

30 September 2013

The Chairman
International Auditing & Assurance Standards Board
529 5th Avenue (6th Floor)
New York New York 10017
USA

Dear Sir

Reporting on Audited Financial Statements

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comment on the exposure draft.

As indicated in our previous submission (8 October 2012), the G100 supports activities directed at enhancing the understanding of the audit process, the meaning of the audit opinion and addressing the expectations gap on the part of shareholders and other users of financial reports.

We do not believe that the current proposals outlined in ISA 701 relating to key audit matters are an appropriate response to these issues.

While the proposals are directed at increasing the transparency of the audit process, the G100 strongly believes that the proposals relating to the disclosure of key audit matters detract from the overall package because:

- **it blurs the distinction between the role and responsibilities of directors and management and those of the auditor in respect of the financial statements and notes thereto;**
- **directors and management are primarily responsible for disclosing entity-specific information to shareholders and other users; and**
- **it has the potential to increase the costs of audit and to create tensions between the auditor and directors and management which do not necessarily serve the interests of shareholders and other users.**

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?*

As users of audited financial statements of other entities as preparers we do not consider that the proposals will enhance the usefulness of the 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?*

Should the proposals proceed the application material and guidance may be useful to auditors and also to preparers to assist them in understanding the processes likely to be adopted/applied by the auditor. However, we are concerned about the following aspects:

- **how is the commercial sensitivity of the company's activities dealt with where there is tension between judgements made by directors and management and the auditor?**
- **how would adoption of the proposals affect the liability regimes applying to directors and auditors?**
- **the potential for the content and views expressed in the disclosure of key audit matters to detract from the traditional aspects of the auditor's report and that provided by directors, evident in the additional length the proposed changes are likely to add to the audit report;**
- **the ways in which the key audit matters process is determined and managed including the impact on the costs of the audit, the resolution of differences with directors and management and the extent of directors' commentary on that of the auditor; and**
- **how the disclosure of key audit matters impacts on the expectations gap and the extent to which it results in creating more and different expectations of the audit process with the increased reliance on the disclosure and discussion of key audit matters. There is a significant risk that the additional matters on the conduct of the audit will confuse or mislead users who are seeking information on the financial position and performance of the entity through the reliability and credibility of the metrics contained in the financial report.**

The G100 believes that the Australian legal requirement that the auditor attend the AGM and responds to questions from shareholders is a better way to deal with these issues. This process depends on questions being initiated by shareholders on matters which are of concern or interest to them.

We are also concerned about the impact of the proposals on the costs of the audit and on the timing of the financial statement process given the present extremely tight timelines.

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?*

This question is more relevant to auditors than it is to preparers and users of financial statements.

4. *Which of the illustrative examples of key audit matters, or features of them, did respondents find most useful or informative, and why? Which examples, or features of them, were seen as less useful or lacking in information 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 G100 considers that the inclusion of illustrative examples in Standards tends to result in replicated and boilerplate disclosures the content of which is best left to the auditor to determine consistent with the circumstances of the entity.

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?*
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?*

The G100 believes that if there are audit matters to communicate there is no need to make a statement in the auditor's report. If the proposals relating to key factors proceed, we do not believe that the Standard should be directive in respect of specifying that there must be at least one. This should be left for the auditor to determine in relation to the circumstances of the audit and the exercise of professional judgment.

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 para 65? If not, how do respondents suggest these issues could be effectively addressed?*

The G100 believes that if the proposals are adopted the identification of key audit matters should focus on the financial statements relating to the period on which the auditor is expressing an opinion.

8. *Do respondents agree with the IAASB's decision to retain the concepts of Emphasis of Matter paras and Other Matter paras, 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 consider that reporting on these items in addition to key audit matters has the potential to duplicate the content of the auditor's report or create confusion over the distinction. If the matters are of significance to the understanding by users of the conduct of the audit, they would be discussed as a key audit matter.

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 700 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.*

The G100 has no significant objections to the reference to the reliance on the going concern assumption and the existence of material uncertainties provided it does not include entity specific information not already provided by directors as they are described in the draft report. However, this approach lends itself to boilerplate reporting for the vast majority of audit reports absent material uncertainties and going concern and, as such, causes concerns about excessive verbage in reporting.

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

The G100 does not believe that an explicit statement is necessary particularly given the requirement in some countries including Australia, that directors make a solvency declaration.

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?*

The G100 does not consider that such a requirement would add to the understandability and usefulness of the audit report. Legislation provides that the auditor be independent and the presumption should be that the auditor complies with the law. In Australia the law provides that the auditor make a declaration regarding compliance with a requirement to be independent.

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?*

The G100 has no objection to the proposal to name the engagement partner.

Other improvements to proposed ISA 700 (Revised)

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

The G100 views on the proposed amendments to ISA 700 are as follows:

- **improved description of the auditor's responsibilities and the audit process are supported particularly their potential inclusion as an Appendix to the auditor's report or reference to its location on the website of an appropriate authority. We believe that this should be on the company's website.**
- **The reference to who in the company is responsible for overseeing the company's financial reporting process is supported. In the Australian context this responsibility rests with the board of directors.**

However, we are concerned about the requirement and form reporting including how it is differentiated from the expression of the auditor's opinion on the accounts.

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 paras 20-45 and the circumstances addressed in paras 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?*

The G100 considers that the format and presentation of the auditor's report should be flexible so that it can be adapted to the particular circumstances of the audit as a means of avoiding standardised and boilerplate language.

While we believe that experimentation in reporting should be encouraged there is a risk that the inclusion of example reports will stifle development as auditors and regulators tend to regard them as in-substance requirements.

Yours sincerely
Group of 100 Inc

A handwritten signature in blue ink, appearing to read 'Terry Bowen', is written over a large, light blue oval shape.

Terry Bowen
President