

9 June 2011

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

Dear James,

### **The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications**

We are pleased to have the opportunity to provide input into the IAASB's Discussion Paper *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*. CPA Australia, The Institute of Chartered Accountants in Australia (Institute) and the Institute of Public Accountants (IPA) (the Joint Accounting Bodies) have considered our members' feedback and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

We welcome the IAASB's paper and exploration of issues emerging as financial reporting evolves and would caution that new standards, or additional requirements added to existing standards, may not necessarily be the best or most effective response. An appropriate way to address a complex and developing area such as this could be for the IAASB to instead issue a more extended non-authoritative document such as a guidance note that explores this topic more fully. This alternative approach aligns completely with the current drive for auditors to be able to stand back outside the "rulebook" and exercise enhanced professional scepticism.

The attached Appendix expands on this matter.

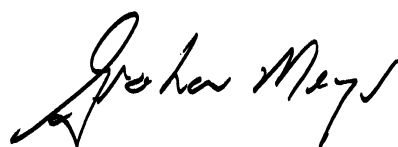
The Joint Accounting Bodies are committed to assisting where possible in the development and implementation of the highest quality auditing and assurance pronouncements. We hope that the comments provided are helpful to the IAASB. If you have any questions regarding this submission, please do not hesitate to contact:

Amir Ghandar (CPA Australia) at +612 9375 6244 ([amir.ghandar@cpaaustralia.com.au](mailto:amir.ghandar@cpaaustralia.com.au));  
Andrew Stringer (Institute) at +612 9290 5566 ([andrew.stringer@charteredaccountants.com.au](mailto:andrew.stringer@charteredaccountants.com.au)); or  
Tom Ravlic (IPA) at +613 8665 3143 ([tom.ravlic@publicaccountants.org.au](mailto:tom.ravlic@publicaccountants.org.au)).

Yours sincerely



**Alex Malley**  
Chief Executive Officer  
CPA Australia Ltd



**Graham Meyer**  
Chief Executive Officer  
Institute of Chartered  
Accountants in Australia



**Andrew Conway**  
Chief Executive Officer  
Institute of Public Accountants

**Representatives of the Australian Accounting Profession**



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



IPA INSTITUTE OF PUBLIC  
ACCOUNTANTS

[publicaccountants.org.au](http://publicaccountants.org.au)

### General comments

The Joint Accounting Bodies support the IAASB's initiative in developing the discussion paper and highlighting auditing and assurance issues arising as financial reporting continues to evolve.

While auditing has always been an intellectual exercise, it is perhaps more so now than ever. It involves much more than rote process and has evolved from what might have been characterised as largely a compliance exercise to one requiring an enhanced skill set.

The auditor needs to be able to understand matters such as new and dynamic business models. These include increased outsourcing (and "offshoring") of activities, complex and ever changing financing arrangements, and be able to address risks associated with these during the conduct of an audit engagement. The auditor then is required to express a professional opinion on the entity's attempts to capture the financial essence of the foregoing in a form that "fairly presents" and is useful to stakeholders, while ensuring that obligations imposed by standard setters, lawmakers and regulators are complied with.

The auditor is frequently confronted by and needing to deal with complex intellectual and conceptual issues. In our view most, if not all, of these are capable of being addressed within the principles contained in the existing suite of auditing and assurance standards. As we mentioned in our submission dated 23 February 2011 in response to Proposed IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments*, an implicit "checklist" provided by additional standards and requirements may not serve auditors well. Additional requirements may provide a false sense of security to practitioners who are time poor and who could see compliance with additional requirements as a proxy for the required level of understanding and knowledge.

Such an approach presents many risks, not only for the auditor but their client also. This is because a checklist is unable to capture all of the subtleties likely to be involved. Checklists may be useful but would need to be supplemented by additional guidance to help evaluate areas of complexity.

Using the core set of principles contained in the existing auditing standards as a base, our suggestion is that the IAASB should instead issue more extended, non-authoritative documents that explore these and other complex topics more fully.

Such extended documents would contribute to knowledge and understanding of dynamic and complicated topics and explore the issues. The primary purpose should be to encourage comprehensive understanding and in our view should not be written in the language of a standard. The style should be discursive and instructive – not regulatory. In addition to clarifying existing issues more comprehensively, such documents would provide impetus for the development of new methodologies and approaches to the issues in a way that standards and other authoritative documents could not contemplate.

Therefore as the disclosures required by IFRS all flow from accounting standards which are already addressed by the existing auditing standards, the topic to us would more naturally fall into the area where discussion documents are more likely to be helpful. We would encourage the IAASB to utilise the feedback received on specific stakeholder group questions in the consultation paper to develop a document that explores this area further.