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13 December 2013

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Dear Sir,

RESPONSE TO IAASB EXPOSURE DRAFT – REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAs)

The Institute of Singapore Chartered Accountants (ISCA) appreciates the opportunity to comment on the above Exposure Draft (ED) issued by the International Auditing and Assurance Standards Board (IAASB) in July 2013.

To solicit meaningful feedback for this very important project, ISCA feels that it is essential to seek the views from all key stakeholders who would be affected by the ED. Hence, ISCA has undertaken the following initiatives:

- (i) Conducted a month-long public consultation to seek feedback from its members;
- (ii) Organised a number of focus groups to engage diversified key stakeholders, including the preparers, users of financial statements, audit firms, academics, regulators and public agencies, to obtain their views on the proposals in the ED; and
- (iii) Organised a public forum on auditor reporting which served as a platform for key stakeholders to share and exchange views on the proposals, possible implications and practical implementation challenges.

Relevant comments have been incorporated into this response.

In our response to IAASB's Invitation to Comment (ITC) - *Improving The Auditor's Report* - dated 5 October 2012, we had put forth a key concern raised by the stakeholders that auditors

should not be made to comment on matters that are not disclosed in the financial statements. Auditors may make statements and disclose information about the audit itself, but they should not be put in a position to comment on the entity or its operations, which is the responsibility of management and those charged with governance (TCWG). The disclosure of entity-related information in the financial statements should be detailed enough for the auditors to make reference to when highlighting matters of importance in the auditor's report.

We are happy to note that IAASB has attempted to address the aforementioned concern and has replaced the concept of Auditor Commentary with the *Key Audit Matters* section. Whilst this change shifts the focus from matters important to users' understanding of the audited financial statements to significant audit matters from the perspective of the auditors, there are still other concerns raised by the stakeholders on the *Key Audit Matters* section which need to be addressed. These include:

- (i) *Key Audit Matters* section can create confusion to users [paragraph 1.5(a) of this comment letter];
- (ii) Perceived increased costs and exposure to liabilities [paragraph 1.5(c)];
- (iii) Possible inclusion of "near misses" on going concern as a key audit matter which should be avoided [paragraph 2.1(a)];
- (iv) Insufficient guidance for auditors to make the necessary disclosures for sensitive matters determined to be key audit matters (paragraphs 3.1 to 3.3); and
- (v) Insufficient guidance to distinguish matters to be included in the Emphasis of Matter paragraph and Other Matter paragraph with key audit matters (paragraphs 8.2 to 8.4).

The stakeholders' views on the *Key Audit Matters* section are explained in the responses to Questions 1 to 8 of this comment letter.

In addition, we also highlighted in our response to the ITC that the responsibility for ensuring that the entity carries on as a going concern lies primarily with management. As such, auditors should not be made to comment on going concern without a corresponding requirement for management to do likewise as management is the most appropriate party to comment on this matter. We note that IAASB has been actively discussing this with accounting standard setters and a conclusion has not been reached. Accordingly, the stakeholders question why the proposed going concern requirements are still in the ED and have reiterated their concerns which are further explained in paragraphs 9.1 and 9.2 of this comment letter.

The stakeholders would also like to highlight the perception of a potential increase in auditor's liability arising from the additional reporting as a key concern. Auditors are most concerned with the increased litigation exposure arising from the new requirements and may

have a tendency to adopt an ultra conservative approach, with the undesirable end result of disclosing all matters communicated with TCWG as key audit matters. On going concern, auditors would fear that subsequent corporate failure may happen after giving an explicit “clean” audit conclusion on management’s use of the going concern basis of accounting. As a result, the auditors may have a lower threshold for material uncertainties and adopt more stringent criteria to assessing management’s use of the going concern basis of accounting. The auditor may end up disclosing potential material uncertainties that may not otherwise have been disclosed under the current reporting requirements. Such disclosures can be self-fulfilling, i.e. alerting potential going concern issues may trigger unwarranted implications, especially for entities with external borrowings. The above unintended consequences all stem from the perceived increase in auditor’s liability. Hence, auditor’s liability is a potential research area that IAASB can consider looking into to determine whether the proposed requirements will indeed result in increased auditor’s liability or is it merely a perception of the auditors. Such research findings could provide insights to auditors and relevant stakeholders when developing solutions to address the liability issue.

The stakeholders’ comments on the specific questions in the ED are as follows:

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?

- 1.1 Generally, the stakeholders believe that the *Key Audit Matters* section is an appropriate platform for auditors to provide more information to users and this new section will enhance the usefulness of the auditor’s report as it would draw users’ attention to matters that were of most significance in the audit and increase their level of focus when reading the financial statements. Selecting matters from those communicated with TCWG to be disclosed as key audit matters is also likely to result in useful information provided to users as well.
- 1.2 The introduction of this new section is also likely to indirectly improve the quality of financial reporting. When the auditor reports on key audit matters, reference would be made to the related disclosures, if any, in the financial statements to enable users to understand both management’s and auditor’s perspectives on these matters. This, if coupled with education for management to reinforce their responsibility for the preparation of the financial statements, would result in greater focus by management on

the quality of the disclosures made in the financial statements as management has to respond to the matters highlighted by the auditor. Hence, the introduction of this section is likely to result in more robust and timely interactions between management and auditors and improve the quality of both auditor reporting and financial reporting.

- 1.3 To enhance the usefulness of the *Key Audit Matters* section, IAASB may wish to consider the requirement by the United Kingdom (UK) to disclose the audit materiality threshold. In the International Standard on Auditing (ISA) (UK and Ireland) 700, *The Independent Auditor's Report on Financial Statements*, auditors of entities that report on the application of the UK Corporate Governance Code are required to provide an explanation of how the auditor applied the concept of materiality in planning and performing the audit. Such explanation should specify the threshold used by the auditor in determining materiality for the financial statements as a whole. ISA 700 (UK and Ireland) further provides guidance on explanations that could be included to show how the auditor has applied the concept of materiality. These explanations can include materiality levels for classes of transactions, account balances or disclosures, performance materiality, threshold used for reporting unadjusted differences as well as significant qualitative considerations relating to the auditor's evaluation of materiality.
- 1.4 The inclusion of the materiality threshold in the auditor's report can be important as it would enhance clarity and help users better understand why a matter was determined as a key audit matter, given that the threshold of what is important to a user may be different from that of management or the auditor. For example, \$2 million may be significant to a shareholder. However, if the materiality for the audit is much higher, this amount would not be significant to an auditor and audit matters amounting to \$2 million will not be reported as a key audit matter, unless it is significant in qualitative terms. In the absence of the disclosure of the materiality threshold, questions would be raised by users and this may result in potential challenges for the auditors, management and TCWG in meeting the expectations of the users.
- 1.5 Notwithstanding that the *Key Audit Matters* section brings additional value, the stakeholders expressed the following concerns over the introduction of this new section:

- (a) *Key Audit Matters* section can create confusion to users

Firstly, as aforementioned at the beginning of our comment letter, instead of exercising professional judgment, auditors may fear the consequences of litigation arising from non-disclosure of matters that may subsequently go wrong and as a result, adopt an ultra conservative approach and end up disclosing all

matters communicated with TCWG. If there are too many matters highlighted under the *Key Audit Matters* section, it may undermine the usefulness of the auditor's report and users may be confused as to what is considered significant. An inordinately long *Key Audit Matters* section would distract users from the important matters which require their attention. We have mentioned in the beginning of our comment letter that auditor's liability is a potential research area that IAASB can consider looking into to determine whether the proposed requirements will indeed result in increased auditor's liability or is it merely a perception of the auditors.

Secondly, auditors and management would have to consider how to present the key audit matters such that they are clear and concise. Ambiguous descriptions may create confusion for users, resulting in differing interpretations by the users, especially since the matters to be reported are subjective and judgmental in nature. Given that the descriptions are qualitative, the manner in which the matters are being described and explained would influence the users' understanding and judgment about the issues. A post implementation review by IAASB would provide IAASB with information as to whether further guidance to auditors on describing key audit matters would be necessary.

Thirdly, the *Key Audit Matters* section may not be helpful to most retail investors. To the group, the additional information may confuse them and widen the expectation/information gap. For example, some retail investors may interpret key audit matters as "problem" areas. They may be confused as to why an unmodified opinion was issued on the financial statements when "problems" were highlighted by the auditor under the *Key Audit Matters* section. Education to investors, especially to retail investors is therefore important as elaborated in paragraph 1.5 (b).

Lastly, as professional judgment is involved in determining the key audit matters, in situations where the prior period financial statements were audited by a predecessor auditor, it may be possible that the current auditor's judgment of key audit matters differs from that of the predecessor auditor. The predecessor auditor may have included a key audit matter in the prior period which may not have been included by the current auditor in the current period although the matter still exists in the current period. This could potentially be confusing to users as users may expect the same key audit matter to be highlighted in both the prior and current period auditor's reports. Conversely, the same could happen if the current auditor includes a key audit matter in the current period which was not included

in the prior period by the predecessor auditor. Similarly, education to users would therefore be important.

(b) Expectation gap

The extent to which this new section is useful to users will depend significantly on the type of information that users are seeking. If users expect to see additional information regarding the entity not provided by management in the financial statements, they will not find the section useful. The focus has changed from the “users’ perspective” in the Auditor Commentary in the ITC to the “auditors’ perspective” in the *Key Audit Matters* in the ED. To the users, the change may have diminished the value of this new section. Hence, it is essential to educate the users for them to understand the *Key Audit Matters* section, including its objective, the difference between key audit matters and the Emphasis of Matter and Other Matter paragraphs and that the inclusion of key audit matters does not imply that the audit opinion should be modified. Notwithstanding the above, the stakeholders acknowledge the need for the change as the concept of Auditor Commentary may imply that it is the responsibility of the auditor to determine what is most important to users’ understanding of the financial statements and also for reasons stated at the beginning of this comment letter.

(c) Increased costs

As stated in our comment letter to the ITC, the introduction of the *Key Audit Matters* section would most probably translate to higher costs, though the extent remains to be seen. Auditors and management may be embroiled in lengthy discussions and protracted debates on the determination of the key audit matters and the description of the matters to be disclosed. Significant time would be required of senior management and senior members of the audit team as key audit matters could potentially be controversial.

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?

2.1 Generally, the stakeholders agree that the principle-based framework in ISA 701 adopted by IAASB is appropriate as the matters to be reported under the *Key Audit*

Matters section are entity-specific and determined with the exercise of professional judgment. However, the stakeholders would like to propose the following for IAASB's consideration:

- (a) Firstly, in the ITC, the concept of "near misses" in relation to going concern was raised by the stakeholders. According to paragraph 8 of the proposed ISA 701, when determining key audit matters, the auditor should take into account areas of significant auditor attention in performing the audit. Further, based on the guidance in paragraphs 8(a) to 8(c) of the proposed ISA 701, the auditor may deem such "near misses" as significant since they may involve significant auditor attention and would therefore report them as key audit matters although it is not explicitly stated. This is not desirable because "near misses" in relation to going concern can result in self-fulfilling prophecies with dire consequences. Also, as there is no financial impact to the entity, such "near misses" need not be reported in the *Key Audit Matters* section. For the avoidance of doubt, ISA 701 should explicitly state that "near misses" on going concern is not required to be reported as a key audit matter.
- (b) Secondly, key audit matters are selected from matters communicated with TCWG. As highlighted in paragraph 1.5(a) above of this comment letter, auditors may fear the consequences arising from non-disclosure of matters that may subsequently go wrong and take an ultra conservative approach of disclosing all matters communicated with TCWG. One way to mitigate this is to require the auditor to have robust discussion with TCWG and agree the key audit matters to be disclosed so as to enhance the relevance of the key audit matters. Certain stakeholders also suggest that this agreement be clearly stated in the preamble to the *Key Audit Matters* section to highlight to users that the key audit matters identified by the auditor have been agreed with TCWG.
- (c) Last but not least, in addition to TCWG, the proposed standard should require auditors to seek the views of management on what constitutes significant risks to the entity since management is closely involved in the day-to-day operations of the entity and significant risks may be disclosed as key audit matters.

2.2 A key critical point raised by stakeholders is that although the framework on its own to determine key audit matters is appropriate, it may pose challenges to auditors when the concepts of Emphasis of Matter and Other Matter paragraphs are brought in. This is further explained in our response to Question 8.

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?

- 3.1 Generally, the stakeholders 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. However, more guidance could be provided for sensitive matters determined to be key audit matters by the auditor as further explained below.
- 3.2 Paragraph A36 of the proposed ISA 701 suggested that for matters determined to be key audit matters which are viewed as sensitive, the auditor may need to consider how best to describe the key audit matter in order to explain why the matter was one of most significance in the audit. However, paragraph A37 of the proposed ISA 701 advised the auditor against providing original information about the entity that is the responsibility of the entity's management and TCWG. Thus, there may be challenges in describing matters viewed as sensitive without disclosing any original information since the entity itself is unlikely to disclose such sensitive information in the first place in the financial statements. Paragraph A37 further suggested that in situations like this, the auditor may encourage management or TCWG to make relevant disclosures in the financial statements, so that reference can be made to those disclosures within the description of the key audit matters, rather than the auditor providing original information. Notwithstanding the above, in practice, management could still choose not to disclose such information. Although the auditor may provide such additional information if in the auditor's judgment, disclosing such original information is critical to the auditor's description of the key audit matter and the auditor is not prohibited by law or regulation to do so, auditors would have to be cognisant of maintaining confidentiality of information. Certain industries such as banking and finance have specific secrecy rules or confidentiality restrictions such that auditors would have to be careful not to breach any of these rules. Considerations should also be given to the disclosure of price-sensitive information of listed entities which may affect the movements in their share prices.
- 3.3 Hence, in view of the above, the proposed ISA 701 should provide clearer guidance on how an auditor, faced with such a situation, should make the necessary disclosure.

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.

- 4.1 Generally, the stakeholders agree with IAASB’s direction in taking different approaches when developing the illustrations of the individual key audit matters to show how an auditor’s judgment about the nature of the matter, extent of the description, and the information to include, can affect the way the key audit matters are reported. In particular, the stakeholders agree that it may not be feasible to include the outcome of the audit procedures (i.e. to have a conclusion) for each key audit matter reported and also agree that only two of the four illustrative examples should have a conclusion. In addition, the stakeholders acknowledge that there may be situations where an unadjusted error could be offset with another and hence, no adjustment would be made to the financial statements. However, the individual matter would not be considered as “closed off”. In such circumstances, it would not be possible to have a conclusion for the matter reported. Conversely, where the auditor determines it necessary and appropriate, a conclusion could be rendered in the report for the specific matter.
- 4.2 However, in the preamble to the *Key Audit Matters* section of the proposed illustrative auditor’s report, the following was stated:

“Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.”

The stakeholders are of the view that the above statement may potentially be confusing from a reader’s perspective. For better clarity, it should be reworded to connote that the audit opinion is given on the financial statements as a whole and is not intended to extend to the individual key audit matters.

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?

- 5.1 The stakeholders agree with IAASB's approach for auditors to communicate key audit matters on a voluntary basis, including following the guidance in the proposed ISA 701 to ensure consistency and signaling the intent in the audit engagement letter.
- 5.2 One practical consideration which IAASB should take into account is where subsequent to signing the audit engagement letter and having the audit performed, management decides not to disclose the key audit matters, for example, due to controversial issues and descriptions. This may not be in the spirit of the standard but the auditor may be pressurised into agreeing with the client not to disclose key audit matters. Accordingly, there should be more guidance in this area for the auditor to determine whether he/she should still include key audit matters in the auditor's report despite objections from management.
- 5.3 In addition, the stakeholders generally agree that in principle, key audit matters should be required for listed entities as listed entities have greater accountability to the public. However, some stakeholders suggested that IAASB could consider allowing national standard setters to:
 - (a) Set the threshold for listed entities for which key audit matters should be applicable. For example, key audit matters should only be required for audits of listed entities above a certain market capitalization. This would reduce the cost burden on smaller listed entities and would not discourage small private companies with listing potential to be listed; and
 - (b) Allow exemptions for some listed companies. One such example is the predominantly family-owned listed entities as the public interest element for these entities is of a lesser concern and therefore, the benefits of disclosing key audit matters may not necessarily outweigh the costs involved.

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?

6.1 The stakeholders agree that it is appropriate for the proposed ISA 701 to allow for the possibility that the auditor may determine that there are no key audit matters to communicate. Otherwise, the auditors may be pressured to look for matters to report and the resulting disclosures may not be meaningful to the users.

6.2 The stakeholders also agree with the proposed requirement addressing such circumstances. Some stakeholders have taken a step further to suggest that this conclusion should be agreed with TCWG to increase their level of involvement in the process.

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?

7.1 The stakeholders agree that 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 of the ED.

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?

8.1 The concepts of Emphasis of Matter paragraphs (EOM) and Other Matter paragraphs (OM) should be retained considering that key audit matters are not mandatory for non-listed entities.

8.2 However, for listed entities which are required to communicate key audit matters, based on the current proposed guidance in the relevant standards, it may be challenging for auditors to distinguish the different concepts and determine whether a matter should be disclosed as a key audit matter or to be included in the EOM/OM. Currently, the

distinction between key audit matters, EOM and OM is not clear. Key audit matters are defined in the proposed ISA 701 as matters that were of most significance in the audit of the financial statements while in proposed ISA 706 (Revised), a matter presented or disclosed in the financial statements is included in the EOM paragraph if it is of such importance that it is fundamental to users' understanding of the financial statements and the auditor consider it necessary to draw users' attention. What is fundamental to users' understanding would also likely be a matter of significance in the audit of the financial statements and hence, it would be difficult to draw a clear line between the two concepts, especially when the guidance under proposed ISA 701 is principle-based and the determination of key audit matters is subject to the auditor's professional judgment. The same matter could potentially be classified under different sections by different auditors.

- 8.3 Similarly, if both key audit matters and EOM/OM are present in an auditor's report, users of the financial statements may query the difference between them and the reason why a particular matter was highlighted under one section but not the other.
- 8.4 Hence, there appears to be an overlap in the 3 concepts of key audit matters, EOM and OM. IAASB should provide clearer guidance on how to differentiate EOM and OM from key audit matters. IAASB could provide an example of an auditor's report with all 3 sections - *Key Audit Matters*, EOM and OM - to illustrate matters that may be highlighted in the respective sections.

Going Concern

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.

- 9.1 Generally, the stakeholders do not agree with the explicit conclusion by the auditor on the appropriateness of management's use of the going concern basis of accounting in

preparing the financial statements and as to whether a material uncertainty that may cast significant doubt on the entity's ability to continue as going concern has been identified due to the reasons explained below:

- (a) The stakeholders, including the users group, expressed preference for the current reporting requirements on going concern. Currently, unless otherwise stated, financial statements are prepared on a going concern basis. If a clean audit opinion is rendered on these financial statements, it implies that the auditor agrees with the appropriateness of the going concern basis of accounting used by management. Had the auditor not agreed with the going concern basis of accounting used, a modified audit opinion would have been issued by the auditor. Also, currently, if management, in making its assessment, is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, it is required by International Accounting Standard (IAS) 1 *Presentation of Financial Statements* to make these disclosures in the financial statements, and if such disclosures are not made or not adequately made, the auditor would render a modified audit opinion. Hence, if there is no disclosure of material uncertainty, and the audit opinion issued is not modified, it would mean that the auditor agrees that no material uncertainty exists. If material uncertainty exists but is adequately disclosed and where the auditor concludes that management's use of the going concern basis of accounting is still appropriate, the auditor would, in accordance with ISA 570, highlight this material uncertainty by way of an Emphasis of Matter paragraph in the auditor's report and draw users' attention to the relevant note in the financial statements.

The stakeholders are of the view that the current requirements work better, easier to understand and should be kept.

- (b) Under the U.S. Public Company Accounting Oversight Board's (PCAOB) proposals to enhance the auditor's reporting model, there is no similar proposed requirement for explicit statements by the auditor on going concern. IAASB should consider PCAOB's rationale for not having this proposed requirement. To achieve international comparability, IAASB's proposals should be in tandem with those of the major jurisdictions.
- (c) There is a need for a holistic approach to address going concern in financial reporting. The responsibility for ensuring that the entity carries on as a going concern lies primarily with management. As such, auditors should not be made to comment on going concern without a corresponding requirement for management

to do likewise as the latter would be the most appropriate party to comment on the entity's financial viability. We acknowledge IAASB's efforts in actively working with the accounting standard setters in this area. However, as IAASB has pointed out in the ED, even though both the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) have active projects addressing going concern, their scheduled timelines to finalise and implement the revised accounting standards are still unclear. IAASB should defer this requirement until the accounting standard setters require such explicit going concern statements from management.

- 9.2 There are also possible impediments arising from the IAASB's proposal. As mentioned at the beginning of our comment letter, the auditor may perceive an increased risk to litigation exposure arising from the proposed requirements on going concern. Although the proposed ISA 570 (Revised) does not prescribe additional procedures to be carried out for the auditor to provide an explicit conclusion on the entity's future viability, in practice, the auditor is likely to perform additional work and would have a lower threshold for material uncertainties. Alerting such going concern issues, which would not have been highlighted under current requirements, may trigger unwarranted implications, especially for entities with external borrowings. Should IAASB still desire to have the auditor to report on going concern, it would be more appropriate for management to make the required going concern statements instead of the auditors as mentioned in paragraph 9.1(c) above. The auditors could then refer to management's disclosure and comment on its appropriateness and adequacy.
- 9.3 Under ISA 570 (Revised), when evaluating management's assessment of the entity's ability to continue as a going concern, the auditor should cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. Currently, this period is not stated in the *Going Concern* section of the proposed illustrative auditor's report. For example, in IAS 1, management takes into the account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. This timeframe of "twelve months from the end of the reporting period" should be included in the *Going Concern* section of the auditor's report to mirror that in IAS 1.

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?

- 10.1 Generally stakeholders viewed that the explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should be included whether or not a material uncertainty has been identified.
- 10.2 However, the explicit conclusion by the auditor on the appropriateness of management's use of the going concern basis of accounting and whether material uncertainties have been identified, when read together with the explicit statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern, could confuse the users of the financial statements. Greater clarity should be provided by elaborating on the reasons as to why the auditor cannot guarantee the entity's future viability. IAASB could consider amending the statement to "However, neither management nor the auditor can guarantee the Group's ability to continue as a going concern as not all future events or conditions can be predicted". This is similar to the "disclaimer clause" in the ITC and is similar to the "disclaimer clause" typically seen in a reporting accountant's report on profit forecast in Singapore.

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?

- 11.1 Generally, the stakeholders agree that the proposed requirement to disclose the source(s) of independence and other relevant ethical requirements in the auditor's report enhances transparency and is important in light of compliance with ethical requirements and the increased focus on auditor independence.
- 11.2 However, based on the current guidance in the proposed ISA 700 (Revised), the list of sources of independence and other relevant ethical requirements could potentially be voluminous and ambiguous in certain situations. For example, in group audit engagements, there is concern as to whether this list covers all the ethical requirements arising from the audit of only the reporting entity or all the entities within the group. Another example is public sector entities which are audited by supreme audit institutions. The supreme audit institutions may be subjected to independence and ethical requirement from different legislations and rules.
- 11.3 Hence, for group audit engagements, it should be clearly stated in the proposed ISA 700 (Revised) that the sources of independence and other relevant ethical requirements

to be disclosed in the auditor's report should be limited to the sources applicable to the group engagement partner as defined in ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

- 11.4 For situations where there are several sources of independence and other relevant ethical requirements, for example, for audits performed by supreme audit institutions, it should be clearly stated in the proposed ISA 700 (Revised) that the source to be disclosed is limited to the principal source.

Disclosure of 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?

- 12.1 The current Singapore Exchange Limited Listing Rules already require the disclosure of the name of the engagement partner in the listed entity's annual report. Hence, this is unlikely to result in any significant impact in Singapore.

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?

- 13.1 Improved description of the responsibilities of the auditor and key features of the audit

The improved description of the responsibilities of the auditor and key features of the audit are helpful to users' understanding of the nature and scope of an audit. In addition, public education to users of financial statements should be intensified to provide further clarity on the responsibilities of the respective parties.

- 13.2 Provision for descriptions to be relocated to an appendix or for reference to be made to a website of an appropriate authority

The stakeholders are of the view that descriptions of the responsibilities of the auditor and key features of the audit should be clearly set out in the auditor's report and not be relocated to an appendix in the auditor's report, or for reference to be made to such a

description in the website of an appropriate authority. The descriptions are very important and it is essential for users to fully understand the auditor's responsibilities and the basis of the audit opinion from the context of the auditor's report itself.

Moreover, the contents of the website of an appropriate authority are not within the control of the auditor. Hence, if reference is made to a specific description in the website of an appropriate authority at a particular point in time, the auditor will not be able to ensure that the description remain unchanged going forward.

13.3 Reference to whom in the entity is responsible for overseeing the Company's financial reporting process

The stakeholders agree with the inclusion of this reference in the auditor's report to acknowledge this essential role in the financial reporting process.

13.4 Other reporting responsibilities

As the other reporting responsibilities will continue to be required to be clearly differentiated from reporting required by the ISAs, the stakeholders agree with IAASB's approach to allow additional flexibility for national standard setters to determine how best to place the auditor's communication about such other reporting responsibilities in the auditor's 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?

- 14.1 There is preference for the ordering of sections in the auditor's report to be mandated as this will help achieve global consistency which enhances comparability and enable users of financial statements to locate information easily. Hence, the prescriptive requirements in paragraphs 20-45 of proposed ISA 700 (Revised) is necessary to promote consistency, both in terms of format and wordings, of the auditor's report. The minimum requirements to be met before the auditor can make reference to ISAs in the different circumstances, as set out in paragraphs 46-48, appear appropriate and reflects

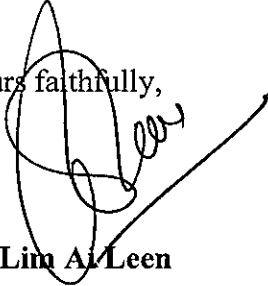
an appropriate balance between consistency in auditor reporting globally and the need for flexibility to accommodate national reporting circumstances.

Other Comments

- 15.1 It was noted that the illustrations of auditor's reports are currently set out in the appendices of the various proposed standards (Proposed ISA 570 (Revised), Proposed ISA 700 (Revised), Proposed ISA 705 (Revised) and Proposed ISA 706 (Revised)) as they deal with specific scenarios in each standard. However, this would be confusing to users of ISAs who will have to refer to various standards. An alternative would be to collate all illustrations into a separate addendum to the ISAs to facilitate ease of use and reference.
- 15.2 Furthermore, it was noted that the sign-off in the illustrative auditor's reports in the various standards as highlighted in paragraph 15.1 above uses the term "auditor". "Auditor" is defined in the Glossary of Terms as the person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "auditor" is used. Hence, it would appear that any engagement team member, other than the engagement partner, would be able to sign off the auditor's report. We are not sure if this is indeed IAASB's intention. The term "auditor" could be interpreted differently by different jurisdictions. For example, jurisdictions which follow the definition strictly may allow any engagement team member to sign off the auditor's report, whereas another jurisdiction may interpret it as the engagement partner to sign off the auditor's report since he/she is responsible for the engagement. This ambiguity is not ideal with the notions of accountability, public interest, consistency and comparability in mind and given that the standards issued by IAASB are international in nature. This would create market confusion. IAASB should clarify its intention with respect to the use of "auditor" in the sign-off, or amend the sign-off to "engagement partner" for better clarity (if it is the intention of IAASB for only engagement partners to sign off the reports).

Should you require any further clarification, please feel free to contact Mr Kang Wai Geat, Deputy Head, Technical Standards Development and Advisory, or Ms Fua Qiu Lin, Manager, Technical Standards Development and Advisory, at ISCA via email at waigeat.kang@isca.org.sg or qiulin.fua@isca.org.sg respectively.

Yours faithfully,

A handwritten signature in black ink, appearing to be 'Ai Leen', written over the text 'Yours faithfully,'. The signature is stylized and includes a long, sweeping line extending to the right.

Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance