

# Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing

## Appendix 1

### 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?*

The introduction of the key audit matters section will enhance the usefulness of the auditor's report. However, in order to maximise its value the timing of release of this information does need to be considered.

*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 proposed requirements and related application material in proposed ISA701 should provide an appropriate framework for identifying key audit matters. The application proposed in ISA701 should result in reasonably consistent auditor judgements concerning the matters to be disclosed. In addition, it is likely that similar issues will arise in entities operating in certain business sectors and this will positively impact on the consistency of reporting across entities. There is a concern that over time descriptions and disclosures will become 'boilerplate' in style.

In addition, many key audit matters will be consistent year-on-year and this will result in the content of the report possibly remaining unchanged in some sections. Therefore, this may result in the level of interest in the key audit matters declining after the first few years.

*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 material in proposed ISA701 should provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters.

*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.*

Within the illustrative examples of key audit matters the cross-referencing to notes in the accounts is useful as this will help users to navigate financial statements. The inclusion of percentage figures to highlight the significance of a particular matter we will also be useful to readers in understanding the report.

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*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 approach to key audit matters for entities that are not required to provide such communication is appropriate. However, guidance may be required as to the actions to be taken by the auditor where management or those charged with governance (who may be the same people in some circumstances) seek to change the scope of the engagement such that the key audit matters will not be communicated in the audit report.

*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?*

It is appropriate 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?*

The proposed requirements addressing such circumstances are appropriate. It is considered that the circumstances will arise frequently.

*(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?*

The requirement for auditors to communicate at least one least one key audit matter would result in the auditor being required to artificially identify one area out of a number of audit areas that were considered to be of similar low audit risk. This would not enhance the value of the auditor’s 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?*

The auditor’s communication of key audit matters should be limited to the audit of the most recent financial period. To comment on matters in the comparative financial information could lead to confusion over the audit evidence that was available to the auditor at the time the previous financial statements were approved.

*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?*

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We agree that the concepts of emphasis of matter paragraphs and other matter paragraphs should be retained.

### **Going Concern**

*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?*

The statement in respect of management's use of the going concern basis is appropriate. However, it is considered that greater emphasis would be placed on explaining managements at responsibility in respect of determining the basis of accounting and the level of responsibility that is involved in them considering the identification of material uncertainty.

*(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.*

There is potential for the reporting in respect of a material uncertainty to be misunderstood or misinterpreted. The level of work undertaken by the auditor and the range of issues that may have been considered is not communicated. However, this could be addressed to some extent by explaining the limitations on the auditor's ability to assess the impact of future events or conditions.

*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 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. Events or conditions can arise that could not be contemplated at the time of the audit which would have an impact on going concern and this statement would help to safeguard the position of management and the auditor.

### **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?*

Independence is a pre-requirement of the audit and this is clearly stated in the title of the audit report. It is not clear that significant value is added by identifying the specific codes under which the audit has been performed. Information on how the audit committee and auditors communicate regarding independence may be of greater value.

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### **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?*

As noted in our response to the Invitation to comment, this is perceived to be of limited value, entities are clients of the firm and not of the individual partner. In a complex large audit a variety of resources are applied to enable an audit opinion to be signed. There are territories where the audit report already signed in the name of the individual partner and an assessment should be made as to whether this has had an impact on audit quality.

### **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?*

No comment

*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?*

It is important to allow for some variability in the order of the report to enable national reporting circumstances to be accommodated. The flexible as he may also allow for some innovation in the formatting of the report.