

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Dear Board Members and Staff

Comment on Exposure Draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

The Institute of Chartered Accountants of Jamaica (ICAJ) is pleased to provide our comments on the above referenced exposure draft.

We appreciate the International Auditing and Assurance Standards Board (the Board) addressing this subject and submit our comments and recommendations.

The ICAJ supports the expansion of the auditor's report, where necessary, to better address user needs.

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?

Yes. The report is the auditor's primary means of communicating to users. Within this context there is support for specific section in the report that has the clear purpose of providing transparency about matters that are, in the auditor's judgment, likely to be most important to users' understanding of the audited financial statements.

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?

Yes. We feel ISA 701 provides an appropriate framework to guide the auditor's judgement in determining key audit matters. By providing specific guidance to the auditor in making this determination, although it is based on the auditor's judgement, it will lead to greater consistency in arriving that judgement.

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. ISA 701 refers the auditor back to ISA 260 in determining the key audit matters which should be included in the audit report. These matters would have been carefully considered by both the auditor and those charged with governance before arriving at a conclusion about the significance and relevance of the items. The matters to be included in the Key Audit Matters paragraph would therefore not come as a surprise to the management of the directors and management of the entity.

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 two examples which were more informative were "Revenue Recognition" and "Valuation of Financial Instruments". Recognition of revenue in some cases can be very complex and highly subjective. Where this is the case the auditor can identify these complexities and disclose how these were resolved in arriving at his conclusion. Similarly, valuation of financial instruments can be very complex and subjective, and the key audit matters paragraph allowed the auditor to disclose the complexities and how these were resolved.

Details of the company acquiring a business was less useful. The fact that the company acquired a new business could be adequately covered in the notes to the financial statements.

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?

Yes. The entity although not a publicly listed company may be a very large private entity, with significant risk to the auditor. Allowing the auditor the option to disclose certain matters in the Key Audit Matters section of the report would facilitate the auditor giving additional information which may be considered useful to large lenders or creditors to the company.

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?

Yes. The proposed ISA 701 should allow for the possibility that the auditor may determine that there are no key audit areas to communicate. There should be a requirement that the auditor states that there are no key areas for communication. This would give readers the assurance that it was considered.

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?

Yes. To require the auditor to include the prior year comments may lead to challenges as disclosed in paragraph 65. This would not lead to any additional value to the user, and may lead to confusion. The comments should, therefore, be restricted to the current year. The auditor may add any additional commentary deemed necessary under the circumstances.

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?

Yes we agree that the Emphasis of Matter paragraphs and the Other Matters paragraph should be retained. This will allow the auditor the option to highlight matters that may not be deemed key audit matters. This will also allow auditors who are not required to disclose key audit matters to draw the users attention to matters deemed fundamental to users' understanding of the financial statements,

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.

Illustration 1 seems appropriate. However the wording used in Illustration 2 and 3 seems inappropriate. Because there is the probability that the company will not obtain the required financing the going concern assumption maybe inappropriate. This uncertainty should be stated in the going concern section, rather than stating that the going concern basis is appropriate. In Illustration 3 although the auditor has concluded that the financial statements do not give a true and fair view, the going concern paragraph has concluded that the going concern basis is appropriate. We feel in both Illustrations 2 & 3, the going concern paragraph could lead to misunderstanding.

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?

It is our view that that an explicit statement should be made by the auditor about the auditor's inability to guarantee the entity's ability to continue as a going concern, as this will serve to mitigate the exposure that auditors face when a company ceases to be a going concern. The auditor should not however extend this disclaimer to management in the audit report as management may be privy to more information and may have decided not to disclose it to the auditors.

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?

Disclosing the sources of independence and other ethical requirements will give users of the financial statements, information on which ethical guidelines are being adhered to. Locally we have adopted the IESBA Code of Ethics for Professional Accountants. Making a

statement on compliance, would not in our case, lead to extensive disclosure of the sources of our independence and other relevant ethical requirements.

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?

Jamaica requires this disclosure presently in the case of certain audits, and such disclosure appears to work well within the legal frameworks of our country. However, not all jurisdictions are equivalent when it comes to balancing transparency requirements with liability and individual security protections. Therefore, we recommend leaving this disclosure to national standard setters.

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 in favour of improved description of the responsibilities of the auditor and key features of the audit. We are concerned that placing standard content outside of the report will decrease the frequency that users read this important information. If a reduction occurs the consequence could be to increase the expectations gap. We therefore suggest an appendix to the auditor's report which contains the details and also a reference to a website that would contain additional information on the auditor's responsibility.

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?

Subject to the appropriate exceptions required by law or regulation, or consistency, we favor an approach that mandates the ordering of the items in the report.

We believe that the guidance given in paragraphs 20-45 and 46-48 gives sufficient guidance to lead to 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.

Exposure Draft