



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

535 Fifth Avenue, 26th Floor
New York, New York 10017
Internet: <http://www.ifac.org>

Tel: +1 (212) 286-9344
Fax: +1 (212) 856-9420

Agenda Item

3

Committee: IAASB

Meeting Location: Miami

Meeting Date: December 8-13, 2002

The Auditor's Report on Financial Statements

Objectives of Agenda Item

1. To confirm the scope of the project.
2. To agree on preliminary views regarding the approach and key principles for a number of the issues.

Background

Over time, a number of questions and suggestions had been brought to IAASB's attention regarding guidance in the ISAs on the form and content of the auditors' report in the audit of financial statements and in other types of engagements.

At the June 2002 meeting in Mexico City, IAASB approved the commencement of the project to revise ISA 700 "The Auditor's Report on Financial Statements" with the aim to have revisions to ISA 700 approved and in place by January 2005. An increasing number of auditors will be using ISAs by 2005 and, given the visibility of the auditor's report, it was agreed that consistent and generally accepted guidance on the form and content of the auditor's report will be important in gaining both stakeholders' and auditors' understanding and acceptance of ISAs.

In approving the project, IAASB deferred making a final decision on the scope of issues to be addressed in the project pending further research on the issues and consultation with stakeholders.

Activities Since Last IAASB Discussions

Since the June IAASB meeting, the scope of the project has been discussed with IAASB's Consultative Advisory Group and with a meeting of European national auditing standard setters organized by FEE.

In July, Philip Ashton, together with Robert Hodgkinson, FEE Vice-President and Auditing Working Party Chair, met with Erik Van Der Plaats of the European Commission (EC) to discuss how the Task Force could obtain early European input into the project given the importance of it to the EC's objective of adopting the ISAs in Europe by 2005. A "common audit report" is seen as key to facilitating an integrated capital market in Europe. It was agreed that it would be useful for FEE to host and chair a meeting of European national standard setters. The meeting, held in Brussels October 21, was attended by 37 representatives of 24 countries as well as Karel Van Hulle and Erik Van Der Plaats of the EC. The meeting focused on reporting issues that will need

to be addressed before the EU can adopt a common audit report under the ISAs and, as such, it was an important opportunity for the Task Force to obtain a solid understanding of those issues.

The Task Force has had three meetings – two conference calls and a two-day meeting. Over the summer, the drafting team provided by the firms carried out research on a number of the issues. On the basis of research and discussion, the Task Force has been able to make tentative decisions regarding the approach to those issues and has started to develop some tentative basic principles.

At this meeting, the Task Force seeks the IAASB's confirmation of the scope of the project as well as views on the proposed approach and principles for a number of the issues. Further discussion of the principles, for these as well as the remainder of the issues, is planned for the March 2003 IAASB meeting, with a first draft of the Exposure Draft planned for June 2003.

Material Presented

Agenda Item 3-A (Pages 621 – 624)	Auditor's Report on Financial Statements Scope of Project
Agenda Item 3-B (Pages 625 – 626)	Auditor's Report on Financial Statements Overview of Preliminary Recommendations for the Auditor's Report
Agenda Item 3-C (Pages 627 – 654)	Auditor's Report on Financial Statements Discussion of Key Issues
Agenda Item 3-D (Pages 655 – 662)	Auditor's Report on Financial Statements Overview of the Project (as prepared for CAG based on the project proposal approved by IAASB at the June 2002 meeting)

Action Requested

1. IAASB is asked to confirm the scope of the project, in light of comments received from CAG and European National Auditing Standard Setters (as discussed in Agenda Item 3-A).
2. IAASB is asked to consider and agree on basic reporting principles that will guide the discussion of the various issues (as set out in paragraph 6 of Agenda Item 3-C).
3. IAASB is asked to consider the preliminary recommendations of the Task Force on the proposed approach and principles relating to the following key issues (as summarized in Agenda Item 3-B and discussed more fully in Agenda Item 3-C):
 - How the auditor should report on special reporting responsibilities.
 - Issues arising when the audit has been conducted in accordance with ISAs as well as national standards and practices.
 - Issues related to the date of the auditor's report.
 - Whether the standard auditor's report adequately conveys the auditor's responsibilities and the assurance provided.
 - 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.
 - How the auditor's report should refer to the financial statements in the introductory paragraph.