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Our Ref: PSD/ED22/2013

Wednesday, 20 November 2013

James Gunn
Technical Director
The International Auditing and Assurance Standards Board (IAASB),
529 Fifth Avenue, 6th Floor,
New York NY 10017

Dear Sir,

RE: EXPOSURE DRAFT - REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAs)

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the **Exposure Draft - Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)**.

We believe the IAASB continued project on auditor reporting addresses increased calls from investors, analysts, and other users of audited financial statements in the wake of the global financial crisis for the auditor to provide more relevant information in the auditor's report, and build upon the indicative direction set out in the IAASB's June 2012 Invitation to Comment.

This letter provides our comments on the International Auditing and Assurance Standards Board's ED for consideration.

If you would like to discuss these comments further, please contact the undersigned on icpak@icpak.com or the undersigned at nixon.omindi@icpak.com.

Yours faithfully,

Nixon Omindi
For Professional Standards Committee

Key Audit Matters

Question 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?

It is agreed that in general the new proposed section describing the matters the auditor judged to be of most significance in the audit will enhance the usefulness of the auditor’s report. This is particularly given the case that the new guidelines are restricted to listed entities only where such disclosure is likely to be more useful.

Question 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?

Agreed – the definition of key audit matters is sufficiently clear and the examples, being sufficiently diverse, give appropriate guidance on what type of matters would be key audit matters. Over time, we believe there will be consistency in such matters. However, there are likely to be some areas of inconsistency in earlier years between audit reports of similar entities. Having said this, there is a significant risk that the descriptions of such matters will over time become boiler-plate and therefore result in loss of value.

Question 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?

Agreed as discussed in the response to question 2 above.

Question 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 cross-reference to the notes and disclosures is a useful feature as it puts into more context the key audit matter and the entity’s/director’s conclusions about the same;

- ❖ Clear explanation of why the audit matter is significant and the nature of audit procedures applied is useful.
- ❖ We also agree that the absence of a specific audit conclusion on the individual key audit matters is highly appropriate as the auditor’s opinion is on the financial statements as a whole and not on individual components of the financial statements. The examples on goodwill, valuation of financial instruments and acquisition accounting are appropriate in this regard. However we feel that the example on revenue on long term contracts including the wording ‘based on the audit procedures performed, we did not find evidence of the existence of side agreements’ is NOT appropriate and should be deleted.

Question 5

Do respondents agree with the approach the IAASB has taken in relation to key audit matters for entities for which the auditor is not required to provide such communication – that is, key audit matters may be communicated on a voluntary basis but, if so, proposed ISA 701 must be followed and the auditor must signal this intent in the audit engagement letter? If not, why? Are there other practical considerations that may affect the auditor’s ability to decide to communicate key audit matters when not otherwise required to do so that should be acknowledged by the IAASB in the proposed standards?

We agree with the IAASB’s approach that the requirements in respect of key audit matters should be limited to listed entities only. It may be appropriate for certain unlisted entities in specific jurisdictions to follow the same requirements. This guidance should be left to the local regulatory bodies to mandate as required who will also be able to better define such entities as relevant in the specific jurisdiction (e.g. public interest entities). We also agree that where such communication is required either voluntarily or under local regulations, ISA 701 provisions must be followed.

Question 6

Do respondents believe it is appropriate for proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate?

- a. **If so, do respondents agree with the proposed requirements addressing such circumstances?**
- b. **If not, do respondents believe that auditors would be required to always communicate at least one key audit matter, or are there other actions that could be taken to ensure users of the financial statements are aware of the auditor’s responsibilities under proposed ISA 701 and the determination, in the auditor’s professional judgment, that there are no key audit matters to communicate?**

We agree that there will be cases where there are no key audit matters to communicate – for listed companies: these cases are, however, expected to be extremely rare and could relate perhaps only to very new start-ups or near dormant entities that are listed but not actively traded. We therefore feel that the guidance should make clear the rarity expected in this case.

We agree that where there are no matters to report, the audit report should include the proposed statement to this effect.

Question 7

Do respondents agree that, when comparative financial information is presented, the auditor’s communication of key audit matters should be limited to the audit of the most recent financial period in light of the practical challenges explained in paragraph 65? If not, how do respondents suggest these issues could be effectively addressed?

We agree that communication of key audit matters should be limited to the audit of the most recent financial period presented.

Question 8

Do respondents agree with the IAASB’s decision to retain the concepts of Emphasis of Matter paragraphs and Other Matter paragraphs, even when the auditor is required to communicate key audit matters, and how such concepts have been differentiated in the Proposed ISAs? If not, why?

We agree with the proposal to retain the Emphasis of Matter and Other Matter paragraphs. Given the separation of the going concern section (and for listed entities the key audit matters section), we would, however, expect there to be very limited use of the Emphasis of Matter.

Going Concern

Question 9

Do respondents agree with the statements included in the illustrative auditor’s reports relating to:

- a. The appropriateness of management’s use of the going concern basis of accounting in the preparation of the entity’s financial statements?**
- b. Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity’s ability to concern, including when such an uncertainty has been identified (see the Appendix of proposed ISA 570 (Revised)? In this regard, the IAASB is particularly interested in views as to whether such reporting, and the potential implications thereof, will be misunderstood or misinterpreted by users of the financial statements.**

At present, other than jurisdiction specific guidance on going concern disclosures (e.g. as issued by the UK FRC), there are few requirements under the accounting standards for comprehensive disclosure on the basis of management’s going concern conclusions and, other than where there are material uncertainties, there is almost no disclosure of the basis supporting the factual statement that the accounts are prepared on a going concern basis. While we agree with the principles of the proposed wording of the statements included in the illustrated audit report, we feel that there is need for detailed going concern basis disclosures to be a requirement under the financial reporting standards and for statements in the auditor’s report to be cross referenced thereto, which will in more detail explain the basis for conclusions by management in this regard.

Question 10

What are respondents’ views as to whether an explicit statement that neither management nor the auditor can guarantee the entity’s ability to continue as a going concern should be required in the auditor’s report whether or not a material uncertainty has been identified?

We agree that this statement should be included irrespective of a material uncertainty being identified.

Compliance with Independence and Other Relevant Ethical Requirements

Question 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?

While we do not object to this requirement, we do not see any significant added benefit of inclusion of this statement in the audit report beyond the title which as it stands states ‘Independent Auditor’s Report’. Different jurisdictions are likely to have different reference points for such ethical requirements and standards including those that primarily base Ethical standards on the IESBA Code but with additional/tailored local requirements. The potential reference to variation of standards in different jurisdictions could therefore cause confusion and be of limited benefit to the users.

The likely disclosure under the current proposals for Kenyan auditors will state ‘We are independent of the Group within the meaning of the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants and the Institute of Certified Public Accountants of Kenya Code of Ethics for Professional Accountants.’

Disclosure of the Name of the Engagement Partner

Question 12

What are respondents’ views as to the proposal to require disclosure of the name of the engagement partner for audits of financial statements of listed entities and include a “harm’s way exemption”? What difficulties, if any, may arise at the national level as a result of this requirement?

We feel that the requirement to state the name of the engagement partner should be a jurisdictional determination and not one that the ISAs should mandate.

Other Improvements to Proposed ISA 700 (Revised)

Question 13

What are respondents’ views as to the appropriateness of the changes to ISA 700 described in paragraph 102 and how the proposed requirements have been articulated?

We consider the changes to ISA 700 as described in paragraph 102 to be appropriate. In particular, we welcome the flexibility to detail the descriptions of the responsibilities of the auditor to an appendix in the auditors’ report.

Question 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?

We concur with a view taken to maintain the flexibility in the extant ISA 700 along with minimum requirements in paragraph 46 of the proposed revisions to ISA 700 to be met for the report to be compliant with ISAs.