

20 November 2013

Ref: 13/125

Prof Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York,
New York 10017 USA

Dear Professor Schilder

Request for comments: Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB)'s Exposure Draft, *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs)* (the ED).

The IAIS is pleased that the IAASB has made progress in evaluating how auditor reporting can be improved in order to enhance the quality of the communication to users about the auditor's work and consequently market confidence. We believe that the IAASB proposals as drafted in the ED represent a positive step forward to address the expectation and information gap and will be helpful in restoring market confidence.

We are fully supportive of the work efforts of the IAASB on auditor reporting and we encourage the IAASB to continue to refine their proposals as per our comments below.

Key audit matters

We agree that the proposal for the auditor to communicate key audit matters will assist users in understanding those matters that were of most significance in the audit of the financial statements. These key audit matters will also be useful for the understanding by users of the financial statements and in particular areas of significant management judgement.

We recognise the difficulty in developing standards that achieve the right balance between providing useful information that helps users to understand the financial statements and

providing an excessive amount of information that would overwhelm users. We believe that the IAASB developed adequate principles to help auditors exercise their judgment in determining the information and the level of detail to include in their report.

However, we have the following concerns:

- As we noted in our response to the IAASB's 2012 Invitation to Comment, *Improving the Auditor's Report*, we strongly believe that the communication of key audit matters should be required not only for listed entities but also for all insurance entities whether listed or not. In this regard, we regret that the IAASB decided against requiring the disclosure of key audit matters for Public Interest Entities (PIEs) and also against working on a general definition of PIEs, including financial institutions.
- We believe that the definition of key audit matters included in paragraph 7 of ISA 701 should refer to the necessity of including such information in the report considering their value for users.
- The interaction of the proposed ISA 701 and the proposed ISA 706 (Revised) requires further clarification. Given the different objectives of the two ISAs, there needs to be a clear distinction of matters that are to be included as key audit matters and matters that are to be included as Emphasis of Matters and Other Matters.
- Paragraphs 8 (b) and A 20 and 21 of the proposed ISA 701 consider that areas in which the auditors encountered significant difficulty in the course of the audit, including with respect to obtaining sufficient appropriate audit evidence, could be key audit matters, without being a scope limitation requiring the modification of the auditor's opinion. The ED gives some examples such as limitation in ability to obtain audit evidence on related party transactions and limitations on the group audit. We believe that these examples seem to give rise to a limitation of scope and thus to a modified opinion, and are not appropriate in explaining "areas of significant difficulty" to be included as key audit matters. As such, the application materials to paragraph 8(b) may need to be revised. In addition, where there are any significant difficulties encountered in the audit, the IAASB should require the auditors to explain why these difficulties did not have an impact on the opinion they issued, although we note that the IAASB should ensure that this is done in such a manner that it is recognised that the auditor's opinion is on the financial statements as a whole and not on individual items.
- The requirement for the description of each key audit matter as set out in Paragraph 10 of the proposed ISA 701 is de minimus and may not provide sufficient useful information to the users. These requirements could be enhanced to require more robust and entity-specific description of key audit matters. For example, including certain requirements as set out in paragraph A31 in paragraph 10 would help encourage consistent but not boilerplate disclosures in the auditors' report. Also we believe the auditor's report should include a brief overview of procedures performed or the auditor's approach to the matter, or should include an indication of the outcome of the auditor's procedures with respect to the matter.
- Finally, instead of a negative sentence which states that "Our opinion is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters" at the end of the key audit matters section, we would prefer a positive assertion that the assessment of key audit matters have contributed to the formation of the auditor's opinion as a whole.

Going concern

We agree that it is useful to require the auditor to include a conclusion on the appropriateness of management's use of the going concern basis of accounting in the auditor's report, having regard to the applicable financial reporting framework. In addition, we believe that the transparency of the information will be improved by including a specific statement regarding whether, based on the audit work, the auditors have identified material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

The illustrative auditor's reports include the following statement: "However, neither management nor the auditor can guarantee the group's ability to continue as a going concern" (paragraph 20 (d) IAS 570). This sentence could be seen as diminishing the responsibility of both the management and the auditor. Therefore, we would prefer the previous wording (proposed in *Improving the Auditor's Report*) as follows: "because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern".

With regards to the definition of going concern, we understand that there is always considerable scope for interpretation of "going concern" and "material uncertainty." There is a need for consistency of such disclosures for insurance entities. As such, we encourage the IAASB to work with the IASB, FASB and the PCAOB towards a common understanding of the purposes of going concern assessments, as well as financial statement disclosures on going concern and material uncertainty.

Reporting to those charged with governance

Supervisors often have access to communications between the auditor and the insurance entity. However, ISA 260 currently does not require the auditor to always communicate in writing with those charged with governance (paragraphs 19 and 20). Given the importance of the auditor reporting to those charged with governance in contributing to audit quality and to the work of the supervisor, we believe that auditors of insurance entities should always communicate in writing to those charged with governance on all significant audit findings and on independence issues.

If you have questions regarding this letter, please contact Markus Grund, Chair of the IAIS Accounting and Auditing Issues Subcommittee (tel: +49 228 4108 3671; email: markus.grund@bafin.de) or Aina Liepins at the IAIS Secretariat (tel: +41 61 280 8199; email: aina.liepins@bis.org).

Yours sincerely,



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