IAASB International Auditing and Assurance Standards Board

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March 30, 2016

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Hans,

Re: Comments on IASB's Request for Views: *2015 Agenda Consultation*

The IAASB appreciated the opportunity to hear from IASB member Mary Tokar at our December 2015 meeting, as there are a number of matters on your agenda that are of direct relevance to our work, including your ongoing efforts in relation to IFRS 9 and Insurance Contracts.

I am therefore pleased to provide comments on the International Accounting Standards Board (IASB) Request for Views, *2015 Agenda Consultation*, published in August 2015 (hereafter the "Agenda Consultation"). These comments have been developed by the IAASB's IASB Liaison Working Group ("WG" or "we" in the attached comments), with a particular focus on auditability.

The WG has continued to focus on auditability issues, which are one of the main objectives of this group's mandate. The WG has not answered specific questions, but rather from its review of the Agenda Consultation, and discussions of members of the WG, has highlighted the following that are of particular interest to the IAASB:

(a) Going concern;

(b) Disclosure initiative;

(c) Materiality; and

(d) Auditability considerations.

Detailed comments in respect of the areas highlighted above are provided in the Appendix to this letter.

I hope that you will find the comments helpful. If you require any clarification or would like to discuss this letter further, please do not hesitate to contact me or Mr. Jean Blascos, the Chair of the WG (jeanblascos@kpmg.fr).

Yours sincerely,

Prof. Arnold Schilder
Chairman, IAASB

Cc. Ms. Mary Tokar, Member and Liaison Representative, IASB

Appendix A

IASB REQUEST FOR VIEWS - 2015 AGENDA CONSULTATION

Comments of the IAASB's Working Group

GOING CONCERN

During the IAASB's auditor reporting project, the IAASB actively liaised with the IASB about barriers to auditors enhancing discussions about going concern in the auditor's report. These discussions centred on concerns expressed about a lack of consistent understanding of certain concepts within the different financial reporting frameworks, in particular "material uncertainty," "significant doubt," "ability to continue as a going concern," and "going concern assumption", and the threshold for management disclosures about a material uncertainty related to going concern.

The key message delivered by the respondents to the IAASB's July 2013 Exposure Draft (ED) in relation to the proposed auditor reporting requirements in respect of going concern was that going concern needs to be addressed as part of a holistic approach, together with accounting standard setters, thereby promoting global consistency in both financial reporting and auditor reporting. The need for an approach that involved modification of the accounting standards to facilitate the improvements to the ISAs that we initially proposed was highlighted by 31% of all respondents (some 43 out of 138 respondents, including some members of the Monitoring Group[1]). This was the single most consistent response ranging across stakeholder groups. Appendix B sets out further information with respect to the responses received by the IAASB on this topic, which we shared in a meeting with IASB leadership in January 2014.

The IASB concluded at its November 2013 meeting not to pursue amendments to IAS 1[2] to clarify concepts and required disclosures related to going concern. The Interpretations Committee Agenda Decision in July 2014 was a positive step forward, however the IAASB acknowledged that the Agenda Decision did not provide guidance or clarification on the underlying going concern concepts mentioned above.

In August 2014, the United States Financial Accounting Standards Board (FASB) issued new requirements and guidance about disclosures in the financial statements in situations where there is substantial doubt about an entity's ability to continue as a going concern, including in such circumstances where such substantial doubt has been mitigated. We understand the US Public Company Accounting Oversight Board is considering what is needed in terms of auditing standard setting, and we are following those developments with interest.

In approving the due process of the changes to the IAASB's standards related to Auditor Reporting in January 2015, the Public Interest Oversight Board, which oversees our activities, publicly expressed disappointment at the outcome regarding going concern and strongly encouraged the IAASB to further liaise with the IASB in order to arrive at a solution as early as possible that betters meets the public interest and enable a holistic approach to auditing going concern.[3]

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[1] The Monitoring Group is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality. Members include the Basel Committee on Banking Supervision, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organisation of Securities Commissions and the World Bank.

[2] International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

[3] Part of the PIOB's mandate is ensuring the IAASB's public interest responsiveness, including sufficient attention to stakeholder input, through due process oversight.

In light of stakeholders' concerns about the effectiveness of our initial proposals without corresponding changes or clarifications in the financial reporting standards, ISA 570 (Revised), *Going Concern*, retains the concept of highlighting a material uncertainty related to going concern in the auditor's report. However, we have added a new requirement for auditors to more specifically focus on disclosures in the context of going concern, in particular in situations where there has been a focus on whether an entity is a going concern or not – which is linked to a degree to the July 2014 IFRIC Agenda Decision.

Accordingly, the WG believes that a going concern research project should be undertaken to identify whether a Standards-level project needs to be added to the IASB's Standards-level programme. In addition, the WG has identified the following reasons for further consideration of a Standards-level project on going concern:

- Going concern remains an especially critical and pervasive financial reporting and auditing issue. As an example, this was underscored by the EC audit reforms through the introduction of new requirements for the auditors to provide specific statements in the auditors' report for all statutory audits (Article 28.2(f) of the Directive) and in an additional report to the audit committee for statutory audits of public-interest entities (Article 11(i) of the Regulation).
- Concerns about concepts in IFRS relating to going concern have not been resolved.
- In the absence of specific guidance under IFRS, some entities preparing financial statements under IFRS may consider how recent FASB standards have addressed some of those concepts, which may result in greater inconsistency in application of IFRS in this area, which is not in the public interest.

DISCLOSURE INITIATIVE

Financial statements are becoming progressively more complex, and therefore appropriate, relevant and high-quality disclosures have become increasingly important to users of financial statements.

Addressing disclosures is an integral part of the audit. Reflecting the complexity and importance of disclosures, the IAASB recently made amendments[4] to requirements and application material in the ISAs to promote the quality of the audit in this area.

The requirements of the financial reporting framework determine the form and content of disclosures and contain principles that are used by the auditor to help assess whether the financial statements comply with financial reporting requirements.

We are supportive of the IASB's Disclosure Initiative to explore how disclosures in accordance with IFRS can be improved. We believe that, as the IASB moves forward with the initiative, there is a need for continued collaboration with the IAASB. Such collaboration is necessary so that improved disclosure requirements consider the concept of auditability, recognizing that the audit process can contribute to an improvement in the quality of financial statement disclosures.

MATERIALITY

In our comment on the IASB's Exposure Draft, *Conceptual Framework for Financial Reporting, w*e indicated our support for the IASB's continuing work on materiality and that we will monitor the progress made. While we support the publication of the IASB's draft [*IFRS Practice Statement: Application of Materiality to Financial Statements*], we encourage the IASB to continue to consider the topic more broadly. We intend to submit a separate comment letter with more detailed views in respect of this document

[4] See: http://www.iaasb.org/projects/disclosures-0

AUDITABILITY CONSIDERATIONS

In our comment on the IASB's Exposure Draft, *Conceptual Framework for Financial Reporting*, we indicated our view that there should be explicit consideration of auditability in the development of IASB standards. We believe auditability is an important concept for both preparers in delivering credible financial statements and for auditors in delivering a quality audit. In this respect, we believe that auditability considerations are therefore a relevant factor, for example, in considering whether to start a research project or to add a project to the Standards-level programme. We also believe that the IASB should explicitly address auditability as part of its field testing and effects analyses in connection with the development of new or revised financial reporting standards.

Appendix B

Summary of Responses on the Need for a Holistic Approach to Address Going Concern

Feedback from Respondents[5] to the IAASB's Auditor Reporting Exposure Draft

1. Consistent with feedback to the Invitation to Comment (ITC), respondents to the Exposure Draft (ED) continue to stress the importance of, and need for, a holistic approach to be taken to improve reporting on GC, encompassing liaison with the various accounting standard-setting bodies and other auditing standard-setting bodies to facilitate consistency in their respective GC standards with respect to framework, concepts and definitions. The need for an approach that involved modification of the accounting standards to facilitate the proposed improvements to the ISAs was highlighted by 31% of all respondents (some 43[6] out of 138 respondents, including three members of the Monitoring Group/MG). This was the single most consistent response ranging across stakeholder groups.

2. The underlying concern expressed was that auditor reporting on GC may be misinterpreted by users of the financial statements if there is a lack of consistent understanding of the underlying concepts in the accounting framework. It was felt that this may actually widen the expectations gap, especially with respect to potential differences in interpretation. This view was acknowledged by the IAASB in the Explanatory Memorandum (EM) to the ED.

3. In particular, the regulatory and audit oversight community (including three MG representatives) expressed strong views that changes to ISA 570[7] should be made in concert with, or subsequent to, updates to the accounting standards. Based on this concern, 24 respondents,[8] including one MG member, recommended that the accounting standard bodies should complete their GC considerations before changes are made to the auditing standards. IOSCO in particular noted the view that "the resulting outcome of what management is asked to say or not say about its GC assessment as a result of the accounting standard-setters' work in this area should be used by the [IAASB] to determine what the auditor should or should not say about the results of the auditor's work."

4. Respondents urged continued liaison with the International Accounting Standards Board (IASB), with 13 respondents[9] going so far as to say that it would be preferable for the IAASB to defer changes to the ISAs until corresponding changes to accounting standards had been made.

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5 The names of the respondents for the acronyms listed below can be found in Appendix 2 of Agenda Item 4 Cover Note for the March 2014 IAASB meeting.

6 *Investors and Analysts:* ABI, EUMEDION, ICGN, IMA; *TCWG:* AICD; *Regulators and Oversight Authorities:* AFRC, BCBS, CPAB, CSA CAC, EBA, EAIG, ESMA, IAIS, IOSCO; *NSS;* ASB, CAASB, CNCC-CSOEC, HKICPA, JICPA, MAASB, NZAuASB; *Accounting Firms:* BDO, DTT, EYG, GTI, KPMG, MAZARS, MSUK, PWC; *Public Sector Organizations:* AGA, NAOS; *Member Bodies and Other Professional Organizations:* ASSIREVI, FEE, FSR, IBRACON, IBR-IRE, ICAA, ICAEW, ICPAK, ICAP, ISCA, KICPA, SMPC

7 ISA 570, *Going Concern*

8 *TCWG:* AICD; *Regulators and Oversight Authorities:* AFRC, CSA CAC, IOSCO; *NSS;* ASB, CAASB, CNCC-CSOEC, HKICPA, JICPA, MAASB; *Accounting Firms:* DTT, EYG, GTI, MSUK, PWC, *Public Sector Organizations:* AGA, NAOS; *Member Bodies and Other Professional Organizations:* ASSIREVI, FEE, IBRACON, ICAEW, ICPAK, ICAP, KICPA

9 *NSS;* ASB, CAASB, MAASB; *Accounting Firms:* DTT, EYG, GTI, PWC; *Public Sector Organizations:* AGA, NAOS; *Member Bodies and Other Professional Organizations:* ASSIREVI, FEE, ICAEW, ISCA

5. Further, to reduce the possibility of misinterpretation, 20 respondents,[10] including one MG member, called for more guidance or clarity around key terms, including: substantial doubt; material uncertainty; the ability to continue as a GC, the GC assumption and the interaction or relationship between the latter two. One respondent[11] also called for guidance with respect to management's responsibilities to be provided by the accounting standard setters. Further, three[12] respondents, suggested a statement with respect to management's responsibilities around GC be added to the auditor's report, two of whom suggested that this be included within the Management's Responsibilities section.

6. Also, a few respondents felt that increased reporting on GC would be better addressed by the accounting standards through requirements for improved or enhanced disclosures by management in the financial statements around its assessment of and conclusions relating to GC, thus alleviating the concern that the auditor would be providing "original information" in the auditor's report. These respondents were largely from the accounting firms,[13] member bodies and other professional organizations.[14] Other respondents that supported this were from the National Standard Setters (NSS) and academics.[15]

7. In addition two[16] respondents explicitly suggested that the time frame of the assessment period for GC be clarified. One of these respondents specifically suggested that the clarification be within the accounting standards.[17]

8. Many respondents[18] expressed a preference for management to be required to make disclosures within the financial statements, with the auditor required to express an opinion on management's disclosures. A few respondents[19] specifically commented on the need to preserve the respective responsibilities of management, TCWG and auditors. In addition, clarifying management's responsibilities was also recommended in order to narrow the expectations gap.

9. A similar concern around auditors speaking on behalf of management and thus blurring the respective responsibilities was also raised by 18% of the respondents[20] in response to the proposed statement with respect to not guaranteeing the entity's ability to continue as a GC. Some respondents[21] also

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[10] *Investors and Analysts:* EUMEDION, ICGN*; TCWG:* AICD; *Regulators and Oversight Authorities:* IAIS; *NSS;* AUASB, CNCC-CSOEC, JICPA, MAASB; *Accounting Firms:* EYG, GTI, KI; *Public Sector Organizations:* AGNZ; *Member Bodies and Other Professional Organizations:* ASSIREVI, CICPA, IBR-IRE, ICAA, ICAG, ICPAI, ICAP, NZICA

[11] *Regulators and Oversight Authorities:* CPAB

[12] *NSS:* AUASB; *Accounting Firms:* EYG; *Member Bodies and Other Professional Organizations:* ICAN

[13] *Accounting Firms:* BDO, BT, DTT, EYG, GTI, MAZARS, PWC, RS

[14] *Member Bodies and Other Professional Organizations:* ASSIREVI, CPAC, FEE, FSR, IBRACON, IBR-IRE, ICAS, KHT, NZICA

[15] *NSS:* CNCC-CSOEC, JICPA; *Academics:* MU

[16] WPK & CNCC-CSOEC

[17] Four respondents, CFA, IRBA, AUASB, and FAP, suggested disclosure of timeframe in the auditor's report would be appropriate and 1 respondent, ICGN, suggested that it should not be limited to 12 months.

[18] *Investors and Analysts:* BR; *Regulators and Oversight Authorities:* IRBA, *NSS:* AUASB, CNCC-CSOEC, MAASB, NBA; *Accounting Firms:* BDO, BT, DTT, EYG; *Member Bodies and Other Professional Organizations:* ASSIREVI, IBR-IRE, ICAA, ICAN, ICAS, ISCA, SAICA; *Academics:* MU

[19] *NSS:* AUASB, CAASB, IDW; *Accounting Firms:* GTI; *Public Sector Organizations:* AGA; *Member Bodies and Other Professional Organizations:* ASSIREVI

[20] *Regulators and Oversight Authorities:* MAOB, *NSS:* AUASB, MAASB, NBA; *Accounting Firms:* BDO, BT, CHI, DTT, GTI, MSUK, PWC; *Member Bodies and Other Professional Organizations:* ACCA, CICPA, EFAA, FACPE, FAR, FEE, FSR, IBR-IRE, ICAEW, ICAN, ICPAI, NYSSCPA, PICPA, SMPC

[21] *Accounting Firms:* DTT, MAZARS; *Preparers;* NN; *Member Bodies and Other Professional Organizations*: ICAEW

echoed the sentiment made in response to Question 9 of the ED, that disclosure around GC should only be included in the financial statements, rather than the auditor’s report.