

Mr. James Gunn
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International Auditing and Assurance Standards Board
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22 November 2013

Dear Sir

Reporting on audited financial statements: Proposed new and revised International Standards on Auditing (ISAs)

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the exposure draft *Reporting on audited financial statements: Proposed new and revised International Standards on Auditing (ISAs)*, issued by the International Auditing and Assurance Standards Board (IAASB).

We strongly support the approach and direction the IAASB has taken in developing the proposed standard on reporting on audited financial statements and believe the changes will provide meaningful enhancements to, and increase the relevance of, the auditor's report. Based on the outreach of the IAASB to investor groups, we understand these changes should increase the usefulness of the auditor's report to such users through the insights into the key areas of the audit. Enhancing the auditor's report should contribute to the ongoing relevance of the financial statement audit and to serving the public interest.

The communication of Key Audit Matters (KAMs) in the auditor's report should contribute to enhancing its informational value to all users by highlighting matters that were of most significance to the audit of the financial statements. Communicating such matters may also assist users in understanding the areas of significant management judgment and draw users' attention to management's disclosures of those matters.

We support the principles-based approach the IAASB has taken to KAMs, because we don't believe it is appropriate or feasible to prescribe the number, subject or contents of KAMs which will, by design, address the relevant facts and circumstances that arise in a given audit. As suggested by the IAASB, we have undertaken some limited field testing of the proposals in ISA 701 on a retrospective basis. Our field testing has focused particularly on the challenges that auditors and preparers may face during implementation of the proposed standard. We asked a number of engagement teams (field testing teams) in diverse geographies and industry sectors to apply the proposals to recently completed audit engagements and to discuss the resulting KAMs with management or those charged with governance. Our field testing results showed some diversity in the application of the proposed requirements, particularly in the description of KAMs and, where applicable, the nature and extent of related audit procedures. We also noted challenges in situations where the auditor (through the KAM) is the source of original information about the entity. Our responses to Questions 2 and 3 in Appendix 1 of this letter provide more information on the results of our field testing and our recommendations for further guidance prior to the finalization of the proposed standard.

We believe the proposed restructuring of the auditor's report, with the required headings and elements as well as the auditor's opinion prominent at the beginning of the auditor's report, is a significant enhancement, and helps to address the views expressed by investors and other users that consistency and comparability in auditors' reports are important features in auditor reporting. Retention of the "pass/fail" opinion provides users with a concise conclusion as to whether the financial statements, taken as a whole, are presented fairly in accordance with the applicable financial reporting framework, and the increased prominence of this opinion provides improved context for the users of the financial statements as they read the remainder of the auditor's report.

We acknowledge the proposals, or certain aspects of them, come with potential challenges to implementation, which we expect will likely lessen over time, as auditors become more familiar with them. Notwithstanding our support, we have concerns in some areas. Our views on these and other matters are more fully described in the responses to the specific questions on which the IAASB is seeking feedback, set out in Appendix 1 to this letter.

We encourage the IAASB to continue to engage in dialogue with investors, entity management and those charged with governance, other stakeholders, regulators and auditors to ensure that the proposals can be implemented in a practical way, and are both valuable and understandable for all users. The proposed changes to the auditor's report are significant and we believe communication and education will be important elements in the success and acceptance of the enhanced auditor's report.

Comparability is important for global investors and global markets and we believe the auditor's report should be as consistent as possible across jurisdictions. We encourage the IAASB to continue to monitor and engage around the efforts of other standard setters and regulators that are also exploring changes to the auditor reporting model, including the European Union (EU) and the US Public Company Accounting Oversight Board (PCAOB). Having different auditor's reports in the marketplace could be confusing to users. Due to differing legal, regulatory or reporting frameworks across jurisdictions, some variation may be necessary or inevitable. However, we continue to support global consistency and comparability in the auditor's report, and encourage the IAASB to continue to work together with the EU, the PCAOB and others to that end.

Effective date and implementation monitoring

The proposed changes principally affect auditor reporting for which the effort ordinarily occurs at or near the completion of the audit. There are also implications for the earlier stages of the audit process, such as the new ISA 260 requirement to communicate about significant risks with those charged with governance, as well as the proposed amendments to the engagement agreement requirements. For that reason, we suggest the effective date for the standards be for audits of financial statements for periods beginning on or after 15 December 2015. Assuming that the standards are finalized in late 2014 as signaled by the IAASB, this effective date would be consistent with the IAASB's past practice and would allow for translation, national adoption and implementation. However, we are mindful of the importance of responding to users' demands for enhancements as soon as practicable, and we support early adoption of the standards in jurisdictions that could implement the ISAs more quickly.

The IAASB has indicated its intention to undertake a post-implementation review of the proposed ISAs after two full years of implementation to determine whether the proposed ISAs have achieved their intended effect. Given the significance of the proposals, we would encourage the IAASB to monitor the results of early adoption in those jurisdictions that permit it, as well as the results of changes in auditor reporting in jurisdictions where changes to the auditor reporting model are already in place, such as the UK, where proposals have been adopted for audits of financial statements for periods commencing on or

after 1 October 2012. This would provide the IAASB with the opportunity to identify how the revised auditor reporting model is received by users, as well as potential unintended consequences, ambiguities or potential inconsistencies in its application. The information gathered from such monitoring would assist the IAASB in developing additional guidance and examples to assist in the implementation of the proposed standards, if necessary. We believe that such monitoring would contribute to the quality of the final ISAs and enhance the public interest value of the changes.

Effect of proposed changes on the review of interim financial information performed by the independent auditor in accordance with ISRE 2410

It is unclear how certain of the proposed changes for audits of annual financial statements of listed entities (for example, the new going concern communication requirements) would affect auditor reporting responsibilities for interim reviews conducted in accordance with ISRE 2410 and what users' expectations would be in that regard. We recommend the IAASB consider clarifying the effect on interim reporting as it finalizes its proposed changes to the auditor's report.

Editorial observations and suggestions

Our letter also includes a number of editorial observations and suggestions which are set out in Appendix 2.

We would be pleased to discuss our comments with members of the IAASB or its staff. If you wish to do so, please contact Karen M. Golz, Global Vice Chair, Global Professional Practice (karen.golz@eyg.ey.com).

Yours sincerely,

Ernst + Young Global Limited

Appendix 1: Questions on which the IAASB is seeking feedback

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?

We believe the introduction of a new section in the auditor's report describing key audit matters ("KAMs") will enhance the usefulness of the auditor's report through providing greater transparency into important areas where the auditor devoted the most time and attention and had substantive discussions with those charged with governance.

Applicability of KAMs to audits of completed sets of financial statements of listed entities

We understand and accept the IAASB's rationale for limiting the requirement to determine and communicate KAMs in the auditor's report to the audits of completed sets of financial statements of listed entities. However, we believe that the auditor's report should disclose that an audit conducted in accordance with ISAs requires communication of KAMs only for listed entities. This will be even more important if some jurisdictions define a listed entity differently than the ISAs, for example, by exempting audits of listed entities below a certain threshold from the requirement to communicate KAMs. This communication could be accomplished by adding an element in the auditor's responsibilities (for example, "We are required to communicate in our report Key Audit Matters...in our audit of the financial statements of listed entities").

KAMs and adverse opinions

ISA 705 explains that, if the auditor expresses an adverse opinion on the entity's financial statements, it is still appropriate to disclose KAMs in the auditor's report. Given the seriousness of an adverse opinion, particularly for listed entities to which KAMs primarily apply, we believe that, similar to when the auditor disclaims an opinion on the financial statements, KAMs should not be included in the auditor's report when an adverse opinion is expressed. We believe that disclosing KAMs in conjunction with an adverse opinion may suggest that some aspects or elements of the financial statements are not subject to the adverse opinion and could lead users to treat the KAMs as piecemeal opinions.

Documentation

Paragraph 14 of proposed ISA 701 requires documentation of the matters that will be communicated as KAMs, and the significant professional judgments made in reaching this determination. Paragraph A49 indicates that the documentation of the significant professional judgments made in determining the KAMs draws upon the documentation of the auditor's communications with those charged with governance and the audit documentation of the significant matters arising during the audit, and that such documentation may also provide an indication that other matters communicated with those charged with governance are not KAMs. It would be useful if the application material clearly communicated whether (and how, if applicable) the auditor is required to contemporaneously document the rationale behind why some matters communicated to those charged with governance are not deemed to be KAMs.

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?

Our field testing teams reported that the proposed requirements and related application material generally provided an appropriate framework to guide the auditor's judgment in determining the KAMs, although there were some concerns that the application of proposed ISA 701 might lead to different numbers of KAMs being disclosed, and at differing levels of detail. However, it is too early to assess whether the application of proposed ISA 701 will result, over time, in reasonably consistent auditor judgments about what matters are determined to be key audit matters.

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, our field testing teams indicated that the requirements and application material were useful and helpful. However, there were concerns raised regarding their practical application, as discussed below, which suggest the need for the IAASB to provide additional implementation guidance to promote consistent application of the proposed standard once it is issued.

Determining KAMs

We believe that determining the population of potential matters for KAMs should be relatively straightforward, particularly as KAMs are derived from those matters communicated to those charged with governance. In our view, the requirements relating to the determination of KAMs, as described in paragraph 8, are helpful in determining this population.

Reducing the total population of potential matters to a smaller list of matters to be communicated as KAMs is likely to be less straightforward in practice. We have concerns that some matters which were not determined to be KAMs may become more significant over time, and that, with the benefit of hindsight, the auditor's judgment about which matters might have been communicated as KAMs in the auditor's report may be challenged. In addition, management and/or those charged with governance may have concerns about certain KAMs being disclosed in the auditor's report because of their sensitive nature or because those charged with governance believe that such disclosure might be perceived as failures in governance and that they and/or the entity will be publicly criticized as a result. This could lead to:

- The over-reporting of matters designated as KAMs, which could reduce the effectiveness of the KAM disclosures.
- Excessive documentation of the rationale for not designating some matters as KAMs.
- More challenging discussions with management and/or those charged with governance about KAMs, for example, if they are concerned about disclosure of original information about the entity or other sensitive matters that may become public knowledge through the disclosure as a KAM in the auditor's report.

Disclosing original information in a KAM

We believe KAMs should provide more information than simply “point” to disclosures in the financial statements. However, we do not believe that it is appropriate to disclose original information about the entity in the auditor’s report. Given that KAMs are intended to highlight matters of significance in the audit, we would generally expect that such matters would also be material to, and disclosed in, the entity’s financial statements. As a result, we believe that KAMs should reference those related disclosures. This view is supported by the findings of our field testing teams, who raised several points about the challenges of describing KAMs for which there are no related disclosures in the financial statements, including concerns over disclosing sensitive information not in the financial statements and breaching client confidentiality.

Consequently, we suggest the IAASB strengthen the requirement in paragraph 10(b) of proposed ISA 701. We believe this could be achieved by changing the wording to require KAMs to include a reference to the related disclosures in the financial statements and by deleting the words “if any”. The application material in paragraph A37 is helpful in suggesting that the auditor encourage additional relevant disclosures in the financial statements, and we suggest that this application material be specifically referenced to paragraph 10(b).

Describing audit procedures performed relating to a KAM

Almost all of our field testing teams reported that striking a balance between conciseness when describing audit procedures and providing sufficient detail to aid understanding is challenging, particularly when also avoiding the use of technical auditing terms. This is particularly the case when the audit approach had been modified during the audit, with field testing teams finding it difficult to draft the KAM to reflect the “significant modification of the auditor’s planned approach to the audit” that resulted in the KAM. In addition, our field testing teams expressed the concern that, by providing a concise description of key audit procedures undertaken to address specific issues, the users of the auditor’s report might believe that these were the only procedures performed, whereas other audit procedures may also have been relevant to the auditor’s conclusions in respect of the matter described in the KAM.

For these reasons, we recommend that the IAASB revisit the application material in paragraphs A38 and A39 to indicate that, in most circumstances, the auditor would not be expected to provide an overview of the procedures performed.

Including a reference to an expert or to consultations in a KAM

Paragraph A40 suggests that it may be appropriate in certain circumstances for the auditor to disclose in a KAM when the auditor employed or engaged an auditor’s expert or the auditor consulted on complex matters within or outside the firm. The use of an expert or the instance of a consultation (within or outside the firm) may not be an indicator of the quality of the audit or the degree of difficulty of the matter, but rather an indicator of the degree of expertise on the engagement team. In addition, firms’ policies on consultation requirements may differ and not be comparable. We therefore suggest that this application material be reconsidered or that additional guidance be provided in that regard.

Concluding on the results of the auditor's procedures

Paragraph A38 explains that to describe the effect of a significant matter on the audit, the KAM may include an indication of the outcome of the auditor's procedures. We are concerned that such conclusions might be perceived as separate opinions, thereby seemingly elevating the "accuracy" of certain parts of the financial statements in the eyes of the users thereof. For that reason, we do not think that there should be conclusions on specific KAMs, and that the application material should emphasize that fact.

Matters "of most significance" to the audit

Paragraph 9(a) requires that the auditor's report state that the KAMs are those matters that were "of most significance" in the audit. Our field testing teams questioned whether there would be an expectation for the auditor to also consider matters that could be "of most significance" to the user of the auditor's report when determining and reporting KAMs. For example, an area might be relatively straightforward to audit, but, because of media coverage, the user of the auditor's report might expect that the auditor would have considered this matter to be "of most significance". Such an expectation might arise from media coverage of executives' remuneration, which, from an audit perspective, may be a sensitive financial statement disclosure, but is relatively straightforward to audit.

We believe that ISA 701 intended the KAMs to be those matters "of most significance" to the auditor in the performance of the audit, rather than those expected by the users of the auditor's report who would not have the same insights into the audit process, and it would therefore be helpful for the IAASB to clarify this point.

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.

We welcome the inclusion of examples in the illustrative auditor's reports, because they help illustrate the application of the requirements of the standard. We expect that the examples, although purely illustrative in nature, are likely to be used extensively by auditors seeking to understand the level of detail to be included in a KAM. We suggest that the IAASB consider redrafting the examples in light of our comments in response to Question 3.

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?

We agree in principle with the approach taken by the IAASB. However, proposed ISA 701 is unclear as to whether an auditor's decision to voluntarily communicate KAMs is to be made for each reporting

period or whether an initial decision to voluntarily communicate KAMs will require the auditor to apply the requirements of ISA 701 on an ongoing basis. We believe that this point should be clarified to ensure a consistent application of the IAASB's proposed approach.

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?**

Yes, we believe it is appropriate for proposed ISA 701 to allow for the possibility that there are no KAMs to communicate. However, we do believe that these circumstances will be relatively rare.

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?

We agree that the communication of KAMs should be limited to the audit of the most recent financial period.

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?

From the requirements of proposed ISA 701 and revised ISA 706, it is clear that KAMs and Emphasis of Matter paragraphs (EOMs) can co-exist within an auditor's report and we agree with the IAASB's decision to retain both concepts, even when the auditor is required to communicate KAMs. We suggest that the IAASB review the nature and number of EOMs included in the auditor's report of listed entities when conducting its post-implementation review of the proposed ISAs to reaffirm its decision to retain EOMs.

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))?**

We support disclosures about going concern in the auditor's report, because we share the IAASB's view that an appreciation of going concern is of great importance to users of the financial statements. However, we have concerns with the IAASB's proposed approach, as discussed below.

Alignment with financial statement disclosures

At present, International Financial Reporting Standards (IFRS) do not require any disclosure in the financial statements regarding going concern unless management is aware of material uncertainties that may cast doubt on the entity's ability to continue as a going concern. There is a potential misalignment between the auditor's report and the financial statements prepared by management, in that the auditor will be required to communicate regarding going concern in all circumstances. This could lead to confusion and misunderstanding over the respective responsibilities of management and the auditor with regard to going concern. It also is inconsistent with our view that the auditor's report should not disclose original information, but rather reference matters disclosed in the financial statements.

Going concern as a KAM

We appreciate the proposal for going concern is to be discussed in a separate section of the auditor's report, given its importance, and revised ISA 570 *Going Concern* sets out the requirements related to these disclosures. However, both revised ISA 570 and proposed ISA 701 are silent as to what the auditor is expected to do when the auditor considers that going concern is a KAM, as a result of the considerable work effort and professional judgment involved in evaluating underlying events and conditions that may cast significant doubt on the entity's ability to continue as a going concern and ultimately concluding that no material uncertainty exists. The Key Audit Matters section of Illustration 1 of auditor's reports relating to going concern states that "In addition to the material uncertainty as described in the Going Concern section of our report..." This appears to suggest that a material uncertainty is a KAM, yet the Going Concern section of the auditor's report only includes the proposed required standard disclosures in ISA 570 paragraphs 21-22 (and not the required disclosures in proposed ISA 701).

We believe that the IAASB needs to address the interaction between revised ISA 570 and proposed ISA 701, and when the disclosures in proposed ISA 701 would be required. In addition, we believe the IAASB should provide specific guidance as to whether a KAM about going concern should be included in the auditor's report when the auditor concludes that no material uncertainty exists. This specific guidance also should take into account the concerns expressed about auditors providing disclosure of original information in the auditor's report.

Conclusion regarding material uncertainty

We understand that the going concern section of the auditor's report does not extend our responsibilities regarding going concern beyond what is currently required by professional standards, but merely explicitly states the implicit conclusions we have made regarding going concern during the course of our audit.

However, we are concerned that the suggested conclusions (i.e., "*we have concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate*" and "*we also have not identified such a material uncertainty*") could result in misunderstanding or confusion by users. Because of the lack of disclosures in the financial statements, and the use of specialized terminology, such as "material uncertainty", users may misinterpret a statement about the appropriateness of management's use of the going concern assumption as conveying more than simply a conclusion on the basis of accounting used to prepare the financial statements. The wording "*neither management nor the auditor can guarantee*" is somewhat helpful, but we are not sure that this wording can overcome the risk of misunderstanding or confusion.

We believe that it is possible that users of the auditor's report will infer more from these paragraphs than intended, particularly in the absence of disclosures in the financial statements, as mentioned above.

IASB's work on going concern

We understand the International Accounting Standards Board (IASB) is currently undertaking a project to amend its existing standards and to require additional going concern disclosures in financial statements. We therefore recommend that the IAASB work with the IASB in order to align the requirements of ISA 570 with those of IFRS and to make sure that the respective responsibilities of management, those charged with governance and the auditor are clear. In addition, we suggest that the IAASB delay implementing changes to going concern disclosures in the auditor's report, including KAMs, until the IASB has finalized its proposals.

As we discussed in our response to the IAASB's *Invitation to Comment: Improving the Auditor's Report*, such a "holistic" approach to going concern, which involves consideration of both the preparer's and the auditor's responsibilities, would enhance going concern reporting. This would also provide the opportunity to address the current lack of clarity by users regarding the meaning of the auditor's conclusion on the "appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements" as well as the meaning of certain terminology, such as "material uncertainty", "significant doubt" and "ability to continue as a going concern." In addition, we suggest aligning the timing of implementation of the going concern requirements for auditor reporting with the changes to IFRS, to avoid any potential timing issues or misalignment of disclosures.

Should the IAASB wish to adopt interim requirements regarding going concern disclosures in the auditor's report, we suggest the IAASB consider:

- Adding a bullet in the section Responsibilities of Management and Those Charged with Governance for the Financial Statements, explaining management's responsibilities for going concern, for example adding a new second sentence: "Management's responsibility includes making an assessment of the entity's ability to continue as a going concern."
- Adding a bullet in the section Auditor's Responsibilities for the Audit of the Financial Statements, explaining the auditor's responsibilities for going concern, for example: "Obtain sufficient

appropriate audit evidence and conclude regarding the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements and whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern".

- Retaining the proposed Going Concern section of the auditor's report for those situations when a material uncertainty exists and requiring the disclosures in extant ISA 570.19.

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?

Please refer to our comments in the response to question 9.

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 support the inclusion of a statement on independence and compliance with relevant ethical requirements. However, we are concerned that, within a group audit or in jurisdictions where independence and ethical requirements have not been codified into one or two sources, the list of ethical requirements could be very lengthy. Given that this statement of compliance is within the Basis for Opinion paragraph, which is near the beginning of the report, a lengthy list might be construed as "more standard disclosures" and may detract from other information in the auditor's report. As a result, we suggest alternative wording, such as "We are independent of the Group within the meaning of the [Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants / relevant ethical requirements and applicable laws and regulations], and have fulfilled our responsibilities under those ethical requirements and laws and regulations."

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?

We do not support an international requirement for disclosure of the engagement partner's name in the auditor's report as we do not believe it is necessary or adds to the quality of the audit. We acknowledge, however, that a requirement for the identification of the engagement partner in the auditor's report has existed in many jurisdictions for some time and is a function of the local legal and regulatory environment, as well as cultural norms in those jurisdictions. For that reason, we suggest that a decision to require the disclosure of the name of the engagement partner be left to national standard setters or to local law or regulation.

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 agree with the enhanced descriptions of the responsibilities of the auditor and the features of the audit as they represent valuable improvements to the auditor's report. However, we do not believe that it is appropriate to permit the standardized description of the auditor's responsibilities to be relocated to an appendix to the auditor's report, as we consider that this may diminish the importance of these statements. We therefore suggest that paragraph 39 of proposed ISA 700 (revised) be amended accordingly.

We recognize that, in some jurisdictions, the auditor is permitted to include a reference to a website of an appropriate authority that contains a description of the auditor's responsibilities. To ensure an appropriate and consistent application of this alternative presentation, we suggest that the requirement in paragraph 40 be strengthened by rewording it as follows:

"The auditor shall be permitted to include a reference in the auditor's report to indicate the location of a description of the auditor's responsibilities rather than including such a description in the auditor's report only when the following conditions are met:

- (a) Law, regulation or national auditing standard setters expressly permit the auditor to refer to a website of an appropriate authority that contains a description of the auditor's responsibilities; and
- (b) That description is not inconsistent with the requirements set out in paragraphs 37-38."

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?*

We support the IAASB recommending the ordering of items to promote a consistent structure, and would support, except where local law or regulation expressly prohibits it, that ISA 700 should require the opinion to be the first element in the auditor's report. It is more difficult to mandate the order of the other elements of the auditor's report, such as going concern, KAMs and other information as jurisdictions may have specific additional requirements, and therefore we believe that it is appropriate to retain flexibility over the placement of those other elements.

Although we support the auditor's opinion being placed at the beginning of the auditor's report, we suggest changing the order of the two paragraphs in the Opinion section around, so "what" was audited comes before the opinion. The opinion still has prominence but it stands in context – as the auditor communicates the scope of the audit before expressing an opinion on the financial statements.

In addition, for unmodified opinions, when the Basis for Opinion immediately follows the Opinion, we suggest that the sub-heading "Basis for Opinion" is superfluous and may be deleted.

Appendix 2: Editorial observations and suggestions

Reference	Observation
All illustrative reports in ISA 700, ISA 570, ISA 705 and ISA 706	In the second sentence of the first bullet of the scenarios, there is a reference to an audit being a group audit (or not a group audit) conducted in accordance with ISA 600. This sentence is misleading as a group audit is conducted in accordance with ISAs, including ISA 600, but not solely in accordance with ISA 600. This second sentence is not needed to understand the illustrative reports, and we suggest it be deleted.
All illustrative reports in ISA 700 and ISA 570 when the scenario is for an unmodified opinion	In the scenarios with an unmodified opinion, the scenario uses the words “The auditor has concluded an unmodified (i.e., “clean”) opinion is appropriate We suggest that “(i.e., “clean”)” be deleted from these sentences, as it is unnecessary jargon.
ISA 700	
ISA 700, paragraph 22	We believe that the wording in extant ISA 700, paragraph 22, i.e., “The auditor’s report shall be addressed as required by the circumstances of the engagement”, is clearer than the proposed wording.
ISA 700, paragraph 32, second sentence	We would reword this sentence, so that the requirement comes first: “This heading shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction, and need not refer specifically to ‘management’”.
ISA 700, paragraph 33(b)	Replace “where” with “when” as follows: “... where <u>when</u> those responsible ...” as “non-geographic” use of “where” is hard to translate.
ISA 700, paragraph 34	Replace “where” with “when” as follows: “ Where <u>When</u> the financial statements ...” as “non-geographic” use of “where” is hard to translate.
ISA 700, paragraph 37(b)(i)	This three item list, with multiple uses of “and” is long and therefore difficult to read. We suggest separating each point in the list with a semi-colon and starting each of the items in the list with “to”.
ISA 700, paragraph 37(c)(i)	It is unclear as to what “business activities within the group” refer to, as this is not defined in ISA 600.
ISA 700, paragraph 38	In both paragraphs (a) and (b), delete the brackets around “those charged with governance”.
ISA 700, paragraph 42	The first sentence should refer to “partner” and not “partner’s”.
ISA 700, paragraph 46(c)	Amend the wording to read “if it is not IFRS ...” rather than “that is not IFRS ...”.
ISA 700, sub-heading above paragraph A17	Change lower case “o” on “opinion” to a capital letter, to be consistent with paragraph A17.
ISA 700, paragraphs A32 and A53	In A53, the reference to those charged with governance includes an example, i.e., “(for example, an entity’s Board of Directors or Audit Committee)”. We recommend inserting a similar reference in paragraph A32.
ISA 700, paragraph A41,	This sentence “A further description of our responsibilities for the audit of the financial statements that is part of this auditor’s report is located at ...”

Reference	Observation
last sentence	sounds as though the financial statements are part of the auditor's report. We suggest rewording this statement to read "A further description of our responsibilities for the audit of the financial statements is located at ... [website]. This description forms part of our auditor's report."
ISA 700, paragraph A50, fourth sentence	This sentence is passive. We suggest rewording it as follows: "In such cases, <u>the auditor considers</u> the procedures the entity follows in preparing and finalizing its financial statements in view of its management and governance structure are considered , in order ..."
ISA 700, paragraph A58	The first sentence repeats the sentence in paragraph 47, and we suggest deleting it.
ISA 701	
ISA 701, paragraph 13(a)	ISQC 1, paragraph 35 requires that an engagement quality reviewer be appointed for listed entities. As the requirements in ISA 701 apply to listed entities, an engagement quality reviewer will already have been appointed. We therefore suggest deleting "for those engagements where one has been appointed", and creating application material for situations when the auditor is voluntarily applying KAMs on an engagement of an unlisted entity.
ISA 701, paragraph A9	We suggest adding application material that makes clear that the auditor is not expected to provide a follow up in the current year on the outcomes of any KAMs disclosed in the prior year.
ISA 701, paragraph A16	The wording of this paragraph may imply that certain significant risks, which are significant risks "only" because they are defined in the ISAs as such, are not really important or likely to be KAMs. We suggest that the paragraph be reworded to avoid this implication.
ISA 701, paragraph A18	<p>a) Delete "also" from the first sentence, so that it reads "...and the auditor's response to them, also may be key audit matters...".</p> <p>b) We suggest rewording sentences 2 and 3, as follows: "When such a transaction exists, management or those charged with governance may have communicated the matter with the auditor prior to undertaking the transaction, and at various stages throughout the audit. The auditor may have assessed the transaction as a significant risk and Management there may have been made subjective difficult judgments both by management and the auditor in relation to recognition, measurement, presentation or disclosure of the transaction. <u>In such circumstances, the auditor may</u> have assessed assess the transaction as a significant risk and."</p>
ISA 701, paragraph A23	We are concerned that this paragraph implies that, notwithstanding that there is no public disclosure requirement of significant deficiencies in ISA 265, the disclosures of KAMs will result in public disclosure of such significant deficiencies. The warning in paragraph A36 regarding the sensitive nature of such disclosures should therefore be referenced in paragraph A23.
ISA 701, paragraph A31, second "main" bullet	Two "for examples" appear within the same sentence. We suggest rewording as follows: "...used an expert, such as an actuary, to obtain audit

Reference	Observation
	evidence or evaluate management’s assumptions.”
ISA 260	
ISA 260, paragraph A12, second bullet	We are unsure of the meaning of “greatest effect” in the phrase “greatest effect on the overall audit strategy”.
ISA 260, Appendix 2, Related matters, third sub-bullet	This meaning of the bullet (“Whether any such transactions appear to have been designed to have a particular accounting treatment or tax, legal or regulatory transaction”) is not clear. Is it possible that there are missing/extra words or missing punctuation, or that “...regulatory transaction” should read “regulatory effect”?
ISA 570	
ISA 570, paragraph 21(b)	To improve clarity, we suggest changing the wording to read “...and, therefore, that <u>the entity</u> # may be unable ...”
ISA 570, Subheading preceding paragraph 22	To improve clarity, we suggest adding “identified” before “material uncertainty”, as follows: “Adequate disclosure of <u>identified</u> material uncertainty ...”
ISA 570, paragraph 22	To improve clarity, we suggest adding “identified” before “material uncertainty”, as follows: “If adequate disclosure about the <u>identified</u> material uncertainty ...”
ISA 570, Subheading preceding paragraph 23	To improve clarity, we suggest adding “identified” before “material uncertainty”, as follows: “Adequate disclosure of <u>identified</u> material uncertainty ...”
ISA 570, paragraph 23	To improve clarity, we suggest adding “identified” before “material uncertainty”, as follows: “... but adequate disclosure about the <u>identified</u> material uncertainty ...”
ISA 570, Illustrative auditor’s report, Illustration 2	The Basis of Qualified Opinion paragraph explains that the Company has been unable to re-negotiate or obtain replacement funding for the financing that is due to expire, and that inadequate disclosure has been made of that fact in the financial statements. However, the Going Concern Basis of Accounting paragraph of the auditor’s report, states that management’s use of the going concern basis of accounting is appropriate. Given the stated inadequacy of the disclosures in the financial statements, we question whether additional information in the auditor’s report is needed in support of this conclusion.
ISA 705	
ISA 705, paragraph A23	We suggest changing the order to read ...”effects on income before taxes, income taxes, net income, and equity”... (to follow the order of presentation of such items in the income statement).
ISA 705, Illustrative auditor’s reports, Illustration 1 and 2	In Basis for Qualified Opinion, penultimate sentence: These two reports are inconsistent. “Relevant” is omitted in illustration 2 in “...under those <i>relevant</i> ethical requirements”. We suggest aligning the two illustrations.
ISA 705, Illustrative auditor’s reports, Illustration	Delete “consolidated” from “consolidated financial statements” in the Key audit matters section because the illustration is not for a group audit.

Reference	Observation
1	
ISA 705, Illustrative auditor's reports, Illustration 2	Basis for adverse opinion section: The sentence would be clearer if "it" (twice) in the first sentence were changed to read "the Group", as "it" could refer to both the Group and the subsidiary.
ISA 705, Illustrative auditor's reports, Illustration 3	Key audit matters section – by inference, the illustrative auditor's report includes the KAM example <i>Acquisition of XYZ Business</i> , and, if read together, references to XYZ Business and XYZ Company could be confusing. We suggest changing one of these illustrative "company" names.
ISA 705, Illustrative auditor's reports, Illustration 5	<p>a) The third bullet of scenario should read: "...the financial statements, that is, the auditor was unable ..."</p> <p>b) We suggest adding a sentence to the scenario explaining that the auditor was appointed after the period end.</p>
Other conforming changes	
ISA 210, Appendix 1	Second paragraph of letter: We suggest reinstating the deleted text "on the financial statements" after "... that includes our opinion."
ISA 540, paragraph A114	The wording of the last sentence is confusing as it is open to different interpretations. Therefore, we suggest rewording as follows: "If the matter is determined to be a key audit matter, and the auditor is required to, or elects to, disclose key audit matters in the auditor's report, proposed ISA 706 (Revised) prohibits the auditor from including that matter in an Emphasis of Matter paragraph in the auditor's report."