



American Institute of CPAs  
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September 11, 2014

Ms. Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue  
New York, NY 10017

**Re: Exposure Draft: Addressing Disclosures in the Audit of Financial Statements**

Dear Ms. Healy:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above referenced exposure draft.

This letter provides the AICPA Auditing Standards Board's (ASB) response to the request for specific comments. The ASB is the AICPA's senior committee for auditing, attestation, and quality control applicable to engagement performance and issuance of audit and attestation reports for nonissuers. Therefore, our comments are provided in the context of audits of non-public entities.

We would like to commend the International Auditing and Assurance Standards Board (IAASB) on its efforts to promote enhancements to the disclosures in the financial statements.

**IAASB request 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?**

We are supportive of the efforts by the IAASB to promote enhancements to the disclosures in the financial statements. However, we do not believe that the proposed changes will make a meaningful enhancement to audit quality or change auditor behavior. Below, we provide some suggestions to clarify the proposed changes to the various ISAs. These suggestions are as follows:

Ms. Kathleen Healy  
September 11, 2014

ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

*Systems Or Processes That Are Not Part Of The General Ledger System*

Paragraph A89a states the following:

A89a. Information in the financial statements may contain information from systems or processes that are not part of the general ledger system. These systems or processes may include:

- An entity's risk management system.
- Production of valuation reports by experts relating to the disclosure of the fair value of an amount that is recorded on the balance sheet at cost.

We believe that the term “systems or processes that are not part of the general ledger” might be overly broad and might be misinterpreted. As written, the application guidance seems to suggest that the auditors would have to identify all “systems or processes” of the entity, rather than those “systems or processes” that are relevant to the audit. In addition, the phrase, “systems or processes,” implies a level of formality that may not exist in smaller entities. The phrase also is not inclusive of external information sources, such as an external expert, which would certainly fall outside of the general ledger system. We suggest the following edit to further clarify paragraph A89a: Information in the financial statements ***and disclosures*** may contain information ***that originates*** from ***sources outside*** ~~systems or processes that are not part of the general ledger system. These systems or processes may include:~~ ***Such sources, if relevant to the audit, could include internally generated data derived from the entity's automated or manual business systems, processes, or procedures or data provided by external sources, including: ...***

*The Use of Assertions*

In paragraphs 123 to 124a of ISA 315 (Revised), the IAASB proposes changes to integrate the relevant assertions relating to disclosures into each of the other categories of assertions rather than keeping them as a separate category of assertions. We recognize that the IAASB believes that the auditor may be encouraged to consider disclosures and undertake related audit procedures earlier in the audit if the disclosure assertions are integrated into the other categories of assertions. However, we believe that the proposed changes may not achieve the desired effect because we believe that a separate category of assertions that addresses presentation and disclosures better highlights the importance of planning and performing procedures to obtain sufficient appropriate audit evidence about the presentation and disclosure assertions. A separate category was added by the Board not long ago because the Board felt that presentation and disclosure assertions were being lost when part of the other categories of assertions. Before deleting the separate category, we encourage the IAASB to conduct research on which approach best focuses auditors on their importance.

ISA 700, *Forming an Opinion and Reporting on Financial Statements*

Paragraph A3b, third bullet, states the following:

Ms. Kathleen Healy  
September 11, 2014

The placement of significant disclosures gives appropriate prominence to them (for example, when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced to draw attention to related matters, where appropriate.

We believe that the phrase “the placement of significant...” is not clear because it might suggest that the auditor would be required to evaluate the sequential order of the notes to the financial statements, rather than focus on the adequacy of the presentation and disclosures. We suggest that the 3<sup>rd</sup> bullet of paragraph A3b be limited to, “The disclosures are appropriately cross-referenced to draw attention to related matters, where appropriate.”

**IAASB requests 2-4:** We have no additional comments.

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Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Hiram Hasty at [hhasty@aicpa.org](mailto:hhasty@aicpa.org).

Respectfully submitted,



/s/ Bruce P. Webb  
Chair, Auditing Standards Board