



สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์
FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING



November 21, 2013

Prof. Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
529 5th Avenue
6th Floor
New York, New York 10017

Dear Prof. Schilder,

**Comment on Exposure Draft, Reporting on Audited Financial Statements:
Proposed New and Revised International Standards on Auditing (ISAs)**

The Federation of Accounting Professions of Thailand (FAP) presents its compliments to the International Auditing and Assurance Standards Board (IAASB) and has the honor to express our opinions concerning the ED, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. Our responses to the specific questions are set out in the appendix to this cover letter.

We appreciate and support the IAASB's intentions to improve quality of auditor's report. We welcome the concept of Key Audit Matters which is usefulness for the users; however, if the auditor has not explained Key Audit Matters clearly, it may create confusion to users. Moreover, mentioning "going concern" on the report will give users with doubt on what the differences of the "ongoing" company report and "ceasing operation" report are. The users may doubt on the accounting report as a whole. While the IAASB have made a significant progress shown in the ED, we would like to propose the IAASB to consider a few significant concerns before the proposed requirements regarding auditors' report are officially issued and applied in practice.

The Federation of Accounting Professions avails itself of this opportunity to the IAASB the assurances of its highest consideration.

Yours sincerely,

Pichai Chunhavajira
President
Federation of Accounting Professions of Thailand
Bangkok, Thailand

Copy to: The Chairman of the Auditing Committee
Federation of Accounting Professions of Thailand

**Comment on Exposure Draft, Reporting on Audited Financial Statements:
Proposed New and Revised International Standards on Auditing (ISAs)**

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, many 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 because the introduction of a new section in the auditor's report will be able to provide the users of the audited financial statements with an useful information. Moreover, this new section could add further value to the audit opinion and helps to reinvigorate the public's trust and confidence in the independent auditor and increases the relevance of the audit.

Nevertheless, some users believe that this new section in the auditor's report could lead to some difficulties due to information overload. In addition, some users may not be able to find information relevant to their economic decisions.

2. 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?

Yes, we believe the proposed requirements and related application material in proposed ISA701 provide sufficient information to guide the auditors.

As definition is clear, the auditor judgement in relation to an identification of key audit matters will be consistent.

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?

As mentioned previously, ISA 701 provides sufficient direction for descriptions and will help the auditor greater consideration on what should be included in each of key audit matters.

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.

Refer to the 4 illustrative examples of key audit matters, Goodwill, Valuation of financial instruments, Acquisition of XYZ business and Revenue recognition relating to long-term contracts, it provides the useful and informative contents. The most useful illustrative examples is the part that reminding us to also include areas where we had difficulties in completing our procedures. There could be areas in which we spent a lot of time and effort but we did not find an exception. Some may have thought that we do not need to report if test result does not indicate any exceptions.

We suggest to add an example in appendix about circumstances that required significant modification of the auditor's planned approach to the audit, including as a result of the identification of a significant deficiency in internal control (refer to 710 paragraph8(c)).

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?

Yes, we agree with the approach that key audit matters may be communicated on a voluntary basis for entities that auditor is not required to provide such information. We also agree that it should be included in the letter of engagement.

However, paragraph 30 of ISA 700 states that for audits of complete sets of general purpose financial statements of a listed entity, the auditor shall communicate key audit matters in the auditor's report in accordance with proposed ISA 701. We recommend that the IAASB considers to a public interest entity (PIE) instead of a listed company because there are some public interest entities (PIEs) which are not listed companies.

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 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?

It's possible that there is no key audit matter arising during the audit and we agree that the auditor shall follow the requirement of proposed ISA 701 described in paragraph 13.

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?

In order to avoid user's confusion, we agree that communication of key audit matters should be limited to the audit of current period except for some key audit matters of previous period which may affect current period's financial statements. Hence, some key audit matters in previous period affecting current period should be mentioned in the auditor's report.

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?

It is likely that the matters of Emphasis of Matter paragraph are the matters in Key Audit Matters, therefore it is rare circumstance to have the Emphasis of Matter paragraph. In the other hand, if they are not the same matters, the auditor's report would have both Key Audit Matters paragraph and Emphasis of Matter paragraph, this may create doubts for users about degree of significance between these 2 paragraphs. We suggest to abandon the concept of Emphasis of Matter, but still retain the concept of Other Matter paragraphs - for example - the situation where the prior period financial statements were audited by predecessor auditor.

Going Concern

9. 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.

Yes, we agree with the proposed standard requiring the explicit conclusion about going concern issue in the auditor's report. However we understand that the users may not aware how long of the period of assurance is. Hence, we suggest that the IAASB adds some information regarding period covered by the going concern matters mention in the auditor's report for identification of material uncertainty i.e. 12 months from the financial reporting date.

However, we would like to raise concerns about some misunderstandings which could occur among users. Because it is possible that some users might get confused whether an entity with going concern issue disclosed in the auditor's report could carry on its' operations or not.

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?

We agree to have this explicit statement.

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?

We agree to disclose the source(s) of the specific independence and other relevant ethical requirements or applicable law or regulation. But IAASB should provide the guideline, in case there are many sources in Group audit situation, that how the auditors should refer in the auditor's report to avoid unduly complex.

Disclosure of the Name of the Engagement Partner

12. 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?

In our country, the audit report (either listed companies or non listed companies) is required to be signed under individual auditor. As such, there is no effect on this requirement. However, IAASB should provide the guidance in case the engagement partner is not the signing partner, the name of engagement partner or the signing partner should be disclosed in the audit report.

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?

We believe that the changes made to ISA 700 described in paragraph 102 are provided sufficient information as to the responsibilities of relevant parties i.e. auditor, Management/ Those charged with governance. We agree for reference to whom in the entity is responsible for overseeing the Company's financial reporting process in section "Responsibilities of Management for the financial statements".

For other improvements about provision for the descriptions 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. We agree to have a choice to relocate to an appendix in the auditor's report but disagree for reference to the website because 1) it is possible that the description on website is inconsistent with the requirements in ISAs (the authority may update the description on website but the auditors have not acknowledged), 2) the content is the auditor's report should be a complete set rather than reference to other sources and 3) although the auditor shall include a reference in the auditor's report to clearly indicate where this description is located "A further description of the auditor's responsibilities for the audit of the financial statements that is part of this auditor's report is located at [Organization's] website at: [website link]." But it is likely that the users are not interested to follow to read such contents.

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?

In order to preserve the global consistency in auditor reporting, we suggest that the IAASB mandates the ordering of sections of the auditor's report and still concerns about the need for flexibility to accommodate national reporting circumstances when this is the case. Hence, the IAASB should concern about the localisation as well.