



December 12, 2013

Submitted electronically to arnoldschilder@iaasb.org

Mr Arnold Schilder

Chairman

International Auditing and Assurance Standards Board

545 Fifth Avenue

New York

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Comments on IAASB Exposure Draft, 'Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing'

Dear Arnold,

The International Forum of Independent Audit Regulators ("IFIAR") appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's ("IAASB") Exposure Draft: *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*. As an international organization of independent audit oversight regulators that share the common goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high quality auditing and professional standards, and other pronouncements and statements.

IFIAR's more specific objectives are as follows:

- Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms;
- Promoting collaboration and consistency in regulatory activity;
- Initiating and leading dialogue with other policy-makers and organizations that have an interest in audit quality; and
- Forming common and consistent views or positions on matters of importance to its Members, taking into account the legal mandates and missions of individual members.

Our comments in this letter reflect, at a high level, those matters on which we have achieved consensus, and are not intended to include all comments that might be provided by individual

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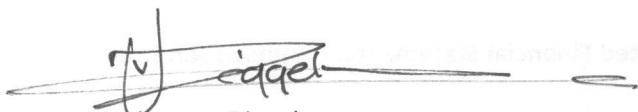
members. Where we did not opine on certain specific matters, this should not be interpreted as either approval or disapproval by IFIAR of the proposals.

Our comments are included under the following headings:

- General Comments
- Key Audit Matters
- Relationship between Emphasis of Matter, Other Matter and KAM paragraphs
- Reference to the source of Independence and Other relevant Ethical Requirements in the Audit Report
- Other Information

Should you wish to discuss any of our comments, please do not hesitate to contact me or Bernard Agulhas, Chairman of the IFIAR Standards Coordination Working Group.

Yours Faithfully



Janine van Diggelen

IFIAR Vice-Chair

General Comments

In general, we support the IAASB in pursuing improvements to the auditor's report in response to users' demands for more transparency about the audit, the audited entity, and the entity's financial statements. As audit regulators, we believe that increased transparency in this area might improve audit quality. Additional focus on matters to be reported could indirectly result in an increase in professional scepticism and additional attention by the auditor on significant audit risks. Given the common audit findings observed among IFIAR members in a number of areas,¹ we would welcome any such improvement in audit quality as a result of enhanced auditor reporting.

We believe, however, that further consideration is needed to provide for a more robust standard that is not only informative to users, but also practical for auditors and enforceable by regulators. Specifically, auditing standards that leave the determination of procedures solely to the auditor's professional judgment do not provide appropriate safeguards to stakeholders that sufficient procedures will be performed.

We also draw the IAASB's attention to similar projects which a number of regulators have completed, or are engaged in, to enhance the auditor's report. We encourage the IAASB to consider these initiatives as the IAASB develops its standards.

Key Audit Matters

We believe that communicating Key Audit Matters (KAM) could provide the appropriate means to inform the financial statement users about the audit of the financial statements, and could enhance the relevance and value of the auditor's report, without imposing unreasonable requirements.

While we appreciate that the exercise of auditor judgment is important, we believe that the determination of items to be included in KAM should not be left solely to the auditor's professional judgment.

As such, the definition and the requirements for determining what constitutes a "key audit matter" may be too flexible and, accordingly, may provide insufficient guidance to auditors and, in some cases, regulators charged with ensuring compliance with this standard. We believe greater specificity regarding the types of matters constituting "key audit matters" would be helpful to users and ensure greater consistency among audit reports.

It would therefore be useful if the standard provides more indicators to guide the auditor in the selection of items already identified during the audit, by bringing forward into the body of the standard some indicators currently included in the application material.

¹ [https://www.ifiar.org/IFIAR/media/Documents/General/IFIAR 2012 Summary Report of Members Inspection Findings 18 Dec 12 \(2\).pdf](https://www.ifiar.org/IFIAR/media/Documents/General/IFIAR%202012%20Summary%20Report%20of%20Members%20Inspection%20Findings%2018%20Dec%2012%20(2).pdf)

Relationship between Emphasis of Matter, Other Matter and KAM paragraphs

We agree that Emphasis of Matter and Other Matter paragraphs should be retained in the audit report as they serve different purposes.

However, the distinctions and interactions between these three types of paragraphs need to be set out more clearly. In particular, it should be clarified that an Emphasis of Matter paragraph relates to an item included in the financial statements which is considered fundamental to users' understanding of them.

Reference to the source of Independence and other relevant Ethical Requirements in the Audit Report

We support the Board's proposal that the auditor make an explicit statement regarding independence within the Basis for Opinion paragraph, as well as the source of independence and the ethical requirements that have been complied with. We believe that such a requirement would enhance financial statement users' understanding of the auditor's obligations related to independence and other relevant ethical requirements, and serve as a reminder to auditors of these obligations.

Other Information

We generally support the IAASB's proposal that the auditor provides transparency in the auditor's report regarding the auditor's responsibilities for, and the results of, the auditor's evaluation of other information in a company's annual report (containing the financial statements and the related auditor's report). While we recognize that the final wording in the auditor's report is subject to the IAASB's finalization of proposed ISA 720 (Revised), we recommend that the IAASB consider including the appropriate link, as part of its requirements of the audit report, with the specific procedures that have to be undertaken with regard to the evaluation of other information in accordance with ISA 720 (Revised).