

## Agenda Item 9-B

### Staff-Prepared Overview of Current ISA Requirements and Possible Considerations for New Requirements and Guidance Relating to the IAASB's Suggested Improvements to Auditor Reporting

**Note:** The following Staff-prepared table illustrates, at a high level, current ISA requirements and possible considerations for new requirements and guidance in the ISAs relating to the IAASB's suggested improvements to auditor reporting included in the June 2012 Invitation to Comment (ITC). The purpose of this agenda item is to begin to inform the forward plans to revise ISA 700 and other ISAs as appropriate. While certain matters included herein have been raised in previous discussions of the Task Force (TF) and IAASB, the TF has not discussed the standard-setting implications of the proposals in the ITC in detail to date. **It is not intended that the IAASB will discuss this agenda item in detail during its September 2012 meeting, and the nature and extent of new requirements and guidance will be further informed by responses to the ITC and deliberated by the TF and IAASB.**

To guide the IAASB's preliminary thinking in relation to the way forward for standard setting, this table includes the following:

- Column 1 – The suggested mandatory elements of an improved ISA auditor's report, included as Appendix 4 of the ITC. The ordering of the elements within the table reflect the IAASB's preferred presentation in the illustrative report of the ITC.
- Column 2 – The current requirements included in paragraphs 20–42 of ISA 700, *Forming an Opinion and Reporting on Financial Statements*.
- Column 3 – The minimum requirements needed in an auditor's report to refer to the ISAs, where law or regulation prescribes the form and content of the auditor's report (as addressed by paragraph 43 of ISA 700.)
- Column 4 – Staff's preliminary identification of areas for consideration in standard setting, including possible requirements and guidance that may be needed to operationalize the suggested improvements in the ITC and the proposals outlined in **Agenda Item 9-A**. The TF and IAASB's detailed deliberations on the nature and extent of requirements needed to the ISAs to improve auditor reporting will be further informed by their consideration of the responses to the ITC, a full discussion of which is planned for the December 2012 IAASB meeting. Accordingly, these areas addressed in the fourth column are preliminary, not necessarily all-inclusive, and subject to further change and refinement as the IAASB develops its exposure drafts planned for June 2013, in particular if the responses to the ITC indicate actions other than those outlined in the ITC would be appropriate.

<b>Mandatory Elements of an Improved ISA Auditor’s Report (Appendix 4 of the ITC)</b>	<b>Current ISA 700 Requirements (By Paragraph)</b>	<b>Minimum Requirements (Paragraph 43 of ISA 700)</b>	<b>Areas for Further Consideration, Including Possible Requirements, Guidance and Placement<sup>1</sup></b>
A <b>title</b> that clearly indicates that it is the report of an independent auditor	The auditor’s report shall have a title that clearly indicates that it is the report of an independent auditor. (para. 21)	A title	<ul style="list-style-type: none"> <li>• Consideration needed as to whether independence should always be referenced in the title, even when law or regulation prescribes the form and content of the report</li> </ul>
An <b>addressee</b> , as required by the circumstances of the engagement	The auditor’s report shall be addressed as required by the circumstances of the engagement. (para. 22)	An addressee, as required by the circumstances of the engagement	<ul style="list-style-type: none"> <li>• Consideration needed as to whether further guidance to support what is already included in ISA 700 would be helpful, for example to stress the importance of the report being addressed to groups other than management</li> </ul>
A heading <b>“Report on the Financial Statements”</b>	If the auditor’s report contains a separate section on other reporting responsibilities, the headings, statements and explanations referred to in paragraphs 23–37 shall be under the sub-title “Report on the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” shall follow the “Report on the Financial Statements.” (para. 39)		<ul style="list-style-type: none"> <li>• Consideration needed as to whether such information should always be segregated even when law or regulation requires a particular presentation – will depend on feedback received to the building blocks approach/Appendix 4</li> </ul>
A section with a heading <b>“Opinion”</b> that includes the information required by the ISAs (for example,	The auditor’s report shall include a section with the heading “Opinion.” (para. 34) When expressing an unmodified opinion	An opinion paragraph containing an expression of opinion on the financial	<ul style="list-style-type: none"> <li>• Consideration needed as to whether a heading “Opinion” should always be required in light of the focus placed on it</li> <li>• Use of the phrases “give a true and fair</li> </ul>

<sup>1</sup> In absence of a reference to a specific ISA, the possible requirements and guidance listed in this column are intended to be placed in a revised ISA 700.

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<p>identification of the entity whose financial statements have been audited, identification of the title of each statement that comprises the financial statements and, if applicable, reference to the notes to the financial statements, including a summary of significant accounting policies and other explanatory information)</p>	<p>on financial statements prepared in accordance with a fair presentation framework, the auditor’s opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:</p> <p>(a) The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or</p> <p>(b) The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework]. (para. 35)</p> <p>When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor’s opinion shall be that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (para. 36)</p> <p>If the reference to the applicable financial reporting framework in the auditor’s opinion is not to International Financial Reporting Standards issued by the</p>	<p>statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards) (para. 43(f))</p>	<p>view” and “present fairly, in all material respects” may need to be mandated in all cases when a fair presentation framework is used and the auditor’s report indicates the audit was conducted in accordance with ISAs</p> <ul style="list-style-type: none"> <li>• Greater clarification may be needed about how to identify the financial statements</li> </ul>

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	<p>International Accounting Standards Board or International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework. (para. 37)</p> <p>The introductory paragraph in the auditor’s report shall:</p> <ul style="list-style-type: none"> <li>(a) Identify the entity whose financial statements have been audited;</li> <li>(c) Identify the title of each statement that comprises the financial statements;</li> <li>(d) Refer to the summary of significant accounting policies and other explanatory information; and</li> <li>(e) Specify the date or period covered by each financial statement comprising the financial statements. (para. 23)</li> </ul>		
<p>A section with a heading “<b>Basis for Opinion</b>” that includes the matters presented in the illustrative auditor’s report, for example,</p>	<p>State that the financial statements have been audited; (para. 23(b))</p> <p>The auditor’s report shall state that the audit was conducted in accordance with International Standards on</p>	<p>An introductory paragraph that identifies the financial statements audited (Para. 43 (c))</p>	<p><i>ISA 700</i></p> <ul style="list-style-type: none"> <li>• Consideration needed as to whether a heading “Basis for Opinion” should be required</li> <li>• New requirement for the explicit statement of</li> </ul>

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<p>a statement that the financial statements have been audited in accordance with ISAs, or other standards that are in conformity with the ISAs; and a statement of compliance with relevant ethical requirements applicable to financial statement audits, including independence requirements</p>	<p>Auditing. The auditor’s report shall also explain that those standards require that the auditor comply with ethical requirements and that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (para. 30)</p> <p>The auditor’s report shall state whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor’s opinion. (para. 33)</p>	<p>See also Auditor’s Responsibility below.</p>	<p>compliance will be needed</p> <ul style="list-style-type: none"> <li>• Application material may be useful to highlight other reporting that may be required by law or regulation in relation to ethics and independence</li> </ul> <p><i>ISA 705</i></p> <ul style="list-style-type: none"> <li>• Consideration needed as to how Basis for Modified Opinion paragraphs affected</li> </ul>
<p>A section with a heading “<b>Going Concern</b>” that includes:</p> <ul style="list-style-type: none"> <li>• A conclusion on the appropriateness of management’s use of the going concern assumption</li> <li>• A statement about whether material uncertainties related to going concern have been identified, or reference to</li> </ul>	<p>None</p>	<p>None</p>	<p><i>ISA 700</i></p> <ul style="list-style-type: none"> <li>• Consideration needed as to whether a heading “Going Concern” should be required</li> <li>• Consideration needed as to whether subheadings to separate the two aspects should be required or encouraged, and additional guidance to explain the benefits of doing so may be useful</li> <li>• Overall requirement to report in accordance with ISA 570 will be needed</li> <li>• Requirement to include a description of management’s responsibilities will be needed and guidance on where this could be</li> </ul>

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<p>disclosures when material uncertainties are identified and appropriately disclosed in the financial statements</p> <ul style="list-style-type: none"> <li>Reference to a description of management’s responsibilities for going concern in accordance with the applicable financial reporting framework, including the use of the going concern assumption and disclosures relating to material uncertainties, included either in the section addressing management’s responsibilities or the Going Concern section</li> </ul> <p><b>Note:</b> When a modified opinion in relation to Going Concern is appropriate, this</p>			<p>placed would be useful, as well as sample wording to align with ITC</p> <ul style="list-style-type: none"> <li>Guidance needed on potential interaction between reporting in accordance with ISA 570/ISA 700 and other reporting requirements</li> </ul> <p><i>ISA 570</i></p> <ul style="list-style-type: none"> <li>A detailed reporting requirement based on the work effort will be needed to enable the auditor to include a conclusion on the appropriateness of management’s use of the going concern assumption and the statement on whether material uncertainties have been identified, including a linkage to previous EOM requirements for material uncertainties</li> <li>Explanation will be needed as to how reporting may change when a modified opinion is expressed</li> <li>Linkage to concepts of auditor commentary may be needed, should IAASB agree that additional material could be included in the auditor’s report when no material uncertainties have been identified</li> <li>Guidance to provide sample wording to align with the ITC would be helpful</li> <li>Possible additional or revised requirements</li> </ul>

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section would be adapted as necessary.			or application material may be necessary to further support the auditor reporting on going concern (See <b>Agenda Item 9-C</b> )
<p>For audits of public interest entities (PIEs),<sup>2</sup> a section with a heading “<b>Auditor Commentary</b>” that includes:</p> <ul style="list-style-type: none"> <li>• Introductory language describing the objective of Auditor Commentary and stating that the auditor’s procedures relating to the matters addressed in Auditor Commentary are not designed for the purpose of expressing an opinion on individual accounts or disclosures and the auditor’s opinion is not modified in respect of these matters</li> <li>• A description of those</li> </ul>	None	None	<p><i>ISA 700</i></p> <ul style="list-style-type: none"> <li>• Consideration needed as to whether a heading “Auditor Commentary” should be required</li> <li>• Consideration needed as to whether particular introductory language should be required and guidance to provide sample wording</li> <li>• Consideration needed as to whether subheadings to separate auditor commentary on specific items should be required or encouraged, and additional guidance to explain the benefits of doing so</li> <li>• Overall requirement for auditors of PIEs to include auditor commentary in accordance with ISA 706 needed (should the ITC confirm this is the appropriate category of entities)</li> <li>• Consideration needed as to whether there should be a requirement for auditors of non-PIEs to consider whether to include auditor commentary in accordance with ISA 706;</li> </ul>

<sup>2</sup> Assuming the IAASB ultimately determines that Auditor Commentary should be required for PIEs

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<p>matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements or the audit, with appropriate headings included for each matter</p> <p>For non-PIEs, Auditor Commentary could be included at the discretion of the auditor</p>			<p>alternatively guidance to encourage auditors of non-PIEs to include auditor commentary would be useful</p> <ul style="list-style-type: none"> <li>• Guidance on potential interaction between auditor commentary and other reporting requirements would be useful</li> <li>• Definition of PIEs will be needed, with application material to explain small entity and public sector considerations</li> <li>• SME considerations for PIEs and non-PIEs</li> <li>• Public sector considerations</li> </ul> <p><i>ISA 706</i></p> <ul style="list-style-type: none"> <li>• A detailed reporting requirement will be needed based on considerations of matters that are likely to be most important to users' understanding of the audited financial statements and the audit (i.e., the objective of auditor commentary)</li> <li>• Guidance needed to assist auditors in decision-making in terms of nature of matters to be addressed in auditor commentary</li> <li>• A detailed reporting requirement likely needed to address the level of detail that is expected to be included as well as guidance to assist auditors in doing so, as well as</li> </ul>

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			<p>examples of auditor commentary from ITC</p> <ul style="list-style-type: none"> <li>• Consideration needed as to whether there should be a requirement for the auditor to disclose the auditor has nothing to report and guidance to support this requirement</li> <li>• Consideration needed as to whether a documentation requirement and guidance to support this requirement is necessary</li> <li>• Explanation will be needed as to how reporting may change when a modified opinion is expressed</li> <li>• Guidance needed to explain circumstances when law or regulation may require auditor commentary on specific items (for example, matters envisaged by the EC regulation, French justification of assessment model, etc.)</li> <li>• Consideration of former requirements for EOMs and OMs in ISA 706 and other ISAs in light of new requirements for auditor commentary</li> <li>• Revisions likely needed to align with ISA 260 in terms of communicating about matters on which the auditor will report in auditor commentary</li> <li>• Others?</li> </ul>

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			<p><i>ISA 260</i></p> <ul style="list-style-type: none"> <li>• Consideration of the need for further specificity about certain factors to be considered in determining whether to include auditor commentary to align this ISA with ISA 706</li> <li>• Consideration of other revisions that may be necessary to ensure the auditor is communicating with TCWG about all aspects that are addressed in the auditor’s report, including going concern, other information, the involvement of other auditors, etc., including whether a new requirement to discuss the form and content of the auditor’s report prior to its issuance is needed</li> </ul>
<p>When applicable, a section with a heading “<b>Other Information</b>” that includes:</p> <ul style="list-style-type: none"> <li>• Specific identification of the other information read</li> <li>• A statement that no material inconsistencies between the audited financial statements</li> </ul>	None	None	<p><i>ISA 700</i></p> <ul style="list-style-type: none"> <li>• Consideration needed as to whether a heading “Other Information” should be required</li> <li>• Overall requirement to report in accordance with ISA 720 will be needed</li> <li>• Guidance on potential interaction between reporting in accordance with ISA 720/ISA 700 and other reporting requirements would be useful</li> </ul>

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<p>and other information have been identified based on the auditor’s reading of other information, or a detailed explanation when material inconsistencies were identified for which revision of the other information is necessary and management refuses to make the revision</p> <ul style="list-style-type: none"> <li>• Language describing that the auditor has not audited the other information and does not express an opinion on it</li> </ul>			<p><i>ISA 720</i></p> <ul style="list-style-type: none"> <li>• Detailed reporting requirement needed based on the work effort to enable the auditor to include a statement whether material inconsistencies have been identified, including a linkage to previous OM requirements for material inconsistencies</li> <li>• Explanation needed as to how reporting may change when a modified opinion is expressed</li> <li>• Guidance needed to provide sample wording to align with ITC</li> </ul>
<p>A section with a heading “<b>Respectful Responsibilities of Management, Those Charged with Governance, and the Auditor</b>” that includes:</p>	<p><i>Management’s Responsibility for the Financial Statements</i></p> <p>This section of the auditor’s report describes the responsibilities of those in the organization that are responsible for the preparation of the financial statements. The auditor’s report need</p>	<p>A description of the responsibility of management (or other appropriate term, see paragraph 24 [of ISA 700]) for the preparation of the</p>	<ul style="list-style-type: none"> <li>• Consideration needed as to the level of specificity in this section when law or regulation prescribes the form and content – e.g., should a reference to management’s responsibilities for internal control (as a premise of an ISA audit) always be included as well as certain aspects of the auditor’s</li> </ul>

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<ul style="list-style-type: none"> <li>• A description of the responsibilities of management and TCWG (or other term that is appropriate in the context of the legal framework in the particular jurisdiction) that would address the matters presented in the illustrative auditor’s report on page 12 (for example, the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework)</li> <li>• A description of the auditor’s responsibilities in accordance with ISAs. Such a description would address the matters presented in the illustrative report on pages 12–13 (for</li> </ul>	<p>not refer specifically to “management,” but shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction. In some jurisdictions, the appropriate reference may be to those charged with governance. (para. 24)</p> <p>The auditor’s report shall include a section with the heading “Management’s [or other appropriate term] Responsibility for the Financial Statements.” (para. 25)</p> <p>The auditor’s report shall describe management’s responsibility for the preparation of the financial statements. The description shall include an explanation that management is responsible for the preparation of the financial statements in accordance with the applicable financial reporting framework, and for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. (para. 26)</p> <p>Where the financial statements are</p>	<p>financial statements (Para. 43(d))</p> <p>A description of the auditor’s responsibility to express an opinion on the financial statements and the scope of the audit, that includes:</p> <ul style="list-style-type: none"> <li>• A reference to International Standards on Auditing and the law or regulation; and</li> <li>• A description of an audit in accordance with those standards (para. 43(e))</li> </ul>	<p>responsibilities?</p> <ul style="list-style-type: none"> <li>• New requirement to describe the responsibilities of TCWG, and guidance to explain that this should be tailored to the national environment, will be needed</li> <li>• Guidance would be useful as to how the illustrative wording is to be used – e.g., is this best practice, certain elements always anticipated, etc.?</li> <li>• Guidance would be useful about the potential to relocate this material outside of the auditor’s report if appropriate and what would be required in the auditor’s report to ensure readers can appropriately access this information if they choose</li> </ul>

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<p>example, descriptions of the purpose of an audit with a reference to the terms reasonable assurance and material misstatements, the auditor’s responsibilities with respect to internal control and fraud, and a statement about the auditor’s communications with TCWG).</p>	<p>prepared in accordance with a fair presentation framework, the explanation of management’s responsibility for the financial statements in the auditor’s report shall refer to “the preparation and fair presentation of these financial statements” or “the preparation of financial statements that give a true and fair view,” as appropriate in the circumstances. (para. 27)</p> <p><i>Auditor’s Responsibility</i></p> <p>The auditor’s report shall include a section with the heading “Auditor’s Responsibility.” (para. 28)</p> <p>The auditor’s report shall state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (para. 29)</p> <p>The auditor’s report shall describe an audit by stating that:</p> <p>(a) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements;</p>		

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	<p>(b) The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor’s consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control; and</p> <p>(c) An audit also includes evaluating</p>		

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	<p>the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as the overall presentation of the financial statements. (para. 31)</p> <p>Where the financial statements are prepared in accordance with a fair presentation framework, the description of the audit in the auditor’s report shall refer to “the entity’s preparation and fair presentation of the financial statements” or “the entity’s preparation of financial statements that give a true and fair view,” as appropriate in the circumstances. (para. 32)</p>		
<p>A section with a heading <b>“Report on Other Legal and Regulatory Requirements”</b> that includes a discussion of other reporting requirements that go beyond the requirements of an ISA audit</p>	<p>If the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibility under the ISAs to report on the financial statements, these other reporting responsibilities shall be addressed in a separate section in the auditor’s report that shall be sub-titled</p>		<ul style="list-style-type: none"> <li>• Guidance as to the interaction of new ISA elements with reporting required by law or regulation would be useful</li> <li>• Consideration needed as to whether such information should always be segregated even when law or regulation requires a particular presentation – will depend on feedback received to the building blocks approach/Appendix 4</li> </ul>

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	“Report on Other Legal and Regulatory Requirements,” or otherwise as appropriate to the content of the section. (para. 39)		<ul style="list-style-type: none"> <li>• Examples of other legal and regulatory requirements may be useful</li> </ul>
A statement that includes <b>identification of the engagement partner</b> , in particular the name of the engagement partner responsible for the audit resulting in the auditor’s report	None	None	<ul style="list-style-type: none"> <li>• New requirement to identify engagement partner will be needed</li> <li>• Guidance on the interaction between this disclosure and the potential requirement for individual signature in certain jurisdictions would be useful</li> <li>• Possible guidance about disclosing the names of other key engagement team members, for example when required by law or regulation, may be useful</li> </ul>
A <b>signature</b> either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction	The auditor’s report shall be signed. (para. 40)	The auditor’s signature (para. 43(g))	<ul style="list-style-type: none"> <li>• Consideration needed as to whether additional guidance about whether the firm name should be included if the signature is that of the auditor is necessary (i.e., whether the auditor’s report is included on firm letterhead or the name of the firm is otherwise disclosed)</li> </ul>
The auditor’s <b>address</b>	The auditor’s report shall name the location in the jurisdiction where the auditor practices. (para. 42)	The auditor’s address (para. 43(i))	<ul style="list-style-type: none"> <li>• Clarification may be needed on the concept of “where the auditor practices” in particular in relation to naming the engagement partner</li> </ul>
A <b>date</b> that is no earlier than	The auditor’s report shall be dated no	The date of the	<ul style="list-style-type: none"> <li>• To be further considered</li> </ul>

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<p>the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements in accordance with the ISAs</p>	<p>earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor’s opinion on the financial statements, including evidence that:</p> <ul style="list-style-type: none"> <li>(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and</li> <li>(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements. (para. 41)</li> </ul>	<p>auditor’s report (para. 43(h))</p>	