



Agenda Item 4

Auditor Reporting

Objective

To discuss potential auditing interpretations relating to the IAASB's final standards on auditor reporting, specifically reporting when the auditor conducts an audit in accordance with both GAAS and the ISAs.

Task Force

The Auditor Reporting Task Force members are:

- Mike Santay (Chair)
- Jan Herringer
- Carol McNerney
- Marc Panucci
- Chris Smith
- Mike Westervelt (TIC representative)

Background

IAASB Update

At the September 2014 IAASB meeting, the IAASB voted out as final ISA 570 (Revised), *Going Concern*, along with the auditor reporting suite of standards, subject to the approval of the Public Interest Oversight Board. The following is a list of the more significant new or revised standards from the auditor reporting suite that were voted out as final at that meeting.

- 1) ISA 700 *Forming an Opinion and Reporting on Financial Statements* (Revised)
- 2) ISA 701 *Communicating Key Audit Matters in the Independent Auditor's Report*
- 3) ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* (Revised)
- 4) ISA 706 *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* (Revised)
- 5) ISA 260 *Communication with Those Charged with Governance* (Revised)

Auditor Reporting ASB Meeting, January 12-15, 2014

The new and revised standards will be effective for audits of financial statements for periods ending on or after December 15, 2016. Early adoption is permitted. At this point it is not clear if early adoption would require the auditor to adopt all of the revisions simultaneously.

PCAOB Project Status

In August 2013, the PCAOB issued a proposal for amending their reporting standards to enhance auditor reporting, including the auditor reporting on critical audit matters (CAM); required statements about auditor tenure and auditor independence; expanded description of standardized language about the audit and the auditor's responsibilities; and revisions to the standard addressing other information. The PCAOB has held further outreach including a public roundtable on this subject, and current indications are that the proposed standard will be re-exposed in 2015.

July 2014 and October 2014 ASB Meeting Update

At the July 2014 ASB meeting, the ASB discussed the implications of (1) the changes being adopted by the IAASB relating to auditor reporting responsibilities, including how the option for the auditor to report KAM for non-listed entities creates a difference from the converged reporting standards as adopted with the clarified standards; and (2) the current PCAOB project to develop a reporting standard that could incorporate certain of the concepts adopted by the IAASB. The timing of the PCAOB finalizing their auditor reporting project is not certain given their current intent to re-expose the proposed standard. In consideration of these factors, the ASB agreed to a two-stage approach. The first stage was to develop an interpretation to address matters that may arise in reporting when dual standards were applied, and whether an auditor can communicate KAMs under GAAS, and the second stage was to evaluate the need to revise AU-C 700 and other relevant AU-C sections considering the final IAASB standards and a final PCAOB standard (when issued).

At the October 2014 meeting the ASB discussed the need for potential auditing interpretations and agreed the task force should address the following circumstances through interpretations:

- an interpretation to address dual reporting when the audit is conducted in accordance with both GAAS and the revised ISA reporting standards (where KAM is not required nor otherwise intended to be communicated)
- an interpretation to address dual reporting when the audit is conducted in accordance with both GAAS and ISAs (with KAM communicated in the ISA report)

The ASB also discussed whether it would be permissible to include KAM in a GAAS only report and agreed to delay the development of any further interpretations related to this circumstance until after the PCAOB standards are further delineated.

Draft Interpretations and Issues for Discussion with the ASB

The ASB's Auditor Reporting Task Force has developed the following draft interpretation to address reporting on audits conducted in accordance with both GAAS and the revised ISAs. The task force understands that reporting in these circumstances is not uncommon. The interpretation illustrates when KAM has not been communicated in the auditor's report but also provides guidance on how to report when KAM is communicated in the report (rather than include a second interpretation as noted above).

Note: The interpretation was based on the "approved" version of ISA 700 (revised) from the September 2014 IAASB meeting. [Click here](#) to view this version. The version used was marked to incorporate all changes agreed during the September 2014 IAASB discussions. The final version of ISA 700 (revised) is subject to PIOB approval and may contain differences from the version used to develop this content. The interpretation will be conformed to the final version once it is issued.

Background

ISA 700 (revised) addresses the dual reporting situations, whether required by law or regulation or in situations when a national standards setter requires use of local audit standards, in paragraphs 50 and 51. Specifically, paragraph 51 of ISA 700 (revised) allows the auditor's report to refer to the ISAs and to national auditing standards provided

- a. There is no conflict between the requirements in the national auditing standards and those in the ISAs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by the ISAs; and
- b. The auditor's report includes, at a minimum, each of the elements set out in paragraph 50(a)–(o) when the auditor uses the layout or wording specified by the national auditing standards. However, reference to "law or regulation" in paragraph 50(k) shall be read as reference to the national auditing standards. The auditor's report shall thereby identify such national auditing standards.

The paragraphs indicate that in those situations where the form of report is specified by law, regulation, or by the national standards setter, the auditor should consider the guidance in paragraphs 50 and 51 in determining the ability to refer to the ISAs when an audit is performed under both sets of standards. After much discussion, the task force believes that GAAS specifies certain aspects of the layout and wording of the auditor's report through the requirements of AU-C 700 and therefore the auditor may use the illustrative GAAS form of report provided all the elements in paragraph 50(a)–(o) are included. In order to address each of the elements in paragraph 50, the task force believes that additional content would need to be included in the illustrative GAAS report to meet the ISA requirements.

The draft interpretation provides an illustrative report that is based on the example report included in AU-C 700 and includes suggested revisions to meet the elements required in paragraph 50 of ISA 700 (revised). The task force noted that until such time as the ASB considers broader changes to the reporting standards, the task force believes that the current illustrative draft, as supplemented to meet the elements included in paragraph 50 of ISA 700 (revised), would be appropriate for reporting under both GAAS and the ISAs.

Issues for ASB Discussion

Issue 1 —Layout and Wording of the Auditor’s Report Under GAAS

Does GAAS specify the layout or wording of the auditor’s report?

If the ASB concludes that GAAS specifies the layout or wording of the auditor’s report, then paragraph 51 of ISA 700 (revised) would apply when the auditor conducts an audit in accordance with GAAS and has additionally complied with the ISAs in the conduct of the audit provided there is no conflict between the GAAS requirements 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 each of the elements set out in paragraph 50(a)–(o) of ISA 700 (revised) are included in the report. The task force believes that certain ISA requirements, such as the opinion section being included in the first paragraph in the auditor’s report, would not be required since it is not a specified element of paragraph 50.

If the ASB concludes that GAAS does not specify the layout or wording of the auditor’s report, then paragraph 51 of ISA 700 (revised) would not apply and all of the reporting requirements of ISA 700 would have to be complied with (including placing the opinion section first) when the auditor conducts an audit in accordance with GAAS and has additionally complied with the ISAs in the conduct of the audit and the auditor wants to provide a dual opinion. In that situation, all the reporting requirements in AU-C 700 would also need to be included.

Alternatively, the auditor could issue two separate reports.

As noted previously, the task force believes that GAAS specifies certain aspects of the layout and the wording of the auditor’s report through the requirements of AU-C 700, in particular when the standard indicates with specificity that the “auditor should state...”. The relevant requirements include:

- paragraph .25 of AU-C 700 requires an introductory paragraph to be included in the auditor’s report
- paragraphs .26, .29, and .34 require specific sections and headings to be included in the auditor’s report

Auditor Reporting
ASB Meeting, January 12-15, 2014

- paragraphs .30, .31, .32, .33, and .35 require specific wording to be included in the auditor's report.

Because the task force believes GAAS specifies the layout and wording of the report, paragraph 51 of ISA 700 (revised) would apply when the auditor conducts an audit in accordance with GAAS and has additionally complied with the ISAs in the conduct of the audit. In accordance with paragraph 51 of ISA 700 (revised), the auditor's GAAS report may also refer to the International Standards on Auditing in addition to GAAS, but only if paragraph 51(a) and (b) are met (see above).

Accordingly, the task force believes that the illustrated GAAS form of report may be used as a starting point, provided all the elements in paragraphs 50(a)-(o) are included (which would necessitate additional content to be included in the GAAS report to meet the ISA requirements). The interpretation has been drafted based upon this conclusion.

Action Requested of the ASB

Does the ASB agree with the task force that GAAS specifies certain aspects of the layout and wording of the auditor's report and therefore paragraph 51 of ISA 700 (revised) would apply when the auditor conducts an audit in accordance with GAAS and has additionally complied with the ISAs in the conduct of the audit?

Issue 2 – Going Concern

Is there a conflict between GAAS and the revised ISAs when reporting on going concern, when the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), and the auditor conducts an audit in accordance with GAAS and has additionally complied with the ISAs in the conduct of the audit and the auditor wants to provide a dual opinion?

Background

Paragraph 39 of ISA 700 (Revised) requires the auditor's report to describe an audit (in the auditor's responsibilities section) by stating that, among other things, the auditor's responsibilities are to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

The required wording in paragraph 39 of ISA 700 (revised) appears to be based on terminology included in International Financial Reporting Standards (IFRS). U.S. GAAP, specifically FASB ASC subtopic 205-40 *Presentation of Financial Statements – Going*

Auditor Reporting
ASB Meeting, January 12-15, 2014

Concern (Subtopic 205-40) Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (FASB ASU 2014-15) is applicable for annual periods ending after December 15, 2016 (early adoption permitted) and contains some differences from IFRS. The task force discussed the potential conflict between the revisions to the standard form of report included in newly adopted ISA 570 (revised) in situations when the auditor is reporting on U.S. GAAP financial statements. The primary issues discussed by the task force included (1) reporting using the revised ISA language prior to the adoption of FASB ASC subtopic 205-40 might be viewed as implying management has responsibilities for assessing going concern that are not explicit in U.S. GAAP; and (2) use of the term "material uncertainty" is not defined in the context of going concern (see further discussion below). The task force noted that the intent of the IAASB is that the ISA 570 requirements are "accounting framework neutral", and accordingly in complying with the ISAs the auditor is required to consider the notion of material uncertainty regardless of the accounting framework (see paragraph A22 in the excerpts).

Under IFRS, disclosures are required when management is aware of material uncertainties related to events and conditions that may cast significant doubt about an entity's ability to continue as a going concern. IFRS does not define material uncertainties or significant doubt. Under FASB ASC subtopic 205-40, disclosures are required when there is substantial doubt about an entity's ability to continue as a going concern or when substantial doubt is alleviated as a result of consideration of management's plans. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable (as used in FAB ASC topic 450, *Contingencies*) that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued (or available to be issued).

Task force members noted that the differences between the requirements in ISA 570 (revised) and GAAP may result in conflicts in the assessment of going concern and the related disclosures included in the financial statements.

Options Considered by the Task Force

The task force discussed whether the interpretation(s) needed to address this potential inconsistency. The various options discussed by the task force are as follows:

Option 1: The requirement in paragraph 39 of ISA 700 is not applicable when the applicable financial reporting framework is GAAP because the words appear to be based on terminology included in IFRS and are not framework neutral and therefore this requirement can be omitted from the auditor's report when dual reporting and the underlying accounting framework is not aligned with the ISA terminology.

Option 2: The requirements in ISA 570 (and in paragraph 39 of ISA 700) are applicable on all audits, regardless of the going concern reporting required by an applicable financial reporting framework. ISA 570 defines a material uncertainty

Auditor Reporting
ASB Meeting, January 12-15, 2014

and significant doubt such that an evaluation should be made by the auditor in addition to the requirements that management may have under any applicable financial reporting framework.

Option 3: The auditor cannot provide a dual report when the financial statements are prepared in accordance with GAAP because the requirements in ISA 700 (revised) and 570 (revised) related to going concern conflict with GAAP.

Option 4: Develop an interpretation to revise the auditor's responsibilities in the auditor's report relating to going concern to conform to GAAP. [Caution: this option would cause the ASB to create new wording for the auditor's report ahead of the deliberation that would need to be done relating to possible changes to AU-C 570. The Going Concern Task Force is not intending to revise AU-C 570 until the status of the PCAOB deliberations is further along.]

Action Requested of the ASB

Does the ASB recommend any of the options set forth above to address reporting on going concern when reporting under both GAAS and ISA 700 (revised)?

Excerpts of ISA 570 (Revised)

Requirements

Auditor Conclusions

17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21–A22)

- (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
- (b) In the case of a compliance framework, the financial statements not to be misleading.

Application Material

Auditor Conclusions

Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 18–19)

A21. The phrase “material uncertainty” is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity’s ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase “significant uncertainty” is used in similar circumstances.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management’s evaluation of the significance of the events or conditions relating to the entity’s ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity’s ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management’s consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists (Ref: Para. 20)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation. Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

Draft Interpretation

NOTE: The following draft interpretation is based on the following assumptions related to the above issues: (i) that the auditor is applying the revised ISAs; (ii) that ISA 700 (revised) paragraph 51 is applicable as U.S. GAAS specifies certain aspects of the layout or wording of the auditor's report; and (iii) option 2 related to application of the going concern requirements is applicable. Also, with regard to the illustrative report below, the additional language included to meet the required elements in paragraph 50 are highlighted in a different color; certain sections are also highlighted for more specific ASB focus.

AU-C Section 9700

Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of Section 700

2. Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and in Accordance With International Standards on Auditing

.06 *Question*— Paragraph 42 of AU-C 700 *Forming an Opinion and Reporting on Financial Statements* states that the auditor's report is required to state that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and identify the United States of America as the country of origin of those standards. However, an auditor may indicate that the audit was also conducted in accordance with another set of auditing standards (for example, International Standards on Auditing (ISAs), the standards of the Public Company Accounting Oversight Board, or Government Auditing Standards). The auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety. In accordance with paragraph 43 of AU-C 700, when the auditor's report refers to both GAAS and another set of auditing standards, the auditor's report should identify the other set of auditing standards, as well as their origin. In January 2015, the IAASB released new and revised auditor reporting standards. Is the auditor permitted to use one report when reporting on an audit conducted under both GAAS and the new and revised International Standards on Auditing (ISAs)? What considerations would the auditor need to address due to the differences in the reporting standards?

.07 *Interpretation*—Yes, the auditor is permitted to use one report when the auditor is reporting on an audit conducted under both GAAS and the ISAs. As described above, paragraph 42 of AU-C 700 states that the auditor should not refer to having conducted an audit in accordance with another set of auditing standards in addition to GAAS, unless the audit was conducted in accordance with both sets of standards in their entirety. This

would, therefore, also include complying with the revised IAASB auditor reporting standards.

.08 Paragraph 51 of ISA 700 (revised) states that an auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction (the “national auditing standards”), and has additionally complied with the ISAs in the conduct of the audit. If this is the case, the auditor’s report may refer to International Standards on Auditing in addition to the national auditing standards, but the auditor shall do so only if:

- 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 paragraph or Other Matters 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 paragraph 50(a)–(o) when the auditor uses the layout or wording specified by the national auditing standards. However, reference to “law or regulation” in paragraph 50(k) shall be read as reference to the national auditing standards. The auditor’s report shall thereby identify such national auditing standards.

.09 Paragraph 52 of ISA 700 (revised) also states that when the auditor’s report refers to both the national auditing standards and ISAs, the auditor’s report shall identify the jurisdiction of origin of the national auditing standards.

.10 Because GAAS specifies certain aspects of the layout and the wording of the auditor’s report through the requirements of AU-C 700 (including requirements related to an introductory paragraph and specific required wording), the auditor may use the illustrative GAAS form of report provided all the elements in paragraph 50(a)-(o) are included. As certain of those elements go beyond the current illustrative GAAS report, the auditor will need to add certain elements specified in ISA 700 (revised) to comply with the ISA form of reporting, when reporting under both sets of standards. The following is the list of elements set out in paragraph 50(a)-(o) that need to be included in the auditor’s report when reporting in such circumstances.

- a. A title.
- b. An addressee, as required by the circumstances of the engagement.
- c. An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction

Auditor Reporting
ASB Meeting, January 12-15, 2014

- of origin of the financial reporting framework that is not International Financial Reporting Standards or International Public Sector Accounting Standards).
- d.* An identification of the entity's financial statements that have been audited.
 - e.* A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the independence and other relevant ethical requirements, or refer to the IESBA Code.
 - f.* Where applicable, a section that includes the information required by, and is not inconsistent with, the reporting requirements in paragraph 22 of proposed ISA 570 (Revised), or additional information about a material uncertainty that is required by law and regulation and that is not inconsistent with the reporting requirements in that paragraph.
 - g.* Where applicable, a Basis for Qualified (or Adverse) Opinion) section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of proposed ISA 570 (Revised).
 - h.* Where applicable, a section that includes the information required by proposed ISA 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that ISA.¹
 - i.* Where applicable, a section that addresses the reporting requirements in proposed ISA 720 (Revised).
 - j.* A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process in a manner that addresses, and is not inconsistent with, the requirements in paragraphs 33–36.
 - k.* A reference to International Standards on Auditing and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements in a manner that addresses, and is not inconsistent with, the requirements in paragraphs 37–40.

¹ ISA 701 applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report.

Auditor Reporting
ASB Meeting, January 12-15, 2014

- l.* For audits of complete sets of general purpose financial statements of listed entities, the name of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.
- m.* The auditor's signature.
- n.* The auditor's address.
- o.* The date of the auditor's report.

.11 The following is an example of an auditor's report when reporting on an audit conducted in accordance with auditing standards generally accepted in the United States and in accordance with the ISAs.

Circumstances include the following:

- Audit of a complete set of general purpose financial statements (single year). The audit is not a group audit.

Note: If the audit were a group audit the auditor would need to include additional information in the auditor's responsibilities section of the auditor's report, in accordance with paragraph 39(c) of ISA 700 (Revised).

- The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. FASB ASC subtopic 205-40 *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* has been early adopted.
- The audit was conducted in accordance with GAAS and ISAs.
- The auditor has concluded an unmodified opinion is appropriate based on the audit evidence obtained and no emphasis or other matter paragraphs are included.
- The relevant ethical requirements that apply to the audit comprise AICPA's ethical requirements and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 *Going Concern* (Revised).

Note: If the auditor were to have concluded that a material uncertainty exists, and adequate disclosure about the material uncertainty is made in the financial statements,

Auditor Reporting
ASB Meeting, January 12-15, 2014

then the auditor would be required to include a separate section under the heading “Material Uncertainty Related to Going Concern” in accordance with paragraph 22 of ISA 570. When reporting under both GAAS and the ISAs, this may be achieved by adding an Emphasis-of-Matter Paragraph to the auditor’s report with such a heading and appropriate content.

If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor would modify the opinion on the financial statements, as appropriate, in accordance with paragraph 23 of ISA 570.

Comment [LcD1]: See Issue 2 above

- Key audit matters have not been communicated in accordance with ISA 701.

Note: If key audit matters were included in the auditor’s report, a section that includes the information required by ISA 701 *Communicating Key Audit Matters in the Independent Auditor’s Report* would need to be added to the auditor’s report. This may be achieved by placing the information in a location that, in the auditor’s judgment, is appropriate, under the heading “Key Audit Matters.” In addition, information would be added to the auditor’s responsibilities section relating to KAM, in accordance with paragraph 40(c) of ISA 700 (Revised).

- Other information (*placeholder – for final ISA standard*).
- Those responsible for the oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor does not have other reporting responsibilities required under local law.

INDEPENDENT AUDITOR’S REPORT

[Appropriate Addressee]

Report on the Financial Statements

We have audited the accompanying financial statements of ABC Company, which comprise the balance sheet as of December 31, 20X1, and the related statements of income, changes in stockholders’ equity and cash flows for the year then ended, and the related notes to the financial statements.

Responsibilities of Management’s and Those Charged with Governance Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Comment [LcD2]: Should this be revised to reflect GAAP requirement that management would use the going concern basis of accounting unless liquidation becomes imminent?

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Comment [LcD3]: Should this include GAAS as well even though this is an ISA reporting element?

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the United States of America, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. As part of an audit, we exercise professional judgment and maintain professional skepticism throughout the audit. 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. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Comment [LcD4]: Paragraph 39(b)(i) of ISA 700 (revised) requires the report to describe an audit by stating that the auditor's responsibilities are to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error; to design and perform audit procedures responsive to those risks;...

Does the first sentence of this paragraph adequately cover the element highlighted above or do the words need to be added to the report?

We also:

- conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material

Auditor Reporting
ASB Meeting, January 12-15, 2014

uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Comment [LcD5]: See Issue 2

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Comment [LcD6]: Should this be changed to material weaknesses in the U.S even though there is no GAAS requirement to include this element in the auditor's report and the ISAs were also followed in performing this audit?

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ABC Company as of December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

Comment [LcD7]: Should we delete this section since upfront say nothing to report on this?

[Auditor's signature]

[Auditor's city and state]

[Date of the auditor's report]

Specific Matters for ASB Consideration

1. Does the ASB agree with the interpretation and the illustrative auditor's report?
2. The effective date for revised ISA 700 and the related standards is for periods ending on or after December 15, 2016. Although early adoption is not precluded. Does the ASB have a view as to the appropriate timing for issuing this interpretation?