



**Australian Government**  
**Auditing and Assurance Standards Board**

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Melbourne VIC 8007

11 September 2014

Ms Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6<sup>th</sup> Floor  
New York, New York 10017 USA

Dear Kathleen,

**AUASB Submission on**  
**Exposure Draft *Proposed Changes to the International Auditing Standards***  
***(ISAs)-Addressing Disclosures in the Audit of Financial Statements***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's exposure draft on *Proposed Changes to the International Auditing Standards (ISAs)-Addressing Disclosures in the Audit of Financial Statements*.

The AUASB supports the IAASB's efforts to revise existing Auditing Standards to incorporate appropriate new guidance on planning, performing and reporting considerations relevant to financial statement disclosures. The AUASB considers that this will encourage auditors to focus on audit considerations relating to financial statement disclosures earlier in the audit process and in doing so, encourage preparers to provide disclosures earlier, rather than later (as often occurs in practice), in the audit process.

The AUASB also considers the accompanying Draft Staff Publication *Addressing Disclosures in the Audit of Financial Statements* is a necessary and useful guide in both promoting the importance of auditing disclosures and in summarising, in the one document, the auditor's considerations on disclosures, as contained in the various auditing standards. The AUASB however, recommends that the publication be elevated to a pronouncement namely an International Auditing Practice Note (IAPN). Additionally, in order to respond to Australian auditors' concerns regarding the lack of existing guidance on auditing specific sensitive or more difficult disclosures, the AUASB strongly encourages the IAASB to incorporate this into the IAPN as well.

In formulating its views for this submission, the AUASB has considered input from numerous stakeholders, which was provided through direct outreach and at a recent AUASB roundtable event. Input was obtained from auditing firms, professional accounting bodies, preparers of financial statements, directors and audit committee members.

Should you have any queries regarding this submission, please do not hesitate to contact either myself [rmifsud@auasb.gov.au](mailto:rmifsud@auasb.gov.au) or Susan Fraser, Senior Project Manager [sfraser@auasb.gov.au](mailto:sfraser@auasb.gov.au).

Yours sincerely,

Richard Mifsud  
*Executive Director*

Attachments



**AUASB RESPONSE TO IAASB EXPOSURE DRAFT:  
PROPOSED CHANGES TO THE INTERNATIONAL AUDITING STANDARDS (ISAs)-ADDRESSING  
DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS**

**Attachment 1**

**Responses to Specific Questions listed in the Explanatory Memorandum**

1. *Whether, in your view, the proposed changes to the ISAs are appropriate and sufficient for purposes of enhancing the focus of the auditor on disclosures and, thereby, will further support the proper application of current requirements in the ISAs.*

**AUASB Response:**

The AUASB considers the proposed changes to the ISAs are appropriate and sufficient for purposes of enhancing the focus of the auditor on disclosures and, thereby, will further support the proper application of current requirements in the ISAs.

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2. *Are there any specific areas where, in your view, additional enhancement to either the requirements or guidance of the ISAs would be necessary for purposes of effective auditing of disclosures as part of a financial statement audit?*

**AUASB Response:**

The AUASB commends the IAASB in providing useful guidance that will encourage auditors, in respect of the overall disclosures area, to consider when planning, performing and reporting on the overall audit of the financial statements. However, the AUASB considers that additional guidance is necessary in respect of specific quantitative and non-quantitative (qualitative) note disclosures that are perceived by some as being “sensitive” in nature to the entity and/or difficult to obtain appropriate audit documentation to satisfy the “sufficient appropriate audit evidence” requirement.

The AUASB believes that such guidance could assist auditors achieve greater consistency in the application of the ISAs to these type of disclosures. The AUASB suggests that this additional guidance be incorporated with the existing guidance contained in the Draft Staff Publication *Addressing Disclosures in the Audit of Financial Statements*, and to elevate this publication to an International Auditing Practice Note.

*Examples of guidance required for specific quantitative disclosures* include impairment related; estimation uncertainty (fair market value disclosures) and/or sensitivity analysis; disclosures involving assumptions/models/inputs; going concern; related parties; contingent liabilities; credit risk; foreign exchange risk; bank lending; segment reporting; remuneration and auditor remuneration reporting; and equity-accounted investments.

*Examples of guidance required for specific qualitative (non-quantitative) disclosures* include significant accounting policies; descriptions of internal processes; disclosures of fair value information related to financial statement line items; objective-based disclosures; management’s assumptions and estimates; commercially sensitive disclosures; contingent liabilities; financial instruments disclosures; (including bank-lending; credit risk; and foreign exchange risk) and subjective, forward-looking management statements.

The AUASB recommends that such guidance incorporate the following:

- How to perform a risk assessment for individual note disclosures, particularly qualitative disclosures
- How to set materiality for qualitative disclosures using measures other than traditional monetary levels
- How to apply materiality to qualitative disclosures
- How to apply professional judgement in determining the nature and extent of work required on disclosures; particularly those that are qualitative
- How to link audit assertions to the auditor’s work effort on disclosures - particularly completeness
- Examples of specific audit procedures that may be useful in auditing certain types of disclosures
- How to assess the type and level of sufficient appropriate audit evidence required for disclosures, particularly those that involve significant judgements, are estimates, assumptions, fair value based or involve uncertainty
- How to identify what is a material misstatement in qualitative disclosures and how to aggregate and evaluate such misstatement(s)

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3. *Whether, in your view, the proposed changes to the assertions will help appropriately integrate the work on disclosures with the audit work on the underlying amounts, thereby promoting an earlier and more effective audit of disclosures?*

**AUASB Response:**

Yes the AUASB considers that the proposed changes to the assertions will help appropriately integrate the work on disclosures with the audit work on the underlying amounts, thereby promoting an earlier and more effective audit of disclosures.

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**Responses to General Questions listed in the Explanatory Memorandum**

1. *Recognising that the proposed changes to the ISAs affect some of the same ISAs as other IAASB projects currently being finalized, the IAASB believes that to the extent possible, the effective date should be aligned with these other projects, namely the IAASB's auditor reporting project and the project to revise ISA 720. Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12-15 months after issuance of the final standard, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting and ISA 720 projects. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the changes to the ISAs.*

**AUASB Response:**

The AUASB agrees with the IAASB's proposed effective date timeframe.

The AUASB does not disagree with the earlier application of the ISAs being permitted. However, the AUASB notes that this may cause some inconsistency in practice if earlier application is not adopted by all applicable jurisdictions. To this end, the IAASB may wish to reconsider the efficacy of earlier application.

## **Additional Comments for the IAASB's Consideration**

### *Overall comments*

#### IAASB and IASB dialogue

The AUASB commends and encourages the IAASB's continued dialogue with the IASB to ensure that current and prospective financial statement disclosures required in the accounting standards are considered within the context of each disclosures' materiality considerations, relevance to users and auditability. The AUASB acknowledges the IASB's ongoing *Disclosures Initiative* project which explores how disclosures in IFRS financial reporting can be improved, and considers this project to be complimentary to the IAASB's efforts in enhancing its guidance in auditing disclosures.

#### Practical disclosures issues

The AUASB acknowledges that the proposed ISA improvements may not necessarily remedy the all too often practical problem of auditors not receiving the proposed disclosures from the financial statement preparers until very late in the audit process. The AUASB does however consider that the IAASB's proposed changes should encourage auditors to have earlier conversations with preparers about the nature, timing and extent of the proposed disclosures and in turn that this may encourage preparers to provide the disclosures to auditors on a timelier basis.

### *Comments on ISAs included within proposed Changes*

#### ISA 320 Materiality in Planning and Performing an Audit

1. The AUASB supports the IAASB in pursuing a separate project to consider revising ISA 320, particularly in respect of considering further guidance on applying the concept of materiality to non-quantitative disclosures. This may also help achieve greater consistency in the assessment of misstatements for this disclosure type.
2. The AUASB considers it would be helpful if the IAASB consider including in ISA 320, by way of footnote, or additional guidance, a cross reference to IASB Accounting Standard IAS 1 *Presentation of Financial Statements*, paragraph 31, which states that "an entity need not provide a specific disclosure required by an IFRS if the information is not material." The AUASB considers that such an inclusion could help reinforce the existing accounting and audit principle that immaterial disclosures are not required to be included in the financial statements, and assist in reducing voluminous, unnecessary, or immaterially irrelevant disclosures that auditors may receive from financial statement preparers.

#### ISA 230 Audit Documentation

The AUASB suggests the IAASB consider incorporating additional disclosure-specific requirements and related guidance in ISA 230, particularly related to auditors' documentation of their considerations of qualitative (non-quantitative) financial statement disclosures – including the auditors' assessment of the materiality of the disclosures, any evaluations of misstatements in such disclosures and their conclusions thereon.

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ISA 450 Evaluation of Misstatements Identified during the Audit

1. The AUASB suggests the IAASB including wording in guidance paragraph A13a to explain at what point, and on what basis, the auditor may choose to qualify the auditor's opinion on the basis of non-quantitative material misstatement(s) in financial statement disclosures. Alternatively this guidance could be incorporated into ISA 705 *Modifications to the Opinion in the Independent Auditor's Report* and then cross-referenced to this guidance.

In Australia, it has not been common practice to qualify the auditor's opinion on financial statements because of a misstatement in financial statement disclosures, particularly in respect of non-quantitative (qualitative) disclosures. This has been credited to the current financial statement audit process being able to adequately identify and resolve any disclosure issues, especially those that are sensitive in nature or more difficult to audit (e.g. going concern or impairment related). It is acknowledged however that the level of subjectivity that may be involved in the auditor's assessment of the disclosures' wording can make it difficult for the auditor to disagree with the disclosures. This is particularly the case with disclosures that are qualitative in nature (e.g. involve significant management judgements or assumptions such as forecasts or predictions) or, if quantitative, involve management estimates or assumptions.

2. The AUASB suggests that guidance paragraph A18 also explain what impact any carry-forward disclosure errors would have on the current period's financial statements.

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