

Meeting: IAASB
Meeting Location: Brussels, Belgium
Meeting Dates: March 16–20, 2015

Agenda Items 11

Auditor Reporting

Objectives of Agenda Items

1. To discuss activities to promote awareness, acceptance and application of the new and revised Auditor Reporting standards (the standards).
2. To obtain views on the proposed way forward with respect to ISA 810, *Engagements to Report on Summary Financial Statements*.

Working Group

3. The IAASB is committed to promoting awareness and understanding and supporting the effective implementation of the Auditor Reporting standards. To this end, it has established an Auditor Reporting Implementation Working Group (WG). The WG comprises:
 - Dan Montgomery, Chair, former IAASB Deputy Chair and Auditor Reporting Task Force Chair
 - Jim Sylph, Co-Chair, former Executive Director, Professional Standards and External Relations
 - Sachiko Kai, IAASB Technical Advisor
 - Jamie Shannon, IAASB Technical Advisor
 - Denise Weber, IAASB Technical Advisor

Activities since Last IAASB Discussion

4. At its September 2014 meeting, the IAASB approved its new and revised Auditor Reporting standards. These standards and related conforming amendments comprise:
 - ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
 - New ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
 - ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
 - ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
 - ISA 570 (Revised), *Going Concern*
 - ISA 260 (Revised), *Communication with Those Charged with Governance*

- Conforming amendments to ISAs 210,¹ 220,² 230,³ 510,⁴ 540,⁵ 580,⁶ 600,⁷ and 710.⁸

These standards were released in January 2015 after approval of due process by the Public Interest Oversight Board (PIOB).

5. Since the release of the standards, the topic of auditor reporting continues to feature heavily in the IAASB's outreach activities, as highlighted in Agenda Item 1. In particular, the topic was a key component of the UK outreach agenda and continues to be of interest in discussions with the Monitoring Group and other regulators.

Implementation Support

Activities of the Auditor Reporting Implementation WG

6. Since the release of the standards, the Auditor Reporting Implementation WG has developed the following in addition to the Staff-prepared [Basis for Conclusions](#) and [At a Glance](#) publications:

- (a) [Auditor Reporting Fact Sheet](#) that summarizes the new auditor's report.
- (b) Publications that are intended to assist investors and others in developing a greater understanding of the more significant enhancements, namely [Auditor Reporting – Key Audit Matters](#) and [Auditor Reporting on Going Concern](#).
- (c) [Deck of slides](#) that is intended to assist IAASB members, CAG Member Organizations, national standard setters (NSS), auditors and others in delivering presentations aimed at promoting and raising awareness of the new auditor's report in their respective jurisdictions. These slides are intended to complement the At a Glance publication.

The standards and the above-listed materials, collectively referred to as the “Auditor Reporting Toolkit”, are available on the IAASB's [The New Auditor's Report](#) webpage.

7. The Auditor Reporting Implementation WG also intends to develop:
 - (a) Illustrative KAM examples.
 - (b) Listings and extracts of illustrative auditor's reports.
 - (c) Other resources explaining various aspects of, or key topics in, the new and revised Auditor Reporting standards, including a webcast and podcasts.

¹ ISA 210, *Agreeing the Terms of Audit Engagements*

² ISA 220, *Quality Control for an Audit of Financial Statements*

³ ISA 230, *Audit Documentation*

⁴ ISA 510, *Initial Audit Engagements—Opening Balances*

⁵ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

⁶ ISA 580, *Written Representations*

⁷ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁸ ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

Outreach and Other Communications

Planned and Targeted Outreach

8. The IAASB is of the view that International and national regulators, oversight bodies, organizations that represent investors, preparers and audit committees, and NSS, accounting firms, IFAC Member Bodies and other IFAC Committees all have a shared responsibility to promote awareness and support effective implementation of the standards in light of their public interest importance.
9. Auditor reporting will therefore be a continued area of interest during outreach activities in 2015 and 2016, as the IAASB seek to encourage its stakeholders to adopt and implement the standards. This will build upon the existing strong outreach program with, among others, regulators and audit oversight bodies, auditors (including the Forum of Firms, the Global Public Policy Committee, small and medium practices (SMPs) and public sector auditors), and NSS.
10. Initial outreach activities have been focused on building awareness of the IAASB's intentions in developing the standards. Outreach will also provide the IAASB with an initial understanding of implementation experiences, including any practical challenges, and how such challenges are being addressed. This outreach will also serve as a useful basis to inform the planned post-implementation review by strengthening and establishing new contacts to provide input on whether the IAASB's standards are achieving their objectives. For example, three global targeted outreach sessions are currently being planned in 2015 to discuss auditor reporting and audit quality with Audit Committee Chairs and members.
11. IAASB leadership and Staff continue to be of the view that, rather than the IAASB seeking to host formal events, resources would be best allocated to participation by or on behalf of the IAASB at national and regional events in 2015 and 2016. In particular, the IAASB is looking for further opportunities to engage with investors, Audit Committees and preparers, and CAG Member Organizations to organize events in this regard.
12. In addition, IAASB members and Technical Advisors are asked to meet with constituents across all stakeholder groups in their national jurisdictions during 2015 to build awareness about the auditor reporting enhancements. They are encouraged to utilize the materials included in the Auditor Reporting Toolkit to promote awareness about auditor reporting in their respective jurisdictions and consider what steps they could take in the immediate term to disseminate these materials to stakeholders, for example by providing links to the IAASB's Auditor Reporting webpage or encouraging NSS and local member body organizations to issue other communications.
13. Follow up sessions with the IAASB on the topic of auditor reporting will be planned periodically for Board members and TAs to report back on dialogue within their respective jurisdictions in relation to auditor reporting, and for the Auditor Reporting Implementation WG to report back on its activities.

Effective Date

14. The Auditor Reporting Implementation WG has received questions about the IAASB's intention with respect to its decision to permit early adoption of the Auditor Reporting standards. In particular, a question has arisen as to whether it may be possible for an auditor to apply or early adopt one or more of the standards or certain enhancements to auditor reporting, but not the entire suite of standards – for example, by including a KAM section in the auditor's report in accordance with ISA

701 but not necessarily adopting the new form and content of the auditor's report or the additional required statements and disclosures (e.g., the statement of independence, name of the engagement partner, enhanced description of the auditor's responsibilities, etc.)

15. The WG, IAASB Steering Committee and Staff acknowledge that investors and other users are likely most interested in the auditor's communication of KAM and therefore allowing for auditor's reports including KAM to come into the marketplace earlier would be in the public interest. Nothing currently precludes auditors from communicating additional information in the auditor's report, including KAM. At a firm level, it would likely be possible to develop methodologies for reporting in accordance with ISA 701 globally that would be expected to be largely consistent with national equivalents⁹ given the approach taken in that standard. It would be envisaged that, due to the interaction with ISA 701, ISA 260 (Revised) would also need to be applied if KAM were to be provided in the auditor's report in advance of the effective date. On an initial basis, the Steering Committee did not believe it would be appropriate for the IAASB to expressly prohibit earlier application of ISA 701, or only permit its early adoption only when all of the Auditor Reporting standards are adopted.
16. However, the Steering Committee agreed to explore this matter further with the Consultative Advisory Group (CAG), the International Forum of Independent Audit Regulators (IFIAR), the Forum of Firms, and the NSS Liaison Working Group in advance of consideration by the Board at its June 2015 meeting to determine what action, if any, is necessary.

Matters for IAASB Consideration

1. The IAASB is asked to share views on the following:
 - (a) Activities and other efforts already taken or planned in their respective jurisdictions to promote the awareness and support the effective implementation of the IAASB's new and revised Auditor Reporting standards.
 - (b) What more should be done to promote the awareness and support the effective implementation of its Auditor Reporting standards.

Matters Relevant to the Way Forward on ISA 810

17. Additional *Matters for IAASB Consideration* in relation to the proposed way forward on ISA 810 are set out in **Agenda Item 11-A**.

Material Presented

Agenda Item 11-A	Staff Review and Recommendations – ISA 810, <i>Engagements to Report on Summary Financial Statements</i>
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⁹ With the exception of the US firms, which will need to align with US Public Company Accounting Oversight Board (PCAOB) standards when finalized