

Auditor's Report on Financial Statements

Discussion of Key Issues

Purpose of this Agenda Paper

1. This agenda paper describes the Task Force's preliminary views on the following key issues:

	Paragraphs
(i) How the auditor should report on special reporting responsibilities.	8-37
(ii) Issues arising when the audit has been conducted in accordance with ISAs as well as national standards and practices.	38-49
(iii) Issues related to the date of the auditor's report.	50-60
(iv) Whether the standard auditor's report adequately conveys the auditor's responsibilities and the assurance provided.	61-77
(v) Whether it is adequate disclosure to identify in the auditor's report the country of origin of the financial reporting framework used, particularly in those circumstances when the financial reporting framework differs significantly from IAS/IFRS.	78-87
(vi) How the auditor's report should refer to the financial statements in the introductory paragraph – for example, by referring to the titles of the financial statements, the page numbers they are on, or a more general reference.	88-93

Background

2. ISA 700 provides guidance on the content of the auditor's report on financial statements. However, while the ISA defines the elements that should be included in the auditor's report in principle and provides an illustrative report, it does not prescribe the entire report wording. A comparison of standard auditor's report wording performed for 37 countries by the Task Force revealed that there is currently a great variety in the wording of auditor's reports and the opinion provided. With increasing cross-border trading and investment activities, an opening premise for the project is that transparency and cross-border usability would be enhanced if there was substantial convergence of auditor's reports for audits conducted in accordance with ISAs.
3. A review of the various auditor's reports today reveals that many of the differences arise from differences in the responsibilities of the statutory auditor or "auditor of record". If ISA 700 is to promote convergence, it will need to recognize that national laws and regulations, and/or national auditing standards may impose additional responsibilities on auditors beyond the audit responsibilities defined by ISAs. These additional responsibilities might include special reporting responsibilities (as discussed in paragraphs 8-37) or requirements

under national auditing standards to perform auditing procedures in addition to those required under the ISAs (as discussed in paragraphs 38-49).

4. It is not the role of the IAASB to debate the relative merits of the additional requirements that are deemed appropriate in a particular national environment. However, ISA 700 can facilitate convergence and transparency in reporting if it identifies a way in which such national features can be reported in a consistent manner so that an international audience is able to:
 - clearly understand that the auditors have performed an “ISA audit” on the financial statements and what the results are; and
 - appreciate what additional value can be derived from the auditors’ compliance with additional national requirements.
5. Equally important, the auditor’s report needs to clearly communicate to readers the roles and responsibilities of the auditor and the results of the audit.

Basic Reporting Principles

6. With these objectives in mind, the Task Force began by identifying a number of principles to guide judgments in discussing the relative merits of alternative ways of responding to the issues. Those principles are as follows:
 - To facilitate convergence towards a common auditor’s report for ISA audits, there should be a consistent “look and feel” to the report, in particular:
 - 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.
 - An audit that has been conducted in accordance with the ISAs is clearly identified as such.
 - To help to improve communication, the auditor’s report should adhere to the following principles:
 - The report should use simple, understandable language.
 - The report should 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.
 - The report should be as concise as possible, while still aiming to be informative and include clear explanations.

In summary, then, the Task Force’s overall aims are:

- To increase the consistency in reporting between jurisdictions.
 - To increase the understandability of the auditor’s role and of the auditor’s report.
7. The Task Force recognizes the inherent conflict between keeping the report short while at the same time aiming for clarity and understandability and avoiding “coded” words. However, the Task Force is of the view that there is a point where the report will lose usefulness because its length discourages users from reading it. Therefore, the Task Force,

believes that it is useful to continue to work towards both objectives simultaneously and manage the tension that arises between the conflicting objectives.

Special Reporting Responsibilities

BACKGROUND

8. In many jurisdictions, the appointment of a professional accountant as auditor of an entity often involves special reporting responsibilities, in addition to the responsibility to report on the financial statements. Often, the local requirements require the auditor to report on these special responsibilities by including conclusions and findings in the auditor's report on the financial statements.
9. ISA 700 currently provides limited guidance with respect to special responsibilities to report on whether the financial statements comply with requirements specified by law. The opinion paragraph requirements recognize the fact that auditors have this additional responsibility in some jurisdictions. As a result, paragraph 20 enables the auditor to expand the opinion paragraph to state whether the financial statements comply with requirements specified by relevant statutes or law.
10. Paragraph 21 provides an illustration of the opinion:

In our opinion, the financial statements give a true and fair view of (or 'present fairly, in all material respects,') the financial position of the Company as of December 31, 20X1, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin¹]) (and comply with...).
11. Paragraph 35 also suggests that an emphasis of matter paragraph might be used when there are additional statutory responsibilities.
12. Notwithstanding the above, the main focus of ISA 700 is the auditor's opinion on the financial statements. As a result:
 - It does not discuss other special responsibilities.
 - The opening paragraph refers only to the auditor's responsibility to report on the financial statements. It does not acknowledge that the auditor might have other reporting responsibilities.
 - The scope paragraph makes reference only to audit procedures that are relevant to the auditor's responsibility to report on the financial statements.
13. As is discussed in the survey of auditor's reports conducted in connection with considering how the standard auditor's report conveys the auditor's responsibilities and the assurance provided, a number of the substantive differences when comparing the structure and content of auditor's reports are the result of variations in how auditors report on these special reporting responsibilities in the auditor's report. This is one the key matters which has been identified as needing to be addressed in Europe before 2005.
14. In order to decide how standards should address these responsibilities, the Task Force surveyed the types of additional statutory reporting responsibilities that auditors currently face and considered how the auditor should be addressing these responsibilities in order to:
 - increase the consistency in reporting between jurisdictions; and

- increase the understandability of the auditor's role and of the auditor's report.
15. In addressing the special reporting responsibilities, the Task Force did not consider the relative merits of the various special reporting responsibilities imposed on auditors. Rather, the Task Force merely accepted the fact that these responsibilities are included as part of a professional accountant's appointment as auditor of an entity and explored how they can best be addressed in ISA 700.
 16. In addition, the Task Force addressed reporting responsibilities to shareholders only. The Task Force did not, for example, address the auditor's responsibility to communicate matters to regulators or to those charged with governance – which is consistent with limiting the project to the external reporting addressed in ISA 700, i.e., the auditor's report on financial statements.

RESEARCH FINDINGS

17. Special reporting responsibilities vary from jurisdiction to jurisdiction. The form of reporting also varies. To obtain an understanding of the special reporting responsibilities that currently exist, the Task Force analyzed the special reporting responsibilities in the following jurisdictions:
 - Australia
 - Canada
 - China
 - France
 - Germany
 - Hong Kong
 - Norway
 - South Africa
 - United Kingdom
 - United States
18. For each special reporting responsibility identified, the Task Force considered:
 - The type of responsibility.
 - How the auditor is to report – i.e., only when an exception is noted, as part of the auditor's report on the financial statements, in a separate report.
 - Whether the auditor acknowledges the special responsibility in, for example, the scope paragraph of the auditor's report.

Types of responsibilities

19. Although the wording used to describe special reporting responsibilities can vary from jurisdiction to jurisdiction, there are generally two types of responsibility:
 - (a) A responsibility to report on certain specified matters by performing procedures in addition to those normally performed to provide an opinion on the financial statements. For example, the auditor may be required to:

- Audit supplementary financial information included with the financial statements and to provide a separate opinion on this information.
 - Audit the adequacy of internal controls or the completeness of an entity's book and records and to provide a separate opinion on such internal controls or book and records.
- (b) A responsibility to report if certain specified matters come to the auditor's attention during the financial statement audit without performing any additional procedures other than those normally performed to provide an opinion on the financial statements. For example, the auditor may be required to report when:
- Improper accounting records are identified.
 - The company's individual accounts are not in agreement with the accounting records.
20. The question of whether an auditor has to carry out additional procedures to address a responsibility is not always clear since, with the passage of time, for efficiency purposes, auditors often incorporate the additional responsibilities as part of the financial statement audit. For the purposes of this paper, a responsibility is considered to involve carrying out additional procedures if, in addressing it, the auditor is required to go beyond what is normally done to provide an opinion on the financial statements.
- How the auditor reports and whether the responsibility is acknowledged in the auditor's report?
21. Tables 1 to 4 on the next page summarize some of the more common special reporting responsibilities that currently exist in the jurisdictions selected by the Task Force.
22. The tables are organized by type of responsibility and indicate how the auditor is required to report in each jurisdiction, i.e., whether he/she is required to provide assurance on a matter, to report only when exceptions are noted or to report in some other way. The tables also indicate whether for each responsibility the auditor is required to acknowledge the existence of the responsibility in the report.
23. Tables 1 to 4 indicate that there is no consistency in how auditors are required to report when they have a special responsibility to perform additional procedures. For some matters, auditors are required to provide assurance and for others to report exceptions only. There appears to be more consistency in reporting for responsibilities that do not require the performance of additional procedures. For these types of responsibilities, most jurisdictions require auditors to report exceptions, rather than to provide assurance on the actual matters specified by legislation.
24. In addition, the Tables indicate that most jurisdictions do not require auditors to acknowledge their special reporting responsibilities in the auditor's report. For the countries that do require these references (i.e., France, Germany, Norway, United Kingdom), France and Norway include a general reference to the responsibilities (e.g., our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the ... Act). Germany and the United Kingdom, on the other hand, include specific references (e.g., we also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper

accounting records, if we have not received all the information and explanations we require for our audit ...).

TABLE 1 – Inconsistency of other information with the financial statements

Type 1 – Additional procedures

<i>Jurisdiction</i>	<i>How auditors report</i>			<i>Responsibility acknowledged</i>	
	<i>Exception</i>	<i>Assurance</i>	<i>Other</i>	<i>Yes</i>	<i>No</i>
Australia	✓				✓
Canada			✓		✓
China			✓		✓
France			✓	✓	
Hong Kong	✓				✓
Norway		✓		✓	
South Africa	✓				✓
United Kingdom	✓			✓	
United States	✓				✓

TABLE 2 – Compliance of financial statements with legislative requirements

Type 1 – Additional procedures

<i>Jurisdiction</i>	<i>How auditors report</i>		<i>Responsibility acknowledged</i>	
	<i>Exception</i>	<i>Assurance</i>	<i>Yes</i>	<i>No</i>
ISA 700		✓		✓
Australia		✓		✓
Canada	✓			✓
China		✓		✓
Hong Kong		✓		✓
United Kingdom	✓		✓	

TABLE 3 – Proper accounting records kept

Type 2 – No additional procedures

<i>Jurisdiction</i>	<i>How auditors report</i>		<i>Responsibility acknowledged</i>	
	<i>Exception</i>	<i>Assurance</i>	<i>Yes</i>	<i>No</i>
Australia	✓			✓
Canada	✓			✓
Germany	✓		✓	
Hong Kong	✓			✓
South Africa	✓			✓
United Kingdom	✓		✓	

TABLE 4 – Auditor given information necessary to conduct audit
Type 2 – No additional procedures

<i>Jurisdiction</i>	<i>How auditors report</i>		<i>Responsibility acknowledged</i>	
	<i>Exception</i>	<i>Assurance</i>	<i>Yes</i>	<i>No</i>
Australia	✓			✓
Canada	✓			✓
Hong Kong	✓			✓
United Kingdom	✓		✓	

25. ISA 720 “Other Information in documents Containing Audited Financial Statements” includes a requirement for the auditor to read other information that contains the financial statements, such as the annual report, and to include an emphasis of matter paragraph in the auditor’s report highlighting any inconsistencies between the financial statements and the other information. After some debate, the Task Force concluded that although this responsibility appears to be similar to special reporting responsibilities in several jurisdictions that require the auditor to consider the consistency of other information published by an entity with its audited financial statements, it is not a special reporting responsibility because it must be addressed as part of an ISA audit of the financial statements.

PROPOSED APPROACH AND PRINCIPLES

26. The Task Force proposes the following recommendations:
- (i) ISA 700 should address the auditor’s special reporting responsibilities.
 - (ii) The special reporting responsibilities should be addressed in a section of the auditor’s report that is separate from the opinion on the financial statements.
 - (iii) The nature of the work effort (i.e., whether the auditor is required to carry out additional procedures or not) and the type of reporting to be provided (i.e., report exceptions only or provide assurance) will determine how the auditor’s report addresses the special reporting responsibilities.
 - (iv) The section of the auditor’s report covering special reporting responsibilities should:
 - Acknowledge the fact that the auditor has a special reporting responsibility only when the auditor is required to carry out additional procedures with respect to the responsibility.
 - Not mention that no exceptions were identified when the auditor is required to report only exceptions.
 - Always contain an opinion when the auditor is required to carry out additional procedures and provide assurance on a subject matter.
 - (v) The auditor’s responsibilities described in ISA 720 should be addressed in the section of the auditor’s report on the financial statements. In keeping with the principles in Recommendation (iv), the auditor’s responsibility for other information should be acknowledged in this section of the report and the reporting should be restricted to discussing only inconsistencies identified.

Considerations relating to form of report

27. The Task Force has concluded that addressing special reporting responsibilities in ISA 700 will help integrate the auditor's report on the financial statements with these special responsibilities. This will help give recognition to the fact that the financial statement audit is just one responsibility assumed by professional accountants when they are appointed auditors of an entity. In addition, since the intended audience for a special report is the same as the audience for the report on the financial statements, one report will be simpler for users to understand and it will give users a more complete picture of what auditors of an entity do.
28. The Task Force also concluded that the major challenge will be to develop standards that are relevant to all jurisdictions and that result in consistent reports in view of the different types of requirements that currently exist. The Task Force is confident that this challenge can be met by splitting the auditor's report into two sections – one that deals with reporting on the financial statements and another that deals with special reporting requirements. This will enable auditors to discuss all their responsibilities in one report. It will also result in an auditor's report on the financial statements that is consistent from jurisdiction to jurisdiction and will, at the same time, provide flexibility for special reporting.
29. If the auditor's report is divided into two sections, the Task Force recommends that any reporting by the auditor with respect to ISA 720 should be included in the section addressing the financial statements since, as discussed above, this is a responsibility that must be addressed as part of an ISA audit of the financial statements.

How should the special reporting responsibilities be acknowledged in the auditor's report?

30. Having decided that the auditor's report should be expanded to address special reporting responsibilities in a separate section of the report, the Task Force then considered how and when the auditor should report in that separate section.
31. The Task Force's research indicates that the two features that distinguish special reporting responsibilities are:
 - the work effort required to issue the special report (i.e., procedures in addition to those carried out to report on the financial statements or no additional procedures); and
 - the type of report (assurance on the matters specified or report by exception).
32. Given these variables, the Task Force considered whether the auditor's report should always:
 - acknowledge the fact that special reporting responsibilities exist; and
 - make a statement about findings or lack of findings.
33. The table below summarizes the types of reporting responsibilities that might be imposed on auditors and the task force's conclusions with respect to the above two issues.

Recommendations Regarding Reporting of Special Responsibilities

		<i>Work effort</i>	
		<i>Additional procedures</i>	<i>No additional procedures</i>
<i>Type of report</i>	<i>Exception</i>	Situation 1 <ul style="list-style-type: none"> • Acknowledge responsibility • No reporting when nothing to report 	Situation 2 <ul style="list-style-type: none"> • Do not acknowledge responsibility • No reporting when nothing to report
	<i>Assurance</i>	Situation 3 <ul style="list-style-type: none"> • Acknowledge responsibility • Always report 	<i>N/A</i> <i>(Task Force could not envisage a requirement that would require the auditor to provide assurance without carrying out additional procedures)</i>

34. For situation 1 (i.e., the auditor is required to carry out additional procedures but to report only exceptions), the Task Force concluded that the auditor's report should recognize that the auditor has a special reporting responsibility. However, the Task Force concluded that it is not necessary for the report to specifically mention that the auditor found no exceptions. The Task Force concluded that this would be redundant since the description of the auditor's responsibility could make it clear that the auditor would report only when an exception was found.
35. For situation 2 (i.e., the auditor is not required to carry out additional procedures but to communicate only matters that come to his/her attention during the course of the audit), the Task Force concluded the following:
- When the auditor finds no exceptions, it would be best for the report to be silent with respect to the responsibility and the fact that the auditor found no exceptions.
 - When the auditor finds exceptions, the report should describe the responsibility and the exceptions identified.
36. The Task Force concluded that it is necessary to explain the special responsibility when exceptions are found to provide a context for the matters reported. However when no exceptions are found the Task Force concluded that it is best for the report to be silent with respect to the responsibility because there was concern that:
- users might misunderstand the extent of the auditor's responsibilities and derive more assurance than is warranted from the fact that no exceptions were identified; and
 - it would be very difficult to clearly explain in the report the fact that no exceptions does not necessarily mean that there are no problems.
37. For situation 3 (i.e., the auditor is required to carry out additional procedures and to specifically provide assurance), the Task Force concluded the auditor's report should recognize that the auditor has a special reporting responsibility and that some form of assurance should always be provided, even when the auditor has nothing to report. This will clearly communicate what work the auditor has carried out and the conclusions reached.

Action Required by IAASB

Consider the Task Force recommendations and provide feedback so that the Task Force can proceed to develop principles on which to base exposure draft wording.

Reference to ISAs and National Standards

BACKGROUND

38. An important element of conveying to readers the scope of an audit is the reference in the auditor's report to the auditing standards with which the auditor complied in performing the audit engagement.
39. ISA 700 says that in the scope paragraph describing the nature of an audit, the auditor should include a reference to the ISAs or relevant national standards or practices. The bold-lettered requirements in paragraph 12 says:

The auditor's report should describe the scope of the audit by stating that the audit was conducted in accordance with ISAs or in accordance with relevant national standards.

40. At first glance, it may seem odd to allow an auditor who is conducting the audit in accordance with ISAs to refer to national auditing standards instead of the ISAs – and, indeed, the Task Force is of the view that it no longer makes sense. But it did make sense in the early stages of evolution of international standards. At that point, national auditing standards in many countries had more profile than the international standards and as long as the national auditing standards met the minimum standards set by the ISAs, complying with the national standards could be interpreted as complying with the ISAs – enabling member bodies to fulfill their IFAC membership obligations.
41. There are abundant indications that this no longer is an appropriate strategy for the IAASB. The profile of international standards has grown as a result of the increasing importance of cross-border trade and investments. In the consultations on the recent revision to ISA 700 to require the auditor to identify the country of origin of the financial reporting framework used, some ED respondents questioned whether a similar requirement ought to be made with respect to the reference to auditing standards. Others, on giving full attention to the current wording in ISA 700, questioned more fundamentally why ISA 700 includes the option of referring to national auditing standards alone in the first place.
42. As the IAASB increasingly positions the ISAs as a robust and world-class set of auditing standards in their own right, it is an appropriate time to reconsider the guidance currently in ISA 700 on the reference to auditing standards in the auditor's report. For example, at the meeting of European national auditing standard setters, it was made clear that it was not consistent with the proposed vision for an integrated capital market in the EU in 2005 for auditor's reports in Europe to continue to refer only to national auditing standards on the grounds that those standards comply fully with the ISAs – users need a common benchmark (which, it is hoped, will be the ISAs). That is not to say that auditors could not comply with both ISAs and national standards, and state that they have done so in their auditor's report. But cross-border markets are supported when audits are conducted in accordance with a common standard and are recognizable as such by the auditor's report.
43. In many countries today, national standards require auditors to perform certain additional audit procedures that are not required in the ISAs. In some cases, the additional procedures relate to the unique special reporting responsibilities of the statutory auditor in that country. However, there may also be differences in the procedures the auditor is expected to perform for the purposes of the financial statement audit alone. Those additional audit procedures might relate to:

- A requirement for specific types of evidence (e.g., mandatory confirmations, or difference in procedures regarding going concern or related parties).
 - Specific quality control procedures (differences which will hopefully be minimized, if not eliminated, following the IAASB's current project to update and revise ISA 220 "Quality Control for Audit Work").
 - The communication of specific matters to, for example, those charged with governance.
44. Over time, there will likely be strong pressures for convergence – either to expand the ISAs because there is international agreement on the value of those additional procedures, or to eliminate them on a national basis because the cost/benefit is no longer justified. Nevertheless, in the near to medium term, differences will continue to exist.

RESEARCH FINDINGS

45. A limited survey of existing national auditing standards revealed that most ordinarily require the auditor's report to refer to the national auditing standards and only a few provide additional guidance on how auditors should report if the auditor conducts the audit so as to comply with both the national auditing standards and the ISAs or foreign auditing standards. Auditing standards in a few countries (e.g., Canada, Germany and the US) do provide guidance that permits a combined GAAS report (e.g., national auditing standards and ISAs). In other countries, combined GAAS reports do exist in practice (e.g., Denmark) even if not specifically "allowed" in their auditing standards. In Austria, auditors are allowed to audit in accordance with the ISAs and refer to the ISAs in the auditor's report without reference to Austrian GAAS in the audit of group accounts based on International Accounting Standards.

PROPOSED APPROACH AND PRINCIPLES

46. The Task Force believes that ISA 700, and indeed the ISAs as a whole, should be written in the first instance from the perspective that the audit is being planned and performed in accordance with the ISAs alone. As noted above, this does not preclude the auditor conducting the audit in accordance with ISAs and national auditing standards and ISA 700 would provide specific guidance on this, as discussed further in paragraph 47. But, the ISA would be drafted to address first the circumstance when it is an ISA audit only. This would require:
- Amending ISA 700 paragraph 12 to require the auditor's report to describe the scope of the audit by referring to the audit having been conducted in accordance with the ISAs (deleting the current wording "*or in accordance with relevant national standards or practices as appropriate*").
 - Amending ISA 200 "Objective and General Principles Governing an Audit of Financial Statements" paragraph 7 regarding the procedures required to conduct an audit in accordance with ISAs.
 - Explaining what compliance with the ISAs means. By virtue of cross-references from the ISAs, an audit conducted in accordance with ISAs also compels the auditor to comply with the IFAC Code of Ethics, including the independence requirements, and the new quality control standards for firms once they are issued. This guidance would likely belong in ISA 200 in the revision of paragraph 7.

47. The Task Force is also of the view, however, that ISA 700 should also provide specific guidance on how the auditor should report if the audit has been conducted to comply with both ISAs and national auditing standards. In this respect, the Task Force believes that the guidance should be based on the presumption that the national auditing standards are those of the country in which the auditor is qualified and, therefore, guidance on the knowledge and experience requirements necessary to have the expertise to fully comply with another country's auditing standards is not necessary. Such guidance may be relevant at a national auditing standards level and indeed some countries, such as Canada, have issued guidance on this matter.
48. If the auditor has conducted the audit so as to comply with both ISAs and national auditing standards, the Task Force believes that the auditor's report should refer to both sets of standards in the scope paragraph. The Task Force is of the view that the reference is sufficient and the auditor's report should not try to communicate the differences between the ISAs and national auditing standards in the auditor's report. Although some have argued that disclosing the differences enhances transparency and might even serve to hasten convergence and elimination of the differences, the Task Force is of the view that readers of the auditor's report would not be able to understand the value of those procedures and, therefore, the disclosure would confuse more than clarify.
49. In limited circumstances, there may be differences in the reporting requirements of the ISAs and the national auditing standards. Those differences might relate to the standard wording of auditor's responsibilities and what the audit is, but there may also be differences in how the auditor reports in certain circumstances (e.g., whether or not an emphasis of matter paragraph should be used in a particular circumstance, such as a going concern uncertainty). The Task Force's view is that the guidance in ISA 700 should express a preference for the auditor's report to use the content, structure and form of the report that is recommended by ISA 700. That approach is consistent with the principle of facilitating global markets by giving an ISA auditor's report a consistent "look and feel". However, the Task Force recognizes that there may be circumstances when the auditor is obliged by law or regulation to prepare the auditor's report differently. The Task Force recommends that the guidance in ISA 700 should acknowledge such circumstances and require the auditor, if using a national report format, to ensure that the report contains all of the requirements in ISA 700 regarding the content of the auditor's report even if the structure or format is different.

Action Required by IAASB

Do you agree with the proposed approach and principles regarding the reference to auditing standards in the auditor's report?

The Date of the Auditor's Report

BACKGROUND

50. This issue was raised in responses to the exposure draft on the revisions to ISA 700 regarding the country of origin of the financial reporting framework, but has also been flagged as a growing issue given the increasing use of the ISAs. Since the date of the auditor's report can be quite significant in legal disputes, additional guidance may be useful and increasingly relevant as ISAs become an international benchmark.
51. There are a number of different dates that could be relevant from both the preparer's and auditor's perspective. For example:
- From the preparer's perspective
 - the date of the financial statements (eg., the balance sheet date)
 - the date the entity issues a press release regarding its anticipated results (e.g., the press release date or preliminary announcement)
 - the date the financial statements are approved
 - the date that the financial statements are released to the public
 - the date the financial statements are filed with relevant regulatory authorities (e.g., the filing date).
 - From the auditor's perspective
 - the date of completion of the "fieldwork"
 - the date of completion of the audit (is this date the same as or different from completion of fieldwork?)
 - the date the auditor signs the auditor's report
 - the date that the auditor's report is released
 - the date that the auditor's report is presented to the meeting of the shareholders
 - the period after the release of the auditor's report.

RESEARCH FINDINGS

ISAs

52. ISA 700 has significantly less detail regarding guidance on the date of the auditor's report than many national auditing standards. ISA 700 requires the auditor to date the auditor's report as of the completion date of the audit (paragraph 23), with the caveat in a second requirement that the auditor should not date the report earlier than the day on which the financial statements are signed or approved by management (paragraph 24).
53. ISA 560 "Subsequent Events" addresses (1) events that occur up to the date of the auditor's report (for which the auditor has a responsibility to perform procedures to identify items that might affect the financial statements), (2) facts discovered after the date of the auditor's report but before the financial statements are issued (for which "if the auditor becomes aware of a fact that might materially affect the financial statements" the auditor should consider whether the financial statements need amendment), and (3) facts discovered after

the financial statements have been issued (for which, if the auditor “becomes aware of a fact which existed at the date of the auditor’s report” and that may have caused the auditor to modify the auditor’s report, the auditor should take appropriate action. If such action results in re-issuance, the report should contain an emphasis of matter paragraph – see ISA 560 paragraphs 14-18).

54. Other ISAs also address the date of the auditor’s report, including ISA 580 “Management Representations,” which states that the management representation letter would normally be dated the same date as the auditor’s report. ISAs addressing other reports which generally contain no guidance or state that the date should be the date procedures have been completed.

Comparable guidance in national auditing standards

55. A survey of auditing standards in a number of countries revealed a great deal of diversity in the standards and guidance related to the date of the auditor’s report. Dates referred to include the date of completion of the fieldwork (US), substantial completion of the examination (Canada) and when the financial statements have been received in the form approved by the directors for release and the auditor has completed all procedures necessary to form an opinion and has reviewed all documents which the auditor is required to consider (UK).

PROPOSED APPROACH AND PRINCIPLES

56. One challenge rests in differences in terminology used around the world. As a starting point for recommending terminology that could be applied in various different environments, the Task Force considered the following matters involving the terminology now used in ISAs and various country standards related to the dating of the auditor’s report and the process of preparing, approving and issuing the financial statements and auditor’s report:
 - The underlying conceptual basis for the terminology represented in the various sets of standards.
 - How such terminology relates to the current environment, including:
 - management’s issuance of earnings releases prior to preparation of a set of financial statements and completion of the audit,
 - the increasing focus and attention by the public on the actual point at which an audit is fully completed,
 - the changing significance of the term “completion of fieldwork” as used in several standards, and
 - the auditor’s requirements to communicate various matters to management and the audit committee as part of an audit – leading to the question of when the audit is really “completed.”
 - How such terminology relates to regulatory requirements.
 - Whether the various terms used clearly describe the respective responsibilities of management, the audit committee (or board), and the auditor, and whether they result in clear criteria for the dating of the auditor’s report and the auditor’s responsibilities regarding subsequent events.

57. The task force concluded that existing terminology is inconsistent, does not reflect existing responsibilities and practice, and does not provide appropriate criteria for the date to be used for the auditor's report. Further, this is an important issue because of its effect on the auditor's responsibilities regarding subsequent events.
58. Therefore, the Task Force recommends that the following terms be adopted by the IAASB as the terminology to be used to describe key dates and responsibilities related to the processes of preparing, approving and issuing financial statements and the auditor's report, and the dating of the auditor's report:

- *Date of the financial statements.*
- *Date of approval of the financial statements.* This is the date that the entity's management or board determines that a complete set of financial statements has been prepared and authorizes or approves such statements for issuance. IAS 10 (revised 1999) "Events After the Balance Sheet Date" paragraph 16 refers to this date as "authorize for issuance".

The specific process followed by the entity may depend on country specific regulation, or may be determined by the entity in the absence of such criteria. The important point is that the financial statements are the responsibility of management, and the auditor cannot complete the audit of the financial statements until management completes their preparation. The "date of approval" is based on the completeness of the content of the complete set of financial statements and disclosures – financial statements need not be in final format for publication on this date, and there may be additional corporate governance processes required by custom or regulation that need to occur before the financial statements are considered "final" (e.g., country specific regulation may require shareholder approval which would be obtained at some date substantially later than the date management approves the statements for issuance).

- *Date of completion of the audit.* This is the date on which the auditor has completed all of the audit procedures supporting the opinion on the financial statements and is related to obtaining evidence supporting the opinion on the financial statements. Frequently this date will be the same as the date management approves the financial statements but it could be later – such as when auditor has not obtained sufficient evidence to support management's assertions regarding significant estimates. The date of completion of the audit would be the date of the auditor's report.
- *Date of management's written representations.* This is normally dated the same as the date of the auditor's report, although it may be received later to confirm verbal representations. However, the letter must be dated no earlier than the auditor's report.
- *Date of issuance of the auditor's report.* This is the date that the auditor authorizes the release of the auditor's report and would be the earlier of the date that the report and financial statements are made available widely or filed with regulatory authority. It is an important date because the auditor has specific responsibilities between the date of the completion of the audit and this date.
- *Country specific filing and regulatory dates.* Additionally, there may be country specific requirements addressing date of filing of the auditor's report and financial statements and related subsequent events responsibilities that the auditor needs to consider.

59. Clarification will be needed on the impact, if any, of the timing of the auditor's communications with those charged with governance on these dates.
60. In addition to revising ISA 700 to reflect these terms and definitions, the Task Force believes that it will be necessary to simultaneously revise both ISA 560 and ISA 580 to ensure that the guidance in all three ISAs is consistent and appropriately linked. Additional guidance might also be needed in ISA 700 and ISA 560 to deal with the auditor's responsibilities when asked to "reissue" the auditor's report, and the effect of significant delays in the issuance of the financial statements and the auditor's report.

Action Required by IAASB

Do you agree with the proposed terminology and the proposed matters to be addressed regarding the date of the auditor's report and implications for the auditor's responsibilities related to that date?

Description of the Auditor's Responsibilities

BACKGROUND

61. The standard wording of the auditor's report in ISA 700 envisages three paragraphs:

- the opening or introductory paragraph,
- the scope paragraph, and
- an opinion paragraph.

ISA 700 specifies the content of what should be included in each paragraph, in some cases specifying the wording that should be used. In particular, the wording of management's and the auditor's responsibilities and the scope paragraph are more or less specified.

62. Some have argued that the current wording of the standard auditor's report has been and continues to be a major cause of the "expectation gap". It is argued that the report uses cryptic or coded language and does not adequately convey what auditors do and the assurance that can be justifiably taken from the audit. For these reasons, a number of people believe that there is room for improving the manner in which the auditor's report is worded. A key question will be how extensive the IAASB should be with proposed changes.

63. At a minimum, the revisions to other ISAs currently in process (e.g., the audit risk model, fraud and accounting estimates projects) provide an opportunity to expand and clarify the wording of the auditor's report. Even if the IAASB decides not to expand or fundamentally change the content of the auditor's report, revisions may be needed to the current wording in the auditor's report where it is derived from wording in other ISAs that is being changed.

64. In addition to the description of the auditor's responsibilities, in response to Enron, some have also questioned the way ISA 700 currently words the auditor's opinion. For example, some question whether the auditor's report should continue to state "whether the financial statements give a true and fair view (or are presented fairly, in all material respects) *in accordance with the financial reporting framework*." Some argue that the opinion should not make any reference to the financial reporting framework. Others argue, alternatively, that it should be, in essence, a "two-part" opinion (i.e., financial statements are in accordance with the framework and are true and fair/fairly presented).

RESEARCH FINDINGS

65. Research related to this issue carried out to date includes:

- Identifying the relationships between ISA 700 and other ISAs.
- Comparing the standard wording of the auditor's report in various countries (auditor's reports from 37 countries were compared).
- Input from CAG and the meeting of European national auditing standard setters, as well as some limited informal discussions with practitioners.

Relationship between ISA 700 and other ISAs

66. The analysis of the relationship of the standard wording in the auditor's report to other ISAs showed that there is, in fact, very little direct quotation of wording from other ISAs. In most

cases, the wording is derived from and consistent with wording in other ISAs, but it is often paraphrased.

67. Perhaps, however, the most significant implication from the current revisions to other ISAs is not whether the IAASB should tweak the current wording in the auditor's report to keep it aligned, but rather whether the changes to the ISAs provides an opportunity for more fundamental change. Does the current description give a “true and fair view” or “fairly presents” the auditor's responsibilities – to use a rather tongue-in-cheek analogy – and should we be exploring starting with a relatively blank page? Some have argued that the revisions to ISAs that establish the basic framework for the audit process (e.g., the proposed new Audit Risk ISAs) provides an opportunity to expand and better clarify the description of the auditor's responsibilities.

Comparing the standard wording of the auditor's report in various countries

68. The Task Force compared the structure, content and wording of auditor's reports from 37 different countries. What was perhaps the most surprising finding is the extent of differences in the wording of the auditor's reports around the world. The only matter on which all of the reports are the same is that they have a title – but even at that, 15 of the reports include “Independent” in the title, while the rest refer only to the “Auditor's Report”.
69. At least to a certain extent, differences arise because the auditors have differing special reporting responsibilities (as discussed under the first issue) and various countries have incorporated reporting on those responsibilities differently in their auditor's reports. But in many cases, there are also differences in the basic description of the auditor's responsibilities and the wording of the opinion.

Input received

70. Perhaps the most consistent message the Task Force heard was that the IAASB should revisit the standard wording describing the auditor's responsibilities and what an audit is in the auditor's report. There is not much support for arguing that the current wording has adequately conveyed what it was meant to do.
71. However, based on the free-flowing discussions to date, the solutions proposed are widely varying. Comments ranged from a desire to see more discussion of the audit process and the nature of the audit and the auditor's responsibilities in the auditor's report, to eliminating the scope paragraph altogether other than the reference to the ISAs because any attempt to summarize those standards in the auditor's report will be incomplete and inevitably fail to appropriately convey the complex judgmental process involved. There are also strongly held views on the wording of the auditor's opinion and whether a change to that wording would influence auditor behavior.
72. All of which demonstrates the fact that seeking consensus on changes to the auditor's report wording will be difficult to achieve and time-consuming. Nevertheless, there was a fairly widespread view that it would be difficult to justify not opening the debate in the current environment.
73. The Task Force also agreed to seek some further input. For example, the Task Force agreed to talk to people who had been involved in the original IAPC project to develop ISA 700, and to those involved in national auditing standards projects, to understand more fully the issues they faced and the reasons for the decisions made. The Task Force is also seeking

input from others in their firms on such matters as whether and, if so, how independence might be addressed in the auditor's report.

PROPOSED APPROACH AND PRINCIPLES

74. While the Task Force has had only limited discussions on this complex issue to date, it would like the IAASB's views on the following preliminary – and, at this point, very tentative – proposals.
75. In any revisions to the wording is to be made, the Task Force believes that the IAASB should be committed to the principles for effective communication set out at the beginning of this paper, in particular:
- The report should use simple, understandable language.
 - The report should 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.
 - The report should be as concise as possible, while still aiming to be informative and include clear explanations.
76. With those principles in mind, the Task Force's initial thoughts include:
- (i) Expanding the description of management's responsibilities consistent with ISA 200 and ISA 580. The Task Force is of the view that the description of management's responsibilities should not be long because its purpose is to establish the subject matter of the audit rather than to attempt a comprehensive description of management's role in the corporate governance regime. The Task Force believes that it is the auditor's report and it would not be appropriate to try to also make it a statement on management's responsibilities. In some cases, the financial report will include a statement of management's responsibilities and a cross reference in the auditor's to that report by management would be an effective way of clearly establishing the respective responsibilities of both parties.
 - (ii) The scope paragraph of the auditor's report should be amended as follows:
 - To include a positive statement of the auditor's responsibility for fraud. The Task Force believes that it is important that the auditor's report more clearly communicate the auditor's responsibility with respect to fraud – this is one area in which some would argue that the current auditor's report “is broken.” However, the Task Force believes that this should be done in a positive sense rather than by referring solely to the limitations of an audit in this respect, which could cast a negative tone to the auditor's report.
 - To reconsider the wording “on a test basis” but not to lose the thought that the auditor does not examine all transactions or all available evidence.
 - To consider a surrogate for the word “plan” to be more consistent with the view of the audit process in the new Audit Risk ISAs now being exposed for comment.
 - To conform the wording regarding “reasonable assurance” to its use elsewhere in the ISAs (e.g., consistently regarding “obtaining” and/or “providing” assurance). The Task Force recognizes that “reasonable assurance” is a defined term in the ISAs, and is, therefore, arguably “coded” language that is not particularly well

understood. However, the Task Force believes that it will be impossible to avoid all such words in the auditor's report and that trying to explain this concept more fully in the auditor's report is likely not achievable. Furthermore, the Task Force is aware that there are some who believe that the profession should debate more fundamentally what "reasonable assurance" means. While an important issue, it is not an issue isolated to the reporting project and would almost inevitably jeopardize the goal of issuing revisions to ISA 700 by 2005. Therefore, the Task Force recommends proceeding with the use of the term in the auditor's report, amending it in future if and when the concept changes following broader debate.

- To revise the wording regarding accounting estimates, and the auditor's responsibilities with respect to the choice and application of the accounting policies.
- The Task Force did not conclude, but wanted to consider, whether the description of the audit should discuss the risk assessment process in light of the new ISAs now exposed for comment. On the other hand, the Task Force was of the view that the scope paragraph should not include wording regarding the auditor's understanding of the business because it could confuse readers' perceptions of the scope of the auditor's responsibilities regarding the entity's operations and broader business risks.

In developing the wording, the Task Force thought it would be useful to try to identify the key messages that are important to convey to readers so that they understand the nature of an audit and do not draw unwarranted assurance. This will be done as a next step to confirm the decisions above and serve as a guide when drafting possible wording.

- (iii) The Task Force did not come to any conclusion on whether the wording of the auditor's opinion should be changed. However, at a minimum, the Task Force did believe that the guidance in ISA 700 should be expanded to elaborate on the judgments the auditor needs to make in forming the opinion on the financial statements. For example, ISA 700 could be expanded to provide guidance along the lines of that in US AU Section 411 "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles" paragraph .04, which says:

The auditor's opinion that financial statements present fairly an entity's financial position, results of operations, and cash flows in conformity with generally accepted accounting principles should be based on his or her judgment as to whether (a) the accounting principles selected and applied have general acceptance; (b) the accounting principles are appropriate in the circumstances; (c) the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation (see section 431); (d) the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed (see section 431); and (e) the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in the financial statements.

The Task Force noted with interest that it is only in ISA 700, currently, that the ISAs talk about the auditor assessing the accounting principles used and evaluating the overall financial statement presentation. A section on the judgments the auditor makes in forming the audit opinion could enhance the rigor of the ISAs in this regard.

77. The Task Force discussed two additional matters related to the wording of the auditor's report and concluded that they should not be addressed by the Task Force at present:
- (i) In the discussion of the Preface at the IAASB's September 2002 meeting, a proposal was made regarding disclosing in the auditor's report any departures from the ISAs. The Task Force is of the view that it is important to wait for the comments on exposure of the Preface before considering this suggestion further.
 - (ii) While the Task Force agreed that it would be useful to discuss more fully the auditor's role with respect to accounting principles, the Task Force did not believe that it should address reporting changes in accounting principles. This is an additional responsibility in some countries. It will be a particularly topical issue in Europe as 2005 approaches as many entities will have very significant changes to their accounting policies as they adopt the ISAs/IFRSs. The Task Force was of a view that it might be useful for the IAASB to develop guidance to ensure a consistent approach is adopted, but did not believe that it should be specifically addressed in this project.

Action Required by IAASB

Do you support the preliminary proposals of the Task Force regarding proposed changes to the auditor's report to better explain the auditor's responsibilities and what an audit is?

Are there additional changes that you would like the Task Force to consider?

Reference to Financial Reporting Framework

BACKGROUND

78. Paragraph 17 of ISA 700 states:

The opinion paragraph of the auditor's report should clearly indicate the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Accounting Standards) and state the auditor's opinion as to whether the financial statements give a true and fair view (or are presented fairly, in all material respects) in accordance with that financial reporting framework ...

79. As indicated in paragraph 19, the purpose for identifying the financial reporting framework used is to advise the reader of the context in which the auditor's opinion is expressed, explaining that financial reporting framework is "determined by IASs, rules issued by recognized standard setting bodies, and the development of general practice with a country, with an appropriate consideration of fairness and with due regard to local legislation."
80. In the auditor's report, the financial reporting framework is referred to simply in such terms as "... in accordance with International Accounting Standards (or [title of financial reporting framework with reference to the country of origin]) ..."

DISCUSSION OF THE ISSUE

81. There is no broad understanding of the nature and significance of potential differences in the reporting of an entity's financial position, results of operations and changes in financial position under various financial reporting frameworks. A number of studies, including the GAAP Surveys conducted by the large accounting firms in 2000 and 2001, demonstrate significant differences in the accounting, reporting and disclosure requirements in various countries. It is more likely than not that other differences would surface if the actual application of the frameworks was studied.
82. Unless the user is familiar with the framework used, mere identification of the country of origin of the financial reporting framework does not enhance the user's understanding of the information presented. Further, even when country GAAP financial statements are intended for local distribution only, there is no assurance that they will not be accessed by foreign readers, given the ease of reproduction and electronic transmission. Auditor's reports do not adequately address that eventuality.
83. Auditors do not choose the financial reporting framework used. Nevertheless, they have been criticized for not assessing the appropriateness of accounting principles applied against "best practices," even if the latter are not allowed under (or, are in fact contrary to) the stated financial reporting framework. The audit process (no matter what auditing framework is used) does not mitigate any deficiencies in the choice or application of accounting principles allowable under the financial reporting framework.
84. Although there is a growing groundswell of support for global adoption and recognition of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) as the "baseline" financial reporting framework, there is no current requirement or practice to disclose the nature and financial statement effects of significant differences between the country GAAP applied and IAS/IFRS. The standard auditor's report does not draw attention to the notes to the financial statements summarizing the significant accounting policies

applied. A reference such as this might alert financial statement readers that frameworks matter and caution them in interpreting the financial statements, particularly when comparing such statements with those prepared under other frameworks.

85. The International Forum on Accountancy Development – which includes IFAC, the World Bank, securities regulators, professional accounting organizations, lending agencies and other stakeholders – was created to support enhanced quality in financial reporting, including transparency and disclosures in financial statements. The IAS/IFRS and ISAs are natural instruments to raise the standards of current practices around the world. Every opportunity should be taken to encourage the use of international standards either as the financial reporting framework or the baseline for comparison of results under other reporting frameworks.

PROPOSED APPROACH AND PRINCIPLES

86. In light of the above, it is not sufficient to cite the country of origin of the financial reporting framework used in preparing a reporting entity's financial statements when those statements are not prepared in accordance with IAS/IFRS. In the interest of enhanced transparency and disclosures, the Task Force believes that further consideration should be given to the following recommendations:

- Revising ISA 700 to require that, whenever IAS/IFRS are not used, the auditor's report should include clear language to the effect that accounting principles used in that country may differ in some material respects from IAS/IFRS or the accounting principles used in other jurisdictions.
- Revising ISA 700 to require that whenever IAS/IFRS are not used, the auditor's report should not only identify the country of origin of the financial reporting framework used but also refer to the notes to the financial statements that summarize the significant accounting policies followed. The auditor should consider whether such summary provides adequate disclosure and modify the auditor's report as considered necessary under the circumstances.
- Revising ISA 700 to clarify management's responsibility for selecting the financial reporting framework used and the auditor's responsibility for assessing the propriety of the accounting principles so applied within the stated financial reporting framework.

Consideration should also be given to how reporting entities can be encouraged to expand the summary of accounting policies in the notes to their financial statements to highlight significant differences in the accounting and reporting of transactions had international benchmarks (e.g., IAS/IFRS) been applied. The financial statement effects of these differences may be quantified to the extent practicable.

87. The applicability of these recommendations should also be considered further. For example, should they apply to audits of public interest entities, only, to statutory financial statements, and to small and medium size companies? One alternative would be to apply the recommendations uniformly to all entities, or at a minimum to all entities unless there is reason to believe that the financial statements will not be accessed by "foreign" readers.

Action Required by IAASB

Do you agree with the need for further disclosure regarding the financial reporting framework in the interests of enhanced transparency and disclosures?

Reference to the Financial Statements

BACKGROUND

88. ISA 700 currently requires the auditor's report to:

... identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements.

There is no grey-lettered guidance that provides further explanation of what is intended.

89. The illustrative reports in ISA 700 identify the financial statements by referring to the titles of the financial statements, but note by way of footnote that the reference can be by page numbers.

90. In the responses to the exposure draft on the limited revisions to ISA 700 in 2001, a question was raised regarding how the auditor's report should refer to the financial statements.

RESEARCH FINDINGS

91. In the survey of auditor's reports, approximately half of the reports identified the financial statements by referring to the title of the financial statements. A third of the reports made only a very general reference to the "financial statements." A relatively small number of reports referred to the relevant page numbers only and an equivalent number allowed a choice. A number of the reports also made specific reference to the notes to the financial statements. A few reports also quoted a few key numbers from the financial statements, for example shareholder's equity and the net income/loss figures.

PROPOSED APPROACH AND PRINCIPLES

92. Consistent with the principle of making the auditor's report as understandable as possible, the Task Force is of the view that it is preferable to refer to the titles of the financial statements rather than the page numbers. If the auditor's report makes reference to the page numbers only, the reader must look to the pages to see which financial statements were audited. Furthermore, as more and more entities make their financial statements available in electronic formats (e.g., on their websites), the auditor cannot always be sure that the original page numbers in a printed version will remain unchanged in another medium.

93. Given the importance of the notes to the financial statements, the Task Force is also of the view that the introductory paragraph should also make specific reference of the notes.

Action required by IAASB

Do you agree that ISA 700 should more specifically require the auditor's report to identify the title of the financial statements that have been audited and to also refer to the notes to the financial statements?

[Blank page]