

November, 18, 2013

Ameerah Brailsford

**International Auditing and Assurance Standards Board
International Federation of Accountants**

Dear Sirs,

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

It is a pleasure for us to have this opportunity to send our comments on the mentioned Exposure Draft. The Instituto Mexicano de Contadores Públicos, A.C. (Mexican Institute of Public Accountants or IMCP) knows the hard work performed by the International Auditing and Assurance Standards Board (IAASB) to improve the auditor's report.

The IMCP and its members are comfortable with this new Exposure Draft. We feel that the new requirements and the new external auditor's report show the work done by the external auditor in a more transparent manner.

In fact, in general, we share with IAASB that the new auditor's report has the following benefits; a) improved communicative value of the auditor's report, providing greater transparency about the audit that was performed, b) increased attention of management and those charged with governance of the entity in the financial statement disclosures to those referred to in the auditor's report, which can further improve the quality of financial reporting, c) renewed auditor's approach to reporting issues, which may result indirectly in increased professional skepticism, among other contributors to the quality of the audit and d) manageable; the responsibilities between auditor and management of the audit client as to providing information to the public are distributed more properly.

Even though we agreed with the improvement in the new auditor's report, we have some comments on your questions as we showed in the attached document with our answers to your questions.

Finally, the IMCP strongly supports the improvement of the auditor's report.

Please feel free to contact me if you have any question/answer to be clarified or if we are able to assist in any other way.

Yours faithfully,

Mr. Luis Gonzalez
Chairman of the Instituto Mexicano de Contadores Públicos, A.C

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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?

The introduction of a new section in the auditor's report regarding the most significant issues (key audit matters), show in a certain aspect transparency of their work, but we feel that key audit matters could be different for the auditors and for the users of the financial statements, which could result in the following issues:

- a) Confusion, due to the fact that in Mexico, the users could have different perspective than the auditors on the significant audit issues. An important point that could cause confusion to the users of financial information is the fact that they could interpret the item or items to be included as important audit issues that may have an impact on the audit opinion, even if not modified, such as the required by this ISA in paragraph 9 (d). This matter could be perceived as a loss of objectiveness in the auditor's opinion.
- b) Different criteria to define significant issues.- Given the subjectivity involved (the auditor's judgment), the criteria used by auditors could vary significantly to define what constitutes a significant issue.

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 that the proposed requirements and the related application material to determine significant issues are helpful for the auditor and are the minimum basis for trying to standardize the criteria and professional judgment of the partners who signed the reports. However, the challenge to make communication of important audit issues lies in the diversity of wordings that a same subject may have.

The new criteria to determine key audit matters are more manageable and understandable. However, we feel that it is important to clarify if all “significant risk issues” from the “matters communicated with those charged with governance” are to be reported as key audit matters

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?

Although the ISA 701 provides clear examples, we must remember that there is no specific definition of what is considered a significant issue. So, based on the premise of judgment, it is not considered that the ISA 701 is sufficient to allow an auditor to properly identify what should be included as "significant issue".

Each auditor is responsible for defining what a "significant issue" is and although a subject may be relevant for an entity, the same subject may not be relevant for another company.

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 believe that the examples included in the ISA seem to contain sufficient detail and adds value to the analysis of the information that this ISA intends to incorporate in the auditor's report. However, we consider that the examples should consider the same structure; a) description of the issue, b) explanation of why it is considered a key audit matter, c) audit procedures applied and d) a reference to the disclosure in the financial statements.

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 agree with the approach of the IAASB. However, we think that the decision about the voluntary application of key audit matters should not be included in the engagement letter. This is a decision of the auditor based on their judgment.

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 agree that in some cases it is appropriate to allow the possibility that the auditor may determine that there are no key audit issues to communicate. After discussing with government responsible of the entity to identify material audit issues, the auditor may have elements covering qualitative and quantitative factors applicable in different circumstances and nature of the audit that would enable it to conclude the absence of such issues and thus communicate within their auditor's report.

We do not believe that the auditors should always communicate at least one key audit matter. This is because the users of the financial statements will generate an expectation to be informed each year of the material audit issues. In fact, this situation could have the risk of making the audit process inefficient and ineffective to disclosure issues that are not relevant and, therefore, that do not add any value to the users of the financial statements. This is a situation that requires the auditor's judgment

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?

We agree that the auditor's report just presents the key audit matters of the most recent financial period.

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 agree with the 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.

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.

We agree with the proposed statements included in the illustrative auditor's reports relating to; the appropriateness of management's use of the going concern basis of accounting and whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern entity.

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?

Based on the relevance that involves disclosure going concern issues, we consider that it is important to include in the auditor's report statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern. The auditor's responsibilities with respect to the going concern information previously analyzed and prepared by management of the entity, in relation to which such disclosures may be critical information in decision making. However, it is performance outside the scope of the auditor in its assurance role and cannot predict future events or conditions.

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 think that it is not necessary, as the independence and ethical requirements may be too many and varied references. We suggest just letting it meet the ethics and independence requirements applicable and in working papers documenting which we refer on. We do not perceive any additional benefit or value in the auditor's report by disclosing the source.

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?

In Mexico, it was required in the auditor's report the name and signature of the engagement partner for audits of financial statements of listed or non-listed entities, and currently it is a common practice; therefore we do not have objection in mandating such disclosure.

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?

We agree with the proposed changes described in paragraph 102 to ISA 700. However, it would be important to measure in the eyes of users of financial statements, their perception of the objectivity of all information intended to be covered within the document.

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 consider important to standardize the sequence and format of the auditor's report in order to maintain consistency in the reports issued by profession.

On the other hand, the contents of the auditor's report described in paragraphs 20-45 and paragraphs 46-48 seem to be descriptive enough to enable the auditor to include all the features offered by this ISA 700 to accommodate requirements and characteristics of the environment in which they develop the audit.
