

7 proposed changes to the auditor's report

Posted by Ahava Goldman, CPA on Jan 05, 2018

An auditor's report gives lenders confidence that financial statements are free of material misstatement. But does the auditor's report really tell the story of what the auditor did to gain assurance about the financial statements? Thanks to proposed changes to the auditor's report, readers will gain a better understanding of what the auditor did and observed.

The AICPA Auditing Standards Board (ASB) has released a set of [exposure drafts](#) aimed at enhancing the relevance and usefulness of the auditor's report.



1. *Proposed Statements on Auditing Standards: Auditor Reporting and Proposed Amendments—Addressing Disclosures in the Audit of Financial Statements*
2. *Proposed Statement on Auditing Standards: The Auditor's Responsibilities Relating to Other Information Included in Annual Reports*
3. *Proposed Statement on Auditing Standards: Omnibus Statement on Auditing Standards—2018*

In developing these exposure drafts, the ASB considered reporting projects undertaken by the International Auditing and Assurance Standards Board (IAASB) and the Public Company Accounting Oversight Board (PCAOB). The messages heard as part of those projects included:

- Users value the “pass/fail” nature of the auditor's opinion, but they consider much of the rest of the report to be boilerplate, providing little transparency into the audit.
- Certain users want more and better information about areas that pose higher assessed risks of material misstatement or involve significant judgment by management and the auditor, or relate to significant events or transactions.

- Users and other stakeholders favor expanding the description of management’s responsibilities for preparing the financial statements. They are also in favor of expanding auditor’s responsibilities for the audit of the financial statements to address the long-standing expectations gap in audits.

Proposed Changes

In light of their findings, the ASB is proposing the following changes:

1. Letting readers know the auditor’s opinion immediately by moving that section to the front of the report, followed by a “Basis for Opinion,” or an explanation of how the opinion was reached.
2. Stating the auditor’s independence and adherence to other ethical requirements in the “Basis for Opinion” section.
3. Providing a framework in which auditors of non-issuers may communicate key audit matters (KAM). While communicating KAM is not required for audits of non-issuers, it may be agreed to as part of the engagement. In that case, auditors would follow the rules in proposed Statement on Auditing Standards (SAS) *Communicating Key Audit Matters in the Independent Auditor’s Report*, which can be found [here](#).
4. Moving the discussion of going concern issues. If there is substantial doubt about the entity’s ability to continue as a going concern for a reasonable period of time, it would be expressed in the auditor’s report under the heading “Substantial Doubt About the Entity’s Ability to Continue as a Going Concern,” instead of in an emphasis-of-matter paragraph.
5. Identifying at what point before the date of the auditor’s report the auditor has obtained other information, if any. This would be included in an “Other Information” section of the report, under another [Proposed Statement on Auditing Standards: The Auditor’s Responsibilities Relating to Other Information Included in Annual Reports](#).
6. Expanding the description of management’s responsibilities for preparing and fairly presenting the financial statements, including identifying those responsible for oversight of the financial reporting process, if they are different from those responsible for financial statement preparation.
7. Enhancing the description of auditor’s responsibilities and key features of an audit.

Share Your Thoughts

We encourage you to share your opinions on the exposure drafts with the ASB by the May 15, 2018, comment deadline. Please send all feedback to Sherry Hazel at Sherry.Hazel@aicpa-cima.com. We look forward to hearing from you.

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