

Draft Auditor Reporting: Frequently Asked Questions

This publication has been prepared by the Auditor Reporting Implementation Working Group. It does not constitute an authoritative pronouncement of the International Auditing and Assurance Standards Board (IAASB), nor does it amend or override the International Standards on Auditing (ISAs). Further, this publication is not meant to be exhaustive and reading this publication is not a substitute for reading the ISAs.

The IAASB's [new and revised Auditor Reporting standards](#)¹ and [ISA 720 \(Revised\)](#)² (the Standards) were issued in January 2015 and April 2015 respectively, and become effective for periods ending on or after December 15, 2016. Since the Standards were issued, the IAASB has performed extensive outreach across numerous jurisdictions to encourage the adoption and support the implementation of the Standards. More recently, the IAASB has heard from stakeholders regarding actual experiences in implementing the new Standards, including practical challenges or areas where there are common differences in interpretation of the Standards. Accordingly, the ARIWG has developed this publication to address some of these common questions.

The New and Revised Auditor Reporting Standards

1. Paragraph 5 of ISA 701 indicates that ISA 701 applies to:

- ❖ **Audits of complete sets of general purpose financial statements of listed entities.**
- ❖ **Circumstances when the auditor is required by law or regulation to communicate key audit matters (KAM) in the auditor's report.**
- ❖ **Circumstances when the auditor otherwise decides to communicate KAM in the auditor's report.**

a) In this context, which entities are considered to be "listed entities"?

The determination of which entities are considered to be "listed entities" can only be established at a jurisdictional level. The jurisdiction may have a definition of "listed entity," or the following definition of a "listed entity" in the IAASB's Glossary of Terms may be relevant:

An entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body.

In some jurisdictions the definition of listed entity may form part of a broader definition of public interest entity.

In determining whether a stock exchange is "recognized", National Standards Setters (NSS) or

¹ The new and revised Auditor Reporting Standards 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*; and conforming amendments to other ISAs.

² ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

others making such a determination may take matters such as the following into consideration:

- ❖ Whether the exchange is a public exchange.
- ❖ Whether there is a generally accepted framework, criteria or standards that govern admission to listing on the exchange (e.g., “listing rules”).
- ❖ Whether entities trading on the exchange or whose shares, stock or debt are marketed under the regulation of the exchange, are subject to some form of regulation.

b) In circumstances where the entity prepares consolidated financial statements and separate parent or holding company financial statements, would the auditor be required to communicate KAM in the auditor’s report on the separate financial statements as well as the report on the consolidated financial statements?

As highlighted above, paragraph 5 of ISA 701 indicates that the standard applies to audits of complete sets of general purpose financial statements of listed entities. Paragraph 8 of ISA 700 (Revised) states “the requirements of the applicable financial reporting framework determine the form and content of the financial statements, and what constitutes a complete set of financial statements”.

Accordingly, the determination of whether the communication of KAM is required in the separate parent or holding company financial statements (hereinafter referred to as separate financial statements) depends on whether the separate financial statements are viewed as a complete set of general purpose financial statements under the requirements of the applicable financial reporting framework.

In circumstances where the separate financial statements are not a complete set of general purpose financial statements under the applicable financial reporting framework, the auditor could voluntarily communicate KAM.

There are a variety of possible scenarios regarding the presentation of the consolidated and separate financial statements and the related auditor’s report, with resulting implications for how KAM are communicated and presented in these circumstances. For example, the consolidated and separate financial statements could be presented in completely separate annual reports, presented as discrete financial statements in a single document (e.g., in separate sections of a single annual report), or presented combined in a single annual report (also known as a four-column format). The diagram set out in Appendix A sets out these circumstances, and how the KAM could be presented.

In circumstances where the KAM address both the audit of the consolidated financial statements and the separate financial statements in an auditor’s report, the KAM should clearly explain how they relate to each audit. In some cases, the KAM might affect the audit of the financial statements of the separated and consolidated financial statements in different ways. For example, a matter relating to goodwill impairment in the consolidated financial statements might be different from the goodwill impairment in the separate financial statements (e.g., it is more likely that the impairment in the separate financial statements may relate to the valuation of the underlying investment).

2. Can the auditor's report refer to the International Standards on Auditing (ISAs) if the jurisdiction has not adopted the new and revised Auditor Reporting standards?

Paragraph 18 of ISA 200³ indicates that the auditor shall comply with all of the ISAs relevant to the audit; an ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exists. In addition, paragraph 20 of ISA 200 indicates that the auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit.

Furthermore, paragraph 4 of ISA 700 (Revised) highlights that consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards.

Assuming the jurisdiction has a program in effect for the adoption of the ISAs, the timing of the adoption of the new and revised auditor reporting standards for a particular jurisdiction would be determined by the NSS. It is recognized that there are jurisdictions which, based on their ISA adoption program, will only adopt the new and revised auditor reporting standards after the effective date of December 15, 2016. NSS in those jurisdictions would need to ascertain how best to indicate which auditing standards have been applied so as not to inappropriately represent compliance with the full suite of ISAs in effect at December 15, 2016. For example, the auditor's report could instead refer to the jurisdictional (i.e., national) auditing standards and the NSS could provide transparency on its website about its ISA adoption program.

A similar principle would apply when complying with paragraph 28(c) of ISA 700 (Revised). In circumstances where the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) has not been adopted in full in the jurisdiction, NSS in that jurisdiction would need to ascertain how the relevant ethical requirements are described in the auditor's report in the jurisdiction, so as not to inappropriately represent compliance with the IESBA Code in effect at time the auditor's report is issued. For example, the auditor's report could instead refer to the jurisdiction of origin of the relevant ethical requirements and the NSS, or other body that prescribes the relevant ethical requirements such as a regulator or professional organization, could provide transparency on its website about what such ethical requirements comprise.

3. Can the auditor's report indicate that the audit was conducted in accordance with the ISAs and the standards in another jurisdiction?

Question 2 addresses the considerations regarding whether the auditor's report may refer to the ISAs if the jurisdiction has not adopted the new and revised Auditor Reporting standards.

In some circumstances, the audit is conducted in accordance with the ISAs, as well as the auditing standards of a specific jurisdiction (national auditing standards). Paragraph 51 of ISA 700 (Revised) indicates that in such cases, the auditor's report may refer to the ISAs in addition to the national auditing standards, but the auditor shall do so only if:

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

- a) There is no conflict between the requirements in the national auditing standards and those in ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter (EOM) paragraph or Other Matter (OM) paragraph that, in the particular circumstances, is required by ISAs; and
- b) The auditor's report includes, at a minimum, each of the elements set out in paragraphs 50(a)–(o) of ISA 700 (Revised) when the auditor uses the layout or wording specified by the national auditing standards.

If the auditor is unable to meet the requirements in paragraph 51, the auditor would be required to issue two separate auditor's reports: an auditor's report that relates to the audit conducted in accordance with the ISAs (provided that the minimum elements required by ISA 700 (Revised) are included), and an auditor's report that relates to the audit conducted in accordance with national auditing standards.

In circumstances where the auditor issues a combined auditor's report that refers to both the ISAs and the national auditing standards, paragraph 52 of ISA 700 (Revised) indicates that the auditor's report shall identify the jurisdiction of origin of the national auditing standards.

4. Is there any impact on the KAM previously communicated in the auditor's report in circumstances when the auditor reissues the report or amends the report previously issued?

In certain circumstances under ISA 560,⁴ the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, the auditor may determine that a new or amended auditor's report is appropriate when facts become known to the auditor after the financial statements have been issued. In this circumstance, ISA 560 requires that an EOM paragraph or OM paragraph be included in the new or amended auditor's report that refers to a note to the financial statements that more extensively discusses the reason for the amendment of the previously issued financial statements and to the earlier report provided by the auditor.

In circumstances where the auditor reissues a new auditor's report, the auditor would need to determine (i) whether the matter that has resulted in a new or amended auditor's report is an additional KAM that should be communicated, or (ii) if it relates to a matter previously communicated as a KAM, whether any revisions to the description of the KAM are necessary. It is unlikely that other matters previously communicated as KAM would be affected since, at the time of the previous auditor's report, such matters were considered to be matters of most significance in the audit.

When an EOM or OM paragraph is required to be included in accordance with ISA 560 and the matter is also determined to be a KAM in accordance with ISA 701, the auditor includes the necessary EOM or OM paragraph in the new or amended auditor's report, as well as the KAM. The KAM description is intended to provide additional information to intended users of the financial statements beyond what is included in an EOM paragraph (i.e., more than a reference to the matter being emphasized and to relevant disclosures in the financial statements). The auditor may consider cross-referencing the respective descriptions in the auditor's report to clarify that both are in respect of the same matter.

⁴ ISA 560, *Subsequent Events*

5. **Should KAM be communicated in respect of each period for which the financial statements are presented when comparative financial statements⁵ are presented?**

Paragraph 10 of ISA 701 indicates that the auditor shall determine which of the matters were of most significance in the audit of the financial statements of the current period. Paragraph A10 of ISA 701 states that the auditor's determination of KAM is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented. The IAASB's decision to limit the KAM to the audit of the current period was primarily because users are interested in the most recent information to make informed decisions, and therefore are more likely to value information from the auditor about matters of significance in the audit of the current period. Furthermore, the IAASB believed that there are practical challenges in communicating KAM in relation to the prior period, which could also result in further lengthening the auditor's report and a presentation that could be potentially confusing to users.

Nevertheless, the auditor is not precluded from communicating KAM in respect of the previous period, although in such circumstances consideration should be given to the presentation of the KAM to make sure that matters related to the current period are clearly differentiated from matters relating to the prior period.

6. **Are all significant risks considered to be KAM?**

Paragraph 14-17 of ISA 260 (Revised) requires the auditor to communicate various matters with those charged with governance (TCWG), including the auditor's responsibilities in relation to the audit, the planned scope and timing of the audit, significant findings from the audit and auditor independence. Notably, the auditor is required to communicate the significant risks identified by the auditor, as part of communicating an overview of the planned scope and timing of the audit.

From those matters communicated with TCWG, the auditor determines the matters that required significant auditor attention. From the matters that required significant auditor attention, the auditor determines which were the matters of most significance and therefore are the key audit matters. Paragraphs A27–A30 of ISA 701 provide guidance and factors that may influence this determination. This process is depicted in a recent publication of the IAASB, [*Determining and Communicating KAM*](#).

Paragraph A20 of ISA 701 explains that areas of significant management judgment and significant unusual transactions may often be identified as significant risks and therefore significant risks are often areas that require significant auditor attention. However, paragraph A21 of ISA 701 highlights that this may not be the case for all significant risks. For example, ISA 240⁶ presumes that there are risks of fraud in revenue recognition and management override of controls and accordingly requires the auditor to treat these assessed risks of material misstatement due to fraud as significant risks. Depending on their nature, these risks may not require significant auditor attention, and therefore would not be

⁵ In terms of ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*, comparative financial statements exist when amounts and other disclosures for the prior period are included for comparison with the financial statements of the current period but, if audited, are referred to in the auditor's opinion. Under paragraph 15 of ISA 710, when comparative financial statements are presented, the auditor's opinion should refer to each period for which financial statements are presented and on which an audit opinion is expressed.

⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*,

considered KAM.

Other Information

7. Can the auditor's report refer to the ISAs if the jurisdiction has not adopted ISA 720 (Revised)?

As explained in question 2, paragraph 18 of ISA 200 indicates that the auditor shall comply with all of the ISAs relevant to the audit, and that an ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist. Furthermore, paragraph 20 of ISA 200 indicates that the auditor shall not represent compliance with ISAs in the auditor's report unless the auditor has complied with the requirements of ISA 200 and all other ISAs relevant to the audit. It is further noted that paragraph 50(i) of ISA 700 (Revised) indicates that the section in the auditor's report that deals with other information is a minimum element of the auditor's report.

Assuming the jurisdiction has a program in effect for the adoption of the ISAs, the timing of the adoption of ISA 720 (Revised) for a particular jurisdiction would be determined by the NSS. It is recognized that there are jurisdictions which, based on their ISA adoption program, will only adopt ISA 720 (Revised) after the effective date of December 15, 2016. NSS in those jurisdictions would need to ascertain how best to reflect which auditing standards have been applied so as not to inappropriately represent compliance with the full suite of ISAs in effect at December 15, 2016. For example, the auditor's report could instead refer to the jurisdictional (i.e., national) auditing standards and the NSS could provide transparency on its website about its ISA adoption program.

8. What are the auditor's reporting responsibilities with respect to other information?

The requirements in ISA 720 (Revised) apply to all audits when other information is presented in an annual report (as defined by ISA 720 (Revised)). The auditor is required to include a separate section in the auditor's report with a heading "Other Information" (or other appropriate heading) when, at the date of the auditor's report:

- For a listed entity, the auditor has obtained, or expects to obtain, the other information; or
- For an entity other than a listed entity, the auditor has obtained some or all of the other information.

When applicable, paragraph 22 of ISA 720 (Revised) specifies the required elements of the Other Information section of the auditor's report, as summarized in the table below.

The Other Information section of the auditor's report includes in all cases:

- A statement that management is responsible for the other information;
- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any other form of assurance conclusion thereon; and
- A description of the auditor's responsibilities relating to reading, considering and reporting on the other information as required by ISA 720.

In addition, the following information is included depending on whether the entity being audited is listed or not, and the status of the other information received by the auditor as of the report date:

Status of the other information received	Listed entities	Entities other than listed entities
The auditor has obtained some or all of the other information at the date of the auditor's report	<ul style="list-style-type: none"> • Identification of the other information obtained prior to the date of the auditor's report • In respect of information obtained prior to the date of the auditor's report, either: <ul style="list-style-type: none"> ○ A statement that the auditor has nothing to report; or ○ If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information 	The same requirements apply as for listed entities
The auditor expects to obtain other information after the date of the auditor's report	<ul style="list-style-type: none"> • Identification of the other information expected to be obtained after the date of the auditor's report 	No reporting required, although the auditor still has responsibilities under ISA 720 (Revised) to perform the necessary procedures on the other information

9. What are the auditor's responsibilities in relation to other information in circumstances when the auditor reissues the report or amends the report previously issued?

In certain circumstances under ISA 560, the auditor may be required to issue a new auditor's report or amend the auditor's report previously issued. For example, the auditor may determine that a new or amended auditor's report is appropriate when facts become known to the auditor after the financial

statements have been issued. How this impacts the auditor's consideration of the other information depends on the circumstances and whether or not the auditor restricts the audit procedures for subsequent events to the amendment of the financial statements (refer to paragraph 12 of ISA 560). For example:

- a) The auditor does not restrict the audit procedures on subsequent events to the amendment of the financial statements.

Paragraph 15(c)(i) of ISA 560 indicates that the auditor shall extend the audit procedures as indicated in paragraphs 6 and 7 of ISA 560. This includes performing audit procedures designed to obtain sufficient appropriate audit evidence that all events occurring between the date of the financial statement and the auditor's report that required adjustment of, or disclosure in, the financial statements have been identified. Accordingly, in such a case, the auditor would be expected to consider any impact on the auditor's procedures in relation to other information arising from the subsequent event, including whether further work is necessary on other information that was obtained prior to the date of the auditor's original report, particularly when management intends to amend other information previously issued. The auditor's report would need to be updated, as appropriate, to reflect other information that has now become available as at the date of the auditor's report and the auditor's conclusions thereon (i.e., nothing to report / material misstatement) and for listed entities, any further other information that may not have previously been identified, which the auditor still expects to obtain.

The auditor would still be responsible for other information obtained after the date of the auditor's report, as set out in paragraph 19 of ISA 720 (Revised).

- b) The auditor restricts the audit procedures on subsequent events to the amendment of the financial statements (including the situation that is sometimes referred to as "dual-dating" the auditor's report).

Paragraph 12 of ISA 560 permits the auditor to restrict the audit procedures on subsequent events to the amendment to the financial statements in certain circumstances. In such a case, the auditor's report indicates that the procedures were restricted solely to that amendment (either by amending the existing auditor's report or providing a new or amended auditor's report). Where the amendment impacts the other information, the auditor would need to also perform the necessary procedures in relation to the other information, specific to the amendment. In such a case, the auditor may need to indicate this in the auditor's report as part of the procedures performed on the amendment, particularly if management intends to amend other information previously issued. Furthermore, the auditor would identify the other information affected by the amendment and the auditor's conclusions thereon (i.e., nothing to report / material misstatement). However, if the other information was unaffected by the amendment, the auditor would make no further amendments to the auditor's report in respect of other information.

The auditor would still be responsible for other information obtained after the date of the auditor's report, as set out in paragraph 19 of ISA 720 (Revised).

Key Contacts

Dan Montgomery, Chair of the IAASB Auditor Reporting Implementation Working Group and former IAASB Deputy Chair: danmontgomery@iaasb.org

James M. Sylph, Co-Chair of the IAASB Auditor Reporting Implementation Working Group:
jimsylph@iaasb.org

Natalie Klonaridis, Principal, IAASB: natalieklonaridis@iaasb.org

Prof. Arnold Schilder, IAASB Chairman: arnoldschilder@iaasb.org

[About the IAASB and other copyright information to be included prior to publication]

	Consolidated and separate financial statements presented in separate documents	Consolidated and separate financial statements presented discretely in a single document	Financial statements presented combined in a single document (4-column format)
It has been determined that KAM are required to be presented for the audit of the separate financial statements ⁷	<p>In such a case, it is presumed that the auditor would prepare separate auditor's reports as the underlying financial statements are contained in separate documents.</p> <p>The KAM in respect of each set of financial statements should be clearly described in each report, since each report should comply with the requirements of paragraph 30 of ISA 700 (Revised). This paragraph indicates that ISA 701 is required to be applied in its entirety for an audit of a complete set of general purpose financial statements.</p>	<p>In such a case, there are three possibilities:</p> <ul style="list-style-type: none"> • A single auditor's report addressing both sets of financial statements. In such a case the considerations in the next column to the right would apply. • Separate auditor's reports for each set of financial statements. In such a case the auditor's reports would need to be standalone, that is, the auditor would need to fully comply with the requirements of paragraph 30 ISA 700 (Revised). Accordingly, merely including a cross-reference to the KAM in the consolidated financial statements would be insufficient. However, the auditor could refer to the KAM in the respective reports in highlighting similarities and differences between the two reports, if the auditor believes it appropriate and relevant to do so. 	<p>As the auditor's report would be a single report addressing both the consolidated and separate financial statements, the report would include KAM relating to both sets of financial statements in the single report. This could be presented in a variety of ways, for example:</p> <ul style="list-style-type: none"> • Indicating for each KAM how it applies to the audit of the consolidated and separate financial statements (see last paragraph of question 1(b) of this FAQ). • Presenting the KAM for the consolidated financial statements in one section, and those for the separate financial statements in another section. • If such a circumstance exists, including a general statement to indicate that the KAM apply to both the audit of the consolidated and separate financial statements in the same manner (i.e., that the effect of the KAM on the separate financial statements is the same as for the consolidated financial statements).

⁷ That is, the separate financial statements are considered to be a complete set of general purpose financial statements.