



Via website posting: <http://www.iasb.org/>

Date Nov. 19, 2013

Ref. no.

Your Date

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Re: IAASB Exposure Draft: Proposed ISA 701 Communication Key Audit Matters in the Independent Auditor's Report.

Dear Sir/Madam:

The Swedish National Audit Office (Swedish NAO) welcomes the opportunity to comment on the IAASB Exposure Draft: ISA 701.

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?*

N/A

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?*

Answer:

The Swedish NAO welcomes the introduction of Key Audit Matters. As auditors in the public sector we have the mandate and authority to report on issues we find important and of interest for the public in longer publications and audit reports. Though the reporting is mainly focused on irregularities identified in our audit and less on the auditors work and the strategic audit goals. Our belief is that the



introduction of the KAM will contribute to more transparency in the audit work and to diminish the expectation gap.

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.

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?*

Answer:

The Swedish NAO finds the guidance sufficient enough, relating to our public environment. The requirements and the application material provides a solid base. There is a possibility that each audit firm/institution makes their own interpretation and the descriptions may look differently but that will be an issue to discuss in the future. It is rather difficult to give input to what is lacking before it is applied in practice. The most difficult part is to compose a KAM description without the risk of the communication being mixed up with a statement on an individual matter.

We believe that there might be even more difficulties in the private sector and how to balance between following the requirements in ISA 701 and not presenting (new) information about the entity that is not already disclosed in the financial statements. Everything may not be included in the disclosures and the management does not always accept the auditors suggestions on improvements concerning the disclosures. One suggestion is to provide more guidance on how the auditor should balance between the requirements and not providing information about the entity that is not already in the financial statements.

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.*

Answer:



The presented examples are not fully applicable in the public sector. The Swedish NAO will have to compliment the ISA 701 with examples based on the environment in the public sector. From a professional point of view, the examples of Goodwill and Valuation of financial instruments are well written and gives the reader an overall picture of the risk identified and the procedures performed. The example referring to Revenue Recognition could, in our opinion, be interpreted as an “opinion on individual matters” – which is not the intention of a KAM.

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?*

Answer:

Yes, we agree.

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?

Answer:

Proposed ISA 701 states that there might be situations where there are no KAMs to report but that should rather been seen an exception. KAM is defined as “those matters that, in the auditors professional judgment, were of most significance in the audit of the financial statements”. The chance of not identifying any matters that are of significant risk in an audit of a listed entity – seems to be very low or



rather non-existing. The safeguards – such as mandatory discussions with the quality control reviewer and explanation in the auditor report why there are no KAMs – are fair enough and puts pressure on the auditor in charge to act transparently. The users of the statements and the audit report might have the opportunity to ask questions about reasons why there are no KAM to report.

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?*

Answer:

Yes.

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?*

Answer:

Yes we agree.

Going Concern

9. *Do respondents agree with the statements included in the illustrative auditor’s reports relating to:*
- The appropriateness of management’s use of the going concern basis of accounting in the preparation of the entity’s financial statements?*
 - 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.

Answer:



There is always a risk that a statement, provided in the audit report, gets misinterpreted as an “light assurance”/opinion. The readers interpretation of what is written is a matter of subjective judgement and it will never be possible to totally erase the risk of misinterpretation. From our perspective there are two matters that should be considered before deciding whether to make an explicit statement or not in the audit report:

- *The nature of the individual matter – complicated, complex etc*
The concept of going concern could be classified as very complex and not well understood by all stakeholders, this could also be recognized in the answers of the Invitation for Comment for Auditor Report. In our turbulent economy and specifically in certain sectors (IT, financial sector etc) this is a major issue, specially for investors who seek confirmation on going concern assumptions when deciding to buy/sell etc. A statement like the suggested one could possibly trigger the investors to act – based on the statement – without fully understanding what the auditors acutally do. We belive that there is a risk creating an expectation gap.
- *Audit complexity*
In the auditors perspective it is a very diffucult area and involves a huge part of professional judgement, though the ISA 570 does not provide the auditor with extensive application material on several difficult issues, such as how to consider the materiality of the identified uncertainty. The audit firms/institutions uses different approaches on how to deal with going concern and one of the reasons for that is the lack of support in the financial reporting framwork.

Our suggestion would be to initiate a dialogue with the standarsetters for accounting and make sure that the going concern matter is properly addressed by them, before a statement is made in the audit report. A recommendation could also be given to the stakeholders/investors to approach the standardsetters. This will enhance the audit quality and by that the statement will be of higher relevance for the stakeholders. The ISA 570 could also be further developed to better guide the auditors.

With this said – we would like to add – that this will not be a major issue in the public sector, the going concern matter is not of high relevance though it could be of interest in some audit of specific entities.



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?*

Answer:

We support an explicit statement. In our opinion such statement should be included. However the statement have to allow for flexibility for application in different jurisdictions.

Our comment on the illustration examples

Illustration nr 1 (and 2) (Proposed ISA 570 revised) – the going concern example is difficult to understand. It says that there is an uncertainty in the financial statements that **may cast** significant doubt on the companys ability to going concern. But right after that the statement says that there are **no indications of that the going concern basis of accounting is inappropriate**. For a reader this might be confusing.

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?*

Answer:

We fully agree with disclosure of the independence and other relevant ethical requirements. This enhances transparency and will also force the auditors to deal even more with these very important issues.

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?

Answer:

Disclosure of names of the engagement partner has been practice in Sweden for many years, both in the private and public sector.

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?*

Answer:

Improved descriptions of the auditors responsibilities

We fully agree with the suggestions.

Provision of the descriptions of the auditors responsibilities

In basic we agree and flexibility should be provided. Though our suggestion is that a part of the description of the responsibilities should be mandatory, for example the sentences stated in A39. The application material gives suggestions but there is nothing that prohibits the auditor to basically exclude everything from the auditor report, just to shorten the auditor report.

Reference to whom the entity is responsible for

We agree that flexibility is a necessity in this matter.

Other reporting responsibilities

We fully agree with the suggestions, from a public sector perspective – there might be other issues that supreme audit institutions are mandated to report on.

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?

Answer:

Question concerning specific order

The level of flexibility brings in the question whether it could cause confusion among users. The ordering might be a minor issue – the format of each section is far more important and should be mandatory as suggested.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Carin Ryttoft Drangel at carin.rytoft-drangel@riksrevisionen.se .

On behalf of the Swedish National Audit Office

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The Swedish National Audit Office