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International Auditing & Assurance Standards Board
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Via IAASB at: "Submit a Comment" www.iaasb.org

The Accounting Principles and Auditing Standards Committee, "The Committee", of the Florida Institute of Certified Public Accountants (FICPA) has reviewed and discussed the Discussion Paper, "The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications.

The Committee, since it is made up of Certified Public Accountants in various practice sectors, has decided to respond to the consultations questions directed at Preparers and Auditors.

For Preparers

Section II - Financial Reporting Disclosure Trends

P1) The most significant challenges experienced as preparers regarding disclosures are that they "come last". Their significance to the overall financial statements gets less of a priority than the basic balance sheet and income statement. All emphasis has been put on revenue, EBIDTA, earnings per share, etc. There is often no materiality to note disclosures.

P2) Preparers have included many disclosures that may be immaterial for various reasons, whether to gain efficiencies in preparation or more often, just to be on the safe side as not to miss anything.

Section IV - Audit Issues Regarding Disclosures Required by a Financial Reporting Framework

P3) Numerous requests from auditors have been made to substantiate disclosures. The most difficult to comply with have to do with those disclosures associated with fair values, estimates, stock compensation and the "more likely than not" scenarios of the US GAAP FIN 48 and soon to be lease accounting standards. Another area of difficulty is not necessarily getting information to support, just how much information is needed to meet the disclosure requirements versus protecting the integrity of sensitive information.

P4)

(a) Documentation of walk-thrus, flow charts, policies and procedures as well as internal audits should provide sufficient evidence and support for assertions made with respect to such disclosures.

(b) Sufficient evidence to support stress test disclosures in the financial statements would consist of documentation of those tests occurring and the detail listing of the assertions used in those calculations, how they were arrived at and meet industry standards/ reasonableness of use. Failure to disclose enough information about the inputs used and the tests performed to the extent they cannot be re-performed or do not give the reader enough information to make a determination as to whether the inputs are reasonable would constitute a misstatement of a stress test disclosure.

P5) A material misstatement of disclosure would be either the omission of a significant input, or a misstatement that would cause the user of the financial statement to come to a false or different conclusion that would lead to a material change to the financial statements or the decision making process. Examples of material misstatements for particular categories are as follows:

- Judgments and reasons - estimates of collectability of receivables, selection of incorrect level 3 inputs and life of assets.
- Assumptions/models/inputs - often go hand in hand with judgments a reasons noted above, but would also include interest rate assumptions and more likely than not assumptions.
- Sources of estimation uncertainty/sensitivity analysis disclosures - closely held businesses specifically in an industry that is not common have significant issues in determining comparative inputs like useful lives, intellectual property, intangibles, and interest rates.
- Description of internal processes - how much information to disclose that would give away competitive edges.
- Disclosure of fair value for asset line item on balance sheet using different measurement basis - not disclosing enough information to give a clear indication of the true nature of the assets measurable value.
- Objective based requirements - leaving out a critical component, ratio or rate that would produce a materially different result to the balance sheet or income statement value.

For Auditors

Section II - Financial Reporting Disclosure Trends

A1) Auditors have had numerous discussions with entities and whether some of them are immaterial. Factors taken into account during discussions include absolute requirements of disclosure even though they appear to be immaterial but are important for the overall understanding of the financial statements. The most difficulty encountered is justifying those disclosures and making the client understand or accept them.

Section III - How Do ISAs Currently Deal with Disclosures

A2) Auditors approach the identification and assessment of risk of material misstatement of disclosure in the same manner we go about assessing the risks for the basic financial statements, which occurs during the planning and throughout the audit engagement.

A3) There are ISA requirements that pose practical challenges with respect to disclosures. Those include dealing with a lack of understanding on the part of the client in conjunction with their dependence on the auditor for guidance and accountant independence.

Section IV - Audit Issues Regarding Disclosures Required by a Financial Reporting Framework

A4) Some times auditors encounter situations where we have difficulty in obtaining sufficient audit evidence. There could be some instances where there are factors that could make a disclosure unauditable, like insufficient inputs for assumptions. Generally, auditors have the ability to perform alternative procedures to obtain sufficient audit evidence. However, we caution against standards requiring specific audit evidence which would take away or limit auditor judgment.

A5) Key issues with gathering audit evidence for the examples given are:

- Estimates and use of correct/reasonable inputs/significant assumptions
- Determining appropriate audit evidence sources for analysis.

A6) The same level of effort should be applied to the fair value disclosure that would be applied on the face of the financial statements.

A7) If necessary to understand or would lead to a better understanding to the fair presentation of the financial statements, as long as not misleading or confusing, disclosures should be included even though not required.

A8) We do not believe auditors should have explicit guidance or requirements that could limit professional judgment. The guidance given in determining materiality at the basic financial statement level should be used with respect to disclosures.

A9) Auditors have the same response as preparers to this question. Please see P5).

A10) (a) and (b) - Please see response given under preparer.

A11) Auditors use professional judgment in evaluating both qualitative and quantitative misstatements in forming an opinion on the financial statements taken as a whole. Yes, it is possible to accumulate misstatements of disclosures, but still falls to professional judgment. Accumulation of misstatements comes into consideration when determining the pervasiveness of their effects on the financial statements as a whole and whether there needs to be consideration given to possibly qualifying or modifying the auditors' opinion.

Section V - Questions about Auditability

A12) If the entity could not produce any documentation to support a material disclosure that could cause the over all financial statements to be pervasively unsupported, then not only the disclosures, but the entity would be unauditable. If not that pervasive, then there are usually ways to at least offer a modified opinion.

A13) Criteria used to assess an auditor's judgment with respect to the fair presentation of the financial statements as a whole should follow that stipulated in US GAAS standard SAS 103. Those stipulate documentation necessary and reason to allow a subsequent auditor to follow along and determine that appropriate procedures were performed.

A14) Auditors believe that the manner in which a financial reporting regulator enforces requirements can give indications of risks and significant audit areas to be aware of and possibly adjust the auditors auditing procedures accordingly. Those requirements could have a significant effect on the operations (going concern) of a business.

The Committee appreciates this opportunity to share its views and concerns and to comment on the Proposed Redrafted ISA. Members of the Committee are available to discuss any questions you may have regarding this communication.

Very truly yours,

Steven Bierbrunner, CPA, Chair
FICPA Accounting Principles and Auditing Standards Committee

Committee members coordinating the response:
Robert Bedwell, CPA
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