

10 September 2014

Mrs Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017 USA

Dear Mrs Healy,

**IAASB Exposure Draft – Proposed changes to the  
International Standards on Auditing – Addressing  
disclosures in the audit of financial statements**

Please find below the Australasian Council of Auditors-General (ACAG) response to the proposed key changes to the ISAs. The attachment contains our response to the specific questions in the Exposure Draft. The views expressed in this submission represent ACAG members within Australia, Papua New Guinea and Fiji.

ACAG supports the Board's endeavours to enhance guidance and clarify expectations relating to the audit of financial statement disclosures. However, ACAG encourages the Board to consider the cost-benefit of the proposed changes and ensure they will achieve the stated objectives.

Please refer to our attached submission for comments on each of the four questions posed in the exposure draft.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill

**Chairman  
ACAG Financial Reporting and Auditing Committee**

CC Australian Auditing and Assurance Standards Board

## Specific matters for comment

**Question 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?**

ACAG supports the Board's efforts to improve consistency and proper application of the requirements in the ISAs and to enhance guidance with respect to disclosures.

ACAG supports the Board's overall goals of:

- incorporating the audit of disclosures in a holistic manner
- enhancing the auditor's focus on disclosures
- considering the risk arising from disclosures early in the audit
- effective and consistent identification and assessment of risk of material misstatement in disclosures which determine the audit procedures
- understanding which disclosures might be within the scope of the audit. Such disclosures may be found in related notes, on the face of the financial statements, or incorporated by cross-reference as may be allowable by some financial reporting frameworks
- clarifying that where the term 'financial statements' is used, this is intended to include all disclosures subject to audit.

ACAG makes the following additional observations with respect to some of the proposed changes to the ISAs:

- there are inconsistencies in the proposed changes with the use of 'disclosures' and 'related disclosures' in different standards covered in the proposed changes to the ISAs. For instance, the term 'related disclosures' is used in:
  - ISA 210 paragraph A23
  - ISA 315 paragraphs A1, A19, A31, A124, A125 and Appendix 2
- ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment – paragraph A30. ACAG suggests that more guidance and examples be provided for auditors to assess the adequacy of disclosures for entities with complex structures or complex issues. Paragraph A124a, ACAG suggests that more guidance may be required for auditors as to the extent of adaptation to the revised assertions are allowed in these circumstances.

- ISA 450, Evaluation of Misstatements Identified during the Audit – paragraph A13a. The proposed definition of financial statements in ISA 200 includes disclosures. ACAG suggests amending the first paragraph of this paragraph to read: ‘...takes into account matters such as their effect on the relevant disclosure, as well as their effect on the rest of the financial statements.’ Paragraph A3, ACAG suggests that more guidance and examples may be required for auditors to assess the effect of accumulated misstatements in disclosures.
- ISA 700, Forming an Opinion and Reporting on Financial Statements – paragraph A3a. ACAG suggests using the word ‘understandability’ rather than the word ‘clarity’ in order to draw the connection with paragraph A3b.

**Question 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?**

In ACAG’s view there are no specific areas where additional enhancements to either the requirements or guidance of the ISAs are necessary for the purposes of effective auditing of disclosures as part of a financial statement audit.

**Question 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?**

ACAG is supportive of the increased focus on aggregation and disaggregation, relevance and understandability, and the need to view the disclosures within the context of the financial reporting framework.

However, ACAG has concerns over the volume of changes and suggests the IAASB consider the cost benefit of the volume of proposed changes.

ACAG supports a more holistic approach to auditing disclosures that integrates procedures into the audit process. Proposals to have auditors consider the risk and potential impact and appropriate response at the planning stage of the audit are fully supported.

ACAG has concerns over the proposed significant changes to the audit assertions. Audit assertions are generally linked to financial statement line items and the audit procedures performed on them. Updating the requirements resulting from changes to assertions will involve costs to various standard setting bodies in jurisdictions adopting ISAs due to the consequential changes to the local standards. It will also involve costs to audit firms (and consequently to their clients) as changes to fundamental concepts such as audit assertions will necessitate update of audit methodologies based on the ISAs.

The preliminary staff publication issued in July 2014, acknowledges that ‘ISAs already recognise the role of disclosures in performing risk assessments and developing responses to assessed risks, gathering and evaluating audit evidence, and in forming an opinion on the financial statements, including evaluating the fair presentation of the financial statements.’

ACAG agrees disclosures are an integral part of the statements, but recommends changes be restricted to those that address identified deficiencies.

## General matters for comment

**Question (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.

ACAG has no comment on this matter.

**Question (b): *Developing Nations*** – Recognising 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 developing nation environment.

ACAG has no comment on this matter.

**Question (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.

No potential translation issues for ACAG members.