



22 November 2013

James Gunn  
Technical Director  
International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York NY 10017

Office of the Chief Executive  
Alex Malley, FCPA

CPA Australia Ltd  
ABN 64 008 392 452

Level 20, 28 Freshwater Place  
Southbank VIC 3006 Australia  
GPO Box 2820  
Melbourne VIC 3001 Australia

T +61 3 9606 9689  
W [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au)  
E [alex.malley@cpaaustralia.com.au](mailto:alex.malley@cpaaustralia.com.au)

Via electronic submission

Dear Mr Gunn

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

CPA Australia welcomes the opportunity to comment on the exposure draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (the ED). CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 144,000 members in finance, accounting and business in 127 countries throughout the world. Our vision is for CPA Australia to be the global professional accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the International Auditing and Assurance Standards Board's (IAASB) objective of positive change in auditor reporting. The ED as drafted represents significant change within the audit profession that will have a substantial impact on its stakeholders.

CPA Australia consulted widely on the proposed changes with auditors, directors, investors and other reporting stakeholders in Australia, New Zealand and throughout Asia. Overall, the feedback received has indicated a positive reception to the general concepts proposed in the ED, together with concern as to risks and challenges of implementation and achieving value through the changes. Feedback received in emerging economies indicates that these challenges could be particularly acute in those contexts due to a number of jurisdictional factors (see also Appendix 1, Key audit matters).

The changes proposed in the ED, particularly the introduction of key audit matters, have the potential to facilitate the achievement of a greater understanding and relevance of audit. However, it is important to recognise and address the accompanying significant challenges and risks in achieving this. There is a risk that the changes could lead to a reduction in the inherent simplicity and value that exists in the current model and increase the cost involved in audits while showing little benefit for stakeholders.

As is the case in any large-scale transformation, ongoing monitoring, engagement and consultation throughout the auditing profession and its stakeholders globally, on the implementation of an ultimately issued standard, will be essential to achieving a positive change. CPA Australia is actively involved in preparing for this and is eager to work together with the IAASB to support and help facilitate the success of these proposals.

CPA Australia's responses to the specific questions raised and areas of focus in the ED are attached. If you require further information on any of our views please contact Amir Ghandar, CPA Australia, by email at [amir.ghandar@cpaustralia.com.au](mailto:amir.ghandar@cpaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alex Malley', with a long horizontal flourish extending to the right.

Alex Malley FCPA  
Chief Executive Officer

cc: A Ghandar

## **Appendix 1: Responses on specific issues and questions**

### **Key audit matters**

#### **Overall**

The introduction of key audit matters in auditor's reports represents an opportunity to improve the understanding and relevance of audit, but there are also significant challenges. Feedback received by CPA Australia from investors, analysts and other users of auditor's reports was mixed in terms of the perceived value of including key audit matters. Some stakeholders expected value would be gained through understanding certain aspects of the audit, particularly those related to areas of financial reporting judgement. Others foresaw an over-complication of the auditor's report with little value added as most, if not all, of the pertinent information would already be included in the financial statements.

Some of the key challenges highlighted in feedback received by CPA Australia include understanding and managing potential increased risk exposure while still providing useful information and managing the process of determining what is to be included in key audit matters and its impact on stakeholders, including the company being audited. Both of these factors were perceived by stakeholders as potentially leading to increased audit costs and impacting on the usefulness of information in auditor's reports.

Feedback indicated concern that the ED does not provide sufficient articulation of a threshold for determining key audit matters. Stakeholders were concerned that this could lead to excessive reporting and unnecessarily complex auditor's reports. Stakeholders also noted concern that the ED was insufficient to support auditors in coming to and justifying their decisions on what not to include in key audit matters, particularly where a matter not included later became key as a result of unforeseen circumstances. CPA Australia recommends including a clearly articulated threshold for determining key audit matters and what should not be included, either through the definitions introduced in a new standard, or by reference to existing concepts such as 'significant risks'.

CPA Australia recognises that the IAASB has undertaken a significant consultation process in developing the concept of key audit matters and that it is also supporting firms and receiving feedback through field testing of the proposals in the ED.

CPA Australia recommends that the IAASB continues to play this positive role in supporting and monitoring implementation, including performing targeted post-implementation reviews over the first years, after a final standard becomes effective. CPA Australia is eager to assist the IAASB in helping facilitate the development and implementation of these changes, and in post-implementation activities.

#### **Illustrative examples**

Feedback received by CPA Australia, particularly from investors, analysts and other users of auditor's reports, has generally indicated that the illustrative examples were too detailed and did not demonstrate the value added through the concept of key audit matters. Other comments included that the illustrative reports contained too much profession-specific terminology and language that is unlikely to be useful for or understandable by non-auditors.

#### **Challenges for emerging economies**

Feedback received within emerging economies has indicated that the challenges outlined above could be exacerbated by a number of factors including that with a less established audit role within the jurisdiction, the user population could be confused by key audit matters. In many instances the simplicity of the current auditor reporting model was generally seen as more appropriate. Businesses were also expected to be more sensitive to the inclusion of key audit matters in some jurisdictions.

### **Emphasis of matter/other matter paragraphs**

In feedback received by CPA Australia it was evident that users of auditor's reports were confused by the distinction between emphasis of matter/other matter paragraphs (EOM/OM) and key audit matters. A core discussion point was whether in practical terms there were matters (aside from material uncertainty in respect of going concern) that should be highlighted to users above key audit matters. While technical differences between the delineation of what is to be included in EOM/OM and key audit matters are clear, feedback indicated that it is hard to envisage a practical case where there would not be such overlap as to render almost all instances of EOM/OM as also appropriate for inclusion in key audit matters.

Recognising simplicity and improving understandability for non-auditors as priorities, CPA Australia considers that merging the concepts of EOM/OM into one section that also incorporates key audit matters, as preferable to having separate sections within the auditor's report. Where key audit matters would not be applicable (eg. non-listed entities), CPA Australia considers retaining EOM/OM in their current form as desirable.

### **Going concern**

Feedback received by CPA Australia has indicated apprehension in regard to the proposed standard paragraph on appropriateness of management's use of the going concern basis of accounting. Feedback indicated that including such a paragraph in all instances, where material uncertainties had not been identified, could lead to confusion amongst users and would represent a potentially 'boilerplate' disclosure with little added value. Further, it could render the paragraph less distinct in the instance that material uncertainties had been identified (notwithstanding the current elevated priority in the ordering of sections within the auditor's report recommended in the ED).

CPA Australia recommends that including going concern paragraphs within the auditor's report is limited to instances where material uncertainties have been identified.

Feedback received has also indicated that it is desirable to include an explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern in instances where material uncertainties have been identified.

CPA Australia recommends that 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 where a material uncertainty has been identified.

### **Compliance with independence and other relevant ethical requirements**

Feedback received by CPA Australia has not indicated any particular issue in regard to the proposed requirement to disclose the sources of independence and other relevant ethical requirements in the auditor's report. CPA Australia notes that in some jurisdictions where our members conduct audit engagements, this information or similar is already required to be disclosed in the auditor's report.

### **Disclosure of the name of the engagement partner**

Feedback received by CPA Australia has not indicated any particular issue in regard to the proposed requirement for disclosure of the name of the engagement partner. CPA Australia notes that in some jurisdictions where our members conduct audit engagements, this information is already required to be disclosed in the auditor's report.

## **Other Improvements to Proposed ISA 700 (Revised)**

### **Description of the responsibilities of the auditor and key features of the audit**

CPA Australia strongly supports an improved description of the responsibilities of the auditor. However, feedback received has indicated that the proposal has not improved the accessibility of this information, particularly for users of auditor's reports from outside the audit profession.

It appears evident that aside from the most basic aspects, a useful understanding of the responsibilities of the auditor and key features of the audit is only possible with considerably more space than is available and would be appropriate for inclusion in the auditor's report or an appendix.

CPA Australia recommends requiring a simplified description of the basic responsibilities of an auditor to be included within the auditor's report and that any other material should be made available and referenced to appropriate jurisdiction specific websites or other locations.

CPA Australia advises that in February 2013 it released [\*A guide to understanding auditing and assurance: listed companies\*](#), a plain language document designed to help stakeholders to gain a better understanding of the audit role. This publication has been widely used and referenced in Australia since its release, including in a report by an Australian Parliamentary Joint Committee, which indicated that the guide addressed many of the important expectation gaps highlighted by corporate collapses in recent years.

### **Ordering of sections within the auditor's report**

Feedback received by CPA Australia has indicated differing needs and challenges in terms of the ordering of sections within the auditor's report, in different jurisdictions. CPA Australia recognises the importance of consistency in the format and ordering of auditor's reports from the perspective of the user.

CPA Australia recommends that jurisdictional requirements, including those established by national standards setters, take precedence in mandating the ordering of sections within the auditor's report.