By web submission: www.iaasb.org

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Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue
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26 November 2013

Dear James,

RE: Exposure Draft Reporting on Audited Financial Statements, Proposed new and Revised International Standards on Auditing (ISAs) – Auditor Reporting.

Thank you for the opportunity to comment on the IAASB's exposure draft on Reporting on Audited Financial Statements – Auditor Reporting. We are writing on behalf of the International Corporate Governance Network (ICGN). The ICGN is a global membership organisation of over 600 institutional and private investors, corporations and advisors from 50 countries. Our investor members are responsible for global assets of US$18 trillion.

The ICGN's mission is to raise standards of corporate governance worldwide. In doing so, the ICGN encourages cross-border dialogue on behalf of investors and influences corporate governance public policy through its Committees. We promote best practice guidance, encourage leadership development and keep our members informed on emerging issues in corporate governance through publications and the ICGN website. Information about the ICGN, its members, and its activities is available on our website at www.icgn.org.

The purpose of the Accounting and Auditing Practices Committee (AAPC) is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. The Committee through collective comment and engagement strives to ensure the quality and integrity of financial reporting around the world: http://www.icgn.org/policy_committees/accounting-and-auditing-practices-committee/

The ICGN, as a global investor organization, believes improvement of global audit practices is essential for consistency and comparability. We are very supportive of the IAASB's important and continuing work to enhance the value of the auditor report. We are also very supportive of additional transparency for use by investors in their capital allocation decision-making process. We are pleased to provide some general comments, as well as comments on the specific questions posed in the document.

In accordance with our 2012 letter, we believe making the auditor's report more informative and narrowing the expectation gap is critical to investors. We agree it is time to address the call for changes and lay the foundation for the future auditor reporting by proposing new and revised international standards (ISAs).

Investors rely heavily on management making appropriate disclosures as part of the investment decision-making process and in order to be engaged, active shareowners. The integrity and quality of financial reports is strengthened by a robust external independent audit, where the audit is objective and the auditor exercises professional scepticism. If necessary, the external auditor should challenge management's judgement on accounting elements and assessment of risk. The external auditor has a statutory duty to report to shareholders whether the company is presenting a true and fair view of the company's financial position. Investors value an independent and objective audit opinion.

ICGN AAPC is very supportive of the proposed new and revised ISAs to improve the audit report. We continue to suggest the recommended improvements be cognisant of, and synchronized with, reforms in integrated reporting and the corporate reporting framework more broadly. We believe that a more consistent, robust application and enforcement of ISAs is critical and will be helpful to investors.

Key Audit Matters (KAMs)

We recommend the auditor consider the following in determining key audit matters and support revisions to the ISA 700 and proposed ISA 701.

These include:

1. Key financial statement, business, operational and audit risks the auditor has considered when conducting the audit, and the extent, if any, as to how the auditor addressed those risks;
2. The auditor's assessment of the key estimates and judgments made by management that materially affect the financial statements, whether those assumptions are at the low or high end of the range of possible outcomes and how the auditor arrived at that assessment;
3. The quality and appropriateness of the accounting policies and practices adopted by management including accounting applications and practices that are uncommon to the industry;
4. Unusual transactions and significant changes to accounting policies that have a significant impact on the financial statements;
5. Methods and judgments made in valuing assets and liabilities;
6. Identification of any matters obtained in the course of their audit that the auditors believe are incorrect or inconsistent with the information contained in the financial statements or in other information (such as the Management Discussion and Analysis);
7. Key audit issues and their resolution, which the audit partner documents in a final audit memo to the Audit Committee or those charged with governance;
8. The quality and effectiveness of the governance structure of the board and risk management (including internal controls), and;
9. Completeness and reasonableness of the Audit Committee report.

The substance and explanation of why the auditor considered these matters to be the most significant, why a matter was determined to be a key audit matter, and its effect on the audit are also necessary to provide a more complete and accurate representation on how the auditor concluded their opinion. KAMs would also provide investors with an understanding of areas of significant management judgment which were areas of focus during the audit, thereby providing a more substantial basis for engagement and dialogue.

KAMs may be the cornerstone basis for a qualified or adverse opinion. Key audit matters would tie to related financial statement disclosures and may provide suitable audit evidence for an auditor to modify their audit plan. We are cognizant of the challenges in communicating sensitive information relating to fraud, risks or significant deficiencies in internal control. However, the external auditor is well-positioned to judge objectively a company's approach to risk and control.

Also, ISA 701 should disclose and provide how an auditor determined there were "No Key Audit Matters", and how this was communicated and documented by those persons charged with governance.

Communication with those Charged with Governance – Entity Characteristics

We believe sound corporate governance structures should be adopted by companies in all markets – from developed to emerging, listed, and unlisted as many private companies strive to ultimately become public companies. We support IAASB's perspective that all entities, not only listed companies, should adopt the requirements albeit that the former should be allowed to do so on a voluntary basis. We agree that ISA 260, paragraph 15, which outlines the auditor's responsibilities to communicate with those, charged with governance the auditor's duties regarding the audit, an overview of the planned scope and timing of the audit, and the significant risks identified by the auditor.

Communication involving significant auditor judgment, including where there are circumstances that require significant modification of the auditor's planned approach, should align with the factors the auditor considers in KAMs and are provided to those charged with governance. The auditor should be required to discuss areas where the auditor encountered significant difficulty to obtain sufficient appropriate audit evidence. The ICGN AAPC believes this communication could enhance audit quality, improve two-way communication between the auditor and audit committee (and those charged with governance), and assist the audit committee in fulfilling their fiduciary responsibility to shareowners.

Going Concern

The ICGN AAPC agrees with IAASB's view that auditor reporting related to going concern is appropriate and necessary. It is important to improve the definition and threshold so warning is communicated before a company is in the state of liquidating and ceasing business.

It is important for IAASB to actively liaise with the accounting standard setters. It is important that accounting standards align with requirements in the proposed ISA 570, and a holistic approach by standard setters is adopted. Both accounting and auditing standards should define material uncertainty and the threshold for such disclosures.

Previously going concern issues were not reported early enough. Definitions should include "when it is more likely than not" that an event(s) is reasonably foreseeable that an entity may not be able to meet its obligations. The auditor's assessment should not be limited to just 12 months from the balance sheet date, but rather take into account available information about the foreseeable future beyond 12 months that would affect the auditor's assessment.

The auditor's responsibilities are to obtain sufficient evidence and conclude about the appropriateness of management's use of going concern, and to provide a statement, based on the evidence obtained, whether there is a material uncertainty about the entity's ability to continue as a going concern.

A cross reference in the going concern section would provide a basis for qualified or adverse audit opinion and when an auditor's opinion is modified because a material uncertainty has not been adequately disclosed.

Emphasis of Matter

The ICGN AAPC supports the retention of emphasis of matter paragraphs that would not be included in Key Audit Matters. It is important to facilitate users' understanding of the differences between emphasis of matter or other matters to KAMs. We agree that there should be a separate going concern paragraph in the audit report, where previously emphasis of matter was used to highlight material uncertainties relating to going concern.

Audit Scope – Input & Materiality – Audit Quality

Investors seek consistent, comparable global corporate reporting. We recommend that standard setters continue to work on the definitions of materiality, material uncertainty and the threshold for such disclosures that is both effective and practical in application.

Consideration of Other Information

The IAASB, although considering these topics through a separate project, should also require the evaluation of other information for material misstatement of fact and inconsistency by requiring an explicit statement on the review by the auditor.[1]

Independence – Engagement Partner Signature

The ICGN AAPC agrees with the IAASB requirement that the auditor include an explicit statement of independence.[2] We also believe the disclosure of the engagement partner's name in the audit report improves transparency and provides additional accountability that we believe may foster and improve audit quality.

Overall, the proposals set out in the Exposure Draft contain significant and useful improvements to auditor reporting. We urge the IAASB to finalize the proposed ISAs and require these improvements to reporting on audited financial statements to be effective in 2015. The independent external auditor has the ability and knowledge to challenge management's judgment on accounting elements, assessment of risks and whether an entity has the ability to continue as a going concern. These improvements to auditor reporting, as outlined in the exposure draft will address investors' need for greater transparency about the audited financial statements and the audit itself.

APPENDIX

Key Audit Matters

Question 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, we believe the introduction of a new section in the auditor's report, highlighting key audit matters will provide additional information to the relevancy and value of the audit. However, the proposed Key Audit Matters do not necessarily provide all the

[1] ICGN AAPC comment letter to IAASB Exposure Draft Auditor's Responsibilities Relating to other Information, 14 March 2013.

[2] Paragraphs 89-91, IAASB Exposure Draft, Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

information that investors would propose ISA 701 should include. See response in #2.

Question 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 believe the ISA should provide additional guidance to auditors when auditors are providing an assessment of management's key estimates and judgments. We believe auditors should state whether these estimates and judgments are at the low or high end of the range of possible outcomes and how the auditor arrived at that assessment. This type of commentary provides investors with some context and an opportunity to understand more fully management's propensity for prudence or towards what some may deem as aggressive.

Furthermore, we support the approach the auditor´s report includes entity-specific matters, although in those circumstances we believe investors require more specification about the scope of the audit as well as about the interpretation of materiality by the auditor.

Question 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 appears to provide robust guidelines in determining KAMs, showing how the KAMs relate to the auditor's opinion as well as providing specific details to consider as follows:

- *Significant attention*
- *Risks*
- *Difficulties during the audit*
- *Circumstances that require the auditor to change approach and modify the audit plan.*

In accord with the ICGN Global Accountable Corporate Governance Principles, and included in our general comments in our letter, we recommend all of these be included in the proposed ISA 701.We believe that the proposed ISA 701 should not be limited to individual line items, however should also include other key matters which are related to a combination of line items or are more overarching to the business as a whole.

We also appreciate that ISA 701 provides guidance on how, when and where to communicate KAMs and the positioning of KAMs in the Auditor's Report. We agree the auditor should explain the effect on the audit of KAMs as well as the interaction between description of KAMs and other elements required to be included in the auditor's report.

We strongly support that the ISA outlines that a statement be made in the circumstance where the auditor determines there are no Key Audit Matters, how they came to the conclusion, as well as document their reasoning and a summary of the material facts they relied upon to make this determination.

Question 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 found all the illustrative examples useful and informative, they provide a basis for auditors in determining Key Audit Matters, as well as how to communicate, document and support the auditor's conclusion and opinion. We believe that auditors have the expertise but believe the illustrative examples provide an improved audit report. We support the necessity to create a standard so auditors are transparent and consistent in their processes. The proposed standard elevates the need for transparency on how the auditor came to their opinion.

We appreciate the table on page 17, References to Illustrative Auditor's Reports, included in the ISAs, which is helpful and provides additional clarity to the Exposure Draft.

Question 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 believe that Key Audit Matters should always be considered, and communicated when an auditor is engaged for an audit of financial statements. We do not support that this be communicated on a voluntary basis or that ISA 701 allow this flexibility.

Question 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 that if an auditor does not identify any Key Audit Matters that a statement be provided by the auditor on how, why and what evidence was used to come to this conclusion. The auditor is an expert, as distinguished with their license (charter, certification) who is well-positioned to judge objectively a company's approach to risk and control. The auditor would be accountable for the determination that no Key Audit Matters exist.

To be clear, investors do not want boilerplate language and need auditors to use their professional judgment in exercising their responsibilities to the profession. We *do not agree, as suggested in paragraph 62 of the Exposure Draft, that a statement where no KAMs exist would be confusing to investors.*

Question 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?

There is merit to include Key Audit Matters for all periods presented in the financial statements and for providing updates on KAMs from the prior period, and the current effect on the reporting period. The KAMs from prior periods could be referenced in an appendix.

Question 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 support the retention of emphasis of matters. However, we believe the scope of the audit should be included by the auditor in determining their assessment of KAMs, risks and their approach to the audit.

Question 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

These proposals are helpful and informative, as the statutory auditor will be required to provide explicit statements on the assumption that the entity is a going concern, address any material uncertainties and provide sufficient evidence on management's use of a statement that the entity will continue as a going concern.

As outlined in our letter, it is important for the IAASB to actively liaise with accounting standard setters in defining material uncertainty and the threshold for such disclosures. We support the definition that when it is more likely than not, and an event(s) is reasonably foreseeable, it should not be limited to just 12 months from the balance sheet date.

We do not fully support paragraphs A8 or A14, in the wording that the auditor does not have a responsibility to perform any other audit procedures other than inquiry of *management. If there are issues or evidence that does not support statements provided through the inquiry of management, then is imperative the auditor modify their audit approach, document why and provide the basis for a qualified opinion.*

The appendix of ISA 570 does provide additional clarity and illustrates different situations when an auditor must adjust wording and/or their opinion. However, we caution that auditors should not use boilerplate language in providing their assessment of going concern.

We do not support the assertion that such reporting would be misunderstood or misinterpreted by investors. This is simply not a correct view of investors and their level of sophistication and comprehension.

The UK Lord Sharman Report of June 2012 and the PCAOB's Investor Advisory Group provide thoughtful and helpful recommendation in regards to going concern.[3]

Question 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 are very concerned about recommending another disclaimer that can be used by auditors and do not support such a proposal. Such a new auditor disclaimer is unnecessary and superfluous. Investors understand that neither management nor the auditor through a going concern assumption can eliminate the risk that economic or financial distress will arise or the possibility of a complete failure, liquidation occur at a specific period of time.

Compliance with Independence and Other Relevant Ethical Requirements

Question 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 fully support the auditor explicitly making a representation statement of their independence in the auditor's report. We also believe that having this requirement may move audit committees, and/or those charged with governance to annually discuss, assess and document the independence of the auditor, which would be very beneficial for investors and audit quality.

Disclosure of the Name of the Engagement Partner

Question 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 strongly support and believe the disclosure of the engagement partner's name in the audit report improves transparency and provides additional accountability. We also believe that additional accountability may foster and positively enhance audit quality.

[3] The Sharman Inquiry, "Going concern and Liquidity Risks: lessons for companies and auditors", June 2012. The PCAOB Investor Advisory Group, 28 March 2012 Discussion on Going Concern.

Other Improvements to Proposed ISA 700 (Revised)

Question 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?

The revisions to ISA 700 improve and provide additional disclosures that are helpful to investors. The clarity these improvements provide assist in providing a fuller, more robust audit report.

Question 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 support the consistency of ordering of sections in the auditor's report. We do not support boilerplate language and believe the auditor should consider providing a complete fact-based story" through the use of these building blocks outlined in the auditor's report.

If you would like to discuss any of these points, please do not hesitate to contact Kerrie Waring, ICGN Managing Director at +44 207 612 7079 or kerrie.waring@icgn.org. Thank you for your attention and we look forward to the final adoption of the proposed new and revised ISAs.

Yours sincerely,

Elizabeth Murrall
Chair, ICGN Accounting and Auditing Practices Committee

Michelle Edkins
Chairman of the ICGN Board of Governors

Cc: ICGN Board Members
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