



International Auditing and Assurance Standards Board
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Dear Sir/Madam

Re: Exposure Draft – Reporting on Audited Financial Statements: Proposed new and revised International Standards on Auditing

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to have the opportunity to respond to your Exposure Draft on Reporting on Audited Financial Statements.

The financial crisis has intensified concerns about the effectiveness and public understanding of the audit process. Key stakeholders and legislators, including the US Public Company Accounting Oversight Board (PCAOB), the European Commission and financial statement users have expressed a desire for more information with regard to certain aspects of the financial reporting process including the significant risks impacting businesses and the basis for the going concern assumption as well as more transparency in the auditor's report. It is important that the profession seeks to address those concerns in a measured and timely manner, to enhance confidence in the audit process and ultimately the capital markets. We support the IAASB's continued liaison with the European Union legislative bodies and the PCAOB in order to enhance international consistency and alignment of auditing standards and related legislation worldwide.

As many stakeholders in this effort have acknowledged, a holistic approach is necessary to achieve desired results. In addition to potential changes to the auditor's report and recognising that the International Auditing and Assurance Standards Board (IAASB) does not have standard setting authority over financial statement preparers and those charged with governance, we encourage the IAASB to use its influence to support changes relative to the complexity of financial reporting allowing a financial statement preparer to focus the users' attention on the most important matters facing the entity. Additionally, those charged with governance should be encouraged (or required) to provide more transparency into the processes they employ in their responsibilities for overseeing financial reporting and the external audit.

In forming our responses to the questions posed in this Exposure Draft, we considered three overarching principles. Management, first and foremost, has the responsibility for communicating information about the entity to users of its financial statements; auditors should not be the original source of this information. It is important that any changes to the auditor reporting model result in enhancing audit quality and thus care needs to be given to reporting information about the audit that is subjective in nature and prone to varying interpretation. And lastly, any changes to the auditor reporting model should serve to lessen the expectations gap, not widen it.

The analysis provided by the (IAASB) in the Explanatory Memorandum and reflected in the Exposure Drafts themselves thoroughly describes the key drivers of value, whilst acknowledging many of the impediments to this process. We agree with the overall vision proposed by the IAASB in these Exposure Drafts.

Following are our responses to the questions set forth in the Exposure Drafts:

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?

Although we are an auditor rather than a user, we believe 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. We believe describing Key Audit Matters would improve the information value and transparency of the auditor's report for users of the financial statements to the extent that the users of the financial statements understand the context in which the auditor considered the Key Audit Matters.

We agree with the IAASB's decision to replace the Auditor Commentary with Key Audit Matters for the reasons explained in the explanatory materials. We strongly believe that it is management's role to provide original information about the entity and it is the auditor's role to report on information provided by management.

We agree with the retention of the binary 'pass/fail' true and fair opinion in the auditor's report because we believe that this feature is one of the most important matters for investors

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?

We believe the proposed standard provides an appropriate framework for determining key audit matters and agree that they should be selected from matters communicated with those charged with governance. We further believe that it is important that this significant area be contained in a standalone document to emphasise the importance of its requirements and to allow for adjustments in the future as best practice develops.

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 application of the proposed ISA 701 will result in reasonably consistent auditor judgments about what matters are determined to be key audit matters but recognise that some diversity may exist whenever professional judgment is involved. However, we believe that the profession, regulators and investors should encourage a broad range of reporting styles to encourage innovation and to discourage a standardised approach resulting in boilerplate wording of the auditor's report.

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?

We believe the report elements set forth in paragraphs 9 and 10 of proposed ISA 701 will help to achieve consistent communication of the key audit matters while avoiding boilerplate wording in the auditor's report when describing why the auditor considered a particular matter to be one of most significance in the audit. We do believe however that the application material could be strengthened to address concerns surrounding the auditor possibly including actual audit procedures performed in the

description of key audit matters as misunderstanding by the user of the financial statements is likely given that they are not provided the full context under which audit procedures were performed.

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?

We believe that all three of the illustrative examples of key audit matters are good examples of the types of matters an auditor would likely conclude were of most significance to the audit. We believe that the illustrative examples were well structured and explained the matters at an appropriate level of detail.

Respondents are invited to provide any additional feedback on the usefulness of the individual examples of key audit matters, including areas for improvement.

We have concerns that users may infer a higher level of assurance on specific elements of the financial statements due to the language used to describe the key audit matters. The examples in the next two paragraphs illustrate our concerns.

With respect to Revenue Recognition Relating to Long-Term Contracts we do not believe the auditor should state, "Based on the audit procedures performed, we did not find evidence of the existence of side agreements," because doing so would provide additional assurance on the propriety of the entity's revenue recognition.

We are concerned that the conclusion in the Valuation of Financial Statements example is contrary to the proposed requirements in ISA 701.9(d). We do not believe that the auditor should form any conclusion in writing a key audit matter. We believe that the words "... and we concluded the use of such a model was appropriate." should be deleted from this example. Without the conclusion the paragraph would adequately describe how the auditor addressed the key audit matter, as is required by ISA 701. Further, if the use of the model was inappropriate and that had a material effect on the financial statements, there would be a modification to the auditor's opinion.

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?

We believe that the approach taken by the IAASB in this area is appropriate because, if an auditor intends to voluntarily communicate key audit matters in the auditor's report, those charged with governance of the entity should be aware of that. In addition, if ISA 701 was not required to be followed under such voluntary circumstances, users might be confused about the nature of the communications.

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 do not believe there are any other practical considerations that should be acknowledged in the proposed standards.

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 believe that there will be situations where the auditor determines that there are no key audit matters to communicate. Under such circumstances, we believe that the requirements in paragraph 13 of proposed ISA 701 are appropriate.

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 believe that when comparative financial information is presented that the key audit matters should be limited to the audit of the most recent financial period. We agree with the three challenges explained in paragraph 65 of the Explanatory Memorandum. Fundamentally we believe that key audit matters should be fully communicated in the relevant period at the time the auditor's report is presented and that historic key audit matters should not be updated or second guessed with the benefit of hindsight or new information.

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 IAASB's decision to retain the concepts of Emphasis of Matter and Other Matter paragraphs, primarily because communication of key audit matters is only required for listed entities. However, we are concerned about an apparent lack of differentiation between key audit matters and Other Matter paragraphs. We believe that the IAASB should add further guidance or criteria to help auditors to decide when to use Other Matter paragraphs, including examples.

Going Concern

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?

The statements included in the illustrative auditor's reports relating to this area are clear.

(b) Whether the auditor has identified a material uncertainty that may cast significant doubt on the entity's ability to continue as a going 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.

Any doubts about an entity's ability to continue as a going concern will be of significant concern to users of the financial statements. Misunderstandings or misinterpretations by users of the financial statements are possible despite the best efforts of auditors and management to adequately disclose a material uncertainty.

We believe that there is a need for greater clarity and transparency concerning the reporting of material uncertainties and that the IAASB has extended auditor reporting related to the going concern assumption to the right level in proposed ISA 570 (Revised). Greater transparency concerning the facts and circumstances may lead to a higher risk of misunderstanding or misinterpretation. However, we believe that these risks are offset by the overall improvement to clarity and transparency brought about by application of ISA 570 (Revised).



We also refer back to one of our overarching principles that the auditor should not be the original source of information about the entity and as such, the disclosure requirements related to going concern should be in the financial reporting framework and not in the auditing standards.

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?

While such a statement would be a true statement, we do not believe it is either necessary or appropriate to include such a caveat in the auditor's report.

Compliance with Independence and Other Relevant Ethical Requirements

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 believe disclosure of the source of the auditor's independence requirements would be beneficial and would not have any practical implications associated with it.

Disclosure of the Name of the Engagement Partner

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 believe any such requirement should be left to national standard setters and should not be a requirement of ISA 700.

Other Improvements to Proposed ISA 700 (Revised)

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 believe that the changes to ISA 700 described in paragraph 102 of the Explanatory Memorandum improve clarity and transparency of ISA 700 in the areas described. However, we believe that the description of the auditor's responsibilities required by paragraphs 37-38 should be included within the body of the auditor's report because a user of the financial statements should not need to look outside of the auditor's report for the description of the auditor's responsibilities.

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 believe that there should be some flexibility in the ordering of sections to allow for national differences. Overall we believe that the paragraphs referenced above are appropriately balanced as to requirements and flexibility.



We would be pleased to discuss our comments further with members of the IAASB or its staff. If you wish to do so, please contact Robert Dohrer (tel: +44 207 601 1080; email: robert.dohrer@rsmi.com).

Yours sincerely

A handwritten signature in black ink that reads "Jean M Stephens".

Jean M Stephens
Chief Executive Officer
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A handwritten signature in black ink that reads "Robert Dohrer".

Robert Dohrer
Global Leader - Quality and Risk
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