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**International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor  
New York  
E-mail: [jamesgunn@iaasb.org](mailto:jamesgunn@iaasb.org)**

Dear Sir,

**COMMENTS ON EXPOSURE DRAFT – REPORTING ON AUDITED FINANCIAL STATEMENTS: PROPOSED NEW AND REVISED INTERNATIONAL STANDARDS ON AUDITING (ISAs)**

The Zambia Institute of Chartered Accountants welcomes the opportunity to comment on the Exposure Draft 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)', which was issued on July 25, 2013.

**General comment:**

The Institute generally agrees with the proposed disclosures requirements about key audit matters and the engagement partner's name in audit reports for listed entities, and statements about going concern and other information, among other matters, in all audits conducted in accordance with International Standards on Auditing (ISAs). We feel that the proposed ISAs would improve the auditor's report on audited financial statements and would assist users of the financial statements to make an informed decision. By enhancing the auditor's report, the current expectations gaps between financial statement users and auditors would be addressed.

The proposed ISAs would represent a significant change in practice, but would enable a better understanding of the Auditors work and the relevance of the auditing profession.

Our responses to specific questions are as follows:

### **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?

#### **Comment**

As pointed out in our general comment, we do 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 proposed section is necessary as it will draw the users' attention to a matter presented or disclosed in the financial statements that the auditor believes to be fundamental in understanding of the financial statements.

### **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?

#### **Comment**

Yes, we do believe that the proposed requirements and related application material in proposed ISA 701 would provide an appropriate framework to guide the auditor's judgment in determining the key audit matters.

Given that this is a significant change from the current practice, application of the framework will be a challenge in first one to two years. As such IAASB is encouraged to share experiences from jurisdiction in the first and second years of being in effect to assist Auditors apply the framework appropriately.

### **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?

**Comment**

We do believe that the proposed requirements and related application material in proposed ISA 701 would 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.

**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.

**Comment**

All the illustrative examples are useful and informative.

**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?

**Comment**

It would be important to include a statement in the audit engagement letter that the auditor intends to communicate the key audit matters to guard against overzealous management who may question why such information has been provided or not provided.

**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?

**Comment**

Yes, there may be no key audit matter to communicate practically. However, there is danger that this may be perceived to be lack of professional judgment on the part of the Auditor. It may therefore be appropriate to encourage Auditors to have at least one key audit matter in the Auditor's report.

**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?

**Comment**

We do 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.

**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?

**Comment**

Though we do support the fact that there will be rare cases where both are reported, to avoid confusion of the two; it may be appropriate to restrict the Emphasis of Matter paragraph to audits of not listed entities.

**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.

**Comment**

We do not believe that the statements included in the illustrative auditor’s reports would be misunderstood or misinterpreted by the users of the financial statements.

**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?

**Comment**

We would support the use of the statement only when there is no material uncertainty that has been identified. When there is a material uncertainty the statement is irrelevant.

**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?

**Comment**

We do support the disclosure of the sources (s) of independence and other relevant ethical requirements in Auditor’s report. This will enhance the transparency about the basis on which the audit was conducted.

**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?

**Comment**

As the regulator, we support 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”. We do support that the proposal would improve transparency for users of the auditor’s report; and provide the engagement partner with a greater sense of personal responsibility and accountability.

**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?

**Comment**

The Institute supports the standardized descriptions of the responsibilities of management, those charged with governance, and the auditor, to provide users with additional transparency in the context of the audit.

**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?

**Comment**

We agree with 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. The Standard should only stipulate the sections to be included in the report, but not to prescribe the order of those sections. As much as we appreciate consistency in auditor reporting globally, there is need for flexibility in order to accommodate national reporting circumstances?

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Modest Hamalabbi  
**Technical and Standards Manager**