All change please

The IAASB’s new and revised auditor reporting standards are an opportunity for audit firms to show innovation, respond to investors’ needs and demonstrate the value of audit, says Chris Cantwell.

As the global business environment and its financial reporting requirements have become more complex, users of audited financial statements have been calling for more pertinent information for their decision-making – and regulators, standard-setters and auditors have responded.

The International Auditing and Assurance Standards Board (IAASB), the European Commission, the Public Company Accounting Oversight Board (in the US) and the Financial Reporting Council (FRC, in the UK) have all pursued auditor reporting initiatives, with various outcomes.

In 2013, the FRC made significant changes to the UK corporate governance regime and ISA (UK & I) 700 The Independent Auditor’s Report on Financial Statements was revised to reflect this (as outlined in earlier issues of Audit & Beyond). As Audit & Beyond went to press, the IAASB was due to publish a suite of new and revised auditor reporting standards (ifac.org):

- ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements;
- ISA 701, Communicating Key Audit Matters in the Independent Auditor’s Report;
- ISA 260 (Revised), Communication with Those Charged with Governance;
- ISA 570 (Revised), Going Concern;
- 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; and
- Conforming amendments to other ISAs.

The standards will be effective for periods ending on or after 15 December 2016 with earlier adoption permitted.

IAASB chairman Arnold Schilder describes them as “historic” and “momentous” for the profession and for stakeholders. The standards will “enhance auditor reporting globally, in the public interest”, he says in a brief podcast (at bit.ly/1wh7VK).

“They are the culmination of a significant effort”, adds Dan Montgomery, deputy chair of the IAASB, who also led its auditor reporting project. “The new and revised standards will result in greater transparency about audits that have been performed and help to increase confidence in financial statement audit.” But, he adds, “there is more to do.” The IAASB sees them as a first step.

The IAASB is planning activities to promote awareness and acceptance and to support effective implementation of the new and revised standards, and a post-implementation review is a priority. The faculty will provide practical help and guidance on implementation for auditors across the globe.

Future articles in Audit & Beyond will focus on the challenges of implementing the IAASB’s new and revised ISAs, how they differ to those in the UK, and how experiences in the UK, both positive and challenging, are relevant to firms overseas providing extended audit reports for the first time.

Early planning and communication is essential.

“The new regime gives audit firms an opportunity to show that they can innovate, respond to investors’ needs, and demonstrate the value of audits. This all adds up to one very big challenge. But if the positive responses from regulators, investors and other stakeholders in the UK are any indication, it’s a challenge that the profession is keen to embrace and capable of meeting.”