



Agenda Item 1

Auditor Reporting — Cover Letter

Objective

To approve for exposure a draft of the following auditor reporting standards:

- Proposed SAS, *Forming an Opinion and Reporting on Financial Statements*
- Proposed SAS, *Communicating Key Audit Matters in the Independent Auditor's Report*
- Proposed SAS, *Modifications to the Opinion in the Independent Auditor's Report*
- Proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*
- Proposed SAS, *The Auditor's Communication With Those Charged With Governance*
- Proposed amendments to various AU-C sections, including SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*

Task Force

The Auditor Reporting Task Force (task force) members are:

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

Background

In 2015 the IAASB issued new and revised ISAs relating to reporting on audited financial statements. 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*
- 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*
- ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*

Proposed SAS, Forming an Opinion and Reporting on Financial Statements (AU-C 700)

At the May and August 2016 ASB meetings, the ASB discussed certain elements and threshold issues relating to proposed SAS *Forming an Opinion and Reporting on Financial Statements*. The ASB discussed a full draft of this proposed SAS at the October 2016 ASB meeting and discussed certain issues at the May 2017 ASB meeting. Agenda Item 1A contains the proposed SAS (requirements and application material side by side), marked to reflect changes from the October 2016 and May 2017 ASB meetings.

Proposed SAS, Communicating Key Audit Matters in the Independent Auditor's Report (AU-C 701)

At the January 2017 ASB meeting, the ASB discussed a first draft of proposed SAS, *Communicating Key Audit Matters in the Independent Auditor's Report*. The ASB supported developing a standard for key audit matters that would allow for voluntary communication of key audit matters in the auditor's report. Agenda Item 1B contains the proposed SAS (requirements and application material side by side), marked to reflect changes from the January 2017 ASB meeting.

Other Proposed Auditor Reporting Standards

At the May 2017 ASB meeting, the ASB discussed Proposed SAS, *Modifications to the Opinion in the Independent Auditor's Report*, proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report*, proposed SAS *The Auditor's Communication With Those Charged With Governance*, and proposed amendments to various AU-C sections, including SAS No. 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. Agenda Items 1C, 1D, 1E, and 1F contain those proposed SASs and related amendments redlined to reflect changes from the May 2017 meeting.

Subsequent Task Force Discussion

Subsequent to the May 2017 ASB meeting, the task force held three meetings by conference call to consider the ASB's feedback from the October 2016, January and May 2017 ASB meetings and revised the proposed standards accordingly.

Disclosures Project

In July 2015, the IAASB's *Disclosures Project (Addressing Disclosures in the Audit of Financial Statements)* resulted in changes to various ISAs, including ISA 260 (Revised), ISA 700 (Revised), and ISA 705 (Revised). The changes arising from the *Disclosures Project* in the proposed SASs have been shaded in grey to highlight them to the ASB, recognizing that the ASB will consider these changes as part of a separate project (as discussed at the May 2017 ASB meeting).

PCAOB Auditor Reporting Model

On June 1, 2017, the PCAOB adopted a new auditor reporting standard, AS 3101, *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and related amendments to its auditing standards. The requirements in the final standard are largely the same as re-proposed in May 2016. All provisions other than those related to critical audit matters will be effective for audits of fiscal years ending or on after December 15, 2017, with a phased implementation of the provisions related to critical audit matters (fiscal years ending on or after June 30, 2019 for large accelerated filers, and fiscal years ending on or after December 15, 2020 for all other companies to which the requirements apply). The final standard and amendments are subject to approval by the Securities and Exchange Commission.

The provisions of the PCAOB auditor reporting model (as included in its May 2016 re-proposal), including the differences from the IAASB auditor reporting standards, have been discussed by the Task Force, and with the ASB, on several occasions. Based on these discussions, the ASB supported convergence with the IAASB's standards, and the Task Force continues to recommend that approach.

Agenda Items Presented

- Item 1 – Cover Letter
- Item 1A – Proposed SAS, *Forming an Opinion and Reporting on Financial Statements* (marked to October 2016 ASB meeting)
- Item 1B – Proposed SAS, *Communicating Key Audit Matters in the Independent Auditor's Report* (marked to January 2017 ASB meeting)
- Item 1C – Proposed SAS, *Modifications to the Opinion in the Independent Auditor's Report* (marked to May 2017 ASB meeting)
- Item 1D – Proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor's Report* (marked to May 2017 ASB meeting)

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- Item 1E – Proposed SAS, *The Auditor’s Communication With Those Charged With Governance* (marked to May 2017 ASB meeting)
- Item 1F – Proposed Amendments to various AU-C sections
- Item 1G – Proposed amendments to SAS 132, *The Auditor’s Consideration of an Entity’s Ability to Continue as a Going Concern* (marked to May 2017 ASB meeting)
- Item 1H – Illustrative Auditor’s Reports
 - Item 1H (700) – Illustrative reports for proposed SAS, *Forming an Opinion and Reporting on Financial Statements* (marked to extant)
 - Item 1H (705) – Illustrative reports for proposed SAS, *Modifications to the Opinion in the Independent Auditor’s Report* (marked to extant)
 - Item 1H (706) – Illustrative reports for proposed SAS, *Emphasis-of-Matter Paragraphs and Other-Matter Paragraphs in the Independent Auditor’s Report* (marked to extant)
 - Item 1H (600) – Illustrative reports for AU-C section 600, *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)* (marked to extant)
- Item 1I – Draft wrap document
- Item 1J – Clean versions of agenda items 1A-1E (zip file – for informational purposes only for those who wish to see or use a clean version of the documents)
- Item 1K – Supporting materials (zip file of matrices showing changes from ISA and/or GAAS – for informational purposes only)

Mr. Montgomery will lead the discussion through Agenda Items 1A through 1F and will cover the applicable illustrative reports in agenda item 1H in connection with the walk through of each proposed standard. Mr. Morrison will lead the discussion of Agenda item 1G. The discussion will focus on the changes from the versions previously discussed with the ASB, as reflected in the revisions marked in Agenda Items 1A to 1G.