

**By E-mail**

Mr James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017  
United States of America

**24 November 2013**

Dear Mr Gunn,

**Comments on Exposure Draft – Reporting on Audited Financial Statements:  
Proposed new and revised International Standards on Auditing (ISAs)**

The Dubai Financial Services Authority (DFSA) thanks you for the opportunity to provide commentary on Exposure Draft – Reporting on Audited Financial Statements: Proposed new and revised International Standards on Auditing (ISAs). The DFSA is the independent regulator of financial and ancillary services conducted in or from the Dubai International Financial Centre (DIFC), a purpose-built financial free-zone in Dubai.

The DFSA regulates a broad range of Firms based in the DIFC, including banks, insurers, fund managers, advisory firms and brokers, exchanges and clearing houses. In addition, the DFSA's regulatory remit includes credit rating agencies, auditors and other ancillary service providers. With respect to auditors, the DFSA is responsible for the registration, oversight and suspension / removal of auditors in the DIFC.

The DFSA is a member of the International Forum for Independent Audit Regulators (IFIAR). The DFSA is providing its comments on this Exposure Draft in its capacity as an independent audit regulator, thus focusing on areas involving audit regulators.

If you require any further elaboration or clarification on the matters raised please contact Mr Naweed Lalani, Senior Manager on +971 4362 1549 or by e-mail on [nlalani@dfsae](mailto:nlalani@dfsae).

We look forward to participating in any further work on this area.

Yours sincerely



**Matt Gamble**  
**Director, Supervision**  
**Head of Anti-Money Laundering**

**Comments on Exposure Draft  
Reporting on Audited Financial Statements: Proposed  
new and revised International Standards on Auditing  
(ISAs)**

**24 November 2013**

### **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?

The DFSA believes 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.

As an integrated financial services and audit regulator, we find value in identifying key audit matters, particularly matters resulting from changes in principles or areas that involve significant judgment. The proposed requirements on key audit matters in general will result in a higher transparency and an increase in the understanding of the audit process.

However, we are mindful of the expected increase in efforts and costs associated with such reporting.

### **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?

The DFSA believes the proposed requirements and related application material in proposed ISA 701 provides an appropriate framework to guide the auditor's judgment in determining the key audit matters. However, this may lead users of the financial statements to believe that these are the only key matters identified as part of audit work performed.

In DFSA's view, the application of proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be the key audit matters.

### **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?

The DFSA believes the proposed requirements and related application material in proposed ISA 701 may not 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.

This will largely depend on an individual's interpretation / understanding of proposed ISA 701 accompanied with various factors such as confidentiality requirements impacting key audit matters and adequate level of scalability.

### **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.

We found examples as informative, in particular example 1 on business lines affecting the goodwill impairment test and example 2 on financial instruments.

### **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?

The DFSA supports the approach of the IAASB that is, key audit matters should only be mandatory for listed entities. For all others, this may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed.

### **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?

Based on our active supervision of auditors in the DIFC, we are of the view that there would always be key audit matters that auditors would be required to communicate.

### **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?

The DFSA agree that the auditor's communication of key audit matters should be limited to the most recent financial period unless the prior period key audit matters are also key audit matters in the current period.

### **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?

The DFSA support IAASB's decision to retain the concept of Emphasis of Matter paragraphs and Other Matter paragraphs. This is important when the auditor may find matters necessary to communicate (or to draw attention to) that do not meet the definition of key audit matters.

**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 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.

The DFSA 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.

**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?

The DFSA does not support inclusion of such an explicit statement.

**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?

Although, independence and compliance with relevant ethical standards is a must for auditors and it is understood that generally auditors would be independent of the entity, the DFSA supports the proposed requirements to disclose the sources (s) of independence and other relevant ethical requirements in the auditor's report.

We do not foresee any practical implications of the proposed requirements.

### **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?

The DFSA strongly support the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities. The DFSA is currently considering the same requirements for audits of all financial services entities in the DIFC.

### **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?

The DFSA does not support this flexibility in terms of descriptions of the responsibilities of the auditor as this will result in inconsistencies.

For "other reporting responsibilities", the DFSA supports the IAASB to allow additional flexibility for national standard setters to determine how best to place auditor's communication about such matters in the auditor's report in order to be meaningful to users.

### **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?

The DFSA supports the proposal not to mandate the ordering of sections of the auditor's report in any way. However, we are also mindful that this may result in greater inconsistency.

Generally, in our view, the matters should be presented in the order of their significance to the audit.