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Re: Comments on the IAASB Exposure Draft (ED): “Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements”

Dear Mr. Gunn,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the IAASB Exposure Draft (ED): “Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements” (“the ED”). Our main comments are summarised here below.

General comments

The two French Institutes welcome this ED that places emphasis on the disclosures and enhance the related role of the auditor. As a matter of fact, disclosures are a fundamental part of the financial statements, seen as an increasingly important way for preparers to communicate deeper insights about the entity’s financial position and financial performance than is possible through the primary financial statements alone.

Over the past decade, there have been a number of developments in the corporate reporting environment (disclosures requirements and practices) that have led to significant changes in the nature and the extent of the published financial information but also in the way under which and the timing the information is disseminated. More extensive decision–useful information (that is often more detailed and deals with matters that are subjective such as assumptions, models, alternative measurement bases and sources of estimations uncertainty) are provided in order to achieve better communication with the stakeholders. As the financial reporting disclosures continue to evolve, it is important that all disclosed information is relevant, reliable and fairly presented on an understandable way. In such a context, it is the right time for IAASB to tackle this issue, especially as the criticism on over burdensome disclosures is increasing.

.../...

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous :

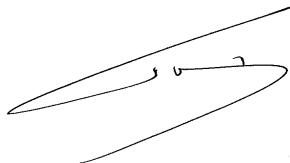
However, in our opinion, we are convinced that this matter cannot be solved by the IAASB alone and it is essential for the IAASB to adopt a holistic collaborative approach with the other interested stakeholders (such as the IASB, the preparers, the stock exchange regulators) and address the matter in a co-ordinated manner.

The two French Institutes agree with the IAASB's decision to address disclosures through the suite of the ISAs. We believe that such an approach is more relevant than addressing the matter in a separate ISA. This should encourage the auditor to consider disclosures earlier in the audit process and undertake relative audit procedures at such an early stage.

This letter also includes our response to the questions set out in the proposed document.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,



Yves NICOLAS
President of the CNCC



Joseph ZORNIOTTI
President of the CSOEC

Comments on specific matters

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?

The two French Institutes consider that the ED provides greater clarity and useful guidance in a number of areas to assist the auditor in the audit of disclosures, i.e.:

- the meaning of disclosures (ISA 200);
- the audit considerations relating to disclosures early in the audit (ISAs 210, 260, 300);
- the identification, assessment and response to the risks of material misstatement in the disclosures (ISAs 210, 315, 320 and 330);
- the expectations of auditor when evaluating misstatements and forming an opinion (ISA 450 and 700).

However, we have the comments on the following:

- The meaning of disclosures (ISA 200, paragraph 13 f)

We are concerned about the proposed changes in the definition of financial statements for the following two reasons: they are not framework neutral and potentially confusing.

- Change of “obligations” for “claims”

Such a change is not framework neutral. The term “claims” is used in the paragraph OB12 of the conceptual framework for financial reporting of the statement of financial accounting concepts n°8 – FASB. Paragraph OB12 of the conceptual framework states: *“General purpose financial reports provide information about the financial position of a reporting entity, which is information about the entity’s economic resources and the claims against the reporting entity. Financial reports also provide information about the effects of transactions and other events that change a reporting entity’s economic resources and claims (...).”*

In addition, the term “claims” may give rise to potential translation difficulties in France, since “claims” is generally understood as meaning litigations rather than obligations. We therefore recommend the IAASB to stop the first sentence of paragraph 13(f) after the term “disclosures”. This would become: *“Financial statements – A structured representation of historical financial information, including disclosures, ~~intended to communicate an entity’s economic resources or claims against the entity at a point in time or the changes therein for a period of time in accordance with a financial reporting framework.~~”*

- Addition of “information incorporated by cross-reference when permitted by the applicable financial reporting framework”

We note that this notion of “information incorporated by cross-reference” is found in the IFRS. Paragraph B6 of IFRS 7 – *Financial Instruments – Disclosures* states: *“The disclosures required by paragraphs 31–42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.”*

The use of such concept is not framework neutral and it may be difficult to understand without further explanations of what it means. Moreover, without additional explanation, the concept of “information incorporated by cross-reference” may appear too extensive. We therefore recommend the IAASB to circumscribe this concept with a reference to the paragraph B6 of IFRS 7 via a footnote or relevant developments in the Application and Other Explanatory Material.

- Addressing disclosures early in the Audit (ISA 210, 260 and 300)

We welcome the guidance concerning:

- the importance of addressing disclosures during the audit planning process;
- the need to emphasize the management's responsibility to deliver information according to an agreed timetable and;
- the need to consider disclosures early in the audit.

Such guidance is helpful and reinforces the importance of integrating the audit of disclosures within the audit process of the classes of transactions and events and the account balances, rather than leaving them to the end of the audit process.

Nevertheless, in practice, the auditors continue to obtain the disclosures at the last stage of the audit. As mentioned in the cover letter, entities are more and more encouraged to provide financial information in "real" time (e.g. preliminary announcements) to meet the needs of the investors who are more and more on the look-out for the latest and the "freshest" information to better anticipate and react on the market. Disclosures come too late in the process and their preparation is perceived as a formal exercise for the management.

In addition, most of the time, disclosures are prepared by the corporate communication departments that are disconnected from the accounting services. Such a process makes more complex the production of the notes to the financial statements and their audit, especially when the underlying amounts are not documented or are issued from systems outside the general ledger.

In this context, we consider that the importance of the internal control procedures set by the entity's management to prepare the disclosures should be emphasized by the IAASB. We believe that the importance of the underlying documentation supporting the disclosed information and the fulfillment of the management's responsibility in the preparation of disclosures should also be emphasized by the IAASB.

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?

As stated in our question 1, one of the greatest difficulties the auditors are facing is obtaining the rationalization and the underlying documentation of the disclosed information early in the audit process, especially when data are issued from systems or processes that are not part of the general ledger. Assessing the reliability of these systems is often not straightforward. Moreover, the extent of the non-financial and /or non-quantitative information makes more complex the assessment of the sufficiency of the evidence available to support such information.

We consider that this issue should be anticipated in the audit engagement letter.

We therefore recommend the IAASB to make clearer in the ISA 210 – *Agreeing the Terms of Audit Engagements* that the access requested to the information relevant to the preparation of the financial statements also includes the information relevant to the preparation of the notes to the financial statements.

This would result in specifying in paragraphs 6 (b) (iii) a) and A23 (7th bullet point) that the financial statements includes the related disclosures. Thus paragraph 6 (b) (iii) a) of ISA 210 would become " *To provide with the auditor access to information of which management is aware that is relevant to the preparation of the financial statements, which includes related disclosures, such as record, documentation and other matters*".

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?

The two French Institutes agree that the incorporation of assertions for presentation and disclosure, within ISA 315, should encourage the auditor to better consider disclosures and undertake related audit procedures earlier in the audit. We believe that it would improve the effectiveness of the audit of disclosures.

However, we have the following question concerning the assertion “Classification” that is not an assertion related to account balances and related disclosures at the period end (paragraph A124(a) of ISA 315), whereas it is mentioned as an assertion related to classes of transactions and events (paragraph A124(b) of ISA 315). We consider that this difference is very difficult to understand and recommend the IAASB explain why the “classification” assertion is not included in paragraph A124(b) of ISA 315.

Other Comments on specific matters

In addition to the request for specific comments above, the IAASB is also seeking comments on the general matters set out below:

(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.

We have no specific comments on the proposed changes to the ISAs regarding the SME environment, since in our opinion the audit approach on the disclosures does not depend on the size of the entity. It is the disclosures themselves which are less complex in a SME environment. We believe that notes to financial statements are also useful for SME’s financial statements, even if it is often put forward that their transactions are less complex. We are of the opinion that a proper information is always required in the financial statements to present them fairly and to be useful to their 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.

We do not have anything to report on this specific matter.

(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.

We refer to our comments on the question 1 about the use of the term “claims” in paragraph 13(f) of ISA 200.

Effective date – 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.

We agree with the alignment of effective date with other new and revised ISAs, namely the IAASB’s Auditor Reporting project and the project to revise ISA 720.