG is of the view that the IAASB should undertake further focused information-gathering activities so that there is an opportunity for all jurisdictions that have implemented the standards, and all stakeholders, to provide input. Furthermore, the research undertaken globally has in general focused on KAMs, and the ARIWG suggests that other aspects of the Standards should also be explored by the IAASB.

28. In light of the scope of standards to be addressed by the PIR, the ARIWG proposes organizing the information-gathering activities according to two themes:
   
   (a) General matters related to auditor reporting, including:
       i. KAMs.
       ii. The overall form and structure of the report, including disclosing the name of the engagement partner.
       iii. Going concern, as it relates to auditor reporting matters.
       iv. Extending the revised auditor reporting requirements to the IAASB's Other Standards.
   
   (b) ISA 720 (Revised). The ARIWG is of the view that there is a need for a separate focus on ISA 720 (Revised) given concerns raised through ongoing outreach about implementation challenges with the standard. Appendix C includes a summary of challenges that have been brought to the attention of the ARIWG. The ARIWG’s preliminary thinking is that further information gathering for ISA 720 (Revised) may need to be more granular and focused than the activities that would be undertaken on the other auditor reporting matters.

29. The mechanisms for gathering the information and matters to be covered would vary across each stakeholder group for each of the themes. Appendix D outlines the ARIWG's proposals regarding the information-gathering activities. However, existing means to engage with stakeholders would be important, for example, discussions with the IAASB Consultative Advisory Group (CAG), NSS, International Forum of Independent Auditors (IFIAR), Global Public Policy Committee (GPPC) and International Organization of Securities Commissions (IOSCO).

Matters for IAASB Consideration:

3. Does the IAASB support the ARIWG’s proposed approach to the PIR? In particular:
   
   (a) Is the IAASB of the view that focused information-gathering activities are needed, or has the information already gathered globally by other stakeholders provided sufficient insight about the Standards?
   
   (b) If the IAASB supports focused information-gathering activities, does the IAASB agree with the proposed timing of such activities (i.e., the first half of 2020) and the matters to be covered as outlined in Appendix D?

4. Is there an indication of a need for the IAASB to take immediate action to respond to information already gathered globally (summarized in the “Global Trends” section of this paper), such as a project update, updating the Frequently Asked Questions publication, or other guidance?
1. Auditor Reporting Implementation

Mr. Montgomery updated the Board on the activities of the Auditor Reporting Implementation Working Group (ARIWG), including the outreach undertaken with respect to the new and revised Auditor Reporting Standards (the Standards), and the ARIWG’s publications to support the implementation of the Standards. Mr. Montgomery also provided some insight into global developments on this topic, including the global uptake of the Standards and what the ARIWG has heard from experiences in adopting those standards.

In addition, Mr. Montgomery presented an initial outline of the planned post-implementation review. The Board was supportive of the ARIWG being responsible for the post-implementation review. Furthermore, the Board agreed with the two-phase approach proposed by the ARIWG and provided the following additional suggestions:

- Considering the timing of the formal post-implementation review, ensuring that many jurisdictions have had the Standards in effect for two years before conducting the review. The Board cautioned that a post-implementation review that is conducted too early may render inaccurate or incomplete feedback.
- Increasing the emphasis on going concern in the formal post-implementation review, i.e., the effectiveness of the amendments to ISA 570 (Revised), as well as the interaction between key audit matters (KAM) and circumstances where there are “close-calls.”
- Including an analysis of whether the information communicated by the auditor is achieving the expectations of the users and the intended purpose of the Standards within the scope of the review. The ARIWG was also asked to consider how to assess the feedback from the informal review and how to package it into something useful.
- Evaluating the impact of the new auditor’s reports on the cost of the audit.
- Evaluating the correlation between the communication of KAM and the disclosures in the financial statements.
- Enhancing the objective of the post-implementation review to determine how to assist practitioners in understanding what is being done to implement the Standards.
- Monitoring the ongoing academic research in this area.
- Monitoring how the media are responding to the new auditor’s reports.
- Considering the public sector uptake of the Standards.

In summarizing the discussion regarding the post-implementation review, Mr. Montgomery noted the

---

13 The new and revised Auditor Reporting Standards comprise 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; ISA 720 (Revised), The Auditor’s Responsibilities Relating to Other Information, and conforming amendments to other ISAs.
importance of understanding the impact of enhanced auditor reporting on auditor liability, as well as the liability of preparers or those charged with governance.

The Board was further supportive of the ARIWG’s proposal to publish a Frequently Asked Questions document. A Board member recommended that additional thought be given on how to articulate the responses in a more practical, less-technical manner. The Board also suggested the following additional matters be considered:

- Addressing circumstances where there are multiple signing dates in conjunction with multiple documents that are considered an annual report.
- Addressing circumstances where the engagement partner as contemplated by the ISAs does not sign the auditor’s report.
- Providing clarity on how much innovation is allowed by auditors in the presentation and content of the auditor’s report.
- Providing clarity on circumstances when it may be appropriate for the auditor to determine that no KAM exist.

IAASB CAG CHAIRMAN’S REMARKS

Mr. Waldron supported the approach for the post-implementation review, in particular the initial informal phase, noting that the outcome from the informal phase would help facilitate what needs to be considered when undertaking the formal post-implementation review.

WAY FORWARD

The Board was requested to send through any further suggestions on the Frequently Asked Questions document for the ARIWG to consider. The ARIWG expects to finalize the Frequently Asked Questions in the fourth quarter of 2016 ahead of the effective date of the Standards. The ARIWG will continue with its outreach and implementation monitoring as indicated in Agenda Item 7-A.
Summary of Research – Including the Outcome of Audit Procedures for KAMs

ISA 701 requires the auditor to describe each KAM, why the matter was one of most significance and how the matter was addressed in the audit.\textsuperscript{14} Auditors are not required to indicate the outcome of audit procedures for each KAM, however the application material\textsuperscript{15} suggests that the auditor may consider providing such indication or key observations with respect to the matter.

The ARIWG has noted that several jurisdictions have explored including the outcomes of the audit procedures for each KAM in the auditor’s report. Below is a summary of the findings from research undertaken across various jurisdictions.

**Association of Chartered Certified Accountants (ACCA) – Singapore\textsuperscript{16}**
- 50\% of analyzed KAMs had provided outcomes of audit procedures.
- 82\% of investors surveyed were of the view that outcomes should be included.
- 62\% of audit committees surveyed indicated that the auditor’s report should include outcomes.

**ACCA – Malaysia\textsuperscript{17}**
- 11\% of the sampled KAMs included outcomes of the audit procedures, all of which were generic in nature.
- 76\% of investors surveyed considered the outcomes as critical or very critical parts of the auditor’s report.
- 70\% of the audit committee members surveyed considered it critical or very critical for auditors to include outcomes of audit procedures.

**External Reporting Board (XRB) (New Zealand)\textsuperscript{18}**
- In the XRB’s analysis of 179 auditor reports only 62 included the outcomes of the audit procedures, which equates to 34\% of reports analyzed. The majority of reports that included outcomes were issued by PwC (62\%).

**IBRACON (Brazil)\textsuperscript{19}**
- 23\% of audit reports surveyed included the outcome of audit procedures.

\textsuperscript{14} ISA 701, paragraph 13
\textsuperscript{15} ISA 701, paragraph A46
\textsuperscript{16} Key audit matters: unlocking the secrets of the audit, ACCA
\textsuperscript{17} Enhanced auditors’ report: A review of first-year implementation experience in Malaysia, ACCA
\textsuperscript{18} Key audit matters: A stock take of the first year in New Zealand, XRB
\textsuperscript{19} Auditor points out uncertainty in the future of companies, Thais Carrança, São Paulo (2017)
PriceWaterhouseCoopers (PwC) – Singapore and Hong Kong

- 42% of analyzed KAMs had provided outcomes of audit procedures in Singapore.
- 27% of analyzed KAMs had provided outcomes of audit procedures in Hong Kong.

---

20 Enhanced auditor’s report: Survey of first year experience in Singapore, PwC
Summary of Challenges Identified with Respect to ISA 720 (Revised)

ISA 720 (Revised) became effective for periods ending on or after December 15, 2016. In addition to changes addressing the auditor’s responsibilities to consider the other information and respond appropriately when material inconsistencies appear, ISA 720 (Revised) introduced a new requirement for the auditor’s report to include an “Other Information” section. Various questions related to ISA 720 (Revised) were included in the frequently asked questions publication released by the ARIWG in November 2016. However, feedback from outreach has highlighted a number of implementation issues as follows:

1. The determination of which documents constitute “other information,” particularly when the individual components of the other information are not prepared and available at the same time, when additional voluntary information is included in the document, or when the document is not called an annual report.

2. The basis for selection of amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) for comparison with the corresponding amounts or other items in the financial statements.

3. How the other information is described in the auditor’s report, for example, whether the auditor refers to the “annual report” or more specifically to the components that make up the annual report.

4. How to address circumstances when the entity is not certain of what information will be included in the annual report.

5. How the auditor is expected to know that the other information has been finalized, since it may only be released after the financial statements and auditor’s report.

6. How to apply the requirements of ISA 720 (Revised) to audits of financial statements prepared in accordance with a special purpose framework, and which often do not have other information that accompanies such financial statements.

7. Communication between the auditor, preparer and those charged with governance regarding responsibility for preparing the other information and the timing of providing the information to the auditor.
Draft Approach to Focused Information Gathering

The table below sets out the matters that the ARIWG plans to explore with each stakeholder group. The way feedback would be solicited would be tailored for each stakeholder group and may include one or a combination of the following:

(a) Direct meetings or discussions with the stakeholder.
(b) Participation in the stakeholders’ conferences or meetings (e.g., the IFIAR Standards Coordination Working Group annual meeting).
(c) Surveys.
(d) Presentations.

The ARIWG plans to further develop the plan for the focused information gathering in 2019, including the matters to be explored with each stakeholder group and how feedback will be solicited. The table below indicates the areas of focus for each stakeholder group (indicated with an X), but the topics may also be explored with other stakeholder groups.

<table>
<thead>
<tr>
<th>Approach</th>
<th>Investors(^{21})</th>
<th>Regulators and other oversight authorities(^{22})</th>
<th>Preparers and TCWG(^{23})</th>
<th>NSS</th>
<th>Large Firms(^{24})</th>
<th>Small Firms(^{25})</th>
</tr>
</thead>
<tbody>
<tr>
<td>General matters related to auditor reporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Views about the new structure of the auditor’s report and whether this has improved the communicative value of and transparency about the audit.</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^{21}\) Investor groups that have been identified that may be a useful resource include (but are not limited to): CFA Institute, Global Network of Investor Associations (A committee of the International Corporate Governance Network (ICGN) and The Investment Association.

\(^{22}\) Regulators and other oversight authorities that have been identified that may be a useful resource include (but are not limited to): IOSCO, IFIAR, Basel Committee on Banking Supervision, European Audit Inspection Group and European Securities and Markets Authority.

\(^{23}\) Preparers and those charged with governance (TCWG) groups that have been identified that may be a useful resource include (but are not limited to): Professional Accountants in Business (PAIB) and corporate governance organizations in major jurisdictions, such as ICGN and the Global Network of Directors Institutes (GNDI).

\(^{24}\) Large firm groups may include the Forum of Firms (FoF) and the GPPC.

\(^{25}\) Small firm groups may include the FoF and Small and Medium Practices Committee (SMPC).
<table>
<thead>
<tr>
<th>Approach</th>
<th>Investors&lt;sup&gt;21&lt;/sup&gt;</th>
<th>Regulators and other oversight authorities&lt;sup&gt;22&lt;/sup&gt;</th>
<th>Preparers and TCWG&lt;sup&gt;23&lt;/sup&gt;</th>
<th>NSS</th>
<th>Large Firms&lt;sup&gt;24&lt;/sup&gt;</th>
<th>Small Firms&lt;sup&gt;25&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Insightfulness and usefulness of the KAMs, and whether the communication of KAMs has met users' expectations.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Whether the disclosure of the name of the engagement partner is useful.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Usefulness of the separate section related to going concern in circumstances when a material uncertainty exists.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Further possible improvements to the auditor's report to enhance the communication with users, including additional information that investors would find useful, such as the outcome of audit procedures that address KAMs, the disclosure of materiality, the scope of the audit and increased disclosures related to going concern (e.g., similar to UK proposals).</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>- Whether the structure and elements of other reports issued under the IAASB’s standards (e.g., interim review reports) should be revisited.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>- Whether demand exists for wider application of the requirements that apply to audits of financial statements of listed entities to all audits of financial statements.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>- Observations about implementation challenges.</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Approach</td>
<td>Investors(^{21})</td>
<td>Regulators and other oversight authorities(^{22})</td>
<td>Preparers and TCWG(^{23})</td>
<td>NSS</td>
<td>Large Firms(^{24})</td>
<td>Small Firms(^{25})</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>---------------------</td>
<td>-----------------------------------------------</td>
<td>-----------------------------</td>
<td>-----</td>
<td>---------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Feedback on guidance issued and whether additional guidance or material should be developed to support implementation.</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td><strong>ISA 720 (Revised)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Views about the usefulness of the other information section of the auditor’s report and whether this has improved the communicative value of and transparency about the audit</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation challenges with respect to ISA 720 (Revised) drawing specific attention to the matters in Appendix C.</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Actions taken to address implementation challenges.</td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>