

Auditor's Report on Financial Statements – Other Reporting Responsibilities

Introduction

1. This agenda paper presents:
 - (a) A summary of IAASB comments on the Task Force recommendations presented to IAASB in December 2002.
 - (b) Task Force recommendations as to how IAASB comments should be addressed in the revisions to ISA 700.

Action Required by IAASB

Read the agenda paper.

Consider whether you agree that the revision to ISA 700 should include the recommended principle in paragraph 4 of this agenda paper.

Consider whether you agree with the Task Force recommendations in paragraphs 11 & 13 of this agenda paper.

Summary of Recommendations and IAASB Comments

- 2 The following discussion summarizes the Task Force recommendations presented to IAASB in December 2002, IAASB comments with respect to each recommendation and the Task Force proposals as to how these comments can be addressed.

RECOMMENDATION 1

December 2002 Task Force Recommendation	IAASB Comments
ISA 700 should address the auditor's special reporting responsibilities.	<p>IAASB members generally agreed that revisions to ISA 700 should include a discussion of special reporting responsibilities.</p> <p>IAASB members were, however, concerned that the Task Force recommendations did not clearly specify which reporting responsibilities will be addressed by the project. IAASB members raised the following questions with respect to this concern:</p> <ul style="list-style-type: none"> • Will the proposed revisions to ISA 700 address all special reporting responsibilities imposed on auditors? • Will the proposed revisions be restricted only to those responsibilities required to be addressed as part of the auditor's report on the financial statements? • If restricted to responsibilities required to be addressed as part of the auditor's report on the financial statements, will this also include special purpose reports prepared for the special use of regulatory bodies?

TASK FORCE CONSIDERATIONS WITH RESPECT TO RECOMMENDATION 1

- 3 In view of the number of questions raised by the IAASB with respect to the proposal that the revisions to ISA 700 address auditors' other reporting responsibilities, the Task Force concluded that revisions to ISA 700 should make it clear that:
- (a) The proposed changes are not an attempt to expand the scope of the auditor's report to include all types of special reports that may be issued by auditors; and
 - (b) The proposed changes are intended to apply only to auditor's reports on financial statements that include reporting on other matters because of local requirements.
- 4 In view of the above considerations, the Task Force recommends that the revisions to ISA 700 contain the following principle with respect to other responsibilities that may be imposed on auditors by national standards or laws:

Recommended Principle

National standards or laws may specify that the auditor addresses other reporting responsibilities, i.e., in addition to the responsibility to report on the financial statements. In some cases, the relevant standards or laws may require reporting within the auditor's report on the financial statements. In other cases, the auditor may report separately on these matters.

When the auditor addresses other reporting responsibilities in the auditor's report on the financial statements, these responsibilities should be addressed in a separate section that follows the opinion paragraph, and when applicable, any emphasis of matter paragraph on the financial statements.

RECOMMENDATION 2

December 2002 Task Force Recommendation	IAASB Comments
<p>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.</p>	<p>The IAASB generally agreed that the special reporting responsibilities should be addressed in a separate section of the auditor's report on the financial statements.</p> <p>However, IAASB members raised the following questions:</p> <ul style="list-style-type: none"> • Which standards will be used in determining whether a responsibility is part of the report on financial statements or a special reporting responsibility? (For example, Danish auditing standards require the auditor to read the MD&A. This is considered to be a responsibility related to the opinion on financial statements under Danish standards but a special reporting responsibility under ISAs). • Will each section be prepared on a standalone basis with its own introductory, scope and opinion paragraphs? (This approach could be quite repetitive. It may also be quite difficult in some cases to distinguish responsibilities that relate to the opinion on financial statements as opposed to special reporting responsibilities.) • How will modifications to the standard opinion be reported? (In some cases, a modification relating to the opinion on the financial statements might

December 2002 Task Force Recommendation	IAASB Comments
	impact the auditor's opinion on a matter addressed by the special reporting responsibility and vice versa.)

TASK FORCE CONSIDERATIONS WITH RESPECT TO RECOMMENDATION 2

- 5 With respect to the first question, the Task Force has concluded that when an audit of the financial statements is to be conducted by reference to ISAs, then the ISA requirements should be used to determine whether a responsibility is part of the report on financial statements or a special reporting responsibility. When an audit of the financial statements is conducted by reference to both ISAs and local standards, then the requirements of both sets of standards should be used to determine the nature of the responsibility. This position is consistent with the decision reached by the IAASB in December 2002 that when an audit is conducted in accordance with ISAs as well as national standards and practices, the auditor's report should refer to both sets of standards in the scope paragraph. (See Agenda Item 2-A, "Summary of Decisions on Specific Issues," Issue 1).
- 6 With respect to the second question, the Task Force does not believe it is necessary for each section to be written on a standalone basis. It is possible for the Other Reporting Section to build on the Financial Statements Section by introducing the responsibility with the following statement – *In addition, in accordance with relevant X Country legal and regulatory requirements we are required to report ...*
- 7 As far as modifications are concerned, the Task Force concluded that they should be addressed as part of the revisions to that part of ISA 700. However, the Task Force did consider some example reports involving modified opinions and is satisfied that the suggestion to include other reporting matters in a separate section of the report is feasible, even when the report is modified.

RECOMMENDATION 3

December 2002 Task Force Recommendation	IAASB Comments
The section of the auditor's report covering special reporting responsibilities should:	IAASB members were not in full agreement with Recommendation 3(a).
(a) 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;	Some members felt that the auditor should be acknowledging the special responsibilities irrespective of the type of reporting or work effort to be carried out because this would help users understand the extent of the auditor's responsibilities.
(b) Not mention that no exceptions were identified when the auditor is required to report only exceptions;	Others felt that Recommendation 3(a) may not be practical since in practice it is not always easy to determine whether some responsibilities are part of a financial statement audit or whether auditors have in fact expanded the audit to address the responsibilities that they know exist.
(c) Always contain an opinion when the auditor is required to carry out additional procedures and provide assurance on a subject matter.	

TASK FORCE CONSIDERATIONS WITH RESPECT TO RECOMMENDATION 3

- 8 The Task Force used the re-worded auditor's report presented by the UK at the December 2002 IAASB meeting as a starting point and considered how some of the above recommendations and IAASB comments might impact the report.

- 9 While the Task Force understood the advantage of listing all of the auditor's other reporting responsibilities, it was also sympathetic to the concern that this approach will likely result in a very long report. It was also concerned that a listing of all the responsibilities may be somewhat confusing since the auditor would not necessarily be providing an opinion or commentary on all of these responsibilities.
- 10 In addition, the Task Force acknowledged that the details of how and what the auditor reports reflect will in reality be determined by local requirements that impose the other responsibilities on the auditor.
- 11 After considering the advantages and disadvantages of the various alternatives, the Task Force decided on the following recommendation:

Task Force Recommendation

Revisions to ISA 700 should not address the format and content of the section on other reporting responsibilities. The form and content of this section of the report would be determined by the local requirements that impose the other responsibilities on the auditor.

The revisions to ISA 700 should only go as far as specifying where the other responsibilities should be addressed in the auditor's report (i.e., in a separate section following the opinion paragraph, as illustrated in Agenda Item 2-G).

RECOMMENDATION 4

December 2002 Task Force Recommendation	IAASB Comments
<p>The auditor's responsibilities described in ISA 720 should be addressed in the section of the auditor's report on the financial statements.</p> <p>In keeping with the principles in Recommendation 3, 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.</p>	<p>IAASB members were not in full agreement with this recommendation.</p> <p>Some members thought it would be useful to clarify the auditor's responsibility since the auditor's report is often included with other information and the extent of the auditor's association with this other information is not clear.</p> <p>Other IAASB members were concerned that singling out this responsibility from others that are required by ISAs might be confusing.</p> <p>In addition, some IAASB members felt that the recommendation is not practical since the auditor's report is often included with more than one type of information. This will require the auditor to change the reference in the report when the other information is changed.</p>

TASK FORCE CONSIDERATIONS WITH RESPECT TO RECOMMENDATION 4

- 12 In order to consider the impact of the above recommendation and IAASB comments, the Task Force developed two examples. One that describes the ISA 720 responsibilities in detail by listing the other information that may include the financial statements (illustration based on the UK requirements):

An audit also includes assessing the accounting principles used and significant estimates made by management, evaluating the overall financial statement presentation and reading the unaudited information that accompanies the financial statements comprised of the Directors' Report, the

unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the Operating and Financial Review and the Corporate Governance Statement to identify material inconsistencies with the financial statements.

13 Another example that describes the responsibility in a generic way:

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and reading the unaudited information that accompanies the financial statements to identify material inconsistencies with the financial statements.

Task Force Recommendation

After considering the above, the Task Force concluded that on balance it may be best not to refer to the ISA 720 responsibility in the description of the auditor's report in the section of the report on the financial statement audit.

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