

November 22, 2013

International Auditing and Assurance Standards Board (IAASB)

**RE: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing**

Dear Board Members,

We are sending in the attached appendix the opinion of the Argentina Federation of Professional Councils in Economic Sciences (FACPCE) on the document "**Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing**", who gives the opportunity to submit comments by November 22, 2013.

If you have any questions about our comments, please contact us to [facpce@facpce.org.ar](mailto:facpce@facpce.org.ar).

With warm regards,

Dr. Daniel Carlos Feldman

Secretary

Dr. Ramón Vicente Nicastro

Chairman

## **Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing**

- 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?*

In line with the contents of the ITC, we believe that this section meets financial statement users' needs of further information in connection with the auditor's report. This is particularly applicable to the capital markets; that is why, first, we agree on applying this approach to public companies.

However, we consider that, regarding the information provided by listed companies, there is a considerable gap between the more developed capital markets and the rest. This is mainly due to the following reasons, among others: developing capital markets, where one shareholder or a closed group of shareholders is in control; little disclosure requirements imposed by the regulators; cultural factors that lead companies to avoid providing any information considered "confidential" or "not to be disclosed to third parties", which prevents that consistent reporting practices be established for financial statement purposes.

In these cases, the auditor may be prevented from reporting information that management has decided not to disclose, particularly, if it is not bound to do it, either.

Let's consider the situation mentioned in paragraph 8 c) of the proposed ISA 701, as an example of key audit matters, when the auditor has to change the approach planned because it has identified a significant internal control deficiency. Merely mentioning this situation in the auditor's report would cause a serious disagreement with the company's management that is not used to disclosing this sort of information.

Additionally, without deepening in corporate governance practice issues in the capital markets of undeveloped countries, it is a logical conclusion that the two-way communication between the auditor and the audit committee as well as the operating standards of the latter are substantially different from those prevailing in developed countries.

Therefore, the undeveloped markets should, firstly, discuss an amendment to the corporate governance regulations to be tailored to those of the developed markets and, then, achieve consistent practices in this regard, which, in turn, will allow the auditor to apply such regulations, without any difficulties, upon expressing his/her opinion.

Finally, the usefulness of the auditor's report is enhanced to the extent that, based on a better reporting framework by the companies, the requirements of the developed markets will be matched.

*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 understand that the material in ISA 701 provides an appropriate framework to guide the auditor's judgment in determining the key audit matters.

However, although reference is made in paragraphs 9 and A25 of proposed ISA 701, we consider that it should be emphasized how the auditor will communicate these key matters. The purpose is to achieve the proper balance when describing the matter in order to avoid any confusion about whether an exception is included in the opinion or an unqualified opinion is being expressed on a given item or area. In this regard, the detail and the wording used by the auditor to describe these matters will be essential to achieve such balance.

The consistent application will depend on whether auditors are trained in the writing skills required for these new reports.

*3. Do respondents believe the proposed requirements and related application material in proposed ISA 701 provide sufficient direction to enable the auditor to appropriately consider what should be included in the descriptions of individual key audit matters to be communicated in the auditor's report? If not, why?*

Yes, nevertheless, some concepts are not easily turned into practice. For instance, those included in the application material of proposed ISA 701, A24: "Recent significant economic, accounting, regulatory or other developments. For example, significant changes to the economic environment that affected management's assumptions or judgments, or the auditor's approach, may cause the auditor to determine that a matter is a key audit matter". Particularly, the matters related to the economic environment require effective communication with those charged with governance in order to avoid disagreements between the parties about what the auditor considers important to be disclosed to the financial statement users and what the formers consider appropriate, taking into account the answer to question number 1.

*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 believe the examples are useful, but they refer to a company operating within a complex economic environment, evidenced by the difficulties encountered by the auditor in obtaining audit evidence as well as in other aspects related to valuations and internal control.

We suggest including additional examples applicable to companies operating in simpler markets and facing different problems, though similarly eligible for being reported as key audit matters. Specially, considering paragraph A47 of proposed ISA 701, whereby it is stated that only on a limited number of occasions (few transactions or assets), it is expected that the auditor will have no reportable conditions.

*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 prefer to implement the approach proposed by the IAASB in stages, being firstly binding on listed companies, and to postpone the voluntary application until the market gathers sufficient experience and adapts to the changes they introduce.

We understand that the adoption of this practice to a limited extent of non listed companies may generate confusion among financial statement users, as well as otherwise, a fully implement with some exceptions. That is, in the case of non listed companies, why the auditor is including the section if it is not a customary practice? Or, in the opposite, why is it not included if it is mostly adopted? This inconvenience is more remarkable due to the decision of including the section need be agreed with those in charge of corporate governance. Then, we believe that the gradual adoption of the standard provisions is the most advisable approach.

*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?*

From the conceptual standpoint, we agree. However, we insist on the need for including more examples for situations occurring in less complex environments. We refer to listed companies that operate normally and continuously in a simple business environment, with sufficient assets and whose audits show no limitations, and in which the auditor finds usual issues considered as key audit matters: stock valuation and obsolescence, allowances for contingencies, for bad debts, etc.

Examples of this kind would serve as a considerable guide for auditors engaged by the companies of this business segment. Thus, the auditor would not run the risk of

believing that there are no key audit matters, or even if their existence is considered, the descriptions thereof would not be so poor so as to distort the purpose of the standard.

*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 on the position explained in paragraph 64 and the grounds provided in the following paragraph, which are even more effective in our market that is less trained in the interpretation of comparative information.

*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. We understand that it is advisable to maintain both paragraphs separately, as they represent different concepts and it is important that users interpret them accordingly.

#### *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 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*

Regarding item a), we agree on this statement.

We consider that the treatment given to uncertainties as to the entity's ability to operate as a going concern has improved with respect to the current practice. We also consider that the examples included in Appendix of proposed ISA 570 (revised) clearly illustrate the different situations to be faced by the auditor and how they should be dealt with.

*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 inclusion of this statement appears, in principle, to be aimed at users not skilled in the interpretation of financial statements. However, the disclosure thereof may be advisable, considering the reactions arising from the 2008 crisis. The statement as such accounts for an unquestioned truth but included in a more complex context. The

company will never be able to guarantee its ability to continue as a going concern because it will be always subject to macroeconomic conditions beyond its control and to unforeseeable changes that may pose a risk to its continuance, which cannot be even predicted by the accounting standards.

As a conclusion, we consider that this statement does not add value to the auditor's report.

*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?*

We agree on disclosing the source(s) of independence and other relevant ethical requirements applicable to the auditor, particularly, in our market, where the aspects related thereto cannot be taken for granted.

*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?*

In our country, this is a legal obligation, as responsibility relies on the professional signing the auditor's report and his/her printed name is always included. Based on our experience, we see no difficulties in this disclosure.

*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 consider changes are appropriate. Particularly, we adhere to the option that the description about the auditor's responsibility and the key audit matters can be relocated in an appendix to the auditor's report.

We also agree with the contents of proposed paragraph 41 of ISA 700 about segregating the other auditor's reporting responsibilities from those required under the ISAs in the report.

*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 prefer that an ordering of sections be specified in the auditor's report to avoid generating any confusion. Additionally, we consider that the treatment given by paragraphs 46-48 of the proposed ISA 700 is appropriate, in case there are regulations or legal provisions that require the use of certain terms and/or layout of the auditor's report as well as when audits are conducted in accordance with the auditing standards of specific locations together with the ISAs.