



**Australian Government**  
**Financial Reporting Council**

**Chairman:**  
Ms Lynn Wood  
c/- The Treasury  
Langton Crescent  
Canberra ACT 2600

**Email:**  
[frchairman@treasury.gov.au](mailto:frchairman@treasury.gov.au)

**Secretariat:**  
c/- The Treasury  
Langton Crescent  
Canberra ACT 2600

**Telephone:**  
(02) 6263 3144

**Facsimile:**  
(02) 6263 2770

**E-mail:**  
[frsecretary@treasury.gov.au](mailto:frsecretary@treasury.gov.au)

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The International Auditing and Assurance Standards Board

Re: Exposure Draft: Reporting in Audited Financial Statements: Proposed New and Revised International Standards on Auditing

Dear Mr Gunn

I refer to the Exposure Draft "Reporting on Audited Financial Statement: Proposed New and Revised International Standards on Auditing" (Auditor Reporting Exposure Draft) issued by the International Audit Assurance Standards Board (IAASB) in July 2013.

The Australian Financial Reporting Council (FRC) made a submission in October 2012 on the IAASB's invitation to comment "Improving the Auditor's Report" which preceded the Auditor Reporting Exposure Draft. In that submission the FRC raised concerns that the content of the proposed auditor commentary in the auditor's report remain within scope of the auditor's existing role.

The Audit Quality Committee (AQC) of the FRC – which is tasked with assisting the FRC in providing advice on audit quality – has now reviewed the Auditor Reporting Exposure Draft. This letter is not intended to address all aspects of the exposure draft; however the AQC continues to broadly support relevant reporting by the auditor as a way to improve the communication of key information to users of financial reports.

The AQC has noted that the proposed auditor commentary has been replaced by reporting on key audit matters and welcomes the narrowing of matters for discussion in the auditor's report to key audit matters of most significance in the audit of the financial statements.

However, to ensure that the reporting on Key Audit Matters provides useful information to users, the AQC wishes to provide two further observations to assist the IAASB's continuing deliberation of this matter:

- it may prove to be a considerable challenge for auditors to provide a succinct and comprehensible summary of the Key Audit Matters when the discussion of Key Audit Matters is often a lengthy report to the audit committee and a subsequently complex discussion between the auditors and the audit committee; and
- users might confuse Key Audit Matters with key business risks. It needs to be clear that that key audit risks are not necessarily key business risks, and vice versa.

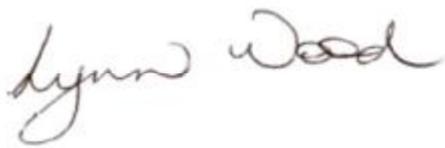
In its submission on the IAASB's invitation to comment "Improving the Auditor's Report" the FRC also expressed concerns about expanding the auditor commentary on 'going concern' without associated changes to the relevant accounting standard.

The FRC was concerned that, given the broad range of users of financial reports, different users of financial reports have widely divergent understandings of the concept of 'going concern'. The FRC based this concern on a survey conducted by the FRC on perceptions of the usefulness of audit reports for retail shareholders conducted in September 2012, a summary of which was provided to the IAASB with the FRC submission in October 2012.

The AQC notes the proposal in the Auditor Reporting Exposure Draft and remains concerned about the potential for users to misunderstand the proposed statements on going concern without further guidance on what is meant by that term. The concept of a 'going concern' and its application is a matter better addressed by accounting standards, not audit standards. The FRC strongly encourages the IAASB to liaise with the International Accounting Standards Board to urgently clarify the relationship between accounts that are prepared on a 'going concern' basis and whether or not the entity is likely to be viable in the medium to long term.

Please feel free to contact me should you have any queries regarding this letter.

Yours sincerely

A handwritten signature in cursive script that reads "Lynn Wood". The signature is written in dark ink and is positioned above the typed name and title.

Lynn Wood  
Chairman