Submitted electronically to arnoldschilder@iaasb.org
Mr Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
545 Fifth Avenue
New York
10017 USA

COMMENTS ON THE IAASB EXPOSURE DRAFT “ADDRESSING DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS”

Dear Mr Schilder,

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: "Addressing Disclosures in the Audit of Financial Statements". 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 by, amongst others, contributing to the development 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.

The comments we have provided in this letter reflect the views expressed by many, but not necessarily all, of the Members of IFIAR. They are not intended to include, or reflect, all of the comments or views that might be provided by individual Members on behalf of their respective organisations.

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

General

We generally support the IAASB’s focus in this project on the need to improve the auditing of financial statement disclosures. We believe improvement is warranted as highlighted by the fact that the adequacy of financial statements and disclosures is one of the three inspection themes reported to have the highest number of findings in IFIAR’s 2013 Survey of Inspection Findings. \(^1\) We believe behavioural change is needed to ensure auditors have sufficient focus on auditing disclosures.

We support the Board’s approach to the exposure draft to focus on identifying areas in the current ISAs to improve practice in this area. We believe the Board’s approach to exclude discussion of the obstacles or other limitations auditors are faced with in auditing disclosures (as outlined in the January 2011 Discussion Paper) is appropriate. However, we are concerned that the limited changes proposed in the exposure draft, primarily to application guidance, are unlikely, on their own, to have a sufficient impact in changing behaviour. We therefore encourage the IAASB to consider what further action it can and should take to help promote the necessary behavioural change by auditors.

Integration with IASB’s disclosure initiative

The International Accounting Standards Board (IASB) has undertaken a broad based “Disclosure Initiative” to explore how disclosures in IFRS financial reporting can be improved. This initiative includes a number of implementation and research projects. We encourage the IAASB to continue working closely with the IASB to help ensure that proposed changes to the auditing standards are effective and consistent with proposed changes to the accounting standards. Specifically, preparers and auditors should pay attention to the application, by the entity, of the provisions of the accounting framework on the relevance and specificity of the information provided by the entity (i.e. excluding boilerplate disclosures).

Defining materiality and evaluating misstatements

In audit inspections several IFIAR members continue to observe that auditors have difficulty in establishing materiality for evaluating disclosures, specifically non-quantitative disclosures, and also for determining the work effort required in auditing disclosures. As a result of these difficulties in establishing materiality, we also find significant weaknesses in evaluating misstatements in disclosures. We believe determining materiality and evaluating misstatements in disclosures are key areas which the proposed changes to the ISAs should address. In particular, we are concerned that ISA 320 does not specifically address materiality considerations for non-quantitative disclosures and

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\(^1\) IFIAR’s Report on 2013 Inspection Findings Survey summarizes key inspection results from audits of public companies, including systemically important financial institutions, submitted by 30 IFIAR members. These results came from inspection reports issued during the members’ most recent annual reporting periods that ended by July 2013.

- The leading areas of deficiency in inspected audits of listed public interest entities, or public companies, relate to auditing fair value measurements; internal control testing; and procedures to assess the adequacy of financial statement presentation and disclosures.
- The leading areas of deficiency in audits of systemically important financial institutions, including global systemically important banks, relate to auditing of allowance for loan losses and loan impairments; internal control testing; and auditing of the valuation of investments and securities.
- Audit firms’ own quality control systems had the highest number of inspection findings in the areas of engagement performance; human resources; and independence and ethics requirements.
that the proposed addition to the application guidance in ISA 315\(^2\) referring to such considerations is unlikely to be effective in helping to ensure that auditors give more focus to this important area in the future.

**Integrated approach to auditing disclosures**

We are generally supportive of seeking to improve the integration of the audit approach for account balances, transactions and the related disclosures in the financial statements.

However, we believe there are areas, in addition to classes of transactions and events, and account balances\(^3\), where the auditor should consider presentation and disclosure, namely for entity wide disclosures that are not associated with a separate item (i.e. segment reporting, going concern disclosures). We believe that appropriate emphasis should remain on the evaluation of risks in entity wide disclosures in ISA 315.

**Changes to definitions**

The ED proposes a number of changes to the definition of financial statements. We believe any changes to the definition of financial statements should be aligned or consistent with the definition of financial statements in the financial reporting frameworks applied by the audited entities. We believe specific attention should be placed to ensure the definitions in the accounting and ISA auditing standards are consistent and contradictions are avoided to the extent practicable.

In this area we also have the following comments:

- The ED proposes changes to ISA 200 to clarify that the definition of financial statements includes disclosures. We also noted certain changes in other ISAs where disclosures are specifically referenced as being included in the financial statements\(^4\). We encourage the Board to consider whether the wording “including disclosures” may lead to confusion among auditors of whether the financial statements they are auditing should always include disclosures or only when there is specific mention of disclosures in the ISA.

- The definition of financial statements in ISA 200 is proposed to be amended to replace the word “obligation” with “claims against the entity”\(^5\). No explanation of this change, or the meaning of the latter term, was provided in the explanatory memo to the exposure draft. It needs to be clarified how these definitions interact and align with the applicable accounting standards.

**Other detailed comments**

In addition to the above, we have certain additional comments as follows:

- Changes to a number of ISAs\(^5\) are proposed to refer to information outside the general ledger. While we recognize that the change was made to emphasize that auditors, in performing audit procedures in respect of disclosures, have a responsibility to take into account certain systems and processes beyond the general ledger system, we are concerned that emphasizing information outside the general ledger in selected places in the ISAs could have the unintended consequence that in areas without specific prompting, auditors might limit their focus to the general ledger

\(^2\) ISA 315.A128b

\(^3\) ISA 315.A124

\(^4\) ISA 240.A11, 315.A1, A.80

\(^5\) ISA 210.A11 and .A23; ISA 300. A12a; ISA 300, Appendix; ISA 315.A89a; and ISA 330.20.
instead of seeking and evaluating other relevant audit evidence. We recommend that the IAASB reconsider this point.

• In addition, with the removal of the financial statement assertion for presentation and disclosure, we are concerned there is no longer a reference to ‘classification’ for assertions on account balances.⁶ This is because presentation is proposed to be described as “transactions and events [that] are appropriately aggregated or disaggregated and clearly described...” We believe that classification is broader than just aggregation or disaggregation (e.g. classification also relates to whether an asset is a current or long-term asset) and we recommend that the auditor’s responsibility to evaluate classification be given appropriate prominence.

• We would also like to draw the Board’s attention to the fact that going concern disclosures are not included in the examples of relevant disclosures when assessing the risk of material misstatement⁷. We encourage the Board to include references to going concern disclosures in ISA 315 as well as in ISA 570.

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

Yours Faithfully

Janine Van Diggelen
IFIAR Vice-Chair

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⁶ ISA 315.A124(a)
⁷ ISA 315.A128c