CIPFA The Chartered Institute of Public Finance & Accountancy

IAASB Exposure Draft

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

response to exposure draft

11 September 2014

the people in public finance

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As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

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Our ref: Responses/ 140717 SC0213

Kathleen Healy
Technical Director
International Auditing and Assurance Standards Board
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Submitted electronically

September 2014

Dear Kathleen Healy

Exposure Draft

Proposed Changes to the International Standards on Auditing (ISAs)

Addressing Disclosures in the Audit of Financial Statements

CIPFA is pleased to present its response to this exposure draft, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

General comment

CIPFA supports the thinking behind the ED proposals. Furthermore, subject to some detailed drafting points the proposed amendments are improvements which may help auditors to properly address the ISA objectives in respect of disclosure. However, the proposals do not in our view fully address all of the issues raised in the Board's 2011 Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications.* CIPFA is concerned that introducing limited changes without addressing more of these issues will incur significant effort and costs without proportionate benefit to stakeholders in financial reporting.

The IAASB's 2011 Discussion Paper sought to engage with preparers, auditors, regulators and other stakeholders, exploring whether ISAs could be improved to take account of new developments, to provide guidance to help improve the defensibility of audit, and also to help the dialogue between auditors and preparers have a positive impact on the understandability of financial reporting. While all of the latter issues have been referenced in the ED proposals, most of the improvements provide clarifications that auditors should follow the same good practice with disclosures which are required in other aspects of the audit. As such, the proposed amendments may help auditors make sure that audit procedures achieve sufficient assurance in the area of disclosures, by being clear that this aspect of audit work should be addressed in a timely and thorough manner.

Specific proposals may also reinforce the role of the auditor in reducing intentional use of inappropriate disclosures by preparers. However, it is much less clear that the proposals otherwise contribute to improving understandability. We are still concerned that the audit process may often be seen as encouraging rather than discouraging voluminous and sometimes excessive disclosure. Audit may be seen as part of the problem, rather than part of the solution. A lack of progress in this area would be a disappointing outcome, and may reduce the extent to which stakeholders other than auditors see the proposals as an improvement.

Making progress in the area of understandability is difficult, not least because both preparers and auditors are constrained by financial reporting frameworks (whether public or private sector), and some of the existing pronouncements which affect the level of disclosure are in need of improvement.

In paragraph 4 of the Exposure Draft, the IAASB

- acknowledges the view that many of the issues cannot be solved by IAASB alone
- explains that it has had active liaison and outreach with other stakeholders, including contributions to related initiatives by IASB; and
- will continue to closely follow relevant developments and activities of others to further inform its future activities.

The IASB is of course actively working on a Disclosure project, and although recent developments have mainly been limited to removing unhelpful drafting which might encourage non-material disclosures, we would hope that further developments will be possible following the completion of the IASB conceptual framework. This should provide a better explanation of the presentation of information in the financial statements and associated documentation, and the role of materiality in this process. And while the results of such work might be couched in terms of the expectations of users of financial statements prepared using IFRS, we would expect this work to be useful when considering financial statements prepared using other standards frameworks.

Against this background, CIPFA's view is that it would be better to defer the changes until a more comprehensive package of improvements can be developed.

Response to specific questions

Observations on the specific matters for comment are provided in the attached Annex.

I hope this is a helpful contribution to the development of the Board's guidance in this area. If you have any questions about this response, please contact Steven Cain (e:steven.cain@cipfa.org, t:+44(0)20 7543 5794).

Yours sincerely

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Requests for Comment

Request for Comment 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?
In CIPFA's view the changes further support the proper application of current requirements in the ISAs. They also address many of the key issues raised by the 2011 Discussion Paper. However, as noted in our covering letter, additional support on matters relating to materiality and understandability would be beneficial, and we are concerned that without this the proposed changes will incur significant effort and costs without proportionate benefit to stakeholders.
Request for Comment 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 noted above, further support on matters relating to materiality and understandability would be beneficial.

Request for Comment 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?
CIPFA considers that the proposed amendments clarify the existing requirements and this could be beneficial. Balancing this, we would note that the drafting changes to 10 ISAs will result in additional costs in various ways. ISAs are translated into other languages, and guidance prepared by professional bodies, training organisations, audit firms and public sector audit institutions will often quote or echo material in the ISAs. Sometimes amendments with no substantive effect on audit requirements will nevertheless affect the way work is carried out. With specific reference to assertions, the reframing of these to comprehensively reference disclosures may have a significant effect given that auditors will wish to structure their work to clearly demonstrate its compliance with ISAs to internal quality control reviewers and for the purpose of review by regulators. The restructuring of audit work and documentation may be significant in some cases, particularly if the revised assertion has the effect of bringing together audit processes which are not strongly related.