



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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## **Agenda Item**

# **2**

**Committee:** IAASB  
**Meeting Location:** Melbourne  
**Meeting Date:** 17–21 March 2003

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

#### **Objectives of Agenda Item**

1. To agree on the approach and key principles to the issues identified in the project proposal as a basis for developing a first draft of the exposure draft wording (including revisiting those issues on which IAASB asked for further clarification at the December 2002 IAASB meeting and discussing the remaining issues).
2. To discuss preliminary proposed wording of a “clean” auditor’s report on the financial statements.
3. To agree on the approach to review/revise the section in ISA 700, “The Auditor’s Report on Financial Statements,” on modified reports.

#### **Background**

IAASB approved the commencement of the project to revise ISA 700 at the June 2002 IAASB meeting, with the aim to have revisions to ISA 700 approved and in place by January 2005.

At the December 2002 IAASB meeting, IAASB confirmed the scope of the project but requested that the Task Force reconsider the proposal not to review and revise the guidance in ISA 700 on modified reports as part of the scope of the project.

Most IAASB members supported, in principle, the following overall aims for the revisions to ISA 700:

- To increase the consistency in reporting between jurisdictions.
- To increase the understandability of the auditor’s role and of the auditor’s report.

However, there was not unanimous support for these aims. One member questioned the aim towards more “standardized” wording in an ISA auditor’s report, and a few other members questioned the need for any changes to the wording now used in auditor’s reports.

IAASB discussed the Task Force’s preliminary recommendations on a number of the key issues and provided input and suggestions for further consideration.

**Activities Since Last IAASB Discussions**

Since the December 2002 IAASB meeting, the Task Force had three meetings – a debriefing of the drafting team following the IAASB meeting, a two-day meeting and a conference call. In those meetings, the Task Force:

- Developed a proposed approach for reviewing/revising the guidance on modified reports that was circulated to the IAASB for comment (see further discussion in Agenda Item 2-H);
- Revisited those issues on which IAASB requested further consideration (in particular, reporting on other responsibilities); and
- Considered the research conducted by the drafting team on the remaining issues, and developed tentative decisions regarding the approach to those issues and basic principles related to them.

The Task Force has also developed, for discussion by the IAASB, a first draft of the proposed wording of the auditor's report on financial statements.

At this meeting, the Task Force seeks the IAASB's confirmation of the approach to modified reports as well as consensus on the approach and key principles for the issues (reconfirming the positions agreed in December 2002, as well as those being presented at this meeting). Based on the input from this meeting, the Task Force intends to develop a first draft of the exposure draft for discussion at the July 2003 IAASB meeting, with the aim of presenting exposure draft wording for approval in October 2003. In advance of the July 2003 meeting, the Task Force plans to get an initial reaction to the proposed wording of the auditor's report and key principles from the IAASB Consultative Advisory Group (CAG) at its meeting in May 2003, and will also have an opportunity to seek further input from a second meeting of European national auditing standard setters scheduled for May 27, 2003.

**Material Presented**

Agenda Item 2-A (Pages 23 – 28)	Summary of decisions on key principles
Agenda Item 2-B (Pages 29 – 34)	Other reporting responsibilities
Agenda Item 2-C (Pages 35 – 36)	Dating of the auditor's report (to be discussed during the meeting pending availability of time)
Agenda Item 2-D (Pages 37 – 48)	Definition of a financial reporting framework & the auditor's conclusion
Agenda Item 2-E (Pages 49 – 52)	Reporting on unconsolidated financial statements
Agenda Item 2-F (Pages 53 – 58)	Reporting on supplementary financial statement information
Agenda Item 2-G (Pages 59 – 74)	Wording of the auditor's report
Agenda Item 2-H (Pages 75 – 78)	Modified reports

**Action Requested**

1. IAASB is asked to consider the preliminary recommendations of the Task Force on the proposed approach and principles relating to the following key issues:
  - Other reporting responsibilities (Agenda Item 2-B)
  - Definition of a financial reporting framework and the wording of the auditor's conclusion (Agenda Item 2-D)
  - Reporting on unconsolidated financial statements (Agenda Item 2-E)
  - Reporting on supplementary financial statement information (Agenda Item 2-F).
2. IAASB is asked to consider the proposed new wording for the auditor's report on financial statements, and be prepared to discuss any further changes to the ISA 700 report that members believe should be considered by ISAAB (Agenda Item 2-G).
3. IAASB is asked to review the revised definitions of key dates in the auditor's reporting process (Agenda Item 2-C). If there is sufficient time at the meeting, these revised definitions will be discussed. If there is not sufficient time, IAASB members are asked to forward any comments to the Task Force offline.
4. IAASB is asked to confirm the approach to addressing modified reports (as discussed in Agenda Item 2-H).
5. IAASB is asked to confirm the Task Force's view that, simultaneously with the revisions to ISA 700, there will be a need to:

- (a) Create a new ISA that will incorporate the guidance now in ISA 700 on modifications to the auditor's report (as discussed in Agenda Item 2-H);
- (b) Revise ISA 560, "Subsequent Events," and ISA 580, "Management Representations," to align the definitions of key dates (as discussed at the December 2002 IAASB meeting);
- (c) Revise ISA 800, "The Auditor's Report on Special Purpose Audit Engagements," to conform to the reporting framework proposed regarding bases of accounting (see Agenda Item 2-D); and
- (d) Develop, if necessary following consultation with the IASB, an IAPS on reporting on consolidated and unconsolidated financial statements (see Agenda Item 2-E).