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EUROPEANISSUERS' RESPONSE TO THE IAASB CONSULTATION
INTERNATIONAL STANDARDS ON AUDITING (ISAs) CONCERNING THE STATUTORY AUDITORS' REPORTING

19 November 2013

The IAASB, the international standard-setting body developing the International Standards on Auditing (ISAs), issued an exposure draft proposing a new standard on Communicating Key Audit Matters in the Independent Auditor's Report (ISA 701) and the revision of other standards essential for companies: standards defining the content of the auditor's public report and the auditor's opinion (ISAs 700, 705 and 706), standard on Communication with Those Charged with Governance within the audited entity (ISA 260) and standard on Going Concern (ISA 570). In addition, the IAASB has undertaken the revision of its standard on the Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon (ISA 720).

We appreciate the opportunity to comment on the proposals in the exposure draft and would like to bring to your attention:

1. THE PUBLIC DISCLOSURE OF KEY AUDIT MATTERS (KAM) / PROPOSED ISA 701 / RESPONSES TO QUESTIONS 1 AND 2

The objectives of such a communication should be the following:

- to assist users of the auditor's report in understanding areas that were the subject of significant auditor attention in its audit strategy and audit plan;
- to allow users of the auditor's report to better understand areas of significant auditor judgment in the audited financial statements.

In contrast, the objective of communicating KAM should not be to comment on the financial statements or on the assessments made by the management of the audited entity.

Therefore, it is logical that the auditor should *take into account*, among the areas of significant auditor attention:

- the areas that the auditor identifies as presenting risks of material misstatement in the financial statements;
- the 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 over financial reporting.

However, we believe it is necessary to avoid any public disclosure of matters that would unnecessarily cast doubt on the financial statements, if these do not contain any significant misstatements. The following would be a source of confusion for users of financial statements:

- the mere disclosure of significant risks, without mentioning the existence of processes or actions to reduce these risks to an acceptably low level;

- the public disclosure of a significant deficiency in internal control, without mentioning the existence of internal or external controls or of corrective measures.

To clarify the effect of KAM on the audit and to avoid misunderstandings on the part of users of financial statements, companies wish to make the following proposals:

- when the auditor decides to disclose the areas he/she/it identifies as presenting risks of material misstatement in the financial statements, the auditor should also be required to indicate how he/she it has addressed these risks in its audit strategy and its audit plan (it is just an option, according to § A12 of the application material of proposed ISA 701);
- the auditor's report should clearly indicate, as proposed (draft ISA 701.9.c), that the auditor's procedures relating to KAM were designed in the context of the audit of the financial statements as a whole. However, the report should also specify that the audit procedures, as well as the scope and timing of the audit, were designed taking into account the KAM, including the risks of material misstatement in the financial statements and, where appropriate, significant internal control deficiencies identified during the course of the audit;
- the description of each KAM should systematically include an explanation of its effect on the audit and not, as proposed (draft ISA 701.10a), "to the extent the auditor considers it necessary".

2. THE REVISION OF THE STANDARD ON GOING CONCERN / PROPOSED ISA 570 / QUESTIONS 9 AND 10

Companies recognize the value of assessing the appropriateness of the use of the going concern basis of accounting. However, while the auditor should indicate that it has not identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern, it is unclear which principles would characterise a material uncertainty, potentially resulting in negative effects on how companies are perceived. Therefore, it must first be emphasized that there is no business without risk and that companies are routinely and increasingly facing material uncertainties. In this context:

- any pessimistic auditor judgment would be likely to affect the perception of the company by third parties, or could turn into a "self-fulfilling prophecy", with very damaging effects on companies and the economy;
- we believe it is particularly relevant to require a statement that "neither management nor the auditor can guarantee the entity's ability to continue as a going concern, whether or not a material uncertainty has been identified" (response to question 10).

Therefore, it is necessary to explicitly state in the financial reporting frameworks and in the text of the standard itself the principle that such material uncertainty relates to cases where the audited company is facing a serious change in its financial position, which irreversibly leads to the liquidation of the company (concept of "no realistic alternative to liquidation" mentioned in draft

ISA 570.A22). Indeed, it is only under these conditions that the company should measure its balance sheet at the liquidation value, and not according to normal valuation methods.

Moreover, when events and conditions have the potential to jeopardize the ability to continue as a going concern, companies consider that it may be inappropriate to publish the company plans to deal with these events and conditions (as indicated in the draft ISA.21a). Indeed, the identification of these plans by the auditor makes sense, but their disclosure to the public may undermine their chances of success.

3. THE DRAFT REVISION OF THE STANDARD ON OTHER INFORMATION IN DOCUMENTS CONTAINING OR ACCOMPANYING AUDITED FINANCIAL STATEMENTS (ISA 720)

While ISA 720 is currently being revised, the draft standard on the auditor's report (ISA 700) provides that the report refers to procedures performed on information that is not included in the financial statements, but in documents containing or accompanying audited financial statements. The illustrative auditor's reports include a placeholder for a section on Other information and it is foreseen that the elements of proposed ISA 700 will be finalised when the revision of ISA 720 is completed, such that reporting on other information will come into effect at the same time as the other changes addressed by the proposed ISAs.

The inclusion of this paragraph should in no case constitute a blank cheque for the contents of the future ISA 720. It would be preferable to finalise and validate the contents of ISA 720 before considering a reference to ISA 720 in ISA 700. An amendment to ISA 700 should be considered only upon final adoption of ISA 720.

In any case, companies consider it essential to clarify the following points:

- the nature of the documents covered by ISA 720 should always be defined at national level. Also, these documents should in no case include documents that are established by companies on a voluntarily basis (e.g. sustainability report included in a document containing audited financial statements);
- when the information contained in the documents is not accounting information, the procedures required by ISA 720 should not exceed an informed reading and, in the auditor's report, an indication of the information that would be identified as materially inconsistent with the audited financial statements.

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