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International Auditing and Assurance Standards Board

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Via website: www.iaasb.org

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IASB Exposure Draft – Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing

Macquarie University's Department of Accounting and Corporate Governance is pleased to provide the International Auditing and Assurance Standards Board (IAASB) with the opportunity to provide comment on the Exposure Draft: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISA) (Exposure Draft - ED) issued in July 2013.

Macquarie University's response reflects our position as a leading educator to the Australian and global community. This submission has benefited with input from discussions with key constituents, and in particular we appreciate the opportunity provided by the Australian Auditing and Assurance Standards Board's Standards Board's (AUASB) to provide Roundtables in October 2013 where the ED was extensively discussed and was attended by key constituents including financial statement preparers, auditors, directors, and investors in addition to representatives of the Australian Auditing & Assurance Standards Board (AUASB) and its staff.

We broadly support the IAASB's proposals to enhance auditor reporting globally. The proposals respond to calls from investors, analysts, and other users of audited financial statements in the wake of the global financial crisis for the auditor to provide more relevant information in the auditor's report. Our comments on each of the questions asked by the IAASB in the ED are attached as an appendix. However we would like to refer you to 2 Issues that have been raised by Australian constituents and which we believe the IAASB needs to reflect upon, and further consult with key constituents before making any changes to the global audit report.



Expectation gap or more relevant financial information

Whilst there is broad agreement that more information auditor's report will reduce the expectation gap over what readers of the auditor's report expect the auditor to do, and what the auditor actually does, there is a concern that this proposal is driven by enabling readers of the financial statements to better understand the risks that the company faces and the strategies put in place to address those risks. This is directors' issue, and whilst this is not an objective of the IAASB's proposals, it needs to be addressed as from an audit perspective it is the explanation of the key audit matters (KAMs) that these proposals are recommending.

A number of the proposed disclosures in the ED will be new to readers of the financial statements, and hence will require directors' comments on. On that basis this would seem reasonable for the International Accounting Standards Board to have a specific disclosure standard that would facilitate such disclosures rather than just being the auditors who are required to make such disclosures.

Further guidance needed

The UK Vodaphone auditors report has received strong acceptance however there is concern from auditors that the level of detail required may not be clear and the field testing undertaken by the IAASB is crucial in providing the level of guidance needed. This is a particular issue for the smaller non-global audit firms.

If you require any further information or comment, please contact me.

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Appendix

Key Audit Matters (KAMs)

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?

Macquarie University response

There is a concern that finalising the Key Audit Matters (KAM) will add to the costs of the audit given the need to discuss and reach agreement with both management and directors. Given that comment it is critical that guidance is provided particularly where there is not current disclosure of specific matters raised, in the financial statements. It needs to be made clear that is just the significant issues that the auditor has addressed rather than all material matters.

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?

Macquarie University response

There is some sensitivity about disclosure of internal control deficiencies given that this would be a new requirement in the Australian context.

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?

Macquarie University response

We would prefer that the disclosure should be based on why it is a key audit issue and how it has been resolved, rather than the accounting treatment adopted, which we believe is not intended.

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.

Macquarie University response

There was a preference for the Vodafone reporting as the proposals are not seen by a number of Australian constituents as being as user friendly as they could be. No doubt field testing will assist, however if the Vodafone example is the intended example, then there is positive support.



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?

Macquarie University response

As it is voluntary it should not be a mandated requirement to reference to ISA 701.

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?

Macquarie University response

Yes but some guidance as to why there are no key audit matters need to be considered as we find it difficult to understand why this would be so, except perhaps for a listed shell company and even then, perhaps that is the only key audit matter!

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?

Macquarie University response

We agree and this should be clearly identified 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?

Macquarie University response

We agree.



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.

Macquarie University response

Whilst we believe that such disclosure should be made by the directors, we accept that the auditor should give an opinion on going concern.

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?

Macquarie University response

We agree that a statement should be included.

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?

Macquarie University response

We agree and note that this has been an Australian requirement.

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?

Macquarie University response

We agree and note that this has been an Australian requirement that in practice has not been an issue.

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?

Macquarie University response

We agree.



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?

Macquarie University response

We agree.