



**ASOCIACION INTERAMERICANA DE CONTABILIDAD
INTERAMERICAN ACCOUNTING ASSOCIATION
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

San Juan, Puerto Rico, November 19, 2013

Members of the Board

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

529 5th Avenue, 6th Floor

New York, New York 10017

RE: DRAFT FOR PUBLIC DISCUSSION: INFORMATION ON AUDITED FINANCIAL STATEMENTS, PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAS).

Dear Members of the Board,

The Inter-American Accounting Association (IAA), welcomes the opportunity to comment on the draft Information on Audited Financial Statements, Proposed New and Revised International Standards on Auditing (ISAs).

This reply summarizes the views of different member countries of the AIC, according to the following due process:

Due process:

The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO), hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members.

General comments:

By consensus we support the Council its initiative on this issue, of wide application in economic and financial activities of our region, and therefore of significant importance for the preparation of audited financial statements.

If you have any questions related to our comments, please do not hesitate to contact us.

Sincerely,

Dr. Luis Alberto Werner-Wildner
PRESIDENT

Gustavo Gil Gil
FIRST VICE PRESIDENT



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Comment Letter of the Inter-American Accounting Association (IAA) on the Draft for public discussion referred to the Information on Audited Financial Statements, Proposed New and Revised International Standards on Auditing (ISAs)..

We answered the 14 questions, according to the Draft instructions. Please find our answers and related comments below.

The IAASB proposes to make changes to the contents of the audited financial statements report, including information related to communications on key audit matters, the responsibility of the corporate governance of the entity, going concern and others, as well as changes in the opinion formation. These proposed amendments arise in each of the 14 questions in this Draft, which have been answered in accordance with the economic and financial situation of the member countries of our region:

Question 1 – Communication of key audit matters
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?
The structure of the auditor's report is useful and clear enough as it is. In this regard, increasing the number of paragraphs in the auditor's report does not add any additional value. It will only contaminate the current utility and clarity of the auditor's report.
If regulators and users of financial statements are in need of further information regarding the audit procedures applied to the financial statements of an entity, they should agree in advance with management and/or corporate governance of each of the entities, as a supplementary, the full and complete presentation of all communications made by the auditor to management and / or corporate governance of each of the entities (e.g. communications under ISA 260 and ISA 265). In this regard, each of the supervisory bodies of the different countries grouped in IOSCO, should instruct and request such type of documentation to management and / or the corporate governance of the entities subject to its regulations.
This section of "very significant matters" could cause confusion for users outside the accounting profession, leading to a dilution with respect to the main objective of the report.

Question 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?
We disagree with the approach and the requirement of having to disclose the "key audit matters" in the auditor's report. Such a requirement would escape fully the scope and responsibility of the auditor that is, to meet the standards and audit procedures.
It is not the auditor’s competence to decide which "key audit matters" to include in the auditor's report, as the auditor is solely responsible for meeting the requirements of each and every one of the audit standards and procedures. In this regard, we do not disagree on meeting even more stringent standards than the current that is, increasing confidence levels or reducing margins of error of the evaluations and/or procedures performed by the auditor. However under no circumstances, one should assign the auditor the responsibility to decide which matters represent or are of such a level of importance that they should be



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revealed in the auditor's report. Additionally, when the auditor discriminates or prioritizes which issues qualify as "key audit matters," in some way, it unnecessarily exposes him/her to receive questions from users, with important legal consequences and difficult to resolve.

The risk of including "key audit matters" in the auditor's report is to encourage users of the audited financial statements perceive the existence of additional guarantees with respect to the matters discussed (and also the non-commented matters), in the manner of the previous and repealed partial opinions (so-called piecemeal opinions). Otherwise, the existence of multiple "key audit matters" in the auditor's report, may create confusion regarding the opinion to be issued by an auditor in an audit report.

Question 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?

We disagree, as we mentioned in point two above, include this information could create confusion for the users.

Question 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 mentioned above, including this type of information could create confusion for the common user, unaware of the accounting profession, one can get lost on the true value and purpose of the independent auditor's report.

Question 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?

In our opinion, and according to what is stated in paragraphs two, three and four above, this approach of IAASB is not applicable since it can lead to misinterpretation by those users outside the accounting profession, thereby losing the value of the auditor's report.



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Question 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.

In the draft of proposed ISA 701 it is stated in paragraph 65 as follows:

The IAASB noted the view that there may be merit in including the auditor's description of key audit matters for all periods presented. However, there are likely practical challenges in doing so that could result in further lengthening the auditor's report and a presentation that could be potentially confusing to users, such as:

- The possible expectation that the auditor would update key audit matters from the prior period, for example to explain the matter's effect in the current period audit – even if such matter was not determined to be a key audit matter in the current period.
- Whether the inclusion of a key audit matter in a subsequent period relating to a matter that existed in a prior period could call into question the validity of the auditor's judgment to exclude it as a key audit matter in the prior period.
- The potential consequences when the prior-period financial statements were audited by a predecessor auditor because the determination of key audit matters in the prior period would have been made by another auditor.

According to the above, we considered it technically unnecessary to include the issues raised in question 6. Subsections (a) and (b).

Question 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?

According to the statements made, it is not applicable or practical to mention the key audit matters since this, as proposed by ISA 701 itself, suggests, could cause a confused reading and interpretation by users.



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Question 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?

We agree to retain the concepts of Emphasis of Matter paragraphs and the Other Matter paragraphs, as these are part of the essential structure of the independent auditor's report; however, we reiterate our disagreement on including communication on key audit matters, as noted in points 2-7, above.

Question 9 – Going concern

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.

Considering the above, we believe that:

(a) If there is doubt about the entity's ability to continue as a going concern, as proposed ISA 570 (current), it is unnecessary to include this matter as it should only be mentioned by the auditor.

(b) In this case, we agree that the auditor mentions any doubt that might exist on the entity's ability to continue as a going concern, issuing a caveat, a disclaimer of opinion or an emphasis of matter paragraph in the report, according to circumstances, as proposed ISA 570 (current).

Question 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?

In no case, the independent auditor may ensure the continuation or discontinuation of a company as going concern, as this would exceed his/her responsibilities and even conflict his/her independent judgment which would be negative for the achievement of the objective of the report.

In our opinion, management is also not in a position to guarantee the continuity or otherwise of a company as a going concern, as any statement to that effect, would jeopardize the reliability of the content of the financial statements.

In this respect, we consider it unnecessary to include any statement in the auditor's report, about which neither management nor the auditor can ensure continuity of the company as a going concern, even if a significant uncertainty has been or has not been identified.



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Question 11 – Compliance with Independence and Other Relevant Ethical Requirements

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 do not agree with disclosing the sources of independence as executing audit work in accordance with ISAs, already expressly involves meeting the IFAC code of ethics and ethical standards relevant to the case. Mentioning the sources of independence would involve a countless number of additional complications, which would be difficult to solve, such as, for example, the following: (a) in audits of groups of entities, in case there are different branches located in different countries, the list of sources would be prohibitively long and little beneficial to the user of the financial statements, (b) there may be situations of threat to the independence, which are only considered in some countries, and for others, no such threats would exist, and, (c) in these circumstances, in addition, one would have to detail the protections and safeguards applied.

Question 12 – Disclosure of the Name of the Engagement Partner

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?

It is considered necessary to disclose the name of the partner in charge of the work in all audit engagements. Both in listed entities as well as in all other audit work of named entities such as small and medium-sized (or also known as private or public).

Although it would appear as something quite practical to consider this type of exception (in certain exceptional circumstances), we do not agree to consider this type of exception, because if there were situations that pose a serious danger or an imminent risk to the partner in charge of the work, this would imply in fact a serious deterioration of the independence that any protection or safeguards could mitigate.

In most Latin American countries, one must include the name of the partner in charge, including the professional registration number and the corresponding signature, endorsing the audit report.

Question 13 – Other Improvements to Proposed ISA 700 (Revised)

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 additional descriptions of the responsibilities of the auditor and the significant aspects of the audit, could be included in a separate appendix of the report, as required by paragraph 39 of proposed ISA 700 (Revised), creating a reference in the report to the location of the appendix.



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Question 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?

It is preferable to require a single type format and also a determinate specific order for each part or component section of the auditor's report, as a way to ensure the complete comprehensibility and consistency in all countries that use the ISAs, for the elaboration of the audit report.

We maintain our opinion that the auditor's report should have a specific order of the sections that must be included. We believe that having an order allows uniformity, clarity and transparency as to the content of the report, maintaining the order established by the current ISA 700.

As mentioned above, additional descriptions of the responsibilities of the auditor and the significant aspects of the audit should be included in a separate appendix of the report, in such a way that it does not alter the current structure, also a special section to highlight these respects should be included.