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International Auditing and Assurance Standards Board
International Federal of Accountants
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Via IAASB website at www.iaasb.org

Re: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or Board) Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)*. We fully endorse the Board's project related to the auditor's reporting model and commend the Board for its efforts and outreach in response to the needs of various financial statement users.

As we have previously indicated in our response to the Board's *Invitation to Comment – Improving the Auditor's Report*, we support the expansion of the auditor's report, where necessary, to better address user needs and provide greater transparency related to the audit. We also support the Board's collaboration with other standard-setters such as the United States Public Company Accounting Oversight Board (PCAOB) to align, to the extent practicable, the reporting requirements more globally. The importance of the IAASB and PCAOB working together to harmonize their respective standards is vital in a world where investors increasingly operate across borders; therefore, to minimize cost of capital, investors need consistency in auditor reporting wherever they invest.

Our comments and recommendations in response to the Exposure Draft, including our responses to the questions posed by the Board in the Explanatory Memorandum and certain specific paragraph-level comments, are intended to further clarify the proposed requirements and to provide some additional flexibility for national standard-setters.

We strongly encourage the IAASB to consider the results of the field testing, including cost-benefit considerations, prior to finalizing the proposed new and revised standards. This analysis is particularly important for smaller listed entities. With the adoption of the Board's proposals, we expect an increase in investor engagement with smaller listed entities and possibly a decrease in their cost of capital through better provision of better information, while we expect an increase in the time necessary to complete an audit and the costs related thereto, predominantly related to key audit matters in the earlier years of implementation. As further explained in our

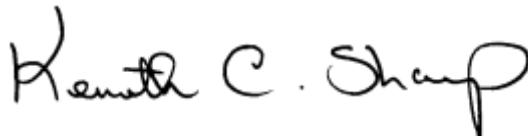
more detailed comments related to key audit matters, we believe that the increase in cost will be due to considerations surrounding the sensitivity and maintaining the confidentiality of entity information, and the additional discussions that will need to take place with management, those charged with governance and possibly the entity's and auditor's legal counsel.

We further support and recognize the importance of a post-implementation review, including the benefits of reduced cost of capital, enhanced investor understanding of the audit, and the additional value they play on better quality auditor communications, as well as an evaluation of the direct and indirect effects on financial markets, regulatory scrutiny, and litigation matters. It is inevitable that auditor judgments across and within firms will differ with respect to determining and describing key audit matters and, as a result, there will be variations in practice. In addition, we believe that users of financial statements would utilize and apply the additional information to be included in the auditor's report in diverse ways to suit their specific needs. Accordingly, monitoring the effects of the new auditor's reporting model and whether it is not only being applied appropriately by auditors but also has met user expectations will be essential to the overall success of the IAASB's project.

We believe that the Board, while ensuring that due process is followed, should strive to have these important changes to the auditor's report implemented as soon as possible. An effective date for audits of financial statements with periods ending no later than on or after December 15, 2015 should be feasible based on the Board's current timetable.

We would be pleased to discuss our comments with you. If you have any questions, please contact Karin A. French at Karin.French@us.gt.com or at +1 918.877.0860.

Sincerely,



Kenneth C. Sharp
Global Leader – Assurance Services
Grant Thornton International Ltd

Enc Responses to specific questions
Specific paragraph-level comments

Responses to specific questions

The following provides our specific comments and recommendations in response to the IAASB's specific questions for respondents included in the Explanatory Memorandum.

Key audit matters

- 1. Do users of the audited financial statements believe that the introduction of a new section in the auditor's report describing the matters the auditor determined to be of most significance in the audit will enhance the usefulness of the auditor's report? If not, why?**

Although this question was intended for users of financial statements, we fundamentally support including a new section in the auditor's report that, based on the auditor's judgment, is of most significance to the audit (key audit matters). As the Board is aware, however, including key audit matters in the auditor's report does not come without certain challenges, such as the risk that the auditor may be the original source of entity information or descriptions of the key audit matters becoming boilerplate over time. The benefits to investors are worth taking on the challenges.

We believe that key audit matters, while providing more transparency, may in certain circumstances, be viewed as implying a deficiency in the disclosures included in the financial statements. As auditors, we are unable to predict what conclusions users may draw from key audit matters. What is imperative to keep in mind, however, is the sensitivity of the information and the auditor's responsibility to maintain confidentiality. Auditors should avoid providing original information about the entity.

We support not reporting on key audit matters when a disclaimer of opinion is issued.

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?

We agree that the proposed requirements and related application material in proposed ISA 701 provide an appropriate framework to guide the auditor's judgments in determining key audit matters. In particular, we support limiting key audit matters to a subset of communications with those charged with governance (TCWG), and we also support the amendments to ISA 260 to align the factors for determining key audit matters with the required communications. Although not all communications with TCWG will result in a key audit matter, by default, a key audit matter would be a significant matter that is communicated to TCWG. Accordingly, matters outside of those communications need not be scoped in to the determination of key audit matters.

Professional judgment is involved in determining what is communicated to TCWG and what is communicated as a key audit matter. In determining and describing key audit matters, we understand the Board's objective of achieving reasonably consistent auditor judgments. However, we believe that, regardless of the requirements and related application material, the judgments of auditors will differ. This is particularly true when considering, for example, the nature of the entity and the circumstances of the audit. In addition, as we have previously expressed, users have different needs that could be driven by factors as diverse as regional, regulatory, or industry expectations. From this perspective, we believe that there is a potential for auditors to be second-guessed by users, particularly in the regulatory and legal environment relative to the specific jurisdiction. Accordingly, as part of adopting the proposal, the Board may need to consider providing resources and educational materials for users to obtain a better understanding of the revised auditor's reporting model. The results of any field testing may provide information relevant to the Board's decisions with regard to the adequacy of the framework and whether additional resources or educational materials may be necessary.

We do, however, believe that paragraph A37 of ISA 701 requires some revision. If the financial statements are prepared and presented in accordance with the applicable financial reporting framework and are not misleading, it may not be appropriate, as this paragraph suggests, for the auditor to impose on the entity to include additional disclosures solely for the auditor to report a key audit matter. This paragraph also can be read to infer that the auditor need not comply with relevant ethical requirements, confidentiality in particular.

Further, additional application guidance may be necessary to assist auditors in dealing with situations when management or TCWG object to the auditor including a key audit matter because its description implies something that the entity considers to be sensitive or confidential.

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?

Overall, we support that the description of key audit matters should include why the matter is of most significance to the audit, a reference to the related disclosures, and if the auditor deems it necessary, its effect on the audit. The description of key audit matters should avoid providing original information about the entity, unless required disclosures are not provided by that entity. As indicated in our response to question one, although we believe that descriptions of key audit matters will need to be specific to be useful, we also continue to believe that the auditor should not be the original source of entity information, for example, by communicating matters such as significant deficiencies and material uncertainties that have not been disclosed by the entity. Such disclosures are management’s responsibility.

In this regard, we request the Board to consider providing additional application guidance with respect to inappropriate forms of communications (that is, what to avoid in the description of key audit matters), particularly as it relates to describing the effect on the audit. For example, we believe that the auditor should not provide separate conclusions on individual matters, including account balances, classes of transactions, or disclosures, and should not describe, in detail, audit procedures performed and results thereof, including testing scopes, exceptions, or misstatements. Unless the matter resulted in a modified opinion, we believe that it is not necessary to separately describe the outcome of the auditor’s procedures or conclusions related thereto.

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.

We applaud the Board for providing various examples of key audit matters for respondents to be able to provide constructive feedback. We support the goodwill example and believe that it is at an appropriate level of detail to provide useful information to users of financial statements. Our concerns with respect to the other examples follow:

- **Valuation of financial statements** – We question the appropriateness of the use of the terms “challenged,” “concluded,” and “confirming.” We would suggest eliminating all of these terms and more simply indicating that the auditor tested the entity-developed model, including the related controls and assumptions, as described. This modification would also eliminate the potential misunderstanding as to whether the auditor is providing a piecemeal opinion relative to the model.

- **Acquisition of XYZ business** – This example is more factual in nature, and by starting with a reference to the disclosures in the financial statements, puts the key audit matter in an appropriate context. It also does not provide a piecemeal opinion or any form of conclusion. However, although we believe that the description of the transaction would be sufficient, we note that not including a general description of the effect on the audit may be confusing to some users, in the context of the previous examples. In addition, without additional context, referring to the accounting being “preliminary” and that it could change may be misleading as to whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework.
- **Revenue recognition relating to long-term contracts** – We have significant reservations with respect to this example specifically in relation to the conclusion related to the existence of side agreements and the lack of focus on measurement uncertainty and the effect on the audit relative thereto. Indicating that there is a risk of side agreements provides sensitive information, particularly if the example were expanded to clarify why this was a heightened risk; concluding that there was no evidence of side agreements provides a piecemeal opinion. Further, such example has the potential of being included in all auditor’s reports with long-term contracts and becoming boilerplate over time. Overall, this seems to be the most problematic and least useful example.

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?

For audits of non-listed entities, we believe that users of financial statements may request the communication of key audit matters, such as by contractual agreement or regulatory requirement. We also believe that, in some cases, management or TCWG may request such communication, and auditors may determine it is appropriate to include such communication based on the circumstances of the engagement. Thus, we support the IAASB in addressing the requirements related to the communication of key audit matters for non-listed entities.

To promote more consistency in practice, we agree that, for audits of non-listed entities, if a matter is to be communicated as being a key audit matter, the requirements in proposed ISA 701 need to be applied. This does not mean, however, that auditors of non-listed entities should be precluded from continuing to communicate certain matters as emphasis of matter or other matter paragraphs, without having to first determine whether the matter is a key audit matter. We support this position, which seems to be allowed by the proposal.

If communicated on a “voluntary” basis, signaling the intent in the audit engagement letter that key audit matters, if any, will be communicated may be helpful. However, a requirement to do so may inappropriately preclude an auditor of a non-listed company from communicating key audit matters if the auditor did not come to an agreement with management or TCWG upon acceptance or continuance. The proposal needs to provide the auditor with the flexibility to communicate key audit matters should the auditor conclude that it is prudent to do so. Therefore, if an auditor of a non-listed company did not indicate the intent to communicate key audit matters in the audit engagement letter, we recommend that the proposed ISA 701 indicate that the auditor could still do so as long as the auditor submitted an amended engagement letter or otherwise provided a written communication to TCWG.

- 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 support the need to provide some flexibility to auditors when no key audit matters are identified, particularly for situations in which proposed ISA 701 would be used for audits of non-listed entities. Because key audit matters are determined based on auditor judgment, requiring the communication of at least one key audit matter is contradictory to such an approach. However, we believe that the communication of no key audit matters within the auditor’s report may require additional deliberation by the Board. As proposed, users may interpret the notion of “most significance” as requiring at least one key audit matter. That is, we believe that such phraseology may be considered to be inconsistent and cause for potential confusion.

- 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?**

When comparative financial information is presented, we agree with limiting key audit matters to the most recent financial period, which we believe is likely the most relevant to users of the financial statements and may enhance understandability and transparency. Further, because it may not be possible to overcome the practical challenges described in paragraph 65 of the Explanatory Memorandum, limiting the key audit matters to the most recent financial period may avert unnecessary complexities in auditor reporting. In many

cases, we believe that financial statement users may have access to the prior period's auditor's report should they wish to consider key audit matters related to such period.

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

We believe that users of the financial statements may not fully understand the difference between key audit matters, emphasis of matter paragraphs, and other matter paragraphs. However, we recognize that not all matters currently resulting in the communication of an emphasis of matter or other matter paragraph would be considered to be a key audit matter, as defined by the proposal. In addition, we believe that emphasis of matter and other matter paragraphs will be necessary and will continue to be used in certain jurisdictions and for specific circumstances, as outlined in the Explanatory Memorandum. Accordingly, we agree with retaining the concepts of emphasis of matter and other matter paragraphs. However, we request the Board to reconsider the definition of an emphasis of matter paragraph in light of the introduction of a key audit matter. In many respects, one can conclude that if a matter is of such importance that it is fundamental to a user's understanding of the financial statements then it must be a key audit matter.

When key audit matters are also communicated, we are indifferent with regard to including the statement in the auditor's report that emphasis of matter paragraphs are separate from key audit matters as proposed. Although some may believe that such a statement may assist users' understanding, others may conclude that the statement itself is superfluous in that the matters being emphasized are not identified as key audit matters.

With respect to placement, we support the flexibility afforded by the proposal that permits auditors to place emphasis of matter and other matter paragraphs within the auditor's report based on the nature of the information and the auditor's judgment as to its relative significance. This flexibility is consistent with not mandating the ordering of the various sections of the auditor's report to accommodate the requirements of various jurisdictions.

Going concern

9. Do respondents agree with the statements included in the illustrative auditor's reports relating to:
- a. The appropriateness of management's use of the going concern basis of accounting in the preparation of the entity's financial statements?
 - 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.

First and foremost, we agree with the Board's planned approach to consider the status of ongoing and planned actions of accounting standard setters and other professional standard-setting bodies and, until such time, deferring finalization of auditor reporting on going concern. Auditor reporting relative to going concern needs to be a collaborative effort, to the extent practicable, between the various standard-setting bodies worldwide.

We continue to believe that auditor reporting on the use of the going concern assumption on historical financial statements should not be required for all audits. We do not believe that such reporting addresses the expectations gap. There are situations where such reporting may not provide value to financial statement users. Further, such content may be viewed as boilerplate, since the vast majority of reports will simply say that the going concern basis of accounting is appropriate. In addition, a conclusion on whether the going concern basis of accounting is appropriate does not seem to be value-added; if the going concern basis of accounting was inappropriate, a modified opinion would be required based on the departure from the applicable financial reporting framework (assuming the framework addresses such basis of accounting). Reporting on continuation as a going concern only when it is deemed to be a key audit matter would seem to provide to users the most value and result in the least clutter in the auditor's report.

Further, prior to mandating the inclusion of specific statements or certain language in the auditor's report, consideration needs to be given to the fact that financial reporting frameworks, including special purpose frameworks, may differ from one another and may not be fully aligned with the proposal. The following provides more specific comments relative to the illustrative auditor's report:

- It is essential to clearly differentiate the two separate and distinct issues relating to going concern: (a) use of the going concern basis of accounting as the basis for financial reporting in historical financial statements, and (b) a judgment as to whether there are liquidity issues that could result in the inability to continue as a going concern. The point is that predicting whether an entity will continue as a going concern

or modifying the opinion for the use of the going concern basis of accounting in the historical financial statements that were audited are two entirely different (although somewhat related) concepts that are often confused by the use of similar words. That they are entirely different concepts is made clear by the starkly different criteria for evaluating each determination. The fact that similar language is used in reference to each concept is an unfortunate historical artifact.

- Less sophisticated users may not fully understand how reference to the “going concern basis of accounting” relates to the applicable financial reporting framework used to prepare the financial statements. In addition, the conclusion with regard to the appropriateness of the use of the going concern basis of accounting may be misinterpreted as providing some level of assurance beyond the opinion on the historical financial statements, particularly in conjunction with the statement that neither management nor the auditor has identified a material uncertainty.
- The statement that, as part of the audit, the auditor did not identify a material uncertainty can be read by some to imply that the auditor had the same responsibility as management, while others could read the statement to imply negative assurance (that is, nothing came to the auditor’s attention). We do not support positive or negative statements of assurance by the auditor with respect to any prediction of the entity’s ability to continue as a going concern, and we believe that the final standard should not call for such. Further, due to the sensitivity of such information, any discussion in the auditor’s report needs to directly point to management’s disclosures; the auditor cannot be the original source of such information.
- The language concerning the use of the going concern basis of accounting in the historical financial statements includes the criteria for making that assessment. However, the language concerning the entity’s ability to continue as a going concern does not include the criteria used to evaluate the entity’s prospects. We believe that such criteria, or examples thereof, would need to be included in the auditor’s report to help define what is meant by “continue as a going concern” for the benefit of users.
- The statement that “Management has not identified a material uncertainty...” is inappropriate in that it is not possible for the auditor to determine with certainty what management has or has not identified. It would be acceptable, however, to more clearly indicate that management has “represented” to the auditor that it has not identified a material uncertainty.

Accordingly, we believe that the proposed reporting requirements need to be re-deliberated by the Board and revised. We expressly object to the second paragraph within the going concern section of the illustrative auditor’s report, as proposed.

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 believe that an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern may not be appropriate for inclusion in all auditor's reports because, for example: (a) the term "going-concern" may not be defined in all types of financial reporting frameworks, (b) such a statement may be controversial for certain types of entities, particularly those in the public sector, (c) it is inappropriate to impose on the auditor to make a statement on behalf of management, and (d) such a phrase may imply that there is a "guarantee" with respect to other aspects of the financial statements.

If the Board ultimately concludes that clarifying this matter is essential to users' understanding and potentially narrowing the expectations gap, we believe that it would be best to limit this matter to the description of an audit and the auditor's responsibilities (that is, more simply stating that an audit is not designed to express an opinion on the entity's future viability).

Compliance with independence and other relevant ethical requirements

11. What are respondents' views as to the benefits and practical implications of the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report?

Compliance with independence and other relevant ethical requirements is integral to an audit. Thus, we are not opposed to requiring a statement in the auditor's report indicating that the auditor is independent and has fulfilled the auditor's other responsibilities under the relevant ethical requirements. However, we believe that a requirement to specifically disclose in the auditor's report all relevant independence and ethical requirements is impractical to implement, particularly with respect to audits of group financial statements, and will likely cause unnecessary reporting complexities without added value for users of financial statements.

For instance, assume a component auditor audits a component in a jurisdiction that differs from the group and issues an auditor's report on the statutory, component financial statements. The auditor's report on the statutory, component financial statements would disclose any independence and ethical requirements applicable in the component's jurisdiction as well as the independence and ethical requirements that are applicable to the audit of the group financial statements. Now assume that the auditor's report on the group financial statements is for a listed entity and that the auditor's report on the component financial statements is also included in the regulatory filing of the group. The disclosure of the relevant independence and ethical requirements within such regulatory filing becomes

convoluted and may be confusing, further considering that some jurisdictions permit making reference to the audit performed by the component auditor.

Also, the Forum of Firms membership obligations require that members have policies and methodologies that conform to the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (IESBA Code) and national codes of ethics. For such members, the proposal would seem to require auditors to refer to the relevant national codes of ethics as well as the IESBA Code. In certain jurisdictions, reference to the IESBA Code may be potentially confusing with respect to the extent of compliance with international standards, particularly if the auditor's report also does not refer to having complied with the ISAs.

The examples above illustrate that, by imposing a requirement to disclose in the auditor's report all relevant independence and ethical requirements, auditor's reports within each jurisdiction may differ from one another. In our view, it is an unrealistic expectation that financial statement users in a particular jurisdiction or worldwide would fully understand the intricacies of the various independence and ethical requirements that may apply to the audit, while trying to decipher the differences between, and the reliability of, one auditor's report compared to another.

With respect to disclosing breaches of independence in the auditor's report, we concur with the Board's decision not to require such disclosure based on, for example, the impracticality of disclosing all breaches and the potential for users of the financial statements to draw incorrect conclusions. In this regard, we believe that the auditor's statement of independence is sufficient and that any disclosure of such breaches should be entrusted to the regulators and national standard setters in each jurisdiction. We do, however, support the communication of breaches of independence with TCWG.

Disclosure of the name of the engagement partner

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

We continue to believe that disclosure of the name of the engagement partner in the auditor's report would not create, in every jurisdiction, a greater sense of personal responsibility or accountability, ultimately improving audit quality in all audits. Audit quality is affected by many factors, and users who may judge the quality of an audit based on such disclosure may be misinformed. Further, it is important to note that legal frameworks and safety and security ratings differ between jurisdictions. Thus, we support allowing the flexibility for regulators and national standard setters to adopt an approach that fits their jurisdiction, considering the need to balance transparency with liability and individual security protections. We believe that disclosure of the name of the engagement partner may

be accomplished in various ways, depending on the jurisdiction, such as through registration with a regulator versus direct disclosure in the auditor's report.

If the proposed requirement to disclose the name of the engagement partner in the auditor's report is to be retained, we support limiting the requirement to listed entities, considering that there may be a greater need for transparency related to audits of such entities. We further recognize that the harm's way exemption may be necessary for certain jurisdictions; the IAASB may, however, need to monitor the potential effects, if any, on the financial markets of the lack of disclosure of the name of the engagement partner.

Refer to our response to question 14 with regard to requiring the name of the engagement partner within auditor's reports prescribed by law or regulation and for audits conducted in accordance with both auditing standards of a specific jurisdiction and the ISAs.

Other improvements to proposed ISA 700 (Revised)

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

We are mainly in agreement with the changes to proposed ISA 700 described in paragraph 102. However, we have some concerns with certain reporting elements in the proposal and the general "flow" of the illustrative auditor's report, as described below and in our specific paragraph-level comments, which are enclosed.

We are concerned with allowing the use of an appendix to describe certain of the auditor's responsibilities. We believe that this may inhibit the understandability of the auditor's report. However, we support the ability to refer to a website, if it is permitted and appropriate safeguards are in place within the particular jurisdiction. We do not support including the "we have audited" statement directly under the opinion paragraph; we believe that such a statement would be better placed as part of the "Basis for Opinion" section.

In addition, we believe that reporting on other information should not be included prior to the description of management's (and TCWG's) or the auditor's responsibilities, both of which refer to the audit of the financial statements. Reporting on other information should be clearly separated and included at the end of the auditor's report on the audited financial statements.

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 believe that the proposal strikes an appropriate balance between consistency and flexibility. In particular, we support not mandating the ordering of sections in the auditor's report to allow flexibility from a legal and national perspective.

As indicated in our response to question 12, we support allowing the flexibility for regulators and national standard setters to adopt an approach that fits their jurisdiction with respect to including the name of the engagement partner in the auditor's report. Consistent with this view, we propose eliminating the requirement to include the name of the engagement partner in paragraph 46.

Specific paragraph-level comments

The following provides certain specific paragraph-level comments related to the proposed new and revised standards for the Board's consideration.

Paragraph	Comment
ISA 230, Audit Documentation	
A10	This paragraph provides examples of circumstances in which it is appropriate to prepare audit documentation relating to the use of professional judgment. It now includes, as an example, the auditor's determination of key audit matters or that there are no such matters. However, paragraph 14 of proposed ISA 701 requires the auditor to document the key audit matters and the significant professional judgments made in reaching this determination and, when applicable, the rationale for the determination that there are no key audit matters. Accordingly, because paragraph A10 only provides examples, it appears to be contradictory to the requirement in paragraph 14. We suggest deleting the proposed addition to paragraph A10.
ISA 570, Going Concern	
General	As indicated in our response to question nine, the Board needs to clearly differentiate the two separate and distinct issues relating to going concern (use of the going concern basis of accounting as the basis for financial reporting in historical financial statements and the forecasted ability to continue as a going concern). Combining the two issues seems to overly complicate the requirements in proposed ISA 570 and makes them less understandable.
2	It may be helpful clarifying that financial statements prepared in accordance with the liquidation basis of accounting may also be considered general purpose financial statements.
9(c)	An element of timing seems to be missing from this objective. The auditor's conclusion as to whether events or conditions exist that may cast significant doubt about the entity's ability to continue as a going concern is not indefinite (that is, the evaluation is based on the period required by the applicable financial reporting framework or by law or regulation).
19	The simple heading "Going Concern" can be misleading; consider using something similar to "Use of the Going Concern Basis of Accounting and Material Uncertainties," assuming the Board will stay the course with regard to reporting relative to going concern.
23	It is important to be clear that this requirement is referring to the adequacy of disclosures about material uncertainties relative to the financial statements being materially misstated. Also, we question the reporting requirements in consideration of the fact that the auditor is already reporting the material misstatement in accordance with proposed ISA 705. Focusing on the inadequate disclosures takes away from the conclusions reached about the entity's ability to continue as a going concern. Accordingly, we request the Board to consider (a) further clarifying that the phrase "adequate disclosure about the material uncertainty is not made" in this context means that the financial statements are materially misstated, and (b) streamlining the reporting requirements in paragraph 23(b) to minimize the references to the inadequate disclosures and to focus more on going concern in general.

Paragraph	Comment
A29	The going concern and liquidation bases of accounting may be appropriate; however, they are not alternatives. Accordingly, the reference to “alternative basis of accounting” seems inappropriate. The financial statements are prepared in accordance with the applicable financial reporting framework. Relative to our previous points, the “going concern basis” or the “liquidation” basis relates to the application of that framework.
Appendix	We suggest modifying the second bullet that lists the various illustrations to add the notion that the financial statements are materially misstated due to the inadequate disclosure (for example, “An auditor’s report contains a qualified opinion when a material uncertainty has been identified and the financial statements are materially misstated due to inadequate disclosure”).
ISA 700, <i>Forming an Opinion and Reporting on Financial Statements</i>	
30	We understand limiting the requirement to communicate key audit matters to a complete set of general purpose financial statements of a listed entity. However, there may be some limited circumstances in which a listed entity’s financial statements are prepared in accordance with a special purpose framework (for example, certain employee benefit plans that file a Form 11-K with the U.S. Securities and Exchange Commission). We believe that the proposed new and revised standards should not be finalized until such time the Board analyzes the potential effects related to special purpose frameworks and is comfortable that there are not any conflicts.
33, 38	We suggest that the Board consider providing additional application guidance related to smaller entities with respect to describing the respective responsibilities and the auditor’s communication requirements in situations when management and TCWG are the same (that is, the auditor’s report might need to be modified in these circumstances).
37(a)	Reference to “planning and performance” is unnecessary; the simple phrase “throughout the audit” is sufficiently clear and concise.
37(c)	The proposed language relative to audits of group financial statements may be confusing. An audit of a group need not be a consolidated set of financial statements; based on the definition of a component, it may very well be a single entity with multiple locations. To include in the auditor’s report, whenever ISA 600, <i>Special Considerations – Audits of Group financial Statements (Including the Work of Component Auditors)</i> applies, a statement indicating that the auditor’s responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the group financial statements may not be appropriate in all circumstances and will likely be misinterpreted by users. We request the Board to reconsider the proposed reporting, particularly in situations where a single, legal entity is being audited that has components.
46(g)	This requirement may be confusing with respect to the auditor’s responsibilities to communicate key audit matters and the use of a separate report issued by TCWG, in consideration of the separate requirements in proposed ISA 701 for the auditor to include key audit matters in the auditor’s report. This paragraph and ISA 701 need to be more closely linked. See our comment on paragraph 10 of proposed ISA 701.
49, 50	<p>We agree with the direction the IAASB is taking with respect to clarifying the auditor’s responsibilities in regards to supplementary information presented with the financial statements. However, we believe that the concepts of evaluating whether the information is an “integral part” of the financial statements and whether it is “clearly differentiated” are lost within the proposed requirements, as further described by our comments on paragraphs A10 and A60, which follow.</p> <p>In addition, within the United States for example, there are several types of supplementary information, one of which is identified as required supplementary information and is considered by the designated accounting standard setter to be an essential part of financial reporting. As currently proposed, one can inappropriately infer that such required supplementary information is required by paragraph 49 to be covered by the auditor’s opinion, which is not the case.</p>

Paragraph	Comment
A10, A60	These paragraphs are inconsistent with paragraph A25. We agree with the guidance provided in paragraph A25 in that if a description in the notes to the financial statements indicating the extent to which the financial statements comply with another framework is clearly differentiated (such as by labeling the information as being unaudited) it need not, in all circumstances, be covered by the auditor's opinion on the financial statements. The Board needs to continue to provide flexibility with respect to reporting on such information; paragraphs A10 and A60 can be interpreted as implying that such information is always covered by the auditor's opinion. In this regard, we believe that a better link is needed to the guidance provided by paragraph A63.
A29	We believe that this paragraph directly contradicts and is misleading with respect to the requirements and guidance in ISA 600. This paragraph indicates that the ISAs do not require that the component auditor in all circumstances be subject to the same specific independence rules applicable to the group engagement team. However, paragraph A37 of ISA 600 indicates that the component auditor is subject to the ethical requirements that are relevant to the group audit. In accordance with paragraph 20 of ISA 600, if the component auditor does not meet the independence requirements that are relevant to the group audit, the group engagement team is essentially prohibited from using the work of the component auditor. Accordingly, we request the Board to clarify their intent with regard to the guidance provided in paragraph A29.
ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report	
4	The applicability of the proposed standard would be clearer if this paragraph indicated that it does not apply when a disclaimer of opinion is issued.
10	Refer to our comment on paragraph 46(g) of proposed ISA 700. It would be helpful to provide some additional application guidance that points to the proposed ISA 700 with respect to communicating key audit matters in auditor's reports prescribed by law or regulation. Note that proposed ISA 570 includes the specific reporting requirements related to auditor's reports prescribed by law or regulation within that standard; but, a different approach was used relative to proposed ISA 701 in that the specific reporting requirements are included in proposed ISA 700.
ISA 705, Modifications to the Opinion in the Independent Auditor's Report	
Illustration 5	We request the Board to reconsider the format of the disclaimer of opinion. We believe that it is too disordered to be understandable by users. For example, the second paragraph under the caption "Disclaimer of Opinion" and the "Auditor's Responsibilities for the Audit of the Financial Statements" section can be combined into one section under "Basis for Disclaimer of Opinion."
ISA 706, Emphasis of Matter and Other Matter Paragraphs in the Independent Auditor's Report	
8(b)	As indicated in our response to question 5, we believe that auditors of non-listed entities should not be precluded from continuing to communicate certain matters as emphasis of matter or other matter paragraphs, without having to first determine whether the matter is a key audit matter. We interpret the reference to "if applicable" in reference to proposed ISA 701 to allow such reporting (that is, such reporting is permitted when ISA 701 does not apply). In this regard, we believe that the application and other explanatory material needs to further clarify this point.
A15	We believe that the Board may need to consider the first bullet in the context of the entire audit report relative to reporting on special purpose financial statements. There are several references to the applicable financial reporting framework; therefore, it may not be necessary to include the emphasis of matter paragraph immediately following the "Basis for Opinion" section.
A16	The illustrative emphasis of matter paragraph refers to the opinion not being "qualified" with respect to the matter; the convention used in other standards refers to being "modified."
ISA 710, Comparative Information—Corresponding Figures and Comparative Financial Statements	
A12	We suggest clarifying that the determination of a key audit matter does not apply when the auditor issues a disclaimer of opinion.