

22 November 2013

International Auditing and Assurance Standards Board (IAASB)
529 5th Avenue, 6th Floor
New York, New York 10017
United States of America

**Comment Letter on Exposure Draft – Reporting on Audited Financial Statements:
Proposed New and Revised International Standards on Auditing (ISAs)**

Dear Madam, dear Sir

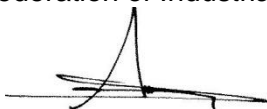
SwissHoldings, the Swiss Federation of Industrial and Service Groups in Switzerland, represents 57 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to the consultation on International Standards on Auditing (ISAs) concerning the Reporting on Audited Financial Statements. We are a Preparers' organization so our comments are made in this context. Our response to your questions, which are in the attached appendix, has been prepared in conjunction with our member companies.

We thank you for the opportunity to submit our comments on your proposal.


Yours sincerely

SwissHoldings

Federation of Industrial and Service Groups in Switzerland



Michel Demaré
Chair



Christian Stiefel
Director

APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

Key Audit Matters (KAM)

Question 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?

As Preparers we accept that the extent of external auditors' work and challenges to us is not done justice in the current "boiler-plate" opinion that is placed on our member firms' consolidated financial statements. We consider, especially in the aftermath of the recent financial crisis, that this has contributed to the expectation gap that currently exists between the public and users' views of the role of external auditors and that of the audit profession themselves.

We consider that this has led to the increasingly vocal movement for mandatory rotation of audit companies which we generally do not support.

Therefore generally we are supportive of a move away from the "boiler-plate" audit opinion if this would reduce the pressure on the proposals for a potentially costly and disruptive change of external audit firms.

Having said this we consider that the objectives of such a communication should be the following:

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

As a result 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 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:
 - o the mere disclosure of significant risks, without mentioning the existence of processes or actions to reduce these risks to an acceptably low level;
 - o the public disclosure of a significant deficiency in internal control, without mentioning the existence of internal or external controls or of corrective measures.
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To clarify the effect of KAM on the audit and to avoid misunderstandings on the part of users of financial statements, our member companies wish to make the following proposals:

- when the auditor decides to disclose the areas they have identified as presenting risks of material misstatement in the financial statements, the auditor should also be required to indicate how they have addressed these risks in their audit strategy and 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 their effect on the audit and not, as proposed (draft ISA 701.10a), "to the extent the auditor considers it necessary".

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?

For our response to question 2 see 1 above.

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?

For our response to question 3 see 1 above.

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.

For our response to question 4 see 1 above.

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?

Agreed.

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?*

If not, why not?

Agreed.

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?

Agreed.

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?

Agreed.

Going Concern

Question 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 remain a going concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised))?*
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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.

See question 10 below for our response.

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?

Concerning items 9 and 10 above our member companies recognize the value of assessing the appropriateness of the use of the going concern basis of accounting. In this respect however we strongly support the NET assessment of going concern (ie one that would take into account the mitigating actions that are being undertaken by the company under review).

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 time period is being considered (eg for assessing the ability to refinance maturing debt) and what principles would characterise a material uncertainty, potentially resulting in negative effects on how our member companies are perceived:

- it must first be emphasized that there is no business without risk and that companies are routinely facing, and increasingly facing, material uncertainties;
- in this context:
 - o 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 our member companies and the economy;
 - o 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.

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.

In addition, when events and conditions have the potential to jeopardize the ability to continue as a going concern, our member companies consider that it may be inappropriate to publish the company's 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.

Compliance with Independence and Other Relevant Ethical Requirements

Question 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?

Acceptable.

Disclosure of the Name of the Engagement Partner

Question 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?

Appears an acceptable proposal.

Other Improvements to Proposed ISA 700 (Revised)

Question 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?

No particular comment.

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?

A standard order for items in the Audit Opinion would make sense.

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, our member 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 our member companies on a voluntarily basis (eg. sustainability report included in a document containing audited financial statements); and
 - 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 is identified as materially inconsistent with the audited financial statements.
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