

Auditor's Report on Financial Statements – Summary of Decisions on Key Principles

Introduction

1. The project proposal approved by the IAASB in June 2002 identified ten issues that were to be addressed in this project. This agenda paper summarizes the decisions the IAASB has made with respect to the overarching principles for the project and the approach to and key principles related to those ten issues. Cross-references are shown when an issue is specifically addressed elsewhere in the agenda papers.

Action Required by the IAASB

Review the decisions made to date.

The Task Force does not intend to revisit the decisions made at the December 2002 IAASB meeting. However, as the Task Force intends to begin drafting the revision to ISA 700 on the basis of the proposed principles following the March 2003 IAASB meeting, please be prepared to raise any further questions you may have on the decisions made to date.

Summary of Overarching Principles

2. At the December 2002 IAASB meeting, IAASB concurred with the following overall aims the Task Force had proposed for the revisions to ISA 700:
 - To increase the **consistency in reporting between jurisdictions**. Thus, for audits conducted in accordance with ISAs:
 - The auditor's report for audits conducted in accordance with ISAs should be consistent and be readily identifiable. ISA 700 will, therefore, 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.
 - 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 other reporting responsibilities of the statutory auditor or auditor of record.
 - To increase the **understandability** of the auditor's role and of the auditor's report. Thus, in revising the wording of the auditor's report, the Task Force will aim to:
 - Use simple, understandable language.
 - Challenge and minimize, to the extent practicable, 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.

SUMMARY OF DECISIONS ON SPECIFIC ISSUES			
<i>Issue</i>	<i>Description of the issue</i>	<i>Status</i>	<i>Approved approach & principles</i>
1	Issues arising when the audit has been conducted in accordance with ISAs as well as national standards and practices.	<p>Proposed approach & principles supported by IAASB in December 2002.</p> <p>IAASB suggested care in drafting ¶7 to ensure that the structure carefully established in separating ISQC from ISA 220 is not inadvertently undone.</p>	<ul style="list-style-type: none"> ▪ ISA 700 should be written in the first instance from the perspective of the audit being planned and performed in accordance with the ISAs alone. The ISA would separately provide guidance on audits conducted in accordance with both ISAs and national auditing standards. ▪ ISA 700 ¶12 will be amended 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. ▪ ISA 200 ¶7 will be amended to revise the guidance on the procedures required to conduct an audit in accordance with ISAs. By virtue of cross-references from the ISAs, an audit conducted in accordance with the 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. ▪ 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. This guidance will: <ul style="list-style-type: none"> - Be based on the presumption that the national standards are those of the country in which the auditor is qualified and, therefore, will not include guidance on the knowledge and experience requirements necessary to have the expertise to fully comply with another country's auditing standards (such guidance may be appropriate at a national auditing standards level). - The auditor's report should refer to both sets of standards in the scope paragraph. The auditor's report will not try to communicate the differences between the ISAs and the national standards. - In those limited circumstances when there are inconsistencies in the reporting requirements of the ISAs and the national auditing standards, ISA 700 will express a preference for the auditor's report to use the content, structure and form of the report that is recommended by ISA 700. However, ISA 700 should acknowledge that the auditor may be obliged by national law or regulation to prepare the auditor's report differently. In such circumstances the auditor will be required to ensure that the report following the national report format contains all of the requirements in ISA 700 regarding the content of the auditor's report even if the structure or format is different.

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2	How the auditor should report on special reporting responsibilities imposed by law or regulation.	<p>Task Force has given further consideration to the approach & proposed principles for other reporting responsibilities in light of input received from the IAASB in December 2002.</p> <p>See Agenda Item 2-B.</p>	<p><i>Principles for which there was support:</i></p> <ul style="list-style-type: none"> ▪ ISA 700 should address the auditor's special reporting responsibilities. ▪ 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.
3	Whether there is a need for greater clarification on the date of the auditor's report.	<p>Proposed approach & principles generally well received in December 2002.</p> <p>While IAASB supported the approach, further clarification for certain definitions was requested. Revised definitions have been provided in Agenda Item 2-C. If time permits, this will be discussed at the March 2003 IAASB meeting. If not, IAASB members are asked to provide comments to the Task Force offline.</p>	<ul style="list-style-type: none"> ▪ The following terms should be adopted as the terminology to describe the key dates and responsibilities related to the processes of preparing, approving and issuing the financial statements and the auditor's report, and the dating of the auditor's report: <ul style="list-style-type: none"> - Date of the financial statements. - Date of approval of the financial statements. - Date of completion of the audit. - Date of management's written representations. - Date of issuance of the auditor's report. - Country specific filing and regulatory dates. ▪ Conforming amendments to ISA 560, "Subsequent Events", and ISA 580, "Management Representations," should be made simultaneously to reflect these terms and definitions so that the guidance in all three ISAs is consistent and appropriately linked.

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4	The form of reporting appropriate when the auditor is reporting on the accounts of a parent when either no consolidated financial statements are prepared, or where consolidated financial statements are prepared but are published separately.	See Agenda Item 2-E.	<i>To be discussed by IAASB at March 2003 meeting. See Agenda Item 2-E.</i>
5	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.	<p>Proposed approach re "legends" not accepted by IAASB in December 2002.</p> <p>IAASB suggested; however, that the Task Force give further thought to the idea of including a discussion of readers' responsibilities in the auditor's report. See Agenda Item 2-G for the results of preliminary consultations exploring that possibility.</p> <p>See also recommendations on the definition of a financial reporting framework & the auditor's conclusion in Agenda Item 2-D.</p>	<i>No agreement reached on proposed approach.</i>

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6	The definition of a financial reporting framework.	See Agenda Item 2-D	<i>To be discussed by at March 2003 meeting. See Agenda Item 2-D.</i>
7	Whether the standard auditor's report adequately conveys the auditor's responsibilities and the assurance provided.	<p>Preliminary discussions in December 2002, but no decisions made.</p> <p>IAASB did agree with the proposal not to address the two matters noted in the next column at this time.</p> <p>See Agenda Item 2-D for a discussion of the wording of the auditor's opinion and Agenda Item 2-G for preliminary wording of the auditor's report.</p>	<p>▪ The revision to ISA 700 will not, at this time, consider:</p> <ul style="list-style-type: none"> - Whether or not the auditor should disclose any departures from the ISAs in the auditor's report, pending comments on the exposure draft of revisions to the Preface. - Whether the auditor should comment on changes in accounting principles. <p><i>Specific proposed wording of the auditor's report to be discussed by IAASB at March 2003 meeting. See Agenda Item 2-G.</i></p>
8	Guidance for circumstances when the financial statements have been prepared or make reference to IAS/IFRS.	Comments on the ED of the proposed new IAPS to be discussed at the March 2003 meeting.	<i>See October 2002 Exposure Draft, Reporting on Compliance with IFRSs</i>

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9	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 number they are on, or a more general reference.	Proposed approach & principles supported by IAASB in December 2002. Proposed wording is reflected in the auditor's report shown in Agenda Item 2-G.	ISA 700 should require the auditor's report to identify the titles of the financial statements and eliminate the option to refer to page numbers only. Given the importance of the notes to the financial statements, the introductory paragraph should also make specific reference to the notes.
10	Reporting implications when the financial statements include more information than is required under the financial reporting framework (for example, supplementary financial statement information).	See Agenda Item 2-F	<i>To be discussed by IAASB in Melbourne. See Agenda Item 2-F.</i>