



**International Federation of Accountants**

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# Agenda Item

# 8

**Committee:** IAASB  
**Meeting Location:** Copenhagen  
**Meeting Date:** June 14-17, 2004

## Auditor's Report on Financial Statements

### Objectives of Agenda Item

1. To review significant issues raised by commentators on the Exposure Draft *ISA 700, The Independence Auditor's Report on General Purpose Financial Statements and related conforming amendments to:*
  - *ISA 200, Objectives and General Principles Governing an Audit of Financial Statements*
  - *ISA 210, Terms of Audit Engagements*
  - *ISA 560, Subsequent Events*
  - *ISA 701, Modifications to the Independent Auditor's Report*
  - *ISA 800, The Auditor's Report on Special Purpose Audit Engagements*
2. To agree on the resolution of these significant issues.

### Background

The IAASB approved the project to revise ISA 700 its December 2002 meeting. It was agreed that the focus of the project would be on the wording of an unmodified audit report and that the revisions to the basic principles, essential procedures and guidance on modified reports should be addressed in a separate project "ISA 701."

In addition to proposed new wording for the auditor's report, the revisions proposed new guidance in the ISAs on the following:

- Forming the Auditor's opinion at the conclusion of the audit
- The applicable financial reporting framework
- Supplementary information included with the financial statements
- Date of the Auditor's report
- Conducting the audit in accordance with ISAs and national standards
- Other reporting responsibilities

The IAASB approved the exposure draft in December 2003. Comments were requested by March 31, 2004.

**Activities since Last IAASB discussions**

Since the comment period ended on March 31, 2004 and 39 responses were received<sup>1</sup> (see overview). The Task Force met twice in April and May 2004 to review the comments received and to identify the significant issues.

**Overall Comments**

Of the total responses received by 10 May, the majority have expressed support for the proposed revision to ISA 700 ("revised ISA"). 1 response fully supported the revised ISA with no comments or suggestions for improvement. 3 responses (AICPA, GT and RR) expressed fundamental concerns with the direction of the recommendations. The remaining responses were broadly supportive with some comments for consideration by the Board – ranging from providing suggestions for consideration<sup>2</sup> to asking fairly fundamental questions regarding certain recommendations.<sup>3</sup> An analysis of the range of responses by type of respondent is set out in the chart below.

	Member Bodies <sup>4</sup>	Standard-setting bodies	Regulator or International Organisation <sup>5</sup>	Firm	Others <sup>6</sup>	Total
Full support for ED, no specific comments				1		<b>1</b>
General support for ED, with comments on certain recommendations	15		2	4	2	<b>23</b>
Overall support for direction but significant concerns raised	6	2	2	1		<b>11</b>
Strong views in disagreement with the recommendations	1			1	1	<b>3</b>
<b>Total</b>	<b>22</b>	<b>2</b>	<b>4</b>	<b>7</b>	<b>3</b>	<b>38</b>

Copies of the responses have been provided to the Board members. It is desirable that members read the letters in their entirety to better understand the context in which respondents' individual comments have been made. A detailed analysis of the responses has been included as Agenda Item 8-F.

<sup>1</sup> The APB comment letter (number 26) and APB e-mail response on an issue relating to ISA 200 (number 4) have been included in the analysis as one response.

<sup>2</sup> ACCA, ACAG, BDO, CGA, DNR, FAR, FEE, FSR, HKSA, IRE, ICPA Kenya, ICAI, ICAP, ICANZ, ICAS, KIBR, LSCA, MICPA, DCCA, NIVRA, KPMG, PwC

<sup>3</sup> APB, AuASB, BASEL, CICA, CNCC/OEC, EY, EYN, ICAP, IDW, IOSCO, JICPA, JH, PAAB

<sup>4</sup> Includes responses from regional member bodies

<sup>5</sup> Includes FEE

<sup>6</sup> Includes responses from individuals and other IFAC Committees.

Whilst a number of issues have been raised in the responses, the Task Force is of the view that the Board can address those issues and proceed to approve ISA 700 and related amendments in September. (Note, however, that the timing of the ISA 700 is one of the issues raised by respondents that the Board needs to debate at this meeting, as discussed further in Agenda Paper F-1, but it is the Task Force's recommendation that the Board continue on its intended timetable).

The Task Force proposes to focus the Board's discussion at this meeting on a number of the most significant issues, listed as materials presented below. The Task Force has not yet completed its discussions on all of the issues raised in the responses and there will be an opportunity to discuss further comments and suggestions raised in the responses at the September IAASB meeting. Proposed revisions to the ED wording related to some of the issues addressed in the Agenda Papers have been presented for the Board's consideration. However, the Task Force is not presenting a complete revision of the Exposure Draft wording at this meeting (nor proposed changes to the wording of the auditor's report) pending consensus on the way forward on the significant issues.

## Material Presented

Appendix 1	Summary of Respondents
	<i>Analyses of comments on significant issues:</i>
Agenda Item 8-A (Pages 1029 – 1032)	Approach and timing
Agenda Item 8-B (Pages 1033 – 1048)	Forming an opinion on the financial statements
Agenda Item 8-C (Pages 1049 – 1062)	Applicable financial reporting framework
Agenda Item 8-D (Pages 1063 – 1072)	Date of the auditor's report
Agenda Item 8-E (Pages 1073 – 1094)	Other issues:
	Section A
	A.1 Level of prescription
	A.2 Respective responsibilities of management and the auditor
	Section B
	B.1 Clarification of reasonable assurance
	B.2 Reasonable, but not absolute, assurance
	B.3 Reasonable assurance in relation to fraud or error
	B.4 Auditor's independence
	B.5 Limitations of an audit and internal control

- B.6 Description of the auditor's responsibilities with respect to internal control
- B.7 Using the assurance framework for other reporting responsibilities

Section C

- C.1 Scope of the audit
- C.2 Linkage between the ISAs and the code of ethics
- C.3 Inclusion of sub-headings
- C.4 Including the level of audit materiality in the auditor's report
- C.5 Unqualified audit report
- C.6 The auditor's responsibilities for other information
- C.7 Acceptability of the financial reporting framework
- C.8 Redundant statement in the audit report

Agenda Item 8-F  
(Pages 1095 - 1208)

Detailed Analysis of Responses

- F.1 ISA 700 Detailed responses by paragraph
- F.2 ISA 700 Appendices from responses
- F.3 ISA 200 Responses in detail by paragraph
- F.4 ISA 210 Detailed responses by paragraph
- F.5 ISA 560 Responses in detail by paragraph
- F.6 ISA 701 Detailed responses by paragraph
- F.7 ISA 800 Responses in detail by paragraph

**Action Required**

The IAASB is asked to review the issues presented and the recommendations of the Task Force in order to reach agreement on the resolution of these issues.

## SUMMARY OF RESPONDENTS

File Number	Organisation	Reference	Organisation Type
1	Foreningen af Statsautoriserede Revisorer	FSR	Member Body
2	Krajowa Izba Bieglych Rewidentow	KIBR	Member Body
3	Institute of Chartered Accountants of New Zealand	ICANZ	Member Body
4	Auditing Practices Board	APB	Standard Setter
5	FAR	FAR	Member Body
6	Richard Regal	RR	Other
7	Fédération des Experts Comptables Européens	FEE	Member Body
8	Institute of Chartered Accountants in Ireland	ICAI	Member Body
9	Compagnie des Commissaires aux Comptes	CNCC/OEC	Member Body
10	Certified General Accountants Association of Canada	CGA	Member Body
11	Institute of Chartered Accountants Scotland	ICAS	Member Body
12	Institut des Reviseurs d'Entreprises	IRE	Member Body
13	The Japanese Institute of Certified Public Accountants	JICPA	Member Body
14	The Institute of Chartered Accountants of Pakistan	ICAP	Member Body
15	London Society of Chartered Accountants Technical Committee	LSCA	Other
16	Association of Chartered Certified Accountants	ACCA	Member Body
17	Jesse Hughes <sup>7</sup>	JH	Other
18	The Canadian Institute of Chartered Accountants	CICA	Member Body
19	Public Accountants' & Auditors' Board and South African Institute of Chartered Accountants	PAAB	Standard Setter/ Member Body
20	Grant Thornton International	GT	Firm
21	PricewaterhouseCoopers	PwC	Firm
22	Institute of Certified Public Accountants of Kenya	ICPA	Member Body
23	Den Norske Revisorforening	DNR	Member Body
24	KPMG	KPMG	Firm
25	Australian Auditing & Assurance Standards Board	AuASB	Standard Setter
26	APB (APB e-mail and letter have been combined as 4)	N/A	N/A
27	Australasian Council of Auditors General	ACAG	Other
28	American Institute of Certified Public Accountants	AICPA	Member Body
29	Deloitte & Touche	DT	Firm
30	Hong Kong Society of Accountants	HKSA	Member Body
31	Institut der Wirtschaftsprüfer in Deutschland	IDW	Member Body
32	BASEL Committee	BASEL	Regulator
33	Auditing Standards Board of Royal NIVRA	NIVRA	Member body

<sup>7</sup> This letter did not included specific comments relating to the exposure draft.

34	BDO Stoy Hayward	BDO	Firm
35	Ernst and Young	EY	Firm
	<i>Note: there is no Response # 36</i>		
37	Malaysian Institute of Accountants	MICPA	Member Body
38	Danish Commerce and companies Agency	DCCA	Regulator
39	IOSCO	IOSCO	Regulator