

James Gunn  
Technical Director, Audit & Assurance  
International Audit and Assurance Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA

November 22, 2013

Dear James

**Chartered Accountants Ireland response to IAASB Consultation Paper**

**'Reporting on Audited Financial Statements: proposed New and Revised International Standards on Auditing (ISAs)'**

The Audit & Assurance Committee of Chartered Accountants Ireland ('AAC') is pleased to respond to the above consultation.

AAC has responded to the individual questions posed in the consultation paper in the appendix to this letter and has made a number of suggestions for amendments to the draft standards. AAC is, however, supportive of the direction the proposals have taken since the previous consultation undertaken by the Board on the issue of auditor reporting.

We hope you find our response of assistance.

Please contact me at [mark.kenny@charteredaccountants.ie](mailto:mark.kenny@charteredaccountants.ie) or on +353-1-6377344 if you would like to discuss further any of the issues raised.

Yours sincerely,



Mark Kenny  
Secretary, Audit & Assurance Committee

## APPENDIX

### Key Audit Matters

**Q1: Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why**

AAC welcomes the proposal to discuss key audit matters in the audit report.

AAC debated the balance between the level of prescription provided within the draft standard, providing more consistency across the profession, and the benefit of auditors applying their professional judgement and came to a consensus that the guidance provided generally strikes an appropriate balance.

AAC would suggest, however, that more guidance could be given in the standard on what constitutes 'significant risks'.

**Q2: Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgment in determining the key audit matters? If not, why? Do respondents believe the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters? If not, why?**

As noted above, AAC members had differing initial views on the level of prescription/guidance in the draft standard pertaining to the determination of key audit matters for disclosure, and the potential impact on consistency across the profession, but came to a consensus that additional guidance on 'significant risks' would be beneficial in promoting such consistency.

**Q3: Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why??**

AAC considers that if greater clarity is achieved in the guidance on the selection of the key audit matters, then the guidance on what should be included in the descriptions of the matters is sufficient. It may be helpful if the IAASB developed additional considerations that would be used to guide the auditor in applying their judgment when determining what to include in the key audit matter description.

**Q4: Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in informational value, and why? Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement?**

AAC has no comments.

**Q5: Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor's ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?**

AAC agrees with the approach taken by the IAASB with regard to voluntary disclosures of key audit matters. It is appropriate that if auditors are not required to disclose these matters, but choose to do so, then those disclosures should be subject to the requirements of proposed ISA 701. To do otherwise could result in inconsistent application and confusion amongst users of financial statements.

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**Q6: Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?**

**(a) If so, do respondents agree with the proposed requirements addressing such circumstances?**

**(b) If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor's responsibilities under proposed ISA 701 and the determination, in the auditor's professional judgment, that there are no key audit matters to communicate?**

AAC agrees that it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate. While there may be circumstances where no key audit matters exist, this would be rare and unusual, but if there is no matter to be communicated, auditors should not be forced to disclose at least one matter regardless.

**Q7: Do respondents agree that, when comparative financial information is presented, the auditor's communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?**

AAC agrees that the key audit matters disclosed should pertain to the most recent financial period presented.

**Q8: Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?**

Emphasis of Matter (EOM) and other matter paragraphs arise from issues highlighted in/pertaining to the financial statements, whereas the focus of the proposed key audit matter disclosures is on the matters that were given most attention/gave the auditor most cause for concern during the audit and the work carried out by the auditor in addressing those issues. The disclosures would be from different perspectives and would not necessarily be duplication, though in practice some level of cross referencing may be appropriate.

Consistent with the above, AAC considers that there should be *no prohibition* on the inclusion of an EOM where there is a key audit matter disclosure on a particular issue, nor should the inclusion of an EOM prohibit the auditors disclosing the issue as a key audit matter.

**Q9: Do respondents agree with the statements included in the illustrative auditor's reports relating to:**

**(a) The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?**

**(b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?**

**In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.**

AAC notes that this requirement is new in the sense that the auditor would be providing positive assurance specifically on a financial statement assertion which has not been required to date.

Whilst AAC does not consider such a positive statement of assurance in itself to be inappropriate, it would have concerns that such statements could be misapplied and have negative consequences for auditors.

In isolating the assertion regarding going concern, the question arises as to whether the IAASB has considered whether there are other assertions about which positive assurance could/should be given.

**Q10: What are respondents' views as to whether an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be required in the auditor's report whether or not a material uncertainty has been identified?**

AAC notes the inclusion of the positive statement in the illustrative audit report that neither management nor the auditor is guaranteeing that the entity is a going concern.

There were mixed views amongst committee members about this statement. Some members considered that it could lead to a misunderstanding amongst users of financial statements that the statement might imply that the auditors are 'guaranteeing' the correctness of the financial statements. Other members considered that the illustrative audit report is clear, in the section dealing with the auditor's responsibilities, that no such guarantee is provided. AAC also considered whether it would be helpful to position the two statements together.

AAC would also point out that the UK Financial Reporting Council's Sharman/Going Concern project has highlighted the confusion that can be caused through the intermingling of the term 'going concern' with the 'going concern basis of accounting'.

**Q11: What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?**

AAC considers that the identification of the source of independence and other relevant ethical requirements is appropriate and necessary as the readers of the audit report have a right to understand the independence and ethical framework under which the auditor has operated.

The independence and ethical requirements referred to should be those requirements with which the auditor is required to comply to issue the particular audit report in question (i.e. for the statutory audit report of a company in a particular jurisdiction, it is the framework under which that audit report was produced that is referred to in the audit report; the

framework under which the audit report on the group financial statements may be different). The independence and ethical framework(s) referred to should be those of a standard setter and not of a firm or network.

**Q12: What are respondents' views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a "harm's way exemption"? What difficulties, if any, may arise at the national level as a result of this requirement?**

Ireland currently has a general legal requirement for statutory audit reports to be signed in the name of the individual auditor for and on behalf of the audit firm. For the audits of financial statements of listed entities, AAC supports requiring the audit report to be signed in the name of the individual in the audit firm taking responsibility for the audit.

AAC also supports the inclusion of a 'harm's way exemption', but considers that the application of the exemption should only be in exceptional cases and therefore that the circumstances in which the exemption may be availed of needs to be tightly defined. There is currently no 'harm's way exemption' in Irish law, which means that the exemption in the auditing standard report could not apply here. However, as long as the standard is clear that the exemption is only permitted where it is also possible under national law, there should be no difficulties.

**Q13: What are respondents' views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?**

AAC has no issues with the proposed changes in paragraph 102.



**Q14: What are respondents' views on the proposal not to mandate the ordering of sections of the auditor's report in any way, even when law, regulation or national auditing standards do not require a specific order? Do respondents believe the level of prescription within proposed ISA 700 (Revised) (both within the requirements in paragraphs 20–45 and the circumstances addressed in paragraphs 46–48 of the proposed ISA) reflects an appropriate balance between consistency in auditor reporting globally when reference is made to the ISAs in the auditor's report, and the need for flexibility to accommodate national reporting circumstances?**

AAC considers that the IAASB should mandate the structure and order of the auditor report, except where prohibited by national law.

AAC considers that achieving a consistent structure and order in the audit report across the jurisdictions applying the IAASB's standards would be a positive development.