SWIRE PACIFIC

International Auditing and Assurance Standards Board
529 Fifth Avenue
6th Floor
New York
NY 10017
United States of America

15th November 2013

Dear Sirs,

IAASB Exposure Draft - Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

We are responding to your invitation to comment on the Exposure Draft on proposed new and revised International Standards on Auditing, as published in August 2013, on behalf of Swire Pacific Limited. We have responded to the "Specific questions for respondents" laid out on p.40-42 of the IAASB Exposure Draft in the appendix to this letter.

Swire Pacific Limited is listed on the Hong Kong Stock Exchange and has diversified interests in five operating divisions: Property, Aviation, Beverages, Marine Services and Trading & Industrial. Swire Pacific's Aviation Division includes a 45% investment in the Cathay Pacific group and a 75% investment in the Hong Kong Aircraft Engineering Company group, both of which are also listed on the Hong Kong Stock Exchange.

We would welcome the opportunity to discuss these views in further detail with you. If you have any questions regarding our comments, please do not hesitate to contact the undersigned on +852 2840 8676 or at alexkinloch@swirepac.com.

Yours sincerely,

For and on behalf of Swire Pacific Limited
Alexander Kinloch
Finance Manager

Appendix – Responses to Specific Questions for Respondents

Question 1

We believe that users of audited financial statements will find that the proposals to include key audit matters do not enhance the usefulness of the auditor's report. It is our view that users are most interested in whether a "true and fair" opinion is given or not. This lets them know whether they can place reliance on the figures contained within the financial statements. We do not believe that additional information on the details of the audit are of interest or use to the user and that these proposals will create additional unnecessary burden to auditors and preparers of financial information. Our disagreements with the proposals revolve around a few key points of principle:

1. **The proposals will blur the roles of management and auditor.** It is the role of management to prepare financial statements and of auditors to assure them. This is well understood by users of financial statements and the capital markets. In highlighting matters of significance, the auditor will be encroaching on the responsibilities of management, whose role it is to prepare financial statements that bring matters of significance to the attention of the reader.
2. **The proposals will undermine the value of the audit report.** It is our opinion that in highlighting matters of significance, the auditor will undermine the confidence current audit reports provide. The reader may construe the highlighting of significant matters as a disclaimer of responsibility over these matters or that these matters are not subject to the same "truth and fairness" as the rest of the financial statements, thus undermining the reliance users can place on the audit opinion.
3. **The proposals will result in additional cost to companies.** As outlined in paragraph 14 of draft ISA 701, the requirement to include key audit matters will require additional documentation. This is yet another area that will require auditors to put in place processes and lengthy paperwork to record the deliberations around the selection of key audit matters. This is certain to result in more hours charged by senior audit staff (such as partners and senior managers) and will result in additional cost that will in all likelihood be passed on to preparers of financial statements.
4. **The proposals will result in repetition of material already stated by management.** Much of the key audit matters described will be repeated in the "critical accounting estimates and judgements" section already prepared by management.

Question 2

Notwithstanding our disagreement in principle with the proposed requirement to include key audit matters as outlined in our response to Question 1, we believe that the proposed requirements and related application material do not provide a sufficient framework to guide the auditors' judgement in determining key audit matters for the following reasons:

1. We think it is inappropriate to highlight areas where the auditor encountered significant difficulty with respect to obtaining sufficient appropriate evidence. Our view is that either the auditor obtained sufficient appropriate evidence or there is a limitation of scope due to the lack availability of such evidence. This is a judgement that should be made by the auditor when deciding whether or not to issue a clean opinion.
2. We think it is also inappropriate to highlight circumstances where the auditor required a significant modification of planned approach. Again, it is up to the auditor to decide their approach and changes to this approach are not uncommon in order to obtain the evidence required to support an opinion. Our view is that information on changes to the audit approach is not useful to the users of financial statements.

If the IAASB are to insist on implementing these requirements, we would suggest that the determination of key audit matters should focus on those risks determined as being significant by the auditor.

Question 3

Notwithstanding our disagreement in principle with the proposed requirement to include key audit matters as outlined in our response to Question 1, we believe that the proposed requirements and related application material provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters. We, however, would like to expand on our concerns expressed in our response to Question 1, namely:

1. The description of key audit matters is very likely to repeat what is already disclosed in the financial statements. We draw your attention to the audit report in the 2013 Annual Report of Vodafone Group Plc as an example (which includes auditor commentary as part of Vodafone's early adoption of the revised UK Corporate Governance Code). This auditor commentary repeats many of the critical accounting estimates and judgements described by management on the preceding page.
2. In the same audit report, we draw your attention to the procedures outlined by the auditor to address these significant risks. Our view is that these are generic in nature and do not provide additional useful information to the user of the financial statements.
3. The requirement for extensive caveats (as outlined in Paragraph 9 of draft ISA 701) preceding the key audit matters reinforces our view that users may misinterpret key audit matters as emphasis of matter paragraphs or "mini disclaimers".

Question 4

We disagree with the proposed requirement to include key audit matters and do not believe that the examples provided contain useful information for the following reasons:

1. Much of the illustrative examples either repeat information outlined in the accounting policies or describe information already presented in the notes the financial statements. For example, the final sentence in the paragraph on goodwill states that "Note 3 [...] explains that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future." This is simply describing what is already presented in the note and is readily accessible to the reader. We would question what value lies in further repeating this in the audit report.
2. The description of the procedures performed is quite generic. A reasonably informed user of financial statements will be aware that the impairment of goodwill is a judgemental area, as it requires the estimation of future business performance and cash flows. The procedures performed in the illustrative example are what a user would expect an auditor to have done to provide an audit opinion. Stating this in the audit report does not in our view provide any additional value to the user.

Question 5

We believe it is highly unlikely that entities not required to provide such a communication will choose to do so. That said, for those that may choose do so, it seems sensible that they should follow the relevant ISAs relating to key audit matters and that this should be outlined as part of the engagement letter.

Question 6

We do not disagree with the possibility that the auditor may determine that there are no key audit matters if this is adequately explained.

Question 7

We agree that key audit matters should relate to the most recent financial period. We would raise the question whether there may be some rare instances, for example in the case of a material prior period error, where a matter from previous periods might merit inclusion in key audit matters.

Question 8

We agree with the decision to retain the concepts of Emphasis of Matter and Other Matter paragraphs.

Question 9

In our view, the proposals around going concern add unnecessary detail to the audit report. In Hong Kong, the corporate governance code already requires Directors to state the appropriateness of the use of the going concern assumption. This would then simply be repeated again in the audit report.

The use of the going concern assumption is one of the "over-arching" principles outlined in IFRS along with the use of accruals accounting. The need to state this in the audit report does not seem necessary, as were financial statements prepared on the break-up basis, this would be obvious to the reader from scanning the balance sheet (as there would no non-current assets or liabilities) and would be mentioned prominently in the Directors' report.

Question 10

We see no benefit to users of this explicit statement as it is self-evident.

Question 11

We believe users will derive little benefit from the requirement to disclose the sources of independence and other relevant ethical requirements.

Readers are aware of the independence of auditors as their audit report is entitled "Independent auditor's report". In Hong Kong, corporate governance codes for listed companies also require disclosure of the fact that the Audit Committee is responsible for monitoring the independence of the external auditor.

The proposal to require the sources of relevant independence, ethical, legal and regulatory requirements to be listed in the audit report is burdensome and will clutter the audit report with references to documents that readers are unlikely to consult. For large group audits where there are many different requirements (for example where companies are listed on more than one stock exchange), this will lead to excessive and unnecessary detail.

Question 12

We believe users will derive little benefit from the requirement to disclose the name of the engagement partner.

Audit partners are already easily identifiable, for example in Hong Kong by attending a company's annual general meeting.

We do not believe that the naming of the partner will result in improved audit quality as suggested in the exposure draft. An audit partner is subject to considerable personal liability as a member of a partnership signing audit reports. Audit quality is therefore likely to be a top priority and an area to which he and his firm already devote significant time and resources. The fact of being named in an audit report is unlikely in itself to lead to an improvement in audit quality.

Question 13

We welcome the ability in the audit report to reference an appropriate website which contains a description of an auditor's responsibilities. This will allow for the description of the auditor's responsibilities to be kept and updated on a website maintained by a suitable authority rather than detailed in the audit report.

Question 14

We do not have any concerns with the proposal not to mandate the ordering of sections of the auditor's report. We disagree in principle as outlined in our other responses to many of the inclusions in proposed ISA 700, however, should the IAASB insist on implementing its proposals then the level of prescription outlined in the proposed ISA is acceptable.