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Our reference
IVB/cs

Your reference

Date 18 -11- 2013

Dear Sir,

Re **IAASB Exposure drafts Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)**

The *Institut des Réviseurs d'Entreprises/Instituut van de Bedrijfsrevisoren* ("IRE-IBR") is pleased to have the opportunity to provide its comments on the Exposure *Drafts Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* issued by the International Auditing and Assurance Standards Board (IAASB).

Please find below our detailed comments on the questions raised by the IAASB, thereby articulating our underlying reasoning in relation to these matters.

Sincerely,

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Créé par la loi du 22 juillet 1953
Opgericht bij wet van 22 juli 1953

Overall considerations

IBR-IRE supports the IAASB's initiative to enhance the auditor's reporting in response to the users' expectations by providing that the auditor gives more information on the audit and the audited financial statements. However, IBR-IRE believes that more relevant financial information will only be achieved by working with all stakeholders involved in the financial reporting process. In particular, IBR-IRE wants to stress the necessity for management and those charged with governance to be the primary source of information and for the communication with respect to financial information to be coherent, consistent and streamlined. Therefore, IBR-IBR encourages the IAASB to continue working with other stakeholders to ensure that a holistic approach is followed in this matter and that the financial reporting and corporate governance framework also reflect the evolving expectations of stakeholders.

IBR-IRE will use its best endeavors to urge on the standard setters in Belgium to implement the new ISAs as soon as possible, taking into account however the time necessary for translating these new ISAs. We believe the IAASB should also be mindful of the time necessary to translate the new standards when determining the effective date of the standard.

Response to specific questions

Key Audit Matters

1. **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?**

Yes. IBR-IRE supports the inclusion of a new section to report on 'Key Audit Matters' (KAM), rather than the proposal made in IAASB's ITC to report matters likely to be most important to the users' understanding of the financial statements or the audit. We believe the concept of KAM is better aligned with the users' call for more information regarding the audit and the matters subject to communication by the auditor and those charged with governance (TCWG).

IBR-IRE believes reporting on KAM will increase the informative value of the auditor's report. We are in favor of the IAASB's position not to include neither a minimum number nor a range of KAM in the report. Nevertheless, we believe it is necessary to emphasize that it is highly unlikely that there will be no KAM to report on and suggest to rephrase the wording of paragraph A47 as follows: "*Except in certain limited circumstances (e.g., a listed entity that has very limited operations or assets), it is ~~expected to be rare that the auditor of financial statements of a listed entity would not determine at least one~~ unlikely that there will be no key audit matters from the matters communicated with those charged with governance to report on.*"

As highlighted in our response to the ITC in 2012, IBR-IRE supports a report that is concise and understandable. Therefore, it is of utmost necessity that any added information provides

true added value to the users and that and that the auditor's report is not perceived as generic. We refer to our answer to question 4.

Although IBR-IRE strongly favors adapting the auditor's report to the evolving expectations of stakeholders, the use of KAM seems to be difficult to interpret. The suggested field testing will be very important to determine if and where additional guidance or education is necessary.

Finally, as we believe the application material should only provide guidance for the auditor, we believe paragraphs A4 and A5 of the Proposed ISA 701 are redundant, since they merely justify the introduction of a new ISA.

2. **Do respondents believe the proposed requirements and related application material in Proposed ISA 701provide 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?**

On the first question, IBR-IRE is in favor of a principle-based framework that enables the auditor to determine entity-specific KAM. However, as we highlighted in our answer to question 1, any added information in the auditor's report should aim at providing actual added value to the users. In that respect, we suggest that the IAASB emphasizes that KAM should be useful to the users of the financial statements.

IBR-IRE also believes that additional guidance is needed to explain paragraphs A35, A36 and A37 in Proposed ISA 701, related to professional secrecy and the auditor disclosing information not necessarily included in the notes. As stated in the general considerations section, IBR-IRE is not a favor of the auditor being the original source of information and the final standard should acknowledge that there should be a clear linkage between a KAM and management reporting and provide guidance as to how the auditor should address any inconsistencies in this respect. As paragraph A37 rightly states, providing original information about the entity is the responsibility of the entity's management and those charged with governance. It should be clear that any additional information provided by the auditor is not allowed unless authorized by law or regulation.

Furthermore, we believe it to be important to complete paragraph 11 of Proposed ISA 701 by also referring to the fact that it is not possible to report on KAM if a disclaimer of an opinion has been expressed (*cf.* ISA 705). We do not believe that it is sufficient to mention this as application material.

On the second question, IBR-IRE believes that the determination of what constitutes a KAM should be left to the professional judgment of the auditor conserving what is most relevant to the users. The overall success of the application of Proposed ISA 701 will depend on the field testing and we suggest that IAASB continues to evaluate its application. We reiterate that while consistency in auditor judgments about what matters are determined to be KAM is necessary, it should be avoided that the same matters are determined to be a KAM in all

audits, since this will eventually inevitably lead to boiler plate language and will not contribute to the requested added value.

3. **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?**

Overall, IBR-IRE finds the requirements and related application material on the level of detail in the description of a KAM and its effect on the audit sufficient. However, in reading the examples confusion may rise as to the structure of a KAM and the level of details to be reported. More guidance should be provided with respect to the type of information to be included in a KAM (link to disclosure in financial statements, nature of the KAM, how it was addressed during the audit, key findings from that work).We believe it to be fundamental to avoid the perception of a piecemeal opinion and we suggest to seek for an alternative wording for "conclusion", *e.g.* "key findings of the audit".

4. **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.**

As highlighted above, the auditor might be confused by the way these requirements and application material are addressed by the illustrative examples. It remains unclear how the auditor should determine the level of detail in the description for each individual KAM. The examples given in Proposed ISA 701 differ in nature and quality and therefore might not help the auditors in reporting KAM. We suggest that the IAASB reconsiders the structure and content of these examples in order to ensure consistency between them so that they can provide the guidance needed to the auditor.

On the examples proposed by the IAASB, IBR-IRE wishes to share the following comments. We believe the example on 'Valuation of Financial Instruments' is well structured and will add value to users. However, we believe that, although the example on "Goodwill" can be considered a good one, it will undoubtfully become boiler plate.
As for the example on 'Revenue Recognition Relating to Long-Term Contracts' we do not believe that it will be helpful and we do not support the inclusion of such an example. Moreover, we have some concerns about the use of the word "fraud" on several locations in the illustrative report. We believe that some entities and users will not understand the reference to "fraud" in the paragraph on KAM in relation to an unmodified or clean opinion. In addition, the reference to fraud might create an inaccurate perception of the risk by the user and lead to a misunderstanding of the auditor's responsibility in that respect.

We encourage the IAASB to provide additional examples of KAM. The field testing as suggested by the IAASB will be important in this regard.

5. **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?**

IBR-IRE notes that the requirement to include KAM in the auditor's report would be limited to the audit reports related to the financial statements of listed entities. While we understand the IAASB's concern with respect to the definition of PIEs, we believe that because of the important of PIEs other than listed companies to the financial markets and the economy in general, the requirements of Proposed ISA 701 should also apply to all PIEs. Therefore we encourage the IAASB to continue working with standard-setters and regulators to come to a more uniform definition of PIEs.

With respect to the voluntary implementation of the requirements of Proposed ISA 701, IBR-IRE is of the view that this matter should be left to local regulators or legislators rather than being handled on a contractual basis. IBR-IRE believes that a contractual approach will lead to inconsistencies in the audit reports of similar entities in a jurisdiction which would makes the audit report less understandable to its users.

6. **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 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?**

Yes. IBR-IRE believes that this possibility should be restricted to very rare cases. In case of listed entities whose activities are minimal or highly predictable, users would derive little value from reporting on KAM and the key principle of KAM should remain the added value provided to the users of the financial statements. Accordingly, IBR-IRE agrees with the requirements of paragraph 13, which are necessary, especially from a users' point of view, to ensure that a due process is followed if no KAM are determined.

Although the decision on whether a matter is a KAM or not and on whether there are KAM to report or not is based on the auditor's professional judgment, we believe it to be of the utmost importance to avoid an expectation gap. Users might derive from the suggested wording in paragraph A48 that the auditor provides assurance on the fact that he did not identify any

KAM. Therefore, we suggest to rephrase the illustrative example in this paragraph as follows: *"[Except for the matter described in the Basis for Qualified (or Adverse) Opinion section and the material uncertainty described in the Going Concern section,] We have determined that there are no such matters to report-in accordance with ISA 701."*

Finally, we refer to our response to question 1, where we mentioned that paragraph A47 should be rephrased.

7. **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?**

Yes. IBR-IRE agrees with the proposal to limit the auditor's determination of KAM to the current period.

The proposed amendments to ISA 710 provide that, when the prior period financial statements are not audited and the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances (leading to a qualified or disclaimer of an opinion), the auditor may determine the fact that he encountered significant difficulty in obtaining sufficient appropriate audit evidence according to which the opening balances do not contain misstatements that materially affect the current period's financial statements, to be a KAM in accordance with Proposed ISA 701. IBR-IRE suggests to illustrate how to report on this KAM.

8. **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?**

Yes. IBR-IRE believes it to be important to retain the concepts of Emphasis of Matter paragraphs (EOM) and Other Matter paragraphs (OM), even when the auditor is required to communicate KAM.

However, when reading the ISAs and especially Proposed ISA 706, we believe it may sometimes be complicated to make the difference between EOM and KAM. Additional guidance and examples might be needed, in order to ensure that the auditors but also the users understand the difference. We believe it is important to avoid interpretation issues by providing that there can be no EOM and KAM on the same matter.

IBR-IRE believes that the IAASB should propose a principles-based structure for the auditor's report, that has the needs of the user as paramount principle. In that respect, we suggest that the EOM-paragraph is to be positioned before KAM in all cases in order to avoid that EOM, being matters that are of such importance that it is fundamental to users' understanding of the financial statements, would be missed by users in the information as a whole provided in the auditor's report.

Going Concern

9. **Do respondents agree with the statements included in the illustrative auditor's report 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?**

IBR-IRE acknowledges that there is an expectation from users to have a more explicit statement with respect to going concern in the auditor's report and therefore supports the inclusion of such a statement in the auditor's report, to the extent that it the concept of going concern is appropriately defined according to the applicable framework and is as entity-specific as possible. Further comments are made below under (b).

We emphasize the fact that this statement should be based on the information adequately disclosed by management and encourage the IAASB to work with accounting standard setters (IASB and FASB) in order to ensure that the financial statements (and accordingly, management) are the primary source of information with respect to going concern.

IBR-IRE notes that there will usually be an interaction between the requirements to report on KAM as per Proposed ISA 701 and the requirements of Proposed ISA 570 and recommends that the IAASB clarifies how to position going concern against KAM.

   (b) **Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going 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.

Firstly, IBR-IRE stresses the fact that management and those charged with governance are the ones identifying these matters.

IBR-IRE understands that it is in the public interest to refer in the auditor's report to the presumed (or not) existence of any material uncertainty in relation to going concern, both by management and the auditor, provided that the public (reasonable reader/user) is also informed of the "reasonableness" of this judgment call made by the auditor.

Furthermore, IBR-IRE believes it is necessary to explain the concepts that form the basis for determining whether a material uncertainty exists or not. Whilst additional explanation in relation to the concept of "reasonable assurance" is proposed by the IAASB for inclusion in the core content of the auditor's report, we believe that additional explanation could be included in order to make the reasonable user understand that this "*having identified (or not) of a material uncertainty*" is a judgmental process of the auditor. Part of this reasoning is already proposed through the ED, namely through the inclusion of the words according to which the auditor cannot guarantee the entity's ability to continue as a going concern. We

believe that, whilst this is a good start, the reasonable reader is entitled to be explained more thoroughly that this is not a "cast in stone" statement, but rather a judgment call.

Certainly in the context of the presumed (by the auditor) non-existence of such a material uncertainty in relation to the use of the going concern basis of accounting, and the subsequent proposed inclusion in the auditor's report thereof, we are inclined to agree with additional communication to the reasonable user, as the latter might have a hard time understanding what a "material uncertainty" is in relation to going concern.

Extant and Proposed ISA 570 do include application guidance as to the definition of the concept, including reference to any "mitigating factors", but this is not *de facto* known in advance by a reasonable reader who might not understand why, regardless of the existence of going concern related risk factors, the auditor comes to the conclusion that there is, all factors (including mitigation factors) taken into consideration, in the auditor's judgment, not a material uncertainty in relation to going concern.

As the auditor's report needs to be prepared in accordance with the international auditing standards, we believe that it is the auditing standard setters' responsibility to explain this concept to the reasonable reader, indicating the any mitigating factors might exist in this regard. Whilst in the case of an existing material uncertainty in relation to going concern, paragraph 22 of Proposed ISA 570 will explain to the reader the "event and conditions" which are applicable in the circumstances relating to going concern, this is not the case when the auditor comes to the conclusion that there is no such material uncertainty, and leaves the reader with the question what this really means in practice (possible new source of expectation gap).

10. **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?**

Although management is responsible for assessing the appropriateness of the use of the going concern assumption in the preparation of its financial statements, we do not believe it to be expedient for the auditor to disclose what management should disclose in the financial statements (depending on the financial reporting framework). We doubt that this statement will be understood in a consistent manner by the users and believe this statement should be reworded to make it less subject to varying interpretations

Compliance with Independence and Other Relevant Ethical Requirements

11. **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?**

IBR-IRE does not believe that such a disclosure would increase transparency or add significant value to the users of the financials as compliance with independence and ethical requirements is implicit in stating the auditing framework used to conduct the audit and is implicit to the quality of the fimr or individual signing the audit report. However, IBR-IRE

would support a statement that the auditor complied with the relevant ethical requirements, as we think this is the information users seek.

Paragraphs 28 (c) and A29 of Proposed ISA 700 refer to the ethical requirements applicable in the circumstances of the engagements. Whilst we understand that there needs to be some degree of flexibility with regard to these ethical requirements in order to accommodate national differences (if any), paragraphs 28 (c) and A29 do not specifically refer to compliance with the IESBA Code of Ethics. Proposed paragraph A29 states that the ISA requirements do not override the IESBA Code requirements, but the reader of this paragraph is left with the question whether the IESBA Code requirements are applicable or not to audits of financial statements. As it is true that all professional accountants need to apply the (applicable) IESBA Code requirements, we believe it might be beneficial to the reader's understanding to cross-reference to the existing material in ISA 200 (extant paragraphs A14-A17).
Furthermore, in the specific situation of group audits, IBR-IRE feels this requirement will become very complex to comply with.

Finally, we ask IAASB to clarify why the requirement in paragraph 38 (b) of Proposed ISA 700 (applicable to the audit of all entities) - providing that the auditor's report shall state, for audits of financial statements of listed entities, that the auditor is required to provide TCWG with a statement that the auditor has complied with relevant ethical requirements regarding independence – is limited to the audit of listed entities.

Disclosure of the Name of the Engagement Partner

12. **What are respondents' views as tot 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?**

IBR-IRE believes that the requirement to disclosure the name of the engagement partner adds limited value to the auditor's report and believes that this matter is best left to local regulators as it is often driven by past practices and local liability rules.

Other Improvements to Proposed ISA 700 (Revised)

13. **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?**

Improved description of the responsibilities of the auditor and key features of the audit

IBR-IRE favors the inclusion of an explicit explanation of the concept 'reasonable assurance' in the paragraph related to the auditor's responsibilities for the audit of the financial statements, explaining to the reader that there is still a possibility that material misstatements remain undetected, thereby referring to a possible audit risk that will always exist in an audit of financial statements, including the audits performed in accordance with ISAs, which refers to the existence of inherent limitations to a financial audit. We are confident that such a

statement will contribute to narrowing any existing expectation gap between the (informed and thus reasonable) users of the financial statements and the auditor.

Provision for the description of the responsibilities of the auditor and key features of the audit to be relocated to an appendix in the auditor's report, or for reference to be made to such a description on the website of an appropriate authority

IBR-IRE agrees that replacing this paragraph with a reference to a description of the auditor's responsibilities in the appendix to the auditor's report would improve the readability of the auditor's report. Transferring this information solely to a website might unduly limit access to this information.

However, we suggest to elaborate certain basic concepts on the website of an appropriate authority.

Reference to whom in the entity is responsible for overseeing the Company's financial reporting process

IBR-IRE suggests to provide a definition of whom in the entity is considered to be responsible for overseeing the company's financial reporting process, since this might differ from one country to another and therefore could be difficult to determine.

Other reporting responsibilities

Paragraph 41 of Proposed ISA 700 is considered a setback compared to the extant ISA 700, where a second part of the auditor's report is mandatory for additional reporting matters which are of a national nature (required by national law or regulation, including national auditing standards). Although the option to include these matters in a second part of the auditor's report has not been ruled out by the Proposed ISA 700, it allows for practices whereby the opinion paragraph (included in the first part of the auditor's report) would also include purely national reporting matters, which was the case for the ISAs issued prior to the clarity project (applicable pre-2010). Therefore, we are requesting the IAASB to withdraw the second bullet from proposed paragraph A44.

14. **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?**

IBR-IRE supports the flexibility in the ordering of paragraphs or sections and believes that the IAASB should propose a principles-based structure for the auditor's report, that has the needs of the user as paramount principle. However due to the importance of some paragraphs, like

the Emphasis of Matter paragraph, some mandatory requirements might seem more appropriate for certain elements (cf. our answer on question 8).

Whilst acknowledging there is a need for flexibility to accommodate national reporting circumstances, IBR-IRE suggests to provide that it is up to the national standard setters to determine the ordering of sections in the auditor's report, in order to assure comparability and consistency within the same jurisdiction.

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