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MOORE STEPHENS

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Dear Professor Schilder

Reporting on Audited Financial Statements: Proposed New and Revised ISAs

Moore Stephens LLP is pleased to respond to the IAASB on the proposals in relation to audit reports.

We support the general approach of the proposals, although we have a number of specific concerns which we have set out in our response.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050).

Yours faithfully



Moore Stephens LLP

General Comments

International Consistency

We welcome IAASB's proposals in relation to extending auditor reporting, and we would note that IAASB is not alone in proposing changes in this area. In particular, there are current proposals in issue from PCAOB that address similar issues, whilst in the United Kingdom the Financial Reporting Council (FRC) has already made changes to auditing standards in relation to reporting. The European Union also continues to look at auditor reporting.

The standards issued by FRC and the proposals issued by IAASB and PCAOB are, in our opinion, all intended to achieve the same basic objective; they all seek to provide greater transparency in relation to the audit to the user of the audit report. However, they all have slightly different scopes, and they all have slightly different specific requirements. We consider this unhelpful.

If the various current standards and proposals are allowed to develop independently we do not believe that this will be of benefit to investors, many of whom operate on an international basis. It is likely that, in practice, there would be considerable commonality of both approach and content between audit reports subject to each set of requirements, but differences between reports under each of the requirements would remain. Such differences have the potential to confuse or mislead investors, who could identify apparent omissions or additions arising from the differences between reporting standards rather than differences of substance and accord these greater weight than they merit.

We would therefore strongly urge the IAASB to work together with other audit standard setting bodies and interested parties to agree on a common approach to audit reporting. This does not mean that any ultimate common requirements should not include alternative approaches, where these reflect differences in the form of reporting by the entity itself. For example, the form of the report might differ between those entities which are required (or choose) to provide their own commentary on some of the significant accounting and reporting matters which may overlap with key matters identified by the auditor and those where no such reporting is required or provided.

Responses to Specific Questions

Q.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?

We have no comments in response to this question.

Q.2 Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgement 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?

We believe that the proposed requirements and related application material in proposed ISA 701 provide a useful framework for informing the auditor's judgement in determining key audit matters.

However, we would support the addition of an explicit comment, within paragraph 7 or paragraph 8, that not all of the matters listed in paragraph 8 (a) to (c) are necessarily key audit matters. Whilst this is implicit in the current text, and already explicit in the application material, we are concerned that there is a danger that in the absence of a clear comment within the text of the primary standard regulators may expect all such matters to be included in reports, notwithstanding the reference in A1 to a "small number of audit matters" and the numerous other references to restrictions on key audit matters elsewhere in the application material. It should be entirely clear that it is not in accordance with the objectives of the standard for all of the matters falling within paragraph 8 (a) to (c) to be reported as key audit matters.

We have noted in our general comments above that we believe that the standard should deal with the situation where the entity itself reports on areas that may overlap with key audit matters and those where it does not. We consider that it would be useful were guidance to be included in the application material in relation to how entity and auditor reporting might interact. We accept that this would need to be at a fairly generic level, given the diversity of reporting regimes which might need to be covered by an audit under ISAs. At the moment the draft refers only to matters which might be dealt with in the financial statements, not to matters that might be covered in narrative reporting, perhaps through a report of an audit committee or equivalent.

Q.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?

We do. However the application material is extensive and mentions a number of matters that might warrant inclusion. This does not appear likely to encourage the succinctness of reporting mentioned in A30.

We believe paragraph 11 could be shortened. There is no need to state that matters giving rise to a qualified or adverse audit opinion, and material uncertainties (as defined in that paragraph) are by their nature Key Audit Matters. It would be sufficient to state that these are matters which are required, by the ISAs which deal with their special circumstances, to be reported separately under their own headings in the audit report. Paragraph 11 (b) could then be removed.

Q.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 the examples useful in clarifying the intentions of IAASB. However, we recommend that examples are not included in any final standard, since their inclusion is likely to lead to the creation of boilerplate reporting.

Q.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?

We agree with the proposed approach to reporting key audit matters voluntarily. We would not generally support any restrictions on voluntary reporting, but in this particular case we consider it would be potentially confusing to users of audit reports if key audit matters were identified, but the reporting differed from that which would apply to a listed entity..

Q.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?

We believe it is appropriate to allow for this possibility, however rarely this might arise in practice given the scope of the proposed standard. If this were not done then the identification of key audit matters would no longer be based on the auditor's professional judgment.

Q.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?

We agree that key audit matters should be restricted to those relevant to the audit of the most recent period's financial statements. However, we would note that, in some cases, this might also need to include any prior period adjustments, which of course would have been dealt with in the current period's audit.

Q.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?

We agree with the decision to retain the concepts of emphasis of matter and other matter paragraphs. However, we think it would be useful for IAASB to consider allowing sections in an audit report dealing with both a key audit matter and an emphasis of matter where otherwise aspects of the same issue would need to be dealt with twice.

Q.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.

We support the approach suggested. We believe this is a matter that needs to be revisited once there is greater clarity in relation to going concern and financial reporting, and therefore believe the IAASB's suggested approach is simply an interim solution.

Q.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?

We support the basic approach set out in the draft. We believe further consideration should be given as to whether the statements in relation to management and the auditor should be provided separately.

Q.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?

We support this proposed requirement.

Q.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?

We support this proposed requirement.

Q.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?

We support these proposals. In particular, we support the possibility of relocating the descriptions of the responsibilities of the auditor and key features of the audit to an appendix or a website.

Q.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?

Given the need to deal with many jurisdictions, we agree that there should be no mandatory ordering except where there are no relevant national requirements.