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Mr. James Gunn
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Dear Mr. Gunn,

Deloitte Touche Tohmatsu Limited (DTTL) appreciates the opportunity to provide comments on the Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* (the "Proposal" or the "Proposed ISAs"), which has been developed by the International Auditing and Assurance Standards Board ("IAASB" or the "Board").

DTTL supports the Board's efforts to enhance the informational value, usefulness, and relevance of the auditor's report to a broad range of users, and acknowledges and appreciates the Board's leadership efforts to date. The more information of value auditors are able to provide to the users of audited financial statements, the greater the value and relevance audits will have to the user community, including the global capital markets. Additional transparency regarding the audit also stands to enhance user confidence, including investor confidence in the rigor of the independent audit process.

The proposed changes to the auditor's report clearly represent a significant expansion of information about a financial statement audit provided by auditors to the user community (especially users of audited financial statements for listed entities for whom the requirements for auditors to identify and communicate Key Audit Matters ("KAMs") will be applicable). DTTL is supportive of the objectives of the Board's Proposal, and offers certain constructive suggestions in this letter that are geared towards ensuring that the final standards the Board adopts:

- Add value to users of financial statements and avoid user confusion; the objective of enhanced disclosures should be to provide clarity and insight to the stakeholders;

- Narrow the expectation gap between what users of financial statements might expect from a financial statement audit and the actual objective of an audit, which is the expression of an opinion regarding the financial statements based on having obtained reasonable assurance about whether the financial statements as a whole are free of material misstatement; and

- Enhance clarity regarding the responsibilities of the auditor, management, and those charged with governance ("TCWG").

Underpinning the desire for more information about the audit is the recognition of the audit's value to stakeholders. The future impact of this project will have a necessary and profound effect on the profession and the manner in which the audit report will be perceived and used by all stakeholders. The proposed changes to the existing audit reporting model, including robust communications of KAMs for audits of listed entities, will demonstrate more fully and transparently the critical role played by the auditor. DTTL anticipates that auditor focus on KAMs will also drive enhanced attention by management and TCWG on the importance of informative and complete financial statement disclosures and the effectiveness of internal control over financial reporting, thereby setting the stage for improvement in the overall quality of financial reporting. DTTL, as well as other constituencies, are of the view that the proposed changes may also positively impact audit quality, including providing an opportunity for auditors to further demonstrate use of professional skepticism, one of the important indicators of audit quality.

DTTL notes and welcomes that throughout the Proposed ISAs, the Board has given due consideration for the need for modifications of the Proposal where national laws and regulations take a more holistic approach to governance. A key driver to the proposed changes is to provide appropriate principles-based requirements and application guidance, but allow for flexibility in the resultant auditor reporting. Such flexibility, underscored by the emphasis in the Proposal on appropriate application of the auditor's professional judgment in determining how to report in accordance with the new model, is consistent with the goal of the auditor's report addressing those matters considered most important to the users' understanding of the financial statements. Flexibility also provides for opportunities for auditors to further innovate within the constructs of the various global legal and regulatory jurisdictions.

DTTL also appreciates the steps undertaken by the IAASB in its extensive deliberations on the topic of auditor reporting, especially its monitoring of, and interaction with, policymakers and national standard setters with similar auditor reporting initiatives. DTTL strongly encourages the Board to continue such collaboration, in particular with the Public Company Accounting Oversight Board and the European Institutions (Commission, Council, and Parliament), in an effort to work towards a goal of converging worldwide auditing standards. DTTL believes that it is important, to the extent possible, for the auditor's reporting model to be aligned across jurisdictions in order to enhance users' understanding of the audit process and the results of the audit, and minimize user confusion or misinterpretation of audit reports issued under different sets of standards worldwide. This would best serve the global capital markets.

DTTL appreciates the significant difficulty of the Board's undertaking, given the variety of divergent perspectives and complexity of the issues under consideration, and therefore commends the Board in continuing to act with a sense of urgency as it relates to moving forward with this Proposal. It is important that the Board considers the comments received on its Proposal, and refines the requirements of the Proposed ISAs or includes additional application guidance that may be helpful in addressing likely implementation challenges highlighted by commenters; these challenges include unintended consequences in adding risk, complexity, and cost to an already burdened profession. These issues will need to be deliberated and resolved in order to ensure that the objectives of the Board's Proposal are achieved. While certain of these issues are complex and challenging, the potential benefits of the Proposal are significant, and accordingly, implementation issues should not stand in the way of moving forward. DTTL has highlighted possible challenges and suggestions for the IAASB to consider in addressing them in the Overall Comments section and in certain of the responses to the detailed questions set forth below.

DTTL comments on the Proposed ISAs address the following areas:

I. Overall Comments

II. Response to Requests for Specific Comments

I. OVERALL COMMENTS

Consistent with the perspectives set forth in the introductory remarks above, DTTL is supportive of the following changes to the auditor's report:

- Providing prominence to the audit opinion and other entity-specific information in the auditor's report.

- Enhanced communicative value of the auditor's report by providing more transparency about the nature and purpose of the audit being performed, including:

    - Identifying and commenting upon those matters that, in the auditor's judgment, were of most significance in the audit of the current period financial statements, i.e., through inclusion of KAMs in the auditor's report for listed entities, with some flexibility by the auditor in the description of these matters. Disclosure of KAMs will provide the auditor, using professional judgment, an opportunity to convey meaningful, pertinent, and tailored information about a specific audit to the users of the financial statements of those matters deemed to be of most significance to the audit of the financial statements. This will also have the added benefit of encouraging management and TCWG to give careful consideration to the quality of the related financial statement disclosures.

    - Expanded auditor reporting on going concern where the applicable financial reporting frameworks, laws, or regulations have corresponding requirements for management. Given the sensitivity of matters relating to going concern (and as is the case for all other important matters), DTTL doesn't believe this to be an area where the auditor should be put in the position of having to provide "original information" in the auditor's report. Where the applicable financial reporting framework, laws, or regulations lack the applicable requirements for preparers relating to reporting on going concern matters, DTTL is supportive of the IAASB's suggestion to defer application of the proposed requirements for auditor reporting on such matters. DTTL is encouraged by the IAASB's efforts to monitor the activities of, and liaise actively with, the accounting standard setters in order to keep the focus on the importance of moving forward to respond to stakeholder concerns in this area. DTTL urges the IAASB to continue such activities, in particular the outreach to the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB).

    - Providing further clarity as it relates to the auditor's responsibilities and key features of the audit, the expanded statements pertaining to auditor independence, the clarification of reasonable assurance, and the addition of standardized language with respect to auditor responsibilities for detection of error or fraud.

    - Auditor reporting on other information (this is subject to the IAASB's finalization of proposed ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon*).

In addition to the changes included in the Board's Proposal, DTTL considered whether there are other disclosures that would further enhance the utility of the audit report. DTTL believes users of the auditor's report would benefit from a better understanding of the concept of materiality and how it is used by the auditor in the conduct of the audit engagement. DTTL would therefore be supportive of including such a discussion in the auditor's report; for example:

> The concept of materiality is applied by the auditor in planning and performing the audit and in evaluating the effect of any misstatements on the audit and on the financial statements. The determination of materiality is a matter of professional judgment in light of the particular circumstances, and is affected by [*to be tailored to the situation, including the requirements of national standard setters and/or the applicable financial reporting framework, e.g., the auditor's assessment of what amounts would influence the judgment of a reasonable user of the financial statements*]. The determination of materiality requires the consideration of both quantitative and qualitative considerations. As a result, there is not one specific quantitative threshold that is used in determining materiality, rather a combination of quantitative and qualitative factors is considered. $xxx was the materiality used to plan and perform the audit.

DTTL acknowledges that <u>disclosure of the engagement partner's name</u> in the auditor's report is already something required in many jurisdictions; but DTTL doesn't believe the Proposed ISAs should include such a requirement, even with a harm's way exemption. This matter is best left to national standard setters, regulators, and/or legislators to address because it is at this level that issues specific to liability and other concerns in the particular jurisdiction can be most effectively considered and addressed.

Implementation and Other Challenges

While DTTL agrees that sharing information with investors and other financial statement users about the challenging aspects, from an audit perspective, of an entity's financial statements would be useful, certain changes proposed by the Board (including auditor communications of KAMs, as well as potentially auditor reporting on going concern matters) give rise to a significant implementation challenge through creating the possibility for the auditor having to communicate information to management that is not required to be provided publicly. Some constituents have expressed concern that certain auditor disclosures may potentially be at odds with the long-standing, historical reporting model of TCWG and management being responsible for the oversight and preparation of an entity's financial statements and disclosures and the auditor attesting to that information. In addition, some have also questioned whether such additional original information would be of value to users if matters determined to be KAMs relate to items determined not to necessitate disclosure by management in order to fairly present the financial statements in accordance with the applicable financial reporting framework, laws, or regulations.

Given the broad implications of this issue, DTTL believes it is very important that all stakeholders, including TCWG, management, regulators, auditors, and others, be actively involved in ongoing comprehensive discussions about such a significant change. In some cases, changes to the financial reporting regimes in particular jurisdictions may be necessary or appropriate to achieve the intended outcome. It is also important that the potentially significant issues related to this aspect of the Proposal are carefully considered and appropriate application guidance is incorporated into the Proposed ISAs wherever possible. DTTL offers further suggestions in the responses to the detailed questions below.

Additional implementation challenges that can be anticipated related to requirements to communicate KAMs may include:

- The possibility that the KAM reporting requirements will likely be inconsistently applied in the early years as auditors gain experience, but also that they likely become "boilerplate" over time. Allowing for flexibility incorporated in the Proposed ISAs, not being overly prescriptive, and having a clear statement included in the Proposal that KAM identification and related communications are intended to be tailored to the unique circumstances of each individual audit engagement may assist in achieving the intended outcome that auditor judgment is applied in a reasonably consistent manner, but that the resulting communications remain tailored, fulsome, and relevant. This would be consistent with the Board's objective of providing unique information to the user community, including investors, and may better support the objective being achieved in the long term.

- The likely increased pressure on senior audit resources (as well as on management and TCWG) during the concluding and reporting phase of the audit (i.e., as KAMs are finalized and related communications are drafted), and the implications on the timing of completing the audit engagement and meeting the regulatory deadlines in various jurisdictions. In order to attempt to minimize problematic delays to the extent possible, the IAASB should include guidance in the Proposal that auditors are encouraged to communicate KAMs (along with draft auditor's report wording) to TCWG as and when they are identified throughout the audit cycle.

Challenges like these underpin the importance of ongoing IAASB outreach and communications to all the various stakeholders as the Proposal is finalized. It will also be very important that the IAASB actively monitor the implementation of the resulting final standards, and carefully consider the need for possible revisions to the new standards or for additional guidance that might capture best practices and other suggestions for improving the effective application of the final standards and achieving the intended outcomes.

Field Testing

The Deloitte member firms conducted limited field testing of proposed ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*. The results of this field testing have informed the overall comments above, as well as the detailed responses to the questions below, in particular, DTTL suggestions for where the proposed standard should provide improved application guidance to aid in the use of professional judgment in identifying KAMs and in drafting appropriate communications to include in the auditor's report.

II. RESPONSE TO REQUESTS FOR SPECIFIC COMMENTS

DTTL responses to the detailed questions included in the IAASB's explanatory memo accompanying the Proposed ISAs are set forth in this section. These responses provide additional context for the overall remarks and include more specific and detailed observations relating to the various aspects of the IAASB's Proposal. While the views of the Deloitte Network have been collectively considered and incorporated into the overall commentary and the responses below, the views outlined herein should not be construed to be the views of any one particular member firm. If a specific member firm were to respond to a similar consultation by the standard setter in that member firm's jurisdiction, its response would also consider the financial reporting, corporate governance, and legal regimes specific to that jurisdiction.

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. Although this question is directed to users of financial statements, from a DTTL perspective it is believed that the introduction of the KAM section in the auditor's report for listed entities is responsive to the call from investors, analysts, and other users of the auditor's report for more transparency, and for more meaningful and useful information to be provided in the report. Proposed ISA 701 will call for the auditor to provide information in the auditor's report about the challenging aspects, from an audit perspective, of the entity's financial statements. As such, DTTL believes it will enhance the usefulness of the auditor's report.

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 provided framework is useful for decision making

DTTL commends the IAASB on the development of the framework for the identification of KAMs included in proposed ISA 701. The requirements and application guidance provide an appropriate framework to guide auditors in identifying KAMs. In particular, DTTL strongly supports (as provided for in paragraph 8 of proposed ISA 701) that the starting point for the identification of KAMs is the matters communicated with TCWG, and that, within that population of matters, the auditor "takes into account areas of significant auditor attention in performing the audit" in identifying the matters that are ultimately concluded to be the KAMs. This approach appropriately provides for the auditor's ability to exercise professional judgment in identifying the KAMs. It is also appropriate for specific focus to be placed on matters that are significant risks, significant judgments, where significant challenges were encountered in auditing the matter, or where there was a need for significant modification to the plan (including as a result of identified control deficiencies.) The discussion in the application guidance (paragraphs A1 through A24 of proposed ISA 701) is helpful in describing how the auditor would apply the requirement in paragraph 8 of proposed ISA 701 and identify those matters that are of most significance in the audit.

The concept "of most significance" will be challenging to apply in practice; however, the application guidance provided in paragraph A2 of proposed ISA 701 in particular that describes "an objective analysis of the facts and circumstances" and that highlights the nature and extent of communication with TCWG as a relevant consideration, will be helpful to auditors in making judgments about which of the matters communicated to TCWG are KAMs.

In order for auditor reporting on KAMs to be useful and achieve the intended outcomes, it is important that identified KAMs are limited to the most significant matters. The application guidance provided in paragraph A7 of proposed ISA 701 is therefore very important in describing factors that might affect the number of identified KAMs, and provides a useful "standback" to consider reassessing the number of identified KAMs, if the initial determination results in a long list.

DTTL is not, however, supportive of proposed ISA 701 providing any specific application guidance as to what the expected number of KAMs would be; instead, consistent with the proposed standard it is sufficient for the application guidance to point out that generally, as the number of KAMs increases, the less useful the related communications may be.

If KAMs are not properly pinpointed, the likelihood for boilerplate disclosures also increases (e.g., generic descriptions of estimates and subjective judgments); which again underscores the importance of limiting KAMs to the most significant matters, and for KAMs to be identified based on the specific facts and circumstances of each audit.

Framework provides for the auditor potentially providing original information about the entity

One of the most challenging aspects of the proposed framework relates to the possibility provided for in the proposed standard that the auditor identifies a KAM that relates to a matter that is not included or disclosed in the financial statements or elsewhere, and which management is not necessarily required to include or disclose in the financial statements or make public in some other way. This situation would be a significant change to the historical financial reporting model because it could result in (1) original information about the entity being provided in the auditor's report; or (2) the auditor's report becoming a vehicle for de facto driving additional disclosures by management on (a) potentially immaterial items in relation to the financial statements, which is contrary to the International Financial Reporting Standards disclosure framework (and likely the disclosure framework of many other financial reporting frameworks); or (b) information not required to be disclosed under the framework or by the regulator or standard setter in the local jurisdiction, and therefore arguably irrelevant information, that will result in user confusion. See the response to question 3 for further details.

If the auditor is put in the position of potentially having to provide original information about an entity because of the identification of a KAM, it could impose difficulties, and likely significant ones, with respect to respecting client confidentiality, maintaining independence, and the ongoing effectiveness of communications among and between auditors, management, and TCWG, ultimately imposing potentially significant burdens on each party. There may also be unintended adverse financial and reputational ramifications to the client. For example, matters such as the following might be particularly challenging:

- **Potential Illegal Act or Possible Fraud:** If the auditor encounters a potential illegal act or a possible fraud and spends significant audit work effort around the matter, but ultimately concludes that it was not an illegal act or a fraud, such matter may still be considered a KAM. However, including a discussion regarding a potential illegal act or a possible fraud in the auditor's report would be controversial and likely not appropriate given the potential harm it could cause the entity.

- **Significant Control Deficiency:** If the evaluation of a particular control deficiency, including one that is ultimately concluded to be a significant deficiency meriting the attention of TCWG, involves significant effort and discussion among the auditor, management, and TCWG, such a control deficiency may be considered a KAM with no obligation on the part of management or TCWG to disclose the significant deficiency.

- **Contingent Liability:** The assessment of whether a particular matter warranted disclosure as a contingent liability under the applicable financial reporting framework may have been particularly complex and obtaining sufficient appropriate audit evidence might have been very challenging. Even if it is ultimately concluded that such a matter did not require contingent liability disclosure in the financial statements, it may nevertheless be considered a KAM. Disclosure in the auditor's report would likely not be appropriate given the resulting user confusion that would likely ensue, and therefore the potential harm it could cause the entity.

- **Going Concern:** If issues were identified which raised concern regarding an entity's ability to continue as a going concern, but which were appropriately addressed by mitigating factors and which have been subject to audit procedures, such issues may still be considered a KAM and the disclosure in the auditor's report could cause financial harm to the entity. (Please also see further commentary on this issue in the response to question 8.)

Possibility for improved consistency longer term, but short-term inconsistency is to be expected; addressing the risk of boilerplate communications

DTTL acknowledges that a balance needs to be maintained between striving for consistency and comparability, and the need for the KAMs to remain unique and engagement-specific in order that they have the impact and usefulness desired over the long term. Allowing for flexibility in the requirements as it relates to the identification of KAMs will permit the evolution of the concepts embodied in the Proposed ISAs, and hopefully will serve to mitigate the risk of the communications becoming boilerplate.

Given the significance of the change in auditor reporting that is being introduced through the requirements to identify and report KAMs in the auditor's report, in the initial years it is reasonable to expect that there will be less consistency in auditor judgments about what matters are determined to be the KAMs (and consequently less comparability in auditor reporting.) DTTL agrees however, that the decision-making framework as proposed is appropriate and, if properly applied, should result in auditors making reasonably consistent judgments in determining those matters that are ultimately identified as the KAMs. DTTL believes that over time and with experience acquired from the application of proposed ISA 701, auditor judgments about what matters are KAMs will likely become more consistent, but at the same time, the boilerplate risk will increase. However, there may continue to be differences between jurisdictions or even possibly between different firms. Users of financial statements will probably also continue to provide feedback about what they find to be particularly useful about the new disclosures and, accordingly, best practices will likely emerge over time. To that end, DTTL recommends the IAASB closely monitor the application of the proposed standard, consider the need for additional implementation guidance to be provided, and assess whether revisions to the standard are necessary.

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 overriding principle in disclosing KAMs should be to enhance effective communication through the provision of useful information in a succinct, insightful manner while emphasizing, when applicable, the importance of the disclosures provided by management through reference to the financial statement notes. KAM disclosures will be a useful tool for stakeholders as a means to navigate to the pertinent information disclosed in the financial statements. DTTL believes it is therefore important that where KAMs relate to amounts and disclosures in the financial statements there should be a clear and identifiable link from the significant matters disclosed as KAMs to the related disclosures in the financial statements, and therefore supports the proposed requirement to always make references to the related disclosure(s), if any, in the financial statements.

DTTL also agrees that it is appropriate to require the auditor to explain why the auditor considered each matter identified as a KAM to be a matter of most significance in the audit, and to allow for the auditor, in describing each KAM, to exercise professional judgment in describing the effect on the audit (i.e., describing audit procedures "…to the extent the auditor considers it necessary as part of the explanation"). As currently proposed, the KAM requirements are sufficiently principles-based, allowing for auditor judgment to be used.

DTTL offers the following observations about the proposed requirements and related application material, including aspects that are likely to prove challenging in practice, and, accordingly, where additional application guidance would be helpful.

Inclusion of original information

As noted above, DTTL believes it will be very challenging to apply the requirements of the proposed standard in respect of a KAM where management has not, and is not required by the applicable financial reporting framework or by law or regulation to include disclosure in the financial statements (or elsewhere in documents containing the financial statements) about a matter determined to be a KAM and required to be communicated in the auditor's report.

While proposed ISA 701 indicates that "it is appropriate for the auditor to seek to avoid the description of key audit matters inappropriately providing original information about the entity that is the responsibility of the entity's management and those charged with governance," it also provides for the auditor being the provider of such original information that in the auditor's judgment "is critical to the auditor's description of the key audit matter and providing such information is not prohibited by law or regulation." It is not clear when the description of original information would be <u>*critical*</u> to the auditor's description, as proposed ISA 701 does not provide any explanation of the factors or considerations that may be relevant to this determination. The illustrative examples provided also do not include any situations where there is no reference to the financial statement amounts and disclosures and it is not possible to ascertain from the examples what other information included in the KAM descriptions would be original information.

Sensitive KAMs are addressed in the application guidance provided in paragraph A36 of proposed ISA 701. Both examples appear to be situations where the auditor would be providing original information, and given the sensitive nature of these matters, this is of particular concern to DTTL. Additional application guidance needs to be provided to address these circumstances, as currently the proposed language only suggests that "… the auditor may need to consider how best to describe the key audit matter in order to explain why the matter was one of most significance in the audit."

The auditor should be able to use judgment in determining the extent to which descriptions of highly sensitive matters are really necessary in order to effectively describe and communicate KAMs. For example, disclosures that would result in making otherwise confidential and highly sensitive data public may have a significant adverse effect on the entity (including disclosures that would adversely affect the entity's ability to defend itself in an actual or threatened litigation, or disclosures of sensitive competitive data not otherwise made public). In such situations, it seems reasonable for the auditor to be able to apply judgment in evaluating whether the KAMs can be adequately described without such information, or in possibly concluding that the matter should not be communicated as a KAM at all, particularly where the related financial statement disclosures have met the requirements of the applicable financial reporting framework, laws, and regulations.

Relevant ethical requirements may prevent the auditor from communicating certain information. For example, the International Ethics Standards Board for Accountants ("IESBA") has an active project addressing responding in situations where suspected illegal acts or fraud are encountered by professional accountants. DTTL recommends that the IAASB consider the interaction of this IESBA project with the Proposal and that it be clear in the final standard that the auditor would not be expected to communicate information that is at odds with the auditor's ethical obligations.

Inclusion of audit procedures

DTTL recognizes the objective that the Board is attempting to achieve in allowing the auditor flexibility in addressing the inclusion of specific procedures, and believes users would in fact benefit from an appreciation of the rigor that underlies the audit of significant financial statement matters. Providing for flexibility in describing auditor responses to identified KAMs also enables the auditor to differentiate the auditor's report for a specific entity through inclusion of related audit procedures. By highlighting the KAM and the auditor response, the auditor also has the opportunity to demonstrate how professional skepticism has been applied. Professional skepticism is essential in all aspects of an audit, especially in areas that involve significant management judgments and when management is under pressure to support critical decisions.

There are, however, significant challenges to accomplishing the Board's objectives in this area, particularly on complex, large multinational clients. When a description of audit procedures is included in the KAM communications, the auditor will be challenged with how to convey a summary of the procedures in a succinct and meaningful way. Including auditing procedures performed in the disclosure of KAMs in complex audit engagements could make the auditor's report quite lengthy. In practice, written auditor communications to TCWG that include a description of some audit procedures in significant audit areas can extend to many pages, notwithstanding that the auditor has an opportunity to supplement the written summary with dialogue at a meeting with TCWG (no such opportunity for dialogue exists when communicating in summary form within the auditor's report).

In many cases, audit evidence with respect to critical assertions is obtained through a combination of a large number of procedures; it would be difficult to adequately describe even the significant procedures performed regarding a specific KAM in a concise manner, because of the significant complex audit judgments and procedures that would be performed in connection with some KAMs. An overly brief description of two or three, out of perhaps dozens of audit procedures, would run the risk of decreasing confidence in the rigor of the audit, as it may imply that the auditor's procedures were much less in scope than was actually the case. Additionally, the audit evidence might include evidence from other procedures that were performed to directly address other risks or assertions, but which also provide indirect (and sometimes important) evidence about the matter considered a KAM. Communication of such procedures would likely be confusing to users.

Acknowledgement of the challenges in the proposed standard and any additional guidance that could be provided to the auditor as to how to determine which procedures to describe would be appropriate; for example, the proposed standard could suggest that the auditor consider describing the procedures that addressed the most complex aspect of the KAM, and which were the most challenging or involved the most subjectivity, but not necessarily the procedures that took the longest to perform.

DTTL believes the IAASB has appropriately included requirements for language in the auditor's report to be included in the preamble to the KAM section to highlight that "the procedures related to the KAMs were designed in the context of the audit engagement as a whole" (paragraph 9(c) of proposed ISA 701), as well as the fact that the auditor does not express an opinion on these individual matters. This language is critical in establishing the users' expectation as to what the auditor's description of the procedures related to the KAMs represents, and the limitations of such procedures. When the auditor includes a description of selected procedures in the KAM description, this language should be expanded to more specifically indicate that the procedures described are not the totality of all procedures performed with respect to a particular KAM, and address potential user misunderstanding in this regard. DTTL suggests the following amendment to paragraph 9 of proposed ISA 701:

> 9…..
> (c) The auditor's procedures relating to these matters were designed in the context of the audit as a whole **<u>and any description of procedures performed does not represent the totality of all procedures performed in respect of the matter; (and where the auditor includes a description of procedures in the auditor's report, a statement that the audit procedures described in respect of the key audit matters only include some of the procedures that were performed, and do not represent the totality of all procedures performed with respect to such matters.)</u>**

When comparing the requirements (paragraph 10 of proposed ISA 701) and the illustrative examples, especially as they relate to the nature and extent of the description of audit procedures, the Board's intent in terms of what is to be disclosed is not, however, clear. Additionally, it is not clear when the auditor would "consider it necessary" as part of the KAM communication to include a description of audit procedures because proposed ISA 701 does not describe the relevant factors or considerations for the auditor to apply in making this determination. Some of the illustrations include a description of procedures and some don't, but it is not necessarily apparent how the need for procedures in those where they are described has been assessed. DTTL realizes the Board may not have intended the examples to illustrate the application of these requirements, but it would be useful for the examples in the final standard to do so. DTTL also suggests that additional guidance be provided to assist the auditor in making these judgments and in achieving an element of consistency in the presentation of the KAMs in this respect.

Disclosure of findings or outcomes of auditor's procedures

DTTL does not believe that disclosing an outcome or findings for any individual account balance or audit procedure is appropriate, as it may lead the user to conclude that an opinion is being given on individual matters rather than on the complete set of financial statements (i.e., a piecemeal opinion); notwithstanding the required statement in the auditor's report "…Our opinion on the financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters."

Other Observations

Communication of KAMs in the auditor's report should be presented in language and in a format that is clear, concise, and understandable to users of financial statements. While the application guidance provided in paragraph A32 of proposed ISA 701 suggests using audit documentation of matters communicated to TCWG, including written communications or the auditor's documentation of oral communications to assist the auditor in developing the KAM descriptions, in many cases such audit documentation could be quite lengthy and not suitable for disclosure in the auditor's report. Accordingly, it would be appropriate for the application guidance provided in paragraph A32 of proposed ISA 701 to specifically indicate that the level of detail provided to TCWG about items ultimately determined to be KAMs is likely to be much more extensive than what would be appropriate for the description in the auditor's report. Additionally, this paragraph could clarify that the audit documentation may be appropriate as only a starting point from which the communications in the auditor's report could be developed.

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.

The inclusion of illustrative examples that demonstrate the application of the related requirements and application guidance is helpful. DTTL acknowledges that the illustrative examples provided were written with the intention of promoting debate as to what would represent informative and useful disclosure; however, these examples can be improved before being included in the final standard. DTTL also believes it would be helpful for the final standard to include some background information to the examples as well as the related financial statement disclosures in order to provide better context and improved understanding of how the auditor is to apply judgment in deciding how to identify and describe the individual KAMs.

DTTL believes the following to be positive features of the examples included in the Proposal:

- Reasoning for identification as a KAM. The description should include not only the "what," but the "why."

- References to the notes to reinforce the principle that the financial statements are the original source of financial information.

Certain of the illustrative examples are more helpful than others in demonstrating how the proposed requirements and application guidance would be applied. As noted above, it is not always apparent from the examples how the framework described in proposed ISA 701 has been applied, as there is inconsistency among the examples and it is not apparent how auditor judgment was applied in determining the necessary elements of the KAM descriptions.

DTTL offers the following specific observations on the illustrative examples:

- Goodwill

    - Positive aspects of this example include references to the requirements of the applicable financial reporting framework and the related financial statement disclosures, an indication of why this matter was significant to the audit by describing to a certain extent entity-specific circumstances (i.e., making reference to the market and economic conditions in countries X and Y, although it appears that some additional context might improve the usefulness of this aspect).

    - This example includes a description of audit procedures, including making use of a valuation expert. There could be other circumstances where another auditor in auditing goodwill impairment appropriately did not use a valuation expert or alternatively decides not to describe the use of such an expert in the KAM disclosures. Accordingly, there may be differences in the descriptions of what on the face might appear to be similar KAMs and readers of the auditors' reports might not therefore know what to infer from such differences. The failure to mention use of an expert might be perceived as an audit of lesser quality, when that is not the case at all. It's also not apparent why there is a reference to the use of a valuation expert in this example, but not in the "Acquisition of

XYZ Business" example, where it seems it would also be likely that the auditor used a valuation expert.

- Also note that this example has the possibility of becoming boilerplate over time; accordingly, it is important to clearly emphasize the entity-specific aspects.

- Valuation of Financial Instruments

  - Positive aspects of this example include references to the related financial statement disclosures and an indication of why this matter was significant to the audit (i.e., by describing the basis for valuing these investments).

  - This example, however, includes what appears to be a piece-meal conclusion with respect to concluding as to the appropriate use of an entity-developed model. It's also possible that this example is describing original information in stating that management did not make adjustments to the model to reflect assumptions that marketplace participants would use in similar circumstances. Without related disclosures in the financial statements that describe the basis for this conclusion, this statement may be confusing to users of the financial statements or would seem to be incomplete, as it lacks the rationale that should be provided by management as to why this was appropriate.

- Acquisition of XYZ Business

  - Positive aspects of this example include references to the related financial statement disclosures and an indication of why this matter was significant to the audit (i.e., by describing the initial acquisition accounting and highlighting that the amounts currently recorded could change). Although this example does not describe the effect on the audit, DTTL believes it has value to users of the audited financial statements because it highlights a material matter where there is the potential for recorded amounts to change in the near future, thereby allowing users to focus attention in this area.

- Revenue Recognition Relating to Long-Term Contracts

  - Positive aspects of this example include references to the related financial statement disclosures and an indication of why this matter was significant to the audit (i.e., by identifying the matter as a significant risk and describing the entity-specific considerations for revenue recognition in this industry.)

  - This example, however, includes what appears to be a piece-meal conclusion with respect to concluding as to the lack of side agreements. In particular, because audit procedures are designed to provide reasonable assurance, it is unlikely that the auditor performed procedures on all contracts, and therefore the possibility would likely exist that, notwithstanding the auditor's procedures, side agreements might still exist. A conclusion like this therefore has the potential to be misinterpreted and cause user confusion.

  - This example also includes reference to revenue from these contracts representing "a material amount of the Group's total revenue" without any further discussion of the concept of materiality or what material means.

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?

DTTL agrees that proposed ISA 701 should only be required for audits of complete presentations of general purpose financial statements of listed entities. In light of the statement in proposed ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, that an audit report should reflect "… an appropriate balance between the need for consistency and comparability in auditor reporting globally …," it is, however, appropriate that the requirements in proposed ISA 701 be applied in their entirety when the auditor voluntarily communicates KAMs. Accordingly, DTTL agrees with the IAASB that the requirements of proposed ISA 701 (and related application material) be applied when it has been agreed between the auditor and TCWG, or where applicable, management, that the auditor will include KAMs in the auditor's report on the financial statements of a non-listed entity.

There may be practical difficulties associated with requiring a statement in the audit engagement letter regarding the intention of the auditor to report KAMs in situations where the auditor is not required to do so under proposed ISA 701 (i.e., as it pertains to the proposed amendment to paragraph 10 of ISA 210, *Agreeing the Terms of Audit Engagements*, and the related application material provided in paragraph A23(a), which would require such situation to be addressed in the written terms of engagement). There may be situations where the auditor is not requested, and therefore does not intend at the outset of an audit engagement, to identify and communicate KAMs, but during the course of the audit circumstances change and the auditor is requested to include KAMs in the auditor's report. The auditor, management, and TCWG should not then have to be in a position of having no other option other than to reissue the engagement letter in order to include the applicable provision for such reporting, and in many cases it may be impractical to do so. The proposed conforming amendment to ISA 210 should therefore be drafted in such a manner to allow the auditor, management, and TCWG the flexibility to address through alternative means the intention to voluntarily apply proposed ISA 701 if the decision to do so is made after the written terms of engagement have been finalized. For example, this matter might be addressed through a subsequent written communication to management and TCWG by the auditor, confirming the arrangement for the auditor to voluntarily include KAM reporting in the auditor's 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?

(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?

Yes, DTTL concurs with the IAASB that proposed ISA 701 should allow for the possibility that the auditor may determine there are no KAMs to be communicated. However, when KAM reporting is required, or when the auditor has otherwise been requested, and has agreed to communicate KAMs in the auditor's report, the number of KAMs or the existence of KAMs needs to be determined on a case-by-case basis. DTTL agrees it would be rare for there to be no KAMs because there will always be a matter of most significance in an audit (which is the definition of a KAM); the issue is rather whether disclosure of such a matter would be meaningful to a user. Accordingly, DTTL is supportive of the statement to this effect in the application guidance provided in paragraph A47 of proposed ISA 701.

The requirements in paragraph 13 of proposed ISA 701, including the requirements in parts (a) and (b) to discuss the conclusion with the engagement quality control reviewer (if one has been appointed) and to communicate the conclusion to TCWG, are also appropriate. The last sentence of the application guidance provided in paragraph A47 of proposed ISA 701 makes reference to these requirements, but implies that the engagement quality control reviewer and TCWG would be more familiar with the significant audit matters arising during the audit than the auditor. The determination of key audit matters is, by definition, a matter for the auditor's professional judgment, and therefore this implication is inappropriate. Accordingly, we recommend the following revision to the sentence:

> In addition, the requirements in paragraph 13(a)-(b) ~~may~~ provide an opportunity for **the auditor to have further discussions with others who are familiar with the audit and the significant matters that might have arisen (including the engagement quality control reviewer (if one has been appointed) and those charged with governance.) Additional information resulting from those discussions** ~~those most familiar with the significant matters arising during the audit to provide input that~~ may cause the auditor to re-evaluate the auditor's determination that there are no key audit matters.

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?

DTTL agrees with this view. It is noted however, that the practical challenges identified by the Board will not necessarily be mitigated by only requiring current year KAM disclosures. For example, there may be an expectation by investors and other financial statement users that the auditor, in formulating KAMs in the current year, is maintaining a "rolling inventory" and is performing an assessment of whether previously reported KAMs remain relevant in the current period and whether current KAMs should have been reported previously. It is appropriate for the requirements relating to the determination of KAMs to be focused on the current period. The application guidance provided in paragraph A9 of proposed ISA 701 discusses how the auditor might consider prior KAMs in determining current year KAMs.

The application guidance provided is appropriate; however, in order to level set an expectation that a rolling inventory is being maintained, DTTL recommends that proposed ISA 701 also contain an explicit statement indicating that the auditor is not expected to evaluate (or document) whether prior KAMs remain KAMs in the current period. Similarly, proposed ISA 701 should explicitly state that the auditor is not expected to evaluate (or document) whether a current KAM should have been a KAM in a prior period, if it was not previously communicated as a KAM.

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, DTTL agrees that it is appropriate to retain the concepts of Emphasis of Matter ("EOM") and Other Matter ("OM") paragraphs, even when a KAM section is presented. The explanatory memorandum has explained and distinguished the concepts of EOM, OM, and KAM; however, it may be necessary to include further application guidance to distinguish in particular how a KAM and an EOM paragraph would differ, i.e., underscoring that a KAM is a matter of most significance in the audit and an EOM is a matter that in the auditor's judgment is fundamental to the user's understanding of the financial statements.

DTTL agrees that other than when required by law, regulation, or other ISAs, it should be rare for EOM paragraphs to be necessary in the auditor's report when a KAM section is included. The application guidance provided in paragraph A4 of proposed ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, includes examples of when discretionary EOM paragraphs might be appropriate. In order to address the question that may arise about whether a KAM paragraph and an EOM paragraph might exist for the same matter when a KAM section is included in the auditor's report, an additional statement should be added to the application guidance provided in paragraph A4 of proposed ISA 706 (Revised) indicating that the use of an EOM paragraph for the matters described would not be appropriate if such matters were also identified and communicated as KAMs. Additionally, the suggested language for where KAM and EOM are included ("Separately from the matters described in the Key Audit Matters section of our report….") may not be sufficient to inform users why a matter is under the EOM section and not the KAM section.

Another aspect of the Proposal that is not sufficiently clear relates to the interaction between proposed ISA 570 (Revised) and proposed ISA 701 in the situation where there is a "close call" with respect to the existence of a material going concern uncertainty. Paragraph 11 of proposed ISA 701 addresses the situation where it is concluded that a material uncertainty exists and states that even though such a matter is a KAM, it should be reported in the "Going Concern" section of the auditor's report in accordance with proposed ISA 570 (Revised). However, when it is concluded that a material uncertainty does not exist, it is less clearly addressed because paragraph 11 does not indicate expressly whether or not such a matter is a KAM. A significant amount of audit effort may be spent on determining whether or not a material uncertainty exists and ultimately the auditor may conclude, based on applying the rest of proposed ISA 701 (i.e., because of the significant judgment and effort involved and given extensive interactions with management and TCWG), the matter should be identified and communicated as a KAM in the auditor's report. However, including a KAM relating to going concern in the KAM section and then separate reporting in the Going Concern section of the report would be very confusing, in addition to resulting in the auditor presumably providing original information. DTTL believes that paragraph 11 of proposed ISA 701 should be revised to clarify that a close call on a going concern uncertainty should not be communicated as a KAM.

Retaining the concept of OM paragraphs when a KAM section is included provides continued flexibility for the auditor to draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities, or the auditor's report, including the matters noted in the application guidance provided in paragraph A8 of proposed ISA 706 (Revised).

Including an illustrative example in the final standards of an auditor's report with a KAM, EOM, and OM would be helpful in further distinguishing between the concepts.

Over time, as users become more familiar with KAMs, the IAASB may also reconsider whether to retain the concept of EOM in addition to KAMs for auditor's reports for listed entities. It may be the case that users will find it confusing when these co-exist and would ultimately prefer for EOMs to be subsumed within KAMs.

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 continue as a going 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.

DTTL supports the auditor addressing, in the auditor's report, matters relating to going concern where the applicable financial reporting framework, laws, or regulations include appropriate assessment and disclosure requirements (including note disclosures) for management to apply in preparing the financial statements. In the absence of such requirements DTTL doesn't believe it is appropriate for the auditor to be the original provider of information about going concern matters and believes that auditor reporting in such situations is inconsistent with the auditor/client relationship, and will likely be misunderstood by users.

DTTL is of the view that with respect to the topic of going concern, it is important to have a holistic approach reconciling the expectations and needs of the user community (including investors) with respect to the financial reporting framework used in the preparation of the financial statements and the auditing standards used to audit those financial statements. DTTL continues to encourage the IAASB's efforts to expand disclosure in the auditor's report as it relates to the use of the going concern basis of accounting in the preparation of the entity's financial statements, and whether material uncertainties have been identified, and in particular commends the IAASB's efforts to monitor the activities of and liaise actively with the accounting standard setters in order to keep the focus on the importance of moving forward to respond to stakeholder concerns in this area.

As indicated in the IAASB's explanatory memorandum, the IASB and FASB both have active projects addressing going concern. DTTL notes the IAASB's consideration of the option to defer finalizing auditor reporting on going concern matters until such time as the IASB and FASB have finalized their projects. For the reasons stated above, DTTL would not be supportive of requirements for the auditor being established in the absence of appropriate requirements in the applicable financial reporting frameworks, and therefore believes it is appropriate for the IAASB to be considering deferral of these requirements where the applicable financial reporting framework or laws or regulations do not include appropriate assessment and disclosure requirements for management to apply in preparing the financial statements. The IAASB could proceed to finalize revisions to proposed ISA 570 (Revised), *Going Concern*, which would require auditor reporting when the financial statements are prepared in accordance with financial reporting frameworks that ***do*** have appropriate assessment and disclosure requirements for management to apply in preparing the financial statements. When the IASB and FASB projects are complete, and recognizing that the related requirements may ultimately differ, the IAASB may need to revisit the ISAs to evaluate the need for and make necessary changes such that the proposed ISA 570 (Revised) is capable of being applied to audits of financial statements prepared in accordance with either framework (or more broadly, other suitable frameworks).

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?

DTTL does not believe it is the auditor's role to provide such a statement. DTTL appreciates the concerns described in paragraph 81 of the IAASB's explanatory memo regarding potential user confusion that may result when auditor statements regarding going concern are included in the auditor's report; however, it is not believed that the auditor's report is the appropriate vehicle for supplementing or clarifying the requirements of the applicable financial reporting frameworks. The proposed statement appears to confuse the responsibilities of management and the auditor and implies that management and the auditor have the same level of responsibility. As a general matter, it would not be appropriate for an auditor to make a statement on behalf of management in the auditor's report; management's statements and assertions are appropriately placed in the financial statements for which management has primary responsibility. DTTL therefore believes the proposed statement would be confusing to users and susceptible of being misinterpreted by investors and other users of the auditor's report. DTTL is also concerned that the use of the phrase "guarantee the ability to continue as a going concern" would be confusing to users, even if this statement was to be retained only in the context of the auditor. DTTL doesn't believe it is clear what exactly the auditor would be guaranteeing and there is no definition of this concept in the Proposed ISAs. If the IAASB were to proceed with this requirement regardless, DTTL believes that it should be required irrespective of whether or not a material uncertainty has been identified.

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?

DTTL is supportive of the proposed requirements to include a statement that the auditor is independent of the entity under the relevant ethical requirements or applicable laws or regulations, and for the sources of the relevant ethical requirements to be specified in the auditor's report. However, as acknowledged by the IAASB, there are practical implications and challenges that need to be addressed; for example:

- It is unclear how the disclosure requirements would be applied in group audit situations. Disclosures of the sources of the relevant ethical requirements could be extensive if required with respect to every component, as there could be many sources to consider in numerous jurisdictions in the case of multinational entities. The disclosure of <u>all</u> the independence and other ethical requirements that may apply to group situations could therefore become voluminous and confusing and, accordingly, of questionable value to the user of the audited financial statements.

- There may be situations where local requirements are less onerous than international independence standards (e.g., as a member of the International Federation of Accountants Forum of Firms, a network firm would be required to follow the IESBA Code of Ethics for Professional Accountants (the "Code")), whereas local regulatory regimes may have different requirements or may even follow an outdated version of the Code. In such circumstances it would appear to be appropriate for compliance with both sets of requirements to be described, but this could be confusing to users of audited financial statements within a particular jurisdiction where the disclosures by different firms would differ, based on whether such auditors were members of a global network or not.

DTTL recommends that the IAASB continue to consult with the IESBA on this matter as comments are received. The application guidance provided in paragraph A29 of proposed ISA 700 (Revised) describes the complexity of a group audit situation where there may be multiple sources of relevant ethical requirements; however, further application guidance should be provided in proposed ISA 700 (Revised) regarding the disclosures that would be applicable to the group auditor's report in such situations. In the view of DTTL, the auditor should disclose the independence and ethical requirements applicable to the auditor of the group financial statements, and should have the ability to apply judgment with respect to the need to disclose additional sources. Furthermore, in certain jurisdictions, there may be numerous independence and ethical requirements contained in various codes or laws and regulations. There is also little application guidance in proposed ISA 700 (Revised) as to how the auditor might address such situations and whether there is any judgment that might be applied in determining which sources should be described.

In some jurisdictions, there may be existing requirements imposed by national standards or laws or regulations for the auditor to make similar independence-related statements to the one required by proposed ISA 700 (Revised), but not include such statements in the auditor's report. In such circumstances the reporting required by proposed ISA 700 (Revised) would be redundant with other reporting responsibilities and therefore potentially confusing to users. DTTL recommends that the standard be revised to indicate that the requirements relating to independence and ethical requirements are not applicable to the extent there are other comparable requirements imposed by local standards, laws, or regulations for similar communications, even if they are not required to be included in the auditor's report.

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?

DTTL acknowledges that there are existing requirements in many jurisdictions around the world for mandating disclosure of the name of the engagement partner in the auditor's report and/or for the engagement partner to sign the auditor's report in his or her own name. It is understood that such requirements address the call by the investor community and others for enhanced transparency. DTTL remains of the view that such disclosures do not, or will not, have the intended benefit of enhanced personal responsibility or accountability, nor increased audit quality. Because of significant differences in the regulatory environments and legal implications in various jurisdictions, DTTL continues to believe that disclosure of the identity of the engagement partner in the auditor's report is a matter best addressed by national standard setters or national regulators, where specific consideration can be given to jurisdictional implications and concerns.[1]

If the IAASB finalizes proposed ISA 700 (Revised) with the requirement for the name of the engagement partner to be disclosed in the auditor's report for audits of listed entities, DTTL supports the inclusion of the concept of a "harm's way exemption" as proposed. However, it is noted that no application guidance has been provided in the Proposal to explain what a "significant security threat to an individual" may be. Such a concept may be viewed differently by auditors throughout the world, and therefore it would be important and appropriate for the IAASB to explain whether the intent of this exemption is limited to situations when there is a realistic threat of personal harm to an individual, or whether it is intended to be more broadly interpreted to encompass other threats, including, for example, exposure to litigation or added liability due to the lack of appropriate "safe harbors" for individual auditors under the applicable laws and regulations of a particular jurisdiction.

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[1] See comment letters written by Deloitte & Touche LLP (http://pcaobus.org/Rules/Rulemaking/Docket029/037b_DeloitteTouche.pdf) and the Center for Audit Quality (http://pcaobus.org/Rules/Rulemaking/Docket029/035b_CAQ.pdf), both dated January 9, 2012, in response to the Public Company Accounting Oversight Board ("PCAOB") Proposed Rule on *Improving the Transparency of Audits: Proposed Amendments to PCAOB Auditing Standards and Form 2*; PCAOB Release No. 2011-007; PCAOB Rulemaking Docket Matter No. 029 (October 11, 2011), which include perspectives on auditor legal liability and the unintended consequences that may arise in the United States as a result of requiring the engagement partner's name to be disclosed in the audit report of financial statements of listed entities.

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?

a. Improved description of the responsibilities of the auditor and key features of the audit.

DTTL agrees with the IAASB's improved description of the responsibilities of the auditor and key features of the audit, as these are important and valuable enhancements to the current version of the auditor's report.

b. Provision for the descriptions of the responsibilities of the auditor and key features of the audit to be relocated to an appendix in the auditor's report, or for reference to be made to such a description on the website of an appropriate authority.

DTTL is supportive of the option provided by proposed ISA 700 (Revised) for descriptions of the responsibilities of the auditor and key features of the audit to be included in an appendix, with appropriate referencing from the body of the report. This option may enhance the readability of the auditor's report, particularly as the revised reports will be longer and include more information. As such, DTTL is supportive of the flexibility provided to allow for this as an option and not a requirement.

DTTL is also supportive of allowing for, but not requiring, such descriptions of auditor responsibilities to be relocated to a website of an appropriate authority, when it is expressly allowed by law, regulation, or national auditing standards (and only in those circumstances). It is recommended, however, that the following change be made to paragraph 40 of proposed ISA 700 (Revised) to clarify that the decision to make reference to a website is an option, and not a requirement, even when expressly permitted by law, regulation, or national auditing standards. Additionally, requiring the auditor to include a copy of such description in the audit documentation would be appropriate and would be helpful in situations where the description changes in a future period and there are problems accessing the version that was available on the website at the time the report was issued.

> 40. Law, regulation or national auditing standards may expressly permit the auditor to refer to a website of an appropriate authority that contains a description of the auditor's responsibilities. When **the auditor elects to refer to a description of the auditor's responsibilities included on such a website and**~~:~~
> ~~(a) T~~ **t**hat description is not inconsistent with the requirements set out in paragraphs 37-38**,** ~~; and~~
> ~~(b) The auditor decides to refer to that website rather than include the description of the auditor's responsibilities in the auditor's report;~~
> the auditor shall include a reference in the auditor's report to clearly indicate where this description is located**, and shall include a copy of such description in the audit documentation**.

DTTL agrees that it would not be appropriate for the auditor to maintain such a website. When auditors elect to make reference to descriptions of auditor's responsibilities included on the website of an appropriate authority, there are implementation challenges of which the auditor would need to be mindful. These include considerations such as the maintenance of the external website, whether the appropriate version of the description of the auditor's responsibilities is being referenced (and whether such description is capable of being accessed at a later point in time, including when descriptions of auditor responsibilities might have evolved in future periods), and potentially, issues relating to possible incorporation of a third party's website into a securities filing. The application guidance provided in paragraph A41 of proposed ISA 700 (Revised) indicates that national standard setters, regulators, or audit oversight bodies are organizations that are "well-placed to ensure the accuracy, completeness and continued availability of the standardized information." DTTL believes it would be appropriate for additional application guidance to be provided, because if the auditor has concerns about such matters, the auditor may decide that it is more appropriate to include the standardized information in the auditor's report instead of making reference to the information on the website. Such application guidance would reinforce the requirement in paragraph 40 of proposed ISA 700 (Revised) that the auditor is not obligated to make reference to a website even when the requirement in paragraph 40 (a) of proposed ISA 700 (Revised) is met.

c. Reference to whom in the entity is responsible for overseeing the Company's financial reporting process.

DTTL is supportive of describing the respective responsibilities of those in the entity that are responsible for the preparation of the financial statements and internal control over financial reporting and the responsibilities of those responsible for oversight of the entity's financial reporting process (where different individuals are responsible for such oversight). The inclusion of these descriptions in the auditor's report further clarifies the fundamental principle that management, and where applicable, TCWG, are responsible respectively for the preparation and oversight of the financial statements and the auditor is responsible for auditing the financial statements and providing an opinion based on having obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement.

It is noted that the application guidance provided in paragraph A34 of proposed ISA 700 (Revised) states that "Where not prohibited, the auditor may elect to refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (for example, in the annual report of the entity or a website of an appropriate authority.)" While the auditor may determine that it is appropriate to make reference to such a description in the annual report of the entity, if the financial statements and the auditor's report thereon are also to be provided separately, it would be appropriate for the auditor to consider that users of the auditor's report might not have access (or ready access) to the entity's annual report and accordingly it would likely be more appropriate for the auditor to include the full description of the responsibilities of management and TCWG in the auditor's report, i.e., rather than making reference to the description in the entity's annual report. This application paragraph also makes reference to the website of "an appropriate authority." It is not clear what an appropriate authority would be and whether the IAASB intends that such authority be a national standard setter, regulator, or audit oversight body (i.e., similar to the requirement in paragraph 40 of proposed ISA 700 (Revised) as it relates to the description of auditor responsibilities). It would be helpful to clarify this point and whether this authority is intended to be the same one where the auditor's responsibilities might be described (which DTTL believes is the appropriate approach). It would become confusing and unwieldy for users if the auditor's report refers to different websites for descriptions of the auditor's and management's responsibilities. Please refer also to the response to question 13b above regarding implementation challenges associated with making reference to websites.

d. Other reporting responsibilities.

DTTL is supportive of the requirement in paragraph 41 (and the related application guidance) of proposed ISA 700 (Revised) that other reporting responsibilities continue to be required to be clearly differentiated from those required by extant ISA 700. DTTL is also supportive of the flexibility provided in proposed ISA 700 (Revised) for how such other reporting responsibilities might be addressed, but to enhance consistency and understandability of auditor reporting within particular jurisdictions, such flexibility should be provided only to national standard setters, legislators, or regulators, as opposed to being the option of each individual auditor. Accordingly, DTTL believes that paragraph 41 of proposed ISA 700 (Revised) should be expanded to require that *other reporting responsibilities* not be combined with reporting under proposed ISA 700 (Revised), unless specifically allowed by national standard setters, legislators, or regulators.

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?

DTTL supports the flexibility to allow for the auditor to refer to the ISAs in the auditor's report when law or regulation or national standard setters require specific layout or wording to be used, but the required elements of proposed ISA 700 (Revised) report are also included. It is observed that providing flexibility for layout or ordering of the report where there are no requirements set forth in national standards, laws, or regulations will likely lead to lack of consistency, and to potential user confusion or frustration due to what might be viewed as apparent lack of comparability of auditor reports within jurisdictions and between one jurisdiction and another. These issues will be exacerbated as auditor's reports increase in length and level of detail. Accordingly, DTTL is supportive of proposed ISA 700 (Revised) mandating the ordering of sections of the auditor's report (especially having the opinion appear first), unless otherwise specified by law, regulation, or a national standard setter. DTTL specifically supports placing the Opinion section of the report first; however, the order of the two paragraphs should be swapped, as describing the financial statements first sets the context to which the opinion pertains.

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DTTL appreciates the opportunity to provide perspectives on this important topic. DTTL would be pleased to discuss this letter with you or your staff at your convenience. If you have any questions, please contact me via email (csabater@deloitte.com) or at +1 305 372 3143.

Very truly yours,

Carlos A. Sabater
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