

## **The Auditor's Report on Financial Statements**

### **Overview of Preliminary Recommendations for the Auditor's Report**

1. The Task Force has discussed 6 of the 10 issues identified in the project proposal. Agenda Item 3-C describes each issue, summarizes the research findings, and explains the Task Force's proposed approach and preliminary principles together with the reasons for recommending them. To help the IAASB members get a sense of the overall impact of the Task Force's recommendations, this agenda paper summarizes them – not by issue, but rather by how they might impact ISA 700 and the wording of the auditor's report.
2. The Task Force's preliminary recommendations flow from the following **overall aims**:
  - to increase the **consistency in reporting between jurisdictions**.
  - to increase the **understandability** of the auditor's role and of the auditor's report.

#### **Consistency**

3. In broad terms, this means aiming for a **consistent “look and feel”** to reports for audits conducted in accordance with ISAs. In particular:
  - An audit that has been conducted in accordance with the ISAs would be clearly identified as such.
  - There should be a consistent structure to the auditor's report so that it identifies clearly the auditor's report on the audit of financial statements separately from the other reporting responsibilities of the statutory auditor or auditor of record (referred to as “special reporting responsibilities” in the agenda papers) – in essence, there would be **two parts to the auditor's report**.
4. Thus, the auditor's report on the ISA audit of the financial statements would remain consistent and be readily identifiable, with the auditor's additional special reporting responsibilities, if any, reported on in a separate part of the auditor's report.
5. To achieve these aims, ISA 700 will need to be **more directive in specifying the form, content and wording** of an unmodified auditor's report for audits conducted in accordance with ISAs, and new guidance added on how the auditor should report on any special reporting responsibilities.

#### **Understandability**

6. In terms of increasing the understandability of the auditor's responsibilities and the nature of the audit, the Task Force believes that the wording for the auditor's report that will be specified in ISA 700 should:
  - Use **simple, understandable language**.
  - **Avoid using “coded” words or phrases** that would not be readily understood without knowledge of how the word or phrase is used in the literature of the profession.
  - Be as **concise** as possible, while still aiming to be **informative** and include **clear explanations**.
7. An overview of the impact of the Task Force's preliminary recommendations on the existing report in ISA 700 is provided in the chart on the next page.

**Overview of the Impact of Proposed Recommendations on the Auditor's Report**

<i>Form and content of the existing ISA 700 report</i>	<i>ISA 700 reference</i>	<i>Proposed impact on the form and content of the auditor's report of the Task Force's preliminary recommendations on key issues</i>	<i>Where proposal is discussed in Agenda Item 3-C</i>
Title	Paragraph 6	<ul style="list-style-type: none"> <li>Still under discussion.</li> </ul>	n/a
Addressee*	Paragraph 7		n/a
Opening or introductory paragraph	Paragraphs 8-11	<ul style="list-style-type: none"> <li>Be more specific in requiring the auditor's report to refer to the titles of the financial statements rather than only page numbers, and to also refer to the notes to the financial statements.</li> <li>Consider expanding (although not very much) the description of management's responsibilities.</li> </ul>	<p>Paragraphs 88-93</p> <p>Paragraph 76 (i)</p>
Scope paragraph (describing the nature of an audit)	Paragraphs 12-16	<ul style="list-style-type: none"> <li>Reference to the standards in accordance with which the audit was conducted to be either ISAs, or both ISAs <u>and</u> national auditing standards. Explain in the guidance what "compliance with ISAs means".</li> <li>The impact on the description of the nature of the audit could be considerable. Very preliminary ideas include: <ul style="list-style-type: none"> <li>considering adding a positive statement of the auditor's responsibility for fraud</li> <li>reconsidering the use of certain words such as "on a test basis" and "plan"</li> <li>conforming the wording regarding "reasonable assurance" to its use elsewhere in the ISAs</li> <li>revising description of the auditor's role re: accounting estimates and the choice and application of accounting policies</li> <li>considering whether to incorporate concepts from the new risk assessment guidance.</li> </ul> </li> </ul>	<p>Paragraphs 38-49</p> <p>Paragraphs 61-77</p>
Opinion paragraph	Paragraphs 17-22	<ul style="list-style-type: none"> <li>Wording of opinion still under discussion.</li> <li>At a minimum, however, consider expanding guidance in ISA 700 to elaborate on the judgments the auditor needs to make in forming the opinion on the financial statements.</li> </ul>	Paragraph 76 (iii)
Date of the report	Paragraphs 23-24	<ul style="list-style-type: none"> <li>Clarify guidance on the date of the auditor's report, including making conforming amendments to ISA 560 "Subsequent Events" and ISA 580 "Management Representations" to align guidance accordingly.</li> </ul>	Paragraphs 50-60
Auditor's address*	Paragraph 25		n/a
Auditor's signature*	Paragraph 26		n/a
		<ul style="list-style-type: none"> <li>New guidance to be provided on how the auditor should report on special reporting responsibilities in a new section of the auditor's report.</li> </ul>	Paragraphs 8-37
		<ul style="list-style-type: none"> <li>Consider adding explanatory language if the financial reporting framework is not IAS/IFRS.</li> </ul>	Paragraphs 78-87

\* The project proposal argued that the current guidance in ISA 700 is adequate on this element of the auditor's report and, therefore, no changes will be proposed to the guidance currently in ISA 700.