



**LETTER TO IAASB RELATING TO ITS EXPOSURE DRAFT "REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING"**

To Mr. Schilder,  
Chair of the International Auditing and Assurance Standards Board

Dear Mr. Schilder,

The Accounting and Auditing Institute (hereinafter, ICAC) as the independent audit regulator in Spain appreciates the opportunity to comment on the IAASB's ("Board") Exposure Draft "*Reporting on Audited Financial Statements*" issued in July 2013.

Without prejudice to the letter ICAC has signed along with other European regulators and agreeing completely with the content of that letter, ICAC wants to express the following general and specific comments regarding the Exposure Draft.

**GENERAL COMMENTS:**

The current proposal to modify the Standards related to the audit report include a model of report more based on the auditor's judgment regarding the order of the paragraphs and the specific content of some of them than on specific provisions transmitting clear ideas to auditors regarding the issuance of the audit report.

The more the auditor's judgment is involved, the more likely it would be that in the same situations or regarding the same issues, different auditors could issue different audit reports. This would imply a lack of comparability among audit reports and would create confusion among users of the audit report. This would not ease the public interest function of the audit report since it would not solve the problem regarding the expectation gap (what was one of the main objectives of this proposal).

Besides, it would make it more difficult for the oversight bodies to determine whether the audit report issued complies with the applicable standards.

This would also lead to a lower protection of the public interest that the audit pursues.



## SPECIFIC COMMENTS:

### **ISA 700 Forming an opinion and reporting on financial statement.**

#### A) Independence Statement.

The description included in paragraph 28 of the statement regarding the **auditor's independence** to be included in the audit report is too general. One of the main reasons why third parties trust the audit report is that it has been issued by an auditor that has to be independent from the audited entity. Given that the independence of the auditor is the fundamental pillar of this trust, the information provided in the audit report regarding the independence should be more comprehensive including for example, detailed information regarding the non-audit services provided to the audited entity and its network, the audit fees and the fees charged for those other services and other situations or relationships that may create any threat to the auditor's independence, as well as information related to the safeguards applied to mitigate those threats.

This information would be very useful to the audit report's users.

In this sense paragraph 28 letter c) could be drafted as follows:

*“(c) Includes a statement that the auditor is independent of the entity within the meaning of the [relevant ethical requirements or applicable law or regulation] and has fulfilled the auditor's other responsibilities under those ethical requirements. If the independence and other ethical responsibilities are established by different sources, then the second part of the statement shall also specify the source of the other relevant ethical requirements;  
**In this statement the auditor shall indicate any services, situations or relationships that may create any threat to the auditor's independence, information related to the safeguards applied to mitigate those threats, as well as the audit fees and the fees received by the provision by the statutory auditor or audit firm, or the statutory auditor's or audit firm's network of other services to the audited entity.”***

#### B) Key audit matters.

Please see the comments bellow made in relation to *ISA 701. Communicating key audit matters in the independent auditor's report.*

#### C) Description of the responsibilities of the auditor in a group audit.

The description of the responsibilities of the group auditor included in paragraph 37.c) should also include the description of the entities that belong to the group whose financial statements have to be included in the consolidated financial statements and the non-consolidated entities.

It is considered essential that the group auditor is aware of the entities that belong to the consolidating entities and the ones that do not belong to that group.

So letter c) of paragraph 37 could be drafted as follows:

*“(c) In circumstances where ISA 600 applies, further describe an audit by stating that the auditor's responsibilities in a group audit are:*



- (i) To obtain sufficient appropriate audit evidence regarding the entities belonging to the consolidating entities group as well as the ones included in the non-consolidated entities group;*
- (ii) To obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the group to express an opinion on the group financial statements;*
- (iii) For the direction, supervision and performance of the group audit, and;*
- (iv) To remain solely responsible for the auditor's opinion."*

D) Location of the description of the auditor's responsibilities.

According to this Revised ISA, the auditor may choose to place the description of the auditor's responsibilities required by paragraphs 37-38 either in the audit report, or in an Appendix to this report or even in the website of the competent authority if the legislation of his or her jurisdictions allows him or her to do so.

In our opinion this description should be located in the same place in all the reports so no option should be given to the auditor. We would prefer this to be located in an Appendix of the auditor's report, including a reference in the audit report to that Appendix. Otherwise, the reading of the description of those responsibilities would not be assured, given that it could depend on other circumstances apart from the willingness of the reader, and the report would not be complete without that description of the responsibilities. Its location on the competent authority's website would mean the transfer of that responsibility to the audit regulator and would complicate its access for the users of the financial statements. If options are given to auditors the principle of uniformity of audit reports would be broken, and this would diminish the comparability of audit reports across jurisdictions.

Therefore paragraphs 39 should be drafted as follows and paragraph 40 deleted:

*"The description of the auditor's responsibilities required by paragraphs 37-38 shall be included within the body of the auditor's report or in an Appendix to the auditor's report. When the auditor's responsibilities are included in an Appendix, the body of the auditor's report shall make reference to the location of that Appendix."*

E) Name of the engagement partner.

It is important that the name of the engagement partner is included in all the audit reports and not only for listed entities. This helps to place the responsibility of the audit report in a concrete person and this is helpful not only in case of audits of listed companies but in all cases. In our jurisdiction it is a compulsory requirement that the auditor responsible of carrying out the respective audit is identified in the audit report, so that he or she assumes the responsibility of the work done and the liabilities that could be demanded in case of infringement of his or her obligations.

Even though paragraph A45 states that "law or regulation may require that the name of the engagement partner responsible for audits of financial statements of entities other than listed entities be included in the auditor's report", we believe that this should be compulsory in all cases.

Therefore, paragraph 42 should be drafted as follows and paragraph A45 deleted:



*“The name of the engagement partner shall be included in the auditor’s report for audits of financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant threat to the individual.”*

F) Order of paragraphs in the audit report.

The order of the paragraphs that are compulsory should be clearly established in ISA 700. Especially, clarification should be needed regarding the location of the going concern and the key audit matters paragraphs. This would ensure that the audit reports can be compared as they should apply the same structure. Otherwise, it could happen that the same situations could be considered in a different way depending on the auditor’s judgment, what would break the comparability of audit reports, complicating its understanding. Its location in different parts of the report could be understood as a measure of the higher or lower importance that the auditor is intending to transmit.

It does not help to its understanding the fact that these paragraphs appear in different locations in different ISAs.

**ISA 701 Communicating key audit matters in the independent auditor’s report.**

A) Scope of application.

The obligation to communicate key audit matters in the auditor’s report should not be only focused for audits of listed entities, but extended to all audits.

In relation with the scope and compulsory character of the key audit matter paragraph, we would like to propose that in paragraph 4 of ISA 701, there is a reference similar to the following *“This ISA also applies to audits of complete set of general purpose financial statements of all entities”*

Regarding the relation of this ISA with *ISA 210 Agreeing the terms of audit engagements*, it should be applicable to all audits and without the precondition of the need to communicate it to the audited entity in the engagement letter. We believe that this precondition limits the possibility for an auditor to include this key audit matters paragraph if he or she considers it appropriate because of facts he or she has become aware during the audit. Unless the auditor has expressly indicated to the audited entity its intention to include such a paragraph, he or she would not be allowed to do so. It could also become a key element for the audited company to decide which firm to contract. In our opinion, not only it wouldn’t serve to the public interest, but also could go against it. This is why this limitation should disappear.

B) Definition of Key audit matters.

The inclusion of the key audit matters in the audit report should not be left to the auditor’s judgment, since this would go against the existence of a common format for the audit reports.

The absence of clear provisions regarding the matters that should be included in the report would imply that:

- There would not be uniformity in the audit reports issued by different auditors and, as a consequence, the audit reports could not be compared.
- This would create confusion to audit report’s users, increasing the expectation gap.
- It could damage the public interest function that the audit fulfills, at the same time that it could diminish the confidence provided to the audit report.



- The oversight of the appropriateness of the audit reports issued would be more difficult since there are no clear provisions regarding the issues to be included as key audit matters.

The Standards on Auditing should include a list of the matters that should be always included in this paragraph.

Matters that, at least, should be included in this paragraph of the audit report are the following:

- The level or levels of materiality used by the auditor during the audit (at least for the issuance of the report)
- The significant risks identified during the audit, including the risk of fraud, and the responses provided by the auditor to such risks.
- The evaluation of risks of misstatement, including those related to accounting estimates and other information subject to significant uncertainties, and the responses given to them.

This represents very useful information for the audit report's users as regards the confidence that the audit report provides to the audited financial statements.

Finally, more clarification is needed as regards the difference between the Key audit matters paragraph and the Other matters paragraph, since it seems that both paragraphs are referred to matters that could be relevant for the user's understanding of the audit or the audit report (paragraphs A26 in ISA 701 and A2, A8, A15 and A16 in ISA 706).

The lack of clarity in the current proposal creates confusion to the auditor regarding where to place such matters, either in the key audit matters paragraph or in the other matters paragraph, leaving it to the auditor's judgment, what would again lead to the lack of uniformity and comparability of audit reports that we have mentioned before.

In this context, the purposes of the *Other matters paragraph* should be changed to get a better delimitation and avoid any confusion. In this sense, the *Other matters paragraph* should be left only for those cases which are foreseen as compulsory in the Standards (for example ISA 710), so that they are not volunteer and subject to the auditor's judgment.

#### ***ISA 705 Modifications to the opinion in the independent auditor auditor's report.***

- A) Description of the auditor's responsibilities for the audit of the financial statements when the auditor disclaims an opinion.

Regarding the requirements included in paragraphs 28 and 29, we do not share the view that in case the auditor disclaims an opinion, there is no reference to the auditor's responsibilities. Its inclusion would enhance the users understanding of the audit carried out and would not generate any doubt on the kind of opinion issued.

Therefore, paragraph 29 should be drafted as follows and paragraph 28 deleted:

*"When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include: (Ref: Para.A27)*



- a) *A section addressing the reporting requirements in proposed ISA 701; (Ref. Para A28)*
- b) *A section addressing the reporting requirements in proposed ISA 570 (Revised);*
- c) *A section addressing the reporting requirements in proposed ISA 720 (Revised); or*
- d) *A further description of the audit and the auditor's responsibilities as required by paragraphs 37-38 of proposed ISA 700 (Revised)"*

Thank you for the opportunity to comment on the Exposure Draft. If you have any questions or would like to further discuss the matters noted in this letter do not hesitate to contact us.

Sincerely,

Madrid, 21st November 2013

Ana María Martínez-Pina  
Chair of the Accounting and Auditing Institute