



CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

20 August 2014

The Chairman
International Auditing and Assurance Standards Board
529 5th Avenue
6th Floor
New York 10017
United States of America

Submission via: IAASB website

Dear Professor Schilder

Submission on the IAASB's Exposure Draft: Addressing Disclosures in the Audit of Financial Statements ("the ED")

Chartered Accountants Australia and New Zealand commends the International Auditing and Assurance Standards Board (IAASB) for taking a proactive approach to assisting auditors in addressing the practical challenges arising from the evolving nature of disclosures.

The "disclosure problem"

It is pleasing the IAASB has recognised that many of the issues around disclosures cannot be solved by the IAASB alone. Users, preparers, standard-setters, auditors and regulators all need to accept their share of responsibility for the "disclosure problem" and changes to requirements will have to be accompanied by collaborative commitment, better communication and education. All parties need to be on board and align their goals.

For example, users of financial reports would be better served by asking for more relevant and specific material information, rather than just 'more information'. Financial report preparers could similarly improve their approach – the 'better safe than sorry' attitude that gets adopted often results in too much irrelevant disclosure. Furthermore, regulators will need to articulate their view that over-disclosure is as bad as under-disclosure and follow this through in their inspections and reviews.

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Changing the framework and standards

In relation to changing standards, feedback received by the International Accounting Standards Board (IASB) has made it clear that it is the specific requirements in accounting standards, and the way they are being applied, that is causing the most immediate problems. We believe therefore, that many of the issues raised in the IAASB's ED are better addressed through revisions to the accounting standards.

In relation to changing auditing standards, we agree with the IAASB's assessment that auditing disclosures is not a separate exercise; rather a holistic and integrated view should be taken throughout the audit. However, we question whether there are compelling reasons to revise such a large number of ISAs, especially as many are subtle or relatively minor changes. We encourage the IAASB to consider the cost-benefit equation of making such amendments, particularly for jurisdictions where auditing standards are legislative instruments which are legally enforceable. This is the case in Australia and New Zealand which means that any changes to the ISAs have to be tabled in the respective Parliaments of each country. This becomes a time consuming and costly exercise. Therefore our strong preference is not to modify multiple ISAs solely for this purpose, but to instead incorporate the disclosure enhancements as and when the applicable standards are revised.

Guidance

As the main demand for clarity in auditing disclosures from auditors is for guidance, we recommend the IAASB issue a non-authoritative document, such as a guidance or practice note, that explores the disclosure issues. This approach allows for the issuance of the additional guidance required but in a form which can be published and updated on a more timely basis. As noted above, this guidance can then be incorporated into the appropriate standards as and when those standards are opened for review.

The matters to be covered are as set out in the ED, specifically:

- Applying materiality in the audit of disclosures, particularly in relation to non-monetary measures
- Assessing sufficiency and appropriateness of audit evidence with regard to disclosures, particularly in relation to qualitative disclosures
- Determining the appropriate level of audit work required on accounting estimates that are included in disclosures but not recognised in the financial statements (e.g. fair value estimate disclosure of financial instruments that are measured at amortised cost)
- Emphasis on consideration of the audit of disclosures at the planning stages of the audit.

Chartered Accountants Australia and New Zealand

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We are represented on the Board of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, New Zealand, England and Wales, Ireland, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

If you have any questions regarding this submission, please contact Liz Stamford (Audit and Insolvency Leader) via email; lizstamford@charteredaccountantsanz.com.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Ward', written in a cursive style.

Rob Ward FCA
Head of Leadership and Advocacy