

**COMMENT ON: PROPOSED NEW AND REVISED INTERNATIONAL STANDARD ON
AUDITING (ISA) - REPORTING ON AUDITED FINANCIAL STATEMENTS**

By

Professor Ashley Burrowes* PhD, FCA,

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. Ans. I believe that the ED, while commendable in its objectives, may be lost in the 'extended' auditor report. It may be placed in a more prominent position but will it be considered boilerplate and passed over in due course?

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. Ans. Judgement for an auditor relies heavy on skepticism obtained from experience and an independent attitude. While independence is addressed, sceptism is skirted around!

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. Ans. A good start.

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. Ans. Suggested template type audit reports smack of one size fits all...which is far from the actualities of each audit.

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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. Ans. Agreed

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? **yes**

(a) If so, do respondents agree with the proposed requirements addressing such circumstances? **yes**

(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? **N/A**

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? **Yes**

If not, how do respondents suggest these issues could be effectively addressed? **N/A**

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? **Absolutely** If not, why? **n/a**

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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? **YES**

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))? **YES**

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. **Possibly by a minority. Pareto optimality should prevail.**

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?

Absolutely a NO, NO! This removes any desired reliance on the audit report. Credibility on the assertions obtained by an independent audit would have a dubious shroud.

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?

Absolutely essential for the credibility of auditors that they adhere to a transparent code of ethics, maintain a skeptical view of management assertions which are pivotal for an independent opinion.

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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"?

Absolutely essential. In fact the standard should mandate a *public display* of the audit sign off by such partner at the AGM which in turn should be web cammed for the stakeholders not able to attend the AGM.

What difficulties, if any, may arise at the national level as a result of this requirement?

No difficulties, Better professional skepticism may result.

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?

A good start.

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?

Indifferent. Possibly this may reduce the cursory reading of a boiler plate prescriptive audit report. The contrary view is to mandate order and this could avoid 'hunting' for information. Conclusion: Mandate ordering!

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?

NO

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