



Agenda Item 3

Auditor Reporting — Cover Letter and Issue Paper

Objective

To discuss certain elements of the auditor's report relating to ASB's convergence with the International Auditing and Assurance Standards Board (IAASB) International Standards on Auditing (ISA) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*.

Task Force

The Auditor Reporting Task Force members are:

- Dan Montgomery (Chair)
- Jan Herringer
- Susan Jones
- Richard Miller
- Marc Panucci
- Jeffrey Rapaglia
- Rick Reisig
- Mike Westervelt (TIC)

Background

In 2015 the IAASB issued new and revised International Standards on Auditing (ISAs) relating to reporting on audited financial statements (referred to as the new and revised ISAs). The following is a list of the new and revised ISAs which are effective for audits of financial statements for periods ending on or after December 15, 2016.

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- 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 720 (Revised) *The Auditor's Responsibilities Relating to Other Information*
- ISA 570 (Revised), *Going Concern*

As a result of this project, limited amendments were also made to ISA 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose*

Frameworks, ISA 805 (Revised), Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, and ISA 810 (Revised), Engagements to Report on Summary Financial Statements.

January 2016 ASB Discussion

At the January 2016 ASB meeting, the ASB discussed certain threshold issues relating to ASB’s stated goal of convergence with the new and revised ISAs while also considering the standards of the Public Company Accounting Oversight Board (PCAOB). The main issues discussed related to timing of the ASB project, the ordering of the opinion section, expanded standardized language about the audit and the auditor’s responsibilities in the auditor’s report, and communicating key audit matters.

Two consistent themes in discussing each issue were the need for outreach and communication with stakeholders, and the need for a framework for the task force and ASB for determining how to converge with the ISAs while also considering the PCAOB standards. Overall the ASB was supportive of moving forward.

PCAOB Update

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. On May 11, 2016 the PCAOB re-proposed, for public comment, their auditor reporting standard. Mr. Montgomery will comment on certain aspects of the re-proposed standard during the meeting. However, as noted in the *Task Force Discussions* section below, the task force will consider the effects of the re-proposal at a future meeting.

IAASB Outreach and Communication

The IAASB conducted extensive outreach and communication throughout their reporting project. The task force believes that the information obtained from the IAASB’s project can be used in the U.S. to help inform the convergence efforts with the new and revised ISAs and that additional outreach by the ASB is not necessary. Mr. Montgomery will discuss the IAASB’s outreach efforts during the meeting.

Task Force Discussions

The task force held numerous conference calls since the January 2016 ASB meeting to move forward with this project.

Proposed Framework

The task force developed a proposed framework that uses a two-step approach to revising AU-C section 700 *Forming an Opinion and Reporting on Financial Statements* (see Issue 1). Given the ASB’s stated goal is convergence with the IAASB, the first step is to consider ISA 700 (Revised)

and determine the necessary revisions needed to AU-C 700. The second step will be to consider the PCAOB re-proposal and its effects on the proposed revisions to AU-C 700.

Reporting Elements

The task force discussed the main reporting elements of ISA 700 (Revised) (starting with paragraph 20 of ISA 700 (Revised)), with the intent of convergence as a starting point. The task force discussed whether there was a legitimate reason for the proposed SAS to diverge from the ISA. When discussing the requirements in AU-C 700, the task force took into consideration whether the ASB diverged from the previous ISA 700 as part of the ASB's clarity project, and whether those same reasons currently exist.

Action Requested of the ASB

For purposes of the May 2016 ASB meeting, the ASB is asked to keep in mind that the proposed revisions to AU-C 700 in the tables in the various sections in this issues paper reflect those changes considered necessary to converge with ISA 700 (Revised), and to focus its review on the convergence aspect of this project. The task force recognizes that certain aspects of these reporting elements may need to be re-visited as part of the second phase of this project to consider the re-proposed PCAOB standard.

Issues for ASB discussion

Issue 1 — Auditor Reporting Framework

At the January 2016 ASB meeting, the task force was asked to develop a framework for convergence with the new and revised ISAs while also considering differences with the PCAOB. The task force is proposing the following framework to help in this process, recognizing that changes to the framework may need to be made once the re-proposed PCAOB reporting standard is considered by the task force.

The task force is asking the ASB for feedback on the proposed framework.

Proposed Framework

1. Accept convergence with ISAs as a starting point
2. For each decision point (reporting element, wording or other):
 - a. Is it in the public interest to diverge from the ISA?
 - The public interest considerations that drove the IAASB's deliberations and decisions included, among others: informational value to users, better

transparency about the audit (and therefore enhancing the value of the audit), global stakeholder agreement on importance or value of the element

- b. Is there a legitimate reason that a substantive difference from the PCAOB will be a concern (for example, confusion for users, complexity for auditors in practice, substantive risk or concern in litigation)?
- c. Can any difference from the PCAOB (for example, in form of report, ordering of elements, or wording) be explained through communication or education efforts?
- d. Is this one of the minimum required elements in paragraph 50 of ISA 700 (Revised) that is needed to claim compliance with the ISAs?

Action Requested of the ASB (Issue 1)

1. The ASB is asked to provide the task force with feedback on the proposed framework.

Issue 2 — Auditor’s Report

The following table (and the tables throughout this issue paper) compare the requirements from ISA 700 (Revised) to extant AU-C 700 and reflects the task force’s proposed convergence in the “Proposed Revisions to AU-C 700” column.

The task force supports using the ISA wording to require that the auditor’s report be in writing.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Auditor’s Report	Auditor’s Report	Auditor’s Report
20. The auditor’s report shall be in writing. (Ref: Para. A18–A19)	.23 .20 The auditor’s report <u>should</u> shall be in writing.	.22 The auditor’s report should be in writing. (Ref: par. .A16–.A17)

Issue 3 — Title

The task force supports convergence with the ISA 700 (Revised) wording. The task force noted that extant AU-C 700 contains an explicit requirement to include the word “independent” in the title. The task force did not believe this needed to be retained because paragraph 24 in the proposed revisions to AU-C 700 column still retains this notion and the additional requirements considered in paragraph 30(c) (see issue 7) would make it clear the auditor is independent.

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<i>Auditor's Report for Audits Conducted in Accordance with International Standards on Auditing</i>	<i>Auditor's Report for Audits Conducted in Accordance with <u>GAAS</u>International Standards on Auditing</i>	Auditor's Report for Audits Conducted in Accordance With GAAS
Title	Title	Title
21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A20)	24. 21. —The auditor's report <u>should</u> shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A20)	.23 The auditor's report should have a title <u>that includes the word independent</u> to clearly indicate that it is the report of an independent auditor. (Ref: par. .A18)

Action Requested of the ASB (Issue 3)

2. Does the ASB agree with the proposed revisions to AU-C 700?

Issue 4 — Addressee

The task force agrees with converging with the ISA wording. (Note: during the clarity project, extant AU-C 700 converged with the ISA wording.)

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Addressee	Addressee	<i>Addressee</i>
22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A21)	25. 22. —The auditor's report <u>should</u> shall be addressed, as appropriate, based on the circumstances of the engagement.	.24 The auditor's report should be addressed <u>as required by</u> the circumstances of the engagement. (Ref: par. .A19)

Action Requested of the ASB (Issue 4)

3. Does the ASB agree with the proposed revisions to AU-C 700?

Issue 5 — Placement of Auditor’s Opinion

ISA 700 (Revised) requires the auditor’s opinion to be the first section of the auditor’s report. The task force discussed whether it was in the public interest to diverge from ISA 700 (Revised). Some members of the task force did not agree with converging with ISA 700 (Revised). One member felt strongly that the opinion section should be placed after the responsibilities of management and the auditor. Other members expressed an interest in allowing for flexibility in the placement of the opinion section.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Auditor’s Opinion	Auditor’s Opinion	<i>Auditor’s Opinion</i>
23. The first section of the auditor’s report shall include the auditor’s opinion, and shall have the heading “Opinion.”	26. 23. The first section of the auditor’s report should <u>shall</u> include the auditor’s opinion, and shall have the heading “Opinion.”	.34 The auditor’s report should include a section with the heading "Opinion."

Action Requested of the ASB (Issue 5)

- The ASB is asked for their views on the proposed revisions to AU-C 700 that would require the opinion section to be placed first in the report. The task force noted that the decisions made about the placement of the opinion section may affect the placement of other sections of the auditor’s report.

Issue 6 — Content of Auditor’s Opinion Section

The task force noted that much of the content in the auditor’s opinion section aligns with the introductory paragraph in extant AU-C 700 and therefore did not object to converging with the ISA wording. The following summarizes some of the changes being proposed by the task force.

Reference to Summary of Significant Accounting Policies

The task force agreed with referring to the notes as required by paragraph 24(d) of ISA 700 (Revised), but does not believe that the summary of significant accounting policies should be singled out, as all the notes to the financial statements are important. Therefore, that part of the requirement has been deleted (see edits to paragraph 27(d) of the proposed revisions to AU-C 700).

Reference to “True and Fair View”

The task force noted that, consistent with the changes made as part of the clarity project, the U.S. uses “present fairly” and does not allow for a “true and fair view” opinion. Therefore, all references to “true and fair view” have been eliminated in the proposed revisions to AU-C 700, consistent with extant AU-C 700.

Fair Presentation Frameworks in the U.S.

Also consistent with the changes made as part of the clarity project, in the U.S. only fair presentation frameworks are considered general purpose frameworks, and therefore all references to a “compliance framework” have been deleted in the proposed revisions to AU-C 700.

U.S. Financial Statements

The task force supported changes to better align the wording in the proposed revisions to AU-C 700 to the financial statements used in the U.S.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Auditor’s Opinion	Auditor’s Opinion	<i>Auditor’s Opinion</i>
24. The Opinion section of the auditor’s report shall also:	27. 24. The Opinion section of the auditor’s report should <u>shall</u> also:	<i>Introductory Paragraph</i> .25 The introductory paragraph in the auditor’s report should (Ref: par. .A20–.A23)
(a) Identify the entity whose financial statements have been audited;	(a) Identify the entity whose financial statements have been audited;	a. identify the entity whose financial statements have been audited.
(b) State that the financial statements have been audited;	(b) State that the financial statements have been audited;	b. state that the financial statements have been audited,
(c) Identify the title of each statement comprising the financial statements;	(c) Identify the title of each statement comprising the <u>that the</u> financial statements comprise; <u>comprise; and</u>	c. identify the title of each statement that the financial statements comprise, and
(d) Refer to the notes, including the summary of significant accounting policies; and	(d) Refer to the notes, including the summary of significant accounting policies; and <u>Refer to the notes</u>	
(e) Specify the date of, or	(e) Specify the date of, or	d. specify the date or period

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
period covered by, each financial statement comprising the financial statements. (Ref: Para. A22–A23)	period covered by, each financial statement <u>that the comprising—the</u> financial statements <u>comprise</u> . (Ref: p Para.)	covered by each financial statement that the financial statements comprise.
25. When expressing an unmodified opinion 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:	28. 25. —When expressing an unmodified opinion on financial statements <u>prepared in accordance with a fair presentation framework</u> , the auditor's opinion <u>should state that shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:</u>	.35 When expressing an unmodified opinion on financial statements, the auditor's opinion should state that
(a) In our opinion, the accompanying financial statements present fairly, in all material respects, [...] in accordance with [the applicable financial reporting framework]; or	(a) In our opinion, the accompanying financial statements present fairly, in all material respects, <u>the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, [...]</u> in accordance with [the applicable financial reporting framework]; or	the financial statements present fairly, in all material respects, the financial position of the entity as of the balance sheet date and the results of its operations and its cash flows for the period then ended, in accordance with the applicable financial reporting framework. (Ref: par. .A9 and .A29–.A30)
(b) In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework]. (Ref: Para. A24–A31)	(b) <u>In our opinion, the accompanying financial statements give a true and fair view of [...] in accordance with [the applicable financial reporting framework].</u> (Ref: Para. A24-A31)	
26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying	26. <u>When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying</u>	

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26–A31)	financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26–A31)	
27. If the reference to the applicable financial reporting framework in the auditor’s opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework.	27. If the reference to the applicable financial reporting framework in the auditor’s opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework. 29. 27. If the reference to the applicable financial reporting framework in the auditor’s opinion is not to IFRSs issued by the International Accounting Standards Board or IPSASs issued by the International Public Sector Accounting Standards Board, the auditor’s opinion shall identify the jurisdiction of origin of the framework. The auditor’s opinion <u>should</u> shall identify the <u>applicable financial reporting framework and its jurisdiction of origin of the framework.</u>	.36 The auditor’s opinion should identify the applicable financial reporting framework and its origin. (Ref: par. .A31)

Action Requested of the ASB (Issue 6)

5. Does the ASB support the proposed revisions to AU-C 700?

Issue 7 — Basis for Opinion

ISA 700 (Revised) requires a new section to be included in the auditor’s report called the “Basis for Opinion.” The application material to ISA 700 (Revised) explains that the Basis for Opinion section provides important context about the auditor’s opinion and therefore the ISA requires that this section directly follow the opinion section.

The task force supports including a required section called “Basis for Opinion” in the report. The task force noted that this section is new for auditor’s reports with unmodified opinions, as the auditor has always been required to describe the rationale for a modified opinion. In addition, except for the wording required by paragraph 30(c) of the proposed revisions to AU-C 700, the language in this section will be largely consistent with extant AU-C 700.

The task force believes that if the ASB converges with ISA 700 (Revised) and requires the opinion section to be placed first (see Issue 5), then the ASB should also require that this section follow the opinion section. If, however, the ASB decides not to require the opinion section first, then the ASB will need to decide the best placement for this section of the report. For example, if

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the opinion is placed last, then should this section be required to immediately precede the opinion?

The task force supported requiring a statement in the auditor’s report about the auditor’s independence (see paragraph 30(c) of the proposed revisions to AU-C 700). The task force also proposed changes to reflect U.S. conventions.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Basis for Opinion	Basis for Opinion	
28. The auditor’s report shall include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: Para. A32)	30. 28. —The auditor’s report should <u>shall</u> include a section, directly following the Opinion section, with the heading “Basis for Opinion”, that: (Ref: p Para. A32)	
(a) States that the audit was conducted in accordance with International Standards on Auditing; (Ref: Para. A33)	(a) States that the audit was conducted in accordance with <u>generally accepted auditing standards and should identify the United States of America as the country of origin of those standards.</u> International Standards on Auditing; (Ref: P para. A33)	.31 <u>The auditor’s report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards.</u> The auditor’s report should also explain that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. (Ref: par. .A27–.A28)
(b) Refers to the section of the auditor’s report that describes the auditor’s responsibilities under the ISAs;	(b) Refers to the section of the auditor’s report that describes the auditor’s responsibilities under <u>GAAS</u> the ISAs ;	
(c) Includes 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	(c) Includes 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	

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>auditor’s other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code); and (Ref: Para. A34–A39)</p>	<p>auditor’s other ethical responsibilities in accordance with these requirements. The statement should<u>shall</u> identify the jurisdiction of origin of the relevant ethical requirements or refer to the <u>AICPA Code of Professional Conduct and refer to other relevant ethical requirements.</u> International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code); and (Ref: Para. A34-A39)</p>	
<p>(d) States 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.</p>	<p>(d) States 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.</p>	<p>.33 The auditor’s report should 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.</p>

Action Requested of the ASB (Issue 7)

6. Does the ASB support including a required section called the “Basis for Opinion” section?
7. If so, does the ASB support requiring the “Basis for Opinion” section to be placed directly after the Opinion section, when the opinion section is placed first?
8. Does the ASB support the proposed revisions to AU-C 700?

Issue 8 — Going Concern

ISA 700 (Revised) requires the auditor to report about going concern in accordance with ISA 570. The task force noted that the required wording in the auditor’s report related to going concern will be determined at a future date.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Going Concern	Going Concern	
29. Where applicable, the auditor shall report in accordance with ISA 570 (Revised). ²	31. 29. —When applicable, the auditor should <u>shall</u> report in accordance with ISA 570 <u>AU-C 570</u> (Revised). ³	

Issue 9 — Key Audit Matters

ISA 700 (Revised) requires the auditor to communicate key audit matters (KAM) in the auditor’s report for audits of complete sets of general purpose financial statements for listed entities. ISA 700 (Revised) also permits the auditor to include (KAM) when the auditor decides to do so. The application material to ISA 700 (Revised) says the auditor may decide to communicate KAM for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples include banks, insurance companies, and pension funds, and other entities such as charities (ISA 700.A41). The ISA also states that public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate KAM.

The task force intends to have a more robust discussion about KAM at a future date. Consistent with the discussion at the January 2016 ASB meeting, the task force decided to move forward with the presumption that the auditor would have an option to communicate KAM in the U.S. if they so choose, or may be required to communicate KAM at some point by regulators or others that would like the communication to be made.

For purposes of this ASB meeting, the task force has decided to keep these paragraphs as a placeholder, but has revised the requirement to eliminate the reference to listed entities.

² ISA 570 (Revised), *Going Concern*, paragraphs 21–23

³ ~~ISA 570 (Revised), *Going Concern*, paragraphs 21–23~~

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Key Audit Matters	Key Audit Matters	
30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.	30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.	
31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with ISA 701. (Ref: Para. A40–A42)	32. 31. When the auditor <u>is required or is otherwise required by law or regulation</u> or decides to communicate key audit matters in the auditor's report, the auditor <u>should shall</u> do so in accordance with <u>AU-C ISA-701</u> . (Ref: P para.)	

Issue 10 — Other Information

ISA 700 (Revised) requires the auditor to report in accordance with ISA 720, when applicable. The task force has left this in as a placeholder until the AU-C 720 task force has the opportunity to conclude on that project.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Other Information	Other Information	
32. Where applicable, the auditor shall report in accordance with ISA 720 (Revised)	33. 32. Where applicable, the auditor <u>should shall</u> report in accordance with <u>AU-C ISA-720</u> (Revised)	

Issue 11 — Management's Responsibility for the Financial Statements

ISA 700 (Revised) contains expanded requirements relating to the description of the responsibilities of management for the financial statements. When drafting extant AU-C 700 during the clarity project, the ASB expressed a view that in the U.S. it is sufficient to discuss management's responsibilities relating to the preparation and presentation of the financial

statements. The ISA talks about jurisdictions where the structure of the boards and corporate law are different from the U.S.

Accordingly, the task force is proposing changes to the ISA 700 (Revised) wording to better reflect U.S. convention. The task force noted that ISA 700 (Revised) based some of this section on ISA 200. Therefore, the task force revised the content to comply with paragraph .A2 of AU-C section 200 (see the changes made to paragraph .35(a) of the proposed revisions to AU-C 700 column).

The task force discussed the content in paragraph .35(b) of the proposed revisions to AU-C 700 column and noted that this should be revised to be framework neutral. The task force discussed including application material (to be discussed with the ASB at a future meeting) that would provide guidance specific to U.S GAAP.

ISA 700 (Revised) included paragraph 35 (paragraph 36 of the proposed revisions to AU-C 700) to address the public interest concern for the auditor’s report to clearly delineate who is responsible for preparing the financial statements. The task force decided that this may need further discussion and has retained this paragraph, pending further discussion.

Paragraph .37 of the proposed revisions to AU-C 700 was added to extant AU-C 700 as part of the clarity update to include content from superseded interpretation AU 9508.52. The task force determined to continue to include this paragraph.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Responsibilities for the Financial Statements	Responsibilities for the Financial Statements	<i>Management’s Responsibility for the Financial Statements</i>
33. The auditor’s report shall include a section with a heading “Responsibilities of Management for the Financial Statements.” The auditor’s report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to “management”. In some jurisdictions, the appropriate reference may be to those charged with governance. (Ref: Para. A44)	34. 33. —The auditor’s report <u>should</u> shall —include a section with a heading “Responsibilities of Management for the Financial Statements.” The auditor’s report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to “management”. In some jurisdictions, the appropriate reference may be to those charged with governance. (Ref: P para.)	.26 The auditor’s report should include a section with the heading "Management’s Responsibility for the Financial Statements."
34. This section of the auditor’s report shall describe management’s responsibility for:	35. 34. —This section of the auditor’s report <u>should</u> shall describe management’s responsibility for:	.27 The auditor’s report should describe management’s responsibility for

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
(Ref: Para. A45–A48)	(Ref: P para.)	
(a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and	(a) The p <u>Preparation and fair presentation ing-of</u> the financial statements in accordance with the applicable financial reporting framework; <u>this responsibility includes the design, implementation, and maintenance of ,</u> and for such internal control <u>relevant to theas</u> management determines is necessary to enable the <u>preparation and fair presentation</u> of financial statements that are free from material misstatement, whether due to fraud or error; and	the preparation and fair presentation of the financial statements. The description should include an explanation that management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; this responsibility 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. (Ref: par. .A24)
(b) Assessing the entity's ability to continue as a going concern ⁴ and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A48)	(b) Assessing the entity's ability to continue as a going concern ⁵ <u>in accordance with the applicable financial reporting framework,</u> and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall <u>should</u> include a description of when the use of the going concern basis of accounting is appropriate. (Ref: p Para.)	
35. This section of the auditor's report shall also identify those responsible for the oversight of the	36. 35. This section of the auditor's report <u>should</u> shall also identify those responsible for the oversight	

⁴ ISA 570 (Revised), paragraph 2

~~⁵ ISA 570 (Revised), paragraph 2~~

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph 34 above. In this case, the heading of this section shall also refer to “Those Charged with Governance” or such term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A49)</p>	<p>of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph 3534 above. In this case, the heading of this section should<u>shall</u> also refer to “Those Charged with Governance” or such term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: <u>p</u> Para.)</p>	
<p>36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities 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.</p>	<p>36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities 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.</p>	<p>.27 The auditor’s report should describe management’s responsibility for the preparation and fair presentation of the financial statements....</p>
	<p>37. <u>The description about management’s responsibility for the financial statements in the auditor’s report should not be referenced to a separate statement by management about such responsibilities even if such a statement is included in a document containing the auditor’s report.</u> (Ref: par.)</p>	<p>.28 The description about management’s responsibility for the financial statements in the auditor’s report should not be referenced to a separate statement by management about such responsibilities if such a statement is included in a document containing the auditor’s report. (Ref: par. .A25)</p>

Action Requested of the ASB (Issue 11)

9. Does the ASB support the proposed revisions to AU-C 700?

Issue 12 — Auditor’s Responsibilities: Objectives, Reasonable Assurance, Misstatements

Overall, the task force supported including expanded language about the auditor’s responsibilities for the audit of the financial statements in the auditor’s report under GAAS.

The task force noted that the content about the objectives of the auditor were based on ISA 200 and therefore the task force considered paragraph .12 of AU-C 200 when determining what to include in the proposed revisions to AU-C 700. One member of the task force expressed a strong concern that this section does not sufficiently address the inherent limitations of the audit.

Description of Reasonable Assurance

The task force spent time discussing the wording of the requirement in paragraph 38(b) of ISA 700 (Revised) (paragraph 39(b) of the proposed revisions to AU-C 700), and expressed concerns with the description of reasonable assurance. Paragraph 38(b) of ISA 700 (Revised) says that the auditor’s report should “state that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists.” The task force had concerns with the use of the word “guarantee” and expressed an interest in revising the wording in this section to better convey the inherent limitations of the audit.

The task force considered the wording in AU-C 200 when determining the best way to describe reasonable assurance. Accordingly, the task force considered changing paragraph 39(b) in the proposed revisions to AU-C 700 as follows:

(b) State that reasonable assurance is a high level of assurance, but is not absolute assurance. The auditor directs the audit effort to areas most expected to contain risks of material misstatements, whether due to fraud or error. However, because of the inherent limitations of an audit, there is an unavoidable risk that some ~~guarantee that an audit conducted in accordance with ISAs will always detect a~~ material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS. The inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence, when it exists; and

Matters for ASB Consideration (Issue 12)

10. Does the ASB support the proposed wording for paragraph 39(b) of the proposed revisions to AU-C 700 to better reflect the inherent limitations of an audit?

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Auditor’s Responsibilities for the Audit of the Financial Statements	Auditor’s Responsibilities for the Audit of the Financial Statements	<i>Auditor’s Responsibility</i>
37. The auditor’s report shall include a section with the heading “Auditor’s Responsibilities for the Audit of the Financial Statements.”	38. 37. —The auditor’s report should <u>shall</u> include a section with the heading “Auditor’s Responsibilities for the Audit of the Financial Statements.”	.29 The auditor’s report should include a section with the heading "Auditor’s Responsibility."
38. This section of the auditor’s report shall: (Ref: Para. A50)	39. 38. —This section of the auditor’s report should <u>shall</u> : (Ref: p Para. Error! Reference source not found.)	
(a) State that the objectives of the auditor are to:	(a) State that the objectives of the auditor are to:	
(i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and	(i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and	.31 The auditor’s report should state that the audit was conducted in accordance with generally accepted auditing standards and should identify the United States of America as the country of origin of those standards. <u>The auditor’s report should also explain that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.</u> (Ref: par. .A27–.A28)
(ii) Issue an auditor’s report that includes the auditor’s opinion. (Ref: Para. A51)	(ii) Issue an auditor’s report that includes the auditor’s opinion. (Ref: p Para. A54)	.30 The auditor’s report should state that the responsibility of the auditor is to express an opinion on the financial statements based on the audit. (Ref: par. .A26)
(b) State that reasonable assurance is a high level of assurance, but is not a	(b) State that reasonable assurance is a high level of assurance, but is not <u>absolute</u>	

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists; and</p>	<p><u>assurance. The auditor directs the audit effort to areas most expected to contain risks of material misstatements, whether due to fraud or error. However, because of the inherent limitations of an audit, there is an unavoidable risk that some guarantee that an audit conducted in accordance with GAAS ISAs will always detect a material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS. The inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence when it exists; and</u></p>	
<p>(c) State that misstatements can arise from fraud or error, and either:</p>	<p>(c) State that misstatements can arise from fraud or error, and either:</p>	
<p>(i) Describe that they 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; or⁶</p>	<p>(i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken<u>made</u> on the basis of these se financial statements; or⁷</p>	
<p>(ii) Provide a definition or description of materiality in</p>	<p>(ii) Provide a definition or description of materiality in accordance with the</p>	

⁶ ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 2

⁷ ~~ISA 320, *Materiality in Planning and Performing an Audit*, paragraph 2~~

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
accordance with the applicable financial reporting framework. (Ref: Para. A52)	applicable financial reporting framework. (Ref: p Para. A52)	

Action Requested of the ASB (Issue 12)

11. Does the ASB support the proposed revisions to AU-C 700?

Issue 13 — Auditor’s Responsibilities: Professional Skepticism, Description of the Audit, Group Audits

Professional Skepticism

The task force did not object to including new language in the auditor’s report that states that, as part of the audit, the auditor exercises professional judgment and maintains professional skepticism (see paragraph 40(a) of the proposed revisions to AU-C 700).

Description of the Audit

Identify and Assess the Risks of Material Misstatements

The task force did not object to including new language in the auditor’s report that describes the risk-based nature of an audit by stating what the auditor’s responsibilities are for identifying and assessing the risks of material misstatement. The task force discussed including additional language in the U.S. to emphasize the inherent limitations of an audit. The task force also discussed the sentence in paragraph 40(b)(i) indicating that the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error. The task force will continue to discuss this wording, but decided to include it in the proposed revisions to AU-C 700 given that the wording is substantially consistent with AU-C 240.06.

Evaluate the Appropriateness of Accounting Policies and Estimates

The task force discussed the language in the auditor’s report relating to the auditor’s responsibilities to evaluate the appropriateness of accounting policies used and the reasonableness of estimates made by management (see paragraph 40(b)(iii) of the proposed revisions to AU-C 700). As part of the clarity project, the ASB agreed with adding the word “significant” before estimates in extant AU-C 700 to minimize differences with the PCAOB at that time. The task force has included the term “significant” in the proposed revisions to AU-C 700 for reconsideration by the ASB as part of this project.

In addition, the task force has deleted the reference to related disclosures made by management because the task force believes that the financial statements should be considered as a whole and it would be inappropriate to point out only those disclosures related to estimates.

Going Concern

ISA 700 (Revised) includes information about the auditor’s responsibilities to conclude on management’s use of the going concern basis of accounting. This section has been tentatively updated, pending further developments. The updates are principally based on the recently issued Auditing Interpretation No. 3 to AU-C Section 9700 – *Forming an Opinion and Reporting on Financial Statements: Auditing Interpretations of AU-C Section 700*. See paragraph 40(b)(iv) of the proposed revisions to AU-C 700.

Group Audits

ISA 700 (Revised) includes information about the auditor’s responsibilities in a group audit situation. The task force did not object to including this information, but noted that in the U.S. division of responsibilities is permitted and the auditor may make reference to the component auditor in the auditor’s report. The task force believes the requirement will need to be revised to address that in the U.S. the auditor may be solely responsible for the auditor’s opinion or may divide responsibility (see paragraph .24 of AU-C 600). See paragraph 40(c) of the proposed revisions to AU-C 700.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
39. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report shall further: (Ref: Para. A50)	40. 39. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report should <u>shall</u> further: (Ref: Para. A50)	
(a) State that, as part of an audit in accordance with ISAs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and	(a) State that, as part of an audit in accordance with <u>GAASISAs</u> , the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and	
(b) Describe an audit by stating that the auditor’s responsibilities are:	(b) Describe an audit by stating that the auditor’s responsibilities are:	.32 The auditor’s report should describe an audit by stating that a. an audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>(i) 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; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. 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.</p>	<p>(i) 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; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. 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.</p>	
<p>(ii) To obtain an understanding of internal control relevant to the audit 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</p>	<p>(ii) To obtain an understanding of internal control relevant to the audit 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. <u>Accordingly, no such opinion is expressed.</u></p> <p>In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness</p>	<p>.32 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 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</p>

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>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 the entity's internal control.</p>	<p>of internal control in conjunction with the audit of the financial statements, the auditor should omit the following: phrase that "the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. <u>Accordingly, no such opinion is expressed.</u>"</p>	<p>control, and accordingly, no such opinion is expressed.</p> <p>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 should omit the phrase required in paragraph .32b that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of internal control, and accordingly, no such opinion is expressed. (.32)</p>
<p>(iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.</p>	<p>(iii) To evaluate the appropriateness of accounting policies used and the reasonableness of <u>significant</u> accounting estimates —and related disclosures made by management.</p>	<p>.32 c. an audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of <u>significant</u> accounting estimates made by management, <u>as well as the overall presentation of the financial statements.</u></p>
<p>(iv) 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</p>	<p>(iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether <u>there are conditions and events, considered in the aggregate, that raise substantial a material uncertainty exists related to events or conditions that may cast significant doubt about</u> on the entity's ability to continue as a going concern <u>for a reasonable period of</u></p>	

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>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.</p>	<p><u>time</u>. If the auditor concludes that <u>substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time exists, a material uncertainty exists</u>, 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.</p>	
<p>(v) When the financial statements are prepared in accordance with a fair presentation framework, to 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.</p>	<p>(v) When the financial statements are prepared in accordance with a fair presentation framework, To 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.</p>	<p>.33 The auditor's report should 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.</p>
<p>(c) When ISA 600⁸ applies, further describe the auditor's</p>	<p>(c) When <u>AU-C ISA 600</u>⁹ applies, further describe the auditor's</p>	

⁸ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
responsibilities in a group audit engagement by stating that:	responsibilities in a group audit engagement by stating that:	
(i) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;	(i) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;	
(ii) The auditor is responsible for the direction, supervision and performance of the group audit; and	(ii) The auditor is responsible for the direction, supervision and performance of the group audit; and	
(iii) The auditor remains solely responsible for the auditor's opinion.	(iii) The auditor remains solely responsible for the auditor's opinion.	[Note: Wording to be revised by the task force, as appropriate, for the possibility of divided responsibility as permitted by AU-C 600]

Action Requested of the ASB (Issue 13)

12. Does the ASB support the proposed revisions to AU-C 700?
13. Does the ASB have any views about alternative wording to describe the inherent limitations of an audit?
14. What does the ASB believe should be included in the auditor's report about the auditor's responsibilities for the auditor's opinion in a group audit situation, particularly relating to the ability to divide responsibility?

Issue 14 — Auditor's Responsibilities: Communication with Those Charged with Governance

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

The task force supported including expanded discussion in the auditor’s report about the auditor’s responsibilities to communicate with those charged with governance, among other matters, the planned scope and timing of the audit and significant findings, including any significant deficiencies or material weaknesses. (See paragraph 41(a) of the proposed revisions to AU-C 700).

ISA 260 requires the auditor to communicate certain matters regarding independence in the case of listed entities. As part of the clarity project, the ASB determined that these requirements are not applicable to the audits of nonissuers in the United States and, therefore, were not included in AU-C 260. Because GAAS does not include such a requirement, the task force has not included the related reporting in the auditor’s report. See the deletion of paragraph 41(b) of ISA 700 in the proposed revisions to AU-C 700.

When key audit matters are communicated in the auditor’s report, ISA 700 (Revised) requires the auditor’s responsibilities section of the auditor’s report to discuss the auditor’s responsibilities relating to communicating KAM to those charged with governance. See paragraph 41(b) of the proposed revisions to AU-C 700. The task force has retained this requirement as a placeholder.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
40. The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also shall: (Ref: Para. A50)	41. 40. ———The Auditor’s Responsibilities for the Audit of the Financial Statements section of the auditor’s report also should <u>shall</u> : (Ref: pPar.a. A50 Error! Reference source not found.)	
(a) State that the auditor communicates 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 the auditor identifies during the audit;	(a) State that the auditor communicates 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 <u>and material weaknesses</u> in internal control that the auditor identifies during the audit;	
(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance	(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor	

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ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
<p>with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and</p>	<p>has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and</p>	
<p>(c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences</p>	<p>(c) (b) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with AU-C ISA 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.</p>	

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)		

Action Requested of the ASB (Issue 14)

15. Does the ASB support the proposed revisions to AU-C 700?

Issue 15 — Location of the Description of the Auditor’s Responsibilities

Paragraphs 41–42 of ISA 700 (Revised) permit the description of the auditor’s responsibilities for the audit of the financial statements to be included within the body of the auditor’s report; within an appendix to the auditor’s report; or by specific reference within the auditor’s report to the location on a website of an appropriate authority, where law or regulation or national auditing standards expressly permit the auditor to do so.

At the January 2016 ASB meeting, the ASB discussed the location of the description of the auditor’s responsibilities and the ASB supported including the standardized language within the body of the report and not allow for an appendix or website to contain that information.

The task force is proposing that paragraphs 41–42 of ISA 700 (Revised) not be included in the proposed revisions to AU-C 700, and instead the following be added to paragraph .23 of the proposed revisions to AU-C 700 to establish a requirement that all the elements be in the report.

The auditor’s report should be in writing and should contain the elements in paragraphs 24-51, if applicable.

The task force believes that this wording explicitly requires all reporting elements, including the description of the auditor’s responsibilities, to be contained in the body of the auditor’s report. The task force considered this overarching requirement preferable to singling out the auditor’s responsibilities section as required to be in the body of the report.

Action Requested of the ASB (Issue 15)

16. Does the ASB support this wording?

Issue 16 — Other Reporting Responsibilities

Paragraphs 43–45 of ISA 700 (Revised) addresses other reporting responsibilities in the auditor’s report. Paragraph .A32 of AU-C 700 provides an example for audits conducted under *Government Auditing Standards*, indicating that the auditor may be required to report on internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements, which may be included in this section. This separate section is used in order to clearly distinguish it from the auditor’s responsibilities under GAAS to report on the financial statements. ISA 700 (Revised) contains new requirements that address when other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by GAAS.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Other Reporting Responsibilities	Other Reporting Responsibilities	<i>Other Reporting Responsibilities</i>
<p>43. If the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibilities under the ISAs, these other reporting responsibilities shall be addressed in a separate section in the auditor’s report with a heading titled “Report on Other Legal and Regulatory Requirements” or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the ISAs. (Ref: Para. A58–A60)</p>	<p>42. 43.—If the auditor addresses other reporting responsibilities in the auditor’s report on the financial statements that are in addition to the auditor’s responsibilities under GAASthe ISAs, these other reporting responsibilities shouldshall be addressed in a separate section in the auditor’s report with a heading titled “Report on Other Legal and Regulatory Requirements” or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by GAASthe ISAs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by GAASthe ISAs. (Ref: pPara. A58—Error! Reference source not found.)</p>	<p>.37 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 GAAS <u>to report on the financial statements</u>, these other reporting responsibilities should be addressed in a separate section in the auditor’s report <u>that should be subtitled</u> “Report on Other Legal and Regulatory Requirements” or otherwise, as appropriate to the content of the section. (Ref: par. .A32–.A33)</p>
<p>44. If other reporting responsibilities are presented in the same section as the related</p>	<p>43. 44.—If other reporting responsibilities are presented in the same section as the related report</p>	

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
report elements required by the ISAs, the auditor’s report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the ISAs. (Ref: Para. A60)	elements required by GAAS the ISAs , the auditor’s report should shall clearly differentiate the other reporting responsibilities from the reporting that is required by GAAS the ISAs . (Ref: p Para. A60)	
45. If the auditor’s report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 21–40 of this ISA shall be included under a section with a heading “Report on the Audit of the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” shall follow the “Report on the Audit of the Financial Statements.” (Ref: Para. A60)	44. 45. —If the auditor’s report contains a separate section <u>that addresses</u> other reporting responsibilities, the requirements of paragraphs 2421–4140 of this proposed SAS ISA should shall be included under a section with a heading “Report on <u>the Audit of</u> the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” should shall follow the “Report on <u>the Audit of</u> the Financial Statements.” (Ref: P para. A60.)	38 If the auditor’s report contains a separate section <u>on</u> other reporting responsibilities, the headings, statements, and explanations referred to in paragraphs .25–.36 should be under <u>the subtitle</u> “Report on the Financial Statements.” The “Report on Other Legal and Regulatory Requirements” should follow the “Report on the Financial Statements.” (Ref: par. .A34)

Action Requested of the ASB (Issue 16)

17. The ASB is asked to provide the task force with examples of situations to which this section may apply to help inform the task force of possible changes that may be needed in the U.S., including possible additional application material.

Issue 17 — Name of the Engagement Partner

Paragraph 46 of ISA 700 (Revised) requires the name of the engagement partner to be included in the auditor’s report for audits of complete sets of general purposed financial statements of listed entities, unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. Naming the engagement partner is intended to provide further transparency to the users of the auditor’s report.

Overall, the task force did not see a need for GAAS to require the name of the engagement partner to be included in the auditor’s report and therefore paragraph 46 has not been included in the proposed revisions to AU-C 700. The task force discussed the possibility of GAAS specifically permitting an option to include the name of the engagement partner in the auditor’s report, and will consider this in its future discussions.

Issue 18 — Signature of the Auditor

As part of the clarity project, when developing extant AU-C 700, the ASB agree to retain the AU 508 requirement for the manual or printed signature of the auditor’s firm because the ASB believed the AU 508 language was more descriptive.

The task force recommends that extant AU-C 700 wording continue to be retained.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Signature of the Auditor	Signature of the Auditor	<i>Signature of the Auditor</i>
47. The auditor’s report shall be signed. (Ref: Para. A64–A65)	45. 47. —The auditor’s report <u>should</u> shall include the manual or printed signature of the auditor’s firm. be signed. (Ref: p Para. A64–A65)	.39 The auditor’s report should include the manual or printed signature of the auditor’s firm. (Ref: par. .A35–.A36)

Action Requested of the ASB (Issue 18)

18. Does the ASB support the proposed revisions to AU-C 700?

Issue 19 — Auditor’s Address

As part of the clarity project, when developing extant AU-C 700, the ASB agreed to retain the AU 508 requirement to name the city and state where the auditor practices because in the U.S. the location of the issuing office is the city and state. In another country it may be the city and country.

The task force recommends that extant AU-C 700 wording continue to be retained.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Auditor’s Address	Auditor’s Address	<i>Auditor’s Address</i>
48. The auditor’s report shall name the location in the jurisdiction where the auditor practices.	46. 48. —The auditor’s report <u>should</u> shall name the <u>city and state location in the jurisdiction</u> where the auditor practices.	.40 The auditor’s report should name the city and state where the auditor practices. (Ref: par. .A37)

Action Requested of the ASB (Issue 19)

19. Does the ASB support the proposed revisions to AU-C 700?

Issue 20 — Date of the Auditor’s Report

As part of the clarity project, the ASB agreed to explicitly include that the audit documentation being reviewed is a necessary part of obtaining sufficient appropriate audit evidence on which the auditor bases the opinion (see paragraph 41(a) of AU-C 700 below). This was included because footnote 1 in superseded AU 530, *Dating of the Independent Auditor’s Report*, said the following:

“Among other things, sufficient appropriate audit evidence includes evidence that the audit documentation has been reviewed and that the entity’s financial statements, including disclosures, have been prepared and that management has asserted that they have taken responsibility for them.”

The task force believes this is stating the obvious and the addition of “the audit documentation has been reviewed” is not necessary. The task force noted that paragraph .19 of AU-C 220, *Quality Control for an Engagement Conducted in Accordance with Generally Accepted Auditing Standards*, requires that on or before the date of the auditor’s report, the engagement partner should, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. The task force believes that this is a better articulation of the important link between audit documentation, sufficient appropriate audit evidence, and the date of the auditor’s report. Therefore, the task force concluded that this reference was not needed in the proposed revisions to AU-C 700. The task force will consider whether it would be helpful to include a reference to paragraph 19 of AU-C 220 in the application material linked to paragraph 47 of the proposed revisions to AU-C 700.

ISA 700 (Revised)	Proposed Revisions to AU-C 700	AU-C 700
Date of the Auditor’s Report	Date of the Auditor’s Report	<i>Date of the Auditor’s Report</i>
49. The auditor’s report shall be dated no 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: (Ref: Para. A66–A69)	47. 49. –The auditor’s report should shall be dated no 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: (Ref: p Para. A66–A69)	.41 The auditor’s report should be dated no 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

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		a. <u>the audit documentation has been reviewed;</u>
(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and	(a) All the statements that comprise —the financial statements <u>comprise</u> , including the related notes, have been prepared; and	b. all the statements that the financial statements comprise, including the related notes, have been prepared; and
(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.	(b) <u>Management</u> Those with the recognized authority <u>has</u> have asserted that they have taken responsibility for those financial statements.	c. management has asserted that they have taken responsibility for those financial statements. (Ref: par. .A38–.A41)

Action Requested of the ASB (Issue 20)

20. Does the ASB support the proposed revisions to AU-C 700?

Appendix 1 — Illustrative Report to Reflect Proposed Revisions to AU-C 700

[Shaded content is noted as a placeholder pending other projects or involve situations that may not occur on all engagements (for example, a group audit).]

INDEPENDENT AUDITOR’S REPORT

[*Appropriate Addressee*]

Report on the Audit of the Financial Statements

Opinion

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.

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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of ABC Company in accordance with the AICPA Code of Professional Conduct together with 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

[Placeholder pending future discussion by ASB]

Other Information

[Placeholder pending AU-C 720 task force outcome]

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

Management is responsible for the preparation and fair presentation of the 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 evaluating whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ABC Company's ability to continue as a going concern within one year after the date that the financial statements are issued, or are available to be issued, and disclosing, as applicable, matters related to this evaluation unless the liquidation basis of accounting is being used by ABC Company.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance. We direct the audit effort to areas most expected to contain risks of material misstatements, whether due to fraud or error. However, because of the inherent limitations of an audit, there is an unavoidable risk that some material misstatement of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with GAAS. The inherent limitations of an audit are not a justification for the auditor to be satisfied with less than persuasive audit evidence. 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 made on the basis of these financial statements.

As part of an audit in accordance with GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.
- Obtain an understanding of internal control relevant to the audit 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 ABC Company's internal control. Accordingly, we express no such opinion.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether there are conditions and events that raise substantial doubt about ABC Company’s ability to continue as a going concern. If we conclude that substantial doubt about ABC Company’s ability to continue as a going concern 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 ABC Company to cease to continue as a going concern.
- 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 or material weaknesses in internal control that we identify during our audit.

[Placeholder relating to KAM pending future discussion by ASB]

Report on Other Legal and Regulatory Requirements

[The form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities. The matters addressed should be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by GAAS as part of the Report on the Audit of the Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by GAAS may be combined (i.e., included in the Report on the Audit of the Financial Statements section under the appropriate subheadings) provided that the wording in the auditor’s report clearly differentiates the other reporting responsibilities from the reporting that is required by GAAS when such a difference exists.]

[Auditor’s Signature]

[Auditor’s city and state]

[Date of the auditor’s report]