

1 October 2014

To:

Mr Schilder

Chair of the International Auditing and Assurance Standards Board

Re.: Comment letter from European audit regulators relating to IAASB's exposure draft of proposed changes to the International Standards on Auditing (ISAs) "Addressing Disclosures in the Audit of Financial Statements"

Dear Mr Schilder,

1. A number of independent European audit regulators and/or oversight bodies ("audit regulators") appreciate the opportunity to comment on the IAASB's ("Board") exposure draft of proposed changes to the International Standards on Auditing (ISAs) "Addressing Disclosures in the Audit of Financial Statements", issued in May 2014. The content of this letter has been discussed and agreed upon by the audit regulators of the following countries:
 - Austrian Auditors Supervisory Authority – Austria
 - Audit Public Oversight Council – Czech Republic
 - Danish Business Authority – Denmark
 - Auditors Activities Oversight Council – Estonia
 - Haut Conseil du Commissariat aux Comptes – France
 - Abschlussprüferaufsichtskommission - Auditor Oversight Commission – Germany
 - Auditors' Public Oversight Authority – Hungary
 - Irish Auditing and Accounting Supervisory Authority – Ireland
 - Authority of Audit and Accounting – Lithuania
 - Commission du Surveillance du Secteur Financier – Luxembourg
 - Netherlands Authority for the Financial Markets – The Netherlands
 - Finanstilsynet – Norway
 - Conselho Nacional de Supervisão de Auditoria – Portugal
 - Romanian Public Interest Oversight Body of Accounting Profession – Romania
 - Auditing Oversight Authority – Slovakia
 - Agency for Public Oversight of Auditing – Slovenia
 - Instituto de Contabilidad y Auditoria de Cuentas – Spain
 - Revisorsnämnden – Sweden
 - Federal Audit Oversight Authority FAOA – Switzerland
 - Financial Reporting Council – United Kingdom

2. As European audit regulators we consider it important to pursue continuing improvement of standard setting for the audit profession. Our comments in this letter reflect those matters on which we have achieved a consensus amongst the above mentioned audit regulators. Nevertheless, they are not intended to include all comments that might be provided by these individual regulators and their respective jurisdictions.

General comments

3. Disclosures in financial statements are an area of particular focus for regulators, since the quality of information provided in the notes to the financial statements by entities contributes to the value of the information for users and investors, and is likely to influence their decisions. The level of explanations included in the financial statements regarding complex financial transactions has increased in recent years, together with the need for financial statements to be decision-useful for all stakeholders.
4. As such, and as stated in the comment letter from 4 April 2014 on the IAASB's proposed strategy and work plan for 2015-2019 issued by several European audit regulators, we believe the IAASB project on disclosures is one requiring due care and attention, because it is likely to have a positive influence and to reinforce the quality of audits in this area.
5. We acknowledge that the IAASB is not the only party concerned by the challenges related to disclosures and that continued collaboration between the IAASB and the various other stakeholders, including the accounting standard-setters, is essential.
6. We nevertheless doubt whether the changes proposed by the IAASB will sufficiently modify the behaviour of auditors regarding the importance given to the audit of disclosures throughout the audit process, since the revisions of the standards proposed relate mainly to the application material of the standards. Our specific concerns are set out hereafter.

Specific comments

Support for a holistic approach of "disclosures" throughout the audit process

7. We support the holistic approach chosen by the Board in this exposure draft, which seems more appropriate than the development of a dedicated standard dealing separately with disclosures. We believe that integrating a focus on the audit of disclosures throughout the audit process may contribute to an enhancement of the attention of auditors on the challenges related to the specificities of the audit of disclosures.

Limited impact on auditor's behaviour

8. We are nevertheless concerned by the fact that most of the additions to the standards proposed relate to the application material. We fear that this may lead to an insufficient change in the behaviour of the auditor vis-à-vis disclosures, and hence a negligible gain in audit quality, since the requirements are not enhanced.

Definitions

9. The exposure draft proposes a number of changes to the definition of financial statements. We believe any changes to the definition of financial statements should be aligned with the definition in the applicable accounting framework. We believe specific attention should be placed to ensure the definitions in the accounting and auditing standards are consistent and contradictions are avoided.

Materiality

10. We are, furthermore, concerned about the lack of visibility regarding the Board's proposed treatment of the application of materiality in evaluating disclosures. Determining a level of materiality for disclosures often proves to be challenging for auditors. We note that the Board has included language in two standards¹ with a view to clarifying the application of the concept of materiality to the risk assessment and evaluation of misstatements regarding disclosures, and in particular, narrative/qualitative/non-quantitative disclosures, but we believe further provisions on materiality would be useful.

Going concern

11. Concomitantly, we believe that the information required to be provided and disclosed by preparers in accordance with the applicable accounting framework relating to going concern deserves specific attention by the auditor. We are aware that the Board is addressing the auditor's reporting requirements relating to the appropriateness of the use of the going concern assumption by the preparer and the related disclosures made by preparers in the context of the "Auditor Reporting" project. We would however like to draw the Board's attention to the fact that no particular focus on going concern disclosures seems to be included in the current exposure draft, while others such as the disclosures relating to, amongst others, estimation uncertainty or the events or circumstances that have led to the recognition of an impairment loss, are specifically addressed. We invite the Board to expand on the specificities of going concern disclosures in addition to the references made to other types of disclosures, in order to enhance the auditor's attention thereon.

Liaison with accounting standards setters

12. We acknowledge that the IAASB is not the only party concerned by the challenges related to disclosures and that continued collaboration between the IAASB and the various other stakeholders, including the accounting standard-setters, is essential. In the case of materiality and going concern, especially, the efforts of the stakeholders ought to be coordinated in order to incentivise workable solutions to enhance the quality of the information ultimately provided to the users of financial statements.
13. As an example, we wish to highlight the overriding concern relating to the application of the concept of materiality by entities in order to provide relevant and decision-useful financial information. This issue cannot be solved by the auditing standards in isolation. Both the accounting standard setters, by setting the required content of the disclosures, and the auditing standard setters, by requiring the attention of the auditor on the application of the provisions of the accounting framework aimed at avoiding information overload by immaterial disclosures, can together contribute, in the scope of the respective duties of preparers and of auditors, to enhance the quality of financial information provided to users. Thus, we believe more emphasis should be placed, in the standards, on the auditor's role in verifying that the information provided by the entity is relevant, in line with the provisions set by the accounting standards.

¹ ISA 315 and ISA 450

We thank you for the opportunity to comment on the exposure draft. If you have any questions or would like to further discuss the matters noted in this letter, please contact Laurence Duflo at the Haut Conseil du Commissariat aux Comptes (+33 1 44 51 09 36).

Yours sincerely,

Audit regulator of:

- Austria
- Czech Republic
- Denmark
- Estonia
- France
- Germany
- Hungary
- Ireland
- Lithuania
- Luxembourg
- The Netherlands
- Norway
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- Switzerland
- United Kingdom

Appendix – Guide for Respondents included in the Exposure Draft

While the IAASB welcomes comments on all matters addressed in the Exposure Draft, the IAASB is seeking comments on the following specific matters:

- 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 the current requirements in the ISAs?*

Ref §6-8.

- 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 the financial statement audit?*

Ref §9, 10, 11, 12, 13.

- 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?*

Ref §6, 8.