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September 11, 2014

Mr. James Gunn
Managing Director, Professional Standards
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Re: Exposure Draft, Proposed Changes to the International Standards on Auditing - Addressing Disclosures in the Audit of Financial Statements

Dear Mr. Gunn,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB or Board) May 2014 Exposure Draft, Proposed Changes to the International Standards on Auditing (ISAs) - *Addressing Disclosures in the Audit of Financial Statements* (Exposure Draft or ED).

Our comments and suggestions are provided below for your consideration.

Overall Comments

We believe the Exposure Draft will help clarify the auditor's responsibilities with respect to financial statement disclosures, and will promote consideration of financial statement disclosures earlier in the audit process. Furthermore, we believe that the proposed changes will help auditors focus on disclosure of material information, hopefully reducing information overload.

We believe that the usefulness of the proposed changes could be improved if more practical guidance is provided to assist auditors in determining whether misstatements in non-quantitative disclosures are material, or whether the presentation is misleading. We recognize it may be difficult to develop such guidance; however, the development of a concept of materiality, as it relates to qualitative disclosures, is a prerequisite to ensuring that disclosures are relevant, concise, and useful to users of the financial statements. We believe this is an important area where auditors would benefit from the inclusion of more examples and practical guidance.

The following are our responses to the request for specific and general comments posed in the Explanatory Memorandum.

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Specific Comments

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?**

As stated above, we believe the ED will help clarify the auditor's responsibilities with respect to financial statement disclosures.

The proposed new paragraph A12b of ISA 300, *Planning an Audit of Financial Statements* includes a list of disclosure issues for the auditor to consider, relating to their impact on the overall audit. We suggest including some additional wording preceding the list like 'matters such as' to clarify that the listing is not exhaustive in order to avoid situations where the listing is considered by the auditor as an exhaustive checklist.

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?**

As stated above, we believe that additional guidance would be beneficial to assist auditors evaluate whether misstatements in non-quantitative disclosures are material, or whether the presentation is misleading. While the addition of paragraph A13a in ISA 450, *Evaluation of Misstatements Identified during the Audit*, does address this matter, we believe that the usefulness of the proposed changes could be improved if additional guidance were provided, including examples.

Some general guidelines similar to those created by the German Institute of Public Auditors (Institut der Wirtschaftsprüfer in Deutschland e. V., Düsseldorf, (IDW)) may be useful to consider when developing any additional guidance in this area. For example, the implementation guidance notes that generally the misstatement or omission in a disclosure that breaks-down or *explains* balance sheet or profit and loss items would be considered immaterial if the respective amount in the financial statements is immaterial.

One of the proposed changes to ISA 200 is a change in the definition of financial statements to include and further define disclosures. We support this change; however, we have noted that there is an inconsistency in some of the other proposed changes. For example in ISA 240 paragraph A11, a change was made to include 'including disclosures' after the term financial statements. We do not feel that this addition is necessary when the definition has changed to include disclosures. It is not clear why some references to financial statements have the addition and others do not. We believe this may lead to confusion, and do not want the lack of the term 'including disclosures' to be interpreted to mean that disclosures need not be considered with the financial statements where no specific reference is made. If the intent of the addition of this term is to provide a reminder to auditors, perhaps 'including disclosures' could be included in paragraphs outside of the definition for a transitional period only.

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?**

We agree that the proposed changes will help to promote an earlier and more effective audit of disclosures. We believe the changes clarify the requirement to consider each relevant assertion in auditing disclosures by reminding auditors to stand back and assess the overall fairness of the financial statements when considering disclosures.

General Comments

- (a) We have no comment on the question posed to preparers and other users.
- (b) Developing Nations - In consultation with our member firms that practice in developing nations we do not foresee any difficulties in applying the changes in such nations.
- (c) We are not aware of any translation issues relating to the proposed changes.

With respect to the effective date, we believe that the IAASB's approach to align the effective date of the changes proposed in this Exposure Draft with the IAASB's Auditor Reporting project, to the extent possible, is appropriate. Accordingly, we believe an effective date of 12-15 months after issuance of the final standards is reasonable.

We appreciate the opportunity to comment on the Exposure Draft and hope that our comments and suggestions will be helpful to you in your deliberations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting