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**Your Ref: Comment letter on Consultation Paper
- Reporting on Audited Financial Statements: Proposed New and Revised
International Standards on Auditing (ISAs)**

Dear Sir.

Thank you for giving us the opportunity to comment on your exposure draft and consultation paper "Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)".

The main objectives of these reporting proposals include: enhancing the communicative value of the auditor's report, and improving audit transparency; focusing management attention to the disclosures in the financial statement that are referenced in the auditor's report; increasing auditor focus on matters to be reported; and enhancing communication between the auditor and those charged with governance. In general I support the reporting proposals, which add value to the ongoing debate on audit quality, and believe that the proposals broadly achieve these objectives.

Much of the debate on audit quality relates to the expectations of various stakeholders. In the past you have raised the issue of the expectations gap and the information gap, and I have raised the closely related issue of the perceptions gap.¹ I believe that the reporting proposals will help to reduce these gaps, particularly the expectations gap and the information gap. However, we must be careful that implementing the proposals does not blur the boundaries between - and the roles and responsibilities of - the auditor, and management and those charged with governance with respect to the financial statements. It is also important that the proposals should not create new expectations gaps concerning the role of the auditor within the business and its financial reporting.

¹ See for example paragraphs 13-24 of the IAASB Consultation Paper "Enhancing the Value of Auditor Reporting: Exploring Options for Change", May 2011, and my comment letter thereon.

Answers to specific questions raised by the IAASB

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?

Yes, I believe that this will enhance the usefulness of the auditor's report by improving audit transparency and increasing understanding of the audit process and its risks, reliances and limitations.

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?

Yes, the proposed requirements and related application material in proposed ISA 701 do provide an appropriate framework to guide the auditor's judgment in determining the key audit matters. I support the focus on key risks, difficulties and deficiencies in the audit process.

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?

Yes, sufficient and complete explanation will increase understandability and manage the expectations of users of 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.

All of the illustrative examples of key audit matters are useful and informative, as they explain the key issue and its significance to the audit. I am happy with the style, which should be flexible enough to capture the complexities and circumstances, whilst nor becoming boilerplate over time.

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?

Yes, I agree with the pragmatic approach that the IAASB has taken here.

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?

In principle I support that the auditor may determine that there are no key audit matters to communicate. In this case I agree with the proposed requirements addressing such circumstances.

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?

I 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.

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?

Yes. This is relevant, given their scope and emphasis, and will provide greater flexibility in communicating the nature, circumstances and key issues regarding the audit.

Yours faithfully

C.R. Barnard

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