

11 September 2014

Submitted electronically to [kathleenhealy@iaasb.org](mailto:kathleenhealy@iaasb.org)

Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue  
New York  
10017 USA

Dear Kathleen

***Comments on Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements***

The Independent Regulatory Board for Auditors (IRBA) is both the Audit Regulator and National Auditing Standard Setter in South Africa. The IRBA has as one of its statutory objectives the protection of the public by regulating audits performed by registered auditors, and the promotion of investment and employment in South Africa. Its statutory Committee for Auditing Standards (the CFAS) is responsible for assisting the IRBA to adopt, develop, maintain, issue and prescribe auditing pronouncements.

We appreciate this opportunity to comment on the proposed changes to the International Standards on Auditing (ISAs) – *Addressing Disclosures in the Audit of Financial Statements* (the proposed changes to the ISAs), developed by the International Auditing and Assurance Standards Board (IAASB).

Our comments have been prepared by a task group of the CFAS comprising representatives from SMP, large firms and the public sector. Our comments are presented in the following sections:

1. General comments
2. Request for specific comments and responses; and
3. Request for general comments - see page 7

In our comments, when commenting on the wording of specific paragraphs in the proposed changes to the ISAs, words ~~struck through~~ should be deleted and words underlined should be added to the text of the proposed changes to the ISAs.

Kindly e-mail us at [ivanker@irba.co.za](mailto:ivanker@irba.co.za) or [ychoonara@irba.co.za](mailto:ychoonara@irba.co.za) or phone on direct line: +27 87 940 8838 / +27 87 940 8867 if further clarity is required on any of our comments.

Yours faithfully

***Signed electronically***

**Imran Vanker**  
**Director: Standards**

**Yussuf Choonara**  
**Professional Manager: Standards**

## 1. GENERAL COMMENTS

We generally support the IAASB's efforts in developing the proposed changes to the ISAs and in particular the IAASB's objective to enhance audit quality, the need to clarify the expectations of auditors when auditing financial statement disclosures and address the practical challenges arising from the changing complexity of disclosures. We support the IAASB's approach to focus on identifying areas in the relevant ISAs for enhancement, as opposed to developing a new ISA addressing disclosure. We also support the need for the auditor to focus on disclosures during the planning stage of the audit, which may result in enhanced focus by entities on their financial statement preparation process, thereby improving the quality of disclosures.

However, we believe that an overall behavioural change is required of the auditor so that sufficient focus is placed on auditing financial statement disclosures. The limited changes proposed, primarily to the application and other explanatory material, are unlikely to have sufficient impact on changing behaviour. The proposed changes to the ISAs may not go far enough to heighten the auditor's awareness of the importance of and the serious consequences of non-compliance with financial statement disclosure requirements. Furthermore these changes may also not encourage sufficient change to the practice of auditors.

We also believe that in order to further improve the quality of disclosures in financial statements, there needs to be a coordinated effort by multiple parties to effect significant changes in behaviour by preparers, auditors, and regulators of financial statements.

## 2. REQUEST FOR SPECIFIC COMMENTS AND RESPONSES

*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 current requirements in the ISAs?*

### **Response:**

1. Overall, we believe that the proposed changes to the ISAs, which are mainly to the application and other explanatory material in the ISAs, are an important first step towards enhancing the focus of the auditor on disclosures and ensuring disclosures are considered in the audit and in particular during the planning stage of the audit process. However the limited changes proposed are unlikely to have sufficient impact on behavioural change by the auditor and an appreciation by the auditor of the importance of disclosures.
2. We further believe the IAASB should work closely with financial reporting framework standard setting bodies, for example, the International Accounting Standards Board (IASB), to monitor the audit implications of changes to financial reporting standards

relating to disclosure and to ensure that changes made to the ISAs are effective and support the changes made to those financial reporting frameworks.

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?*

**Response:**

3. We believe that the following enhancements to the proposed changes to the ISAs would be necessary for the purpose of promoting effective auditing of disclosures as part of a financial statement audit.

Definition of financial statements

4. The proposed changes to the ISA 200<sup>1</sup> definition of financial statements specifically include disclosures as part of that definition. As a result, we suggest that the term “financial statements” be used consistently throughout the proposed changes to the ISAs rather than, as presently the case in the proposed changes to the ISAs, in some cases, only reference is made to “financial statements (including related disclosures)”.

Disclosure information from systems or processes that are not part of the general ledger system

5. We support the IAASB decision to emphasise in the proposed changes to the ISAs the importance of disclosures derived from systems or processes that are not part of the general ledger system. Disclosures that are not part of the general ledger may be more difficult to audit as those systems could be less structured, less formal and supported by limited audit evidence. However, we believe that additional guidance is needed to address the audit of disclosures derived from systems or processes that are not part of the general ledger system and the difficulties relating to obtaining sufficient appropriate audit evidence thereon.
6. We believe that the systems or processes that are not part of the general ledger system may include other information that will lead to other narrative disclosures in the financial statements and that reference to these matters should be made. We recommend that an additional bullet point be added to paragraph A89a of proposed ISA 315<sup>2</sup> to include narrative disclosures such as contingent liabilities and tax exposures.

Going concern

7. The proposed changes to the ISAs do not address disclosures relating to going concern. We suggest that the IAASB expand the proposed changes to the ISAs to specifically

---

<sup>1</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>2</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

include additional guidance for the auditor on going concern disclosures in ISA 570<sup>3</sup> in order to enhance the auditor's attention thereto.

#### Materiality considerations for disclosures

8. We believe additional guidance is needed to address the application of materiality to disclosures in ISA 320<sup>4</sup>, to achieve the goal of effective auditing of disclosures. Such guidance should include:
- the application of materiality to non-quantitative disclosures; and
  - the work effort required in auditing disclosures,
- as these pose practical challenges for the auditor.
9. We also encourage the IAASB to continue to work closely with the IASB regarding its projects around *Materiality and Principles of Disclosure under the Disclosure Initiative*.

#### Evaluation of misstatements

10. We support the changes proposed to the definition of misstatement in ISA 450<sup>5</sup> that highlights misstatements in disclosures. However, we believe that additional guidance relating to the evaluation of misstatements in respect of qualitative information, in particular, the application of materiality to such information to determine what constitutes a misstatement should be provided. We consider that it would be beneficial for the IAASB to acknowledge that consideration of misstatements in respect of disclosure, involves the exercise of professional judgement by the auditor when evaluating disclosures in the context of the of the applicable financial reporting framework and in the specific circumstances of the entity.
11. Paragraph A1(b) of ISA 450<sup>6</sup> introduces the term "objective-based disclosure". We recommend that the term be defined.

#### Consideration of disclosures early in the audit

12. There may not only be new or revised disclosures arising from changes in an applicable financial reporting framework that should be considered by the auditor early in the audit but possibly the adoption by an entity of a new financial reporting framework. We recommend that paragraph A12b 2<sup>nd</sup> bullet point of proposed ISA 300<sup>7</sup> be amended as follows in order to consider this possibility:

"Significant new or revised disclosures arising from changes in the applicable financial

---

<sup>3</sup> ISA 570, *Going Concern*

<sup>4</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>5</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>6</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>7</sup> ISA 300, *Planning an Audit of Financial Statements*

reporting framework or the adoption of a new financial reporting framework".

13. Similarly we recommend that the 8<sup>th</sup> bullet point under the heading "Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements" contained in the appendix to ISA 300 be amended as follows in order to consider this possibility:

"Changes to the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures or the adoption of a new financial reporting framework".

#### Process of identifying risks of material misstatement Paragraph A128(a)

14. We believe that the wording used in paragraph A128a of ISA 315 should be amended to align with the wording used in paragraph 4 of ISA 320. We recommend that paragraph A128a of ISA 315 be amended as follows:

"As explained in ISA 320, materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial reporting needs of users of the financial statements."

#### Terminology used describing the components of financial statements

15. We believe that the wording used in paragraph A14 of ISA 330<sup>8</sup> to describe the components of the financial statements is outdated and should be updated to reflect the terminology used to describe the components of the financial statements used by the IASB.

2. *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?*

#### **Response:**

16. There has been an urgent need for additional guidance in the ISAs to specifically address actual, possible or suspected misstatements that relate to assertions about financial statement presentation and disclosure. We base this assessment on the results of our inspections of audit engagements that have shown a growing trend of high risk findings which are directly related to inadequate supporting audit evidence for, and / or a general lack of consideration of the completeness, accuracy and appropriateness of financial statement disclosures by the auditor.

17. We agree with the proposed changes in ISA 315 to integrate the assertions relating to

---

<sup>8</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

presentation and disclosure into the assertions relating to class of transactions and events and account balances. This highlights that the auditing of financial statements disclosures is an essential part of the audit process and not an isolated exercise.

18. We believe that this proposed change to ISA 315 is an important step towards promoting an earlier and more effective audit of disclosures.
19. However we believe that the “classification” assertion included in paragraph A124(c) of the extant ISA 315 has not been adequately integrated into paragraph A124(a)(vi) of the proposed changes to ISA 315. We recommend that paragraph A124(a)(vi) of the proposed changes to ISA 315 be amended to consider this.

### 3. REQUEST FOR GENERAL COMMENT

*(a) Preparers (including Small- and Medium-Sized Entities (SMEs)) and Other Users —The IAASB invites comments on the proposed changes to the ISAs particularly with respect to the practical impacts, if any, of the proposed changes to the ISAs.*

**Response:**

These comments do not include comments from preparers or from users.

*(b) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment on the proposed changes to the ISAs, in particular, on any foreseeable difficulties in applying these in a developing nation environment.*

**Response:**

No comment.

*(c) Translations—Recognizing that many respondents may intend to translate the final changes to the ISAs for adoption in their own environments, the IAASB welcomes comments on potential translation issues respondents may note in reviewing the proposed changes to the ISAs.*

**Response:**

No comment.

*(d) Effective Date—Recognizing that the proposed changes to the ISAs affect some of the same ISAs as other IAASB projects currently being finalized, the IAASB believes that to the extent possible, the effective date should be aligned with these other projects, namely the IAASB’s Auditor Reporting project and the project to revise ISA 720.21 Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standards, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting and ISA 720 projects.*

*Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the changes to the ISAs.*

**Response:**

We are supportive of the IAASB's view that, to the extent possible, the effective date of the proposed revisions of the ED should be aligned with the effective date of the revisions arising from the IAASB's Auditor Reporting and ISA 720 projects.

\*\*\*\*\*