Chartered Accountants Ireland

Chartered Accountants House
47-49 Pearse Street
Dublin 2

Tel +353 1 637 7200
Fax +353 1 668 0842
Email ca@charteredaccountants.ie

www.charteredaccountants.ie

Beverly Bahlmann
Project Manager
International Audit and Assurance Board
545 Fifth Avenue, 14th Floor
New York, New Your 10017
USA

10 September 2014

Dear Ms Bahlmann

Response of the Audit and Assurance Committee of Chartered Accountants Ireland

ED: Addressing Disclosures in the Audit of Financial Statements

The Audit and Assurance Committee (AAC) of Chartered Accountants Ireland welcomes the opportunity to comment on the IAASB's proposals in the above mentioned exposure draft.

Whilst AAC understands the direction that the Board would like to take with regard to the audit of disclosures, AAC would have a number of significant concerns, as follows.

Rationale for proposed changes

The underlying rationale for the proposed changes has not been explained in the ED. Indeed, the Board asserts on a number of occasions in the document that it considers the relevant ISA requirement under consideration to be "sufficient to meet the objectives stated in the ISAs…". AAC therefore questions the decision to amend the standards if there are no obvious faults to be corrected and suggests that the Board consider clarifying the various issues in a separate document, such as a staff paper.

Proposed amendments to ISA 700

The proposed amendments to ISA 700 *Forming an Opinion and Reporting on Financial Statements* are of significant concern to AAC. They would appear to assign responsibility to the auditor for disclosures in the financial statements pertaining to areas/issues on which the major financial reporting standards setters continue to work to find a satisfactory conclusion.

The proposed change from financial statements 'adequately' disclosing the significant accounting policies to 'appropriately' disclosing such policies is considered to be quite a fundamental change, as most financial reporting frameworks require the material accounting policies to be adequately disclosed. During the audit planning stage, the appropriateness of the accounting policies proposed to be disclosed would be considered, but at the reporting stage, it is the adequacy of those disclosures that is considered and reported on, i.e. is the disclosure adequate to “assist users in understanding how transactions, other events and conditions are reflected in reported financial performance and financial position” (IAS 1.119).

Proposed paragraph A3b would require auditors to evaluate whether disclosures are “presented in a clear and concise manner” and whether significant disclosures are positioned to give “appropriate prominence”, but there are no such explicit requirements in financial reporting frameworks, nor any real basis within those frameworks to make such judgements.

‘Related disclosures’

The proposed amendments regularly include reference to “related disclosures”. AAC is concerned that this may inadvertently exclude certain disclosures which do not necessarily “hang off” any other items in the financial statements, and therefore may not fall within the term “related disclosures”. Examples of paragraphs where the reference to “related disclosures” has been added include A19, A124 and A124a, A125.

AAC notes that disclosures are ‘captured’ generally under extant ISA 315 and considers that the proposed amendments in this regard have not achieved clarity on the issue. Whilst A124a considers “disclosures not directly related to recorded classes of transactions, events, or account balances”, AAC noted that this paragraph does not state what the assertions are with regard to such disclosures.

Comments on other aspects of the proposals

The appendix to this letter contains further comments on some of the other aspects to the proposals.

Should you wish to discuss our response, or any other aspect of the proposals with us, please feel free to contact me.

Yours sincerely

Mark Kenny

Mark Kenny
Secretary to the Audit and Assurance Committee

APPENDIX

Q1: In your view, are the proposed changes to the ISAs appropriate and sufficient for the purposes of enhancing the focus of the auditor on disclosures and will they, thereby, further support the proper application of current requirements in the ISAs?

<u>ISA 200</u>

AAC would like the Board to clarify why it has proposed to change 'obligations' to 'claims against the entity' in the definition of 'financial statements'. Is there a risk that the proposed amendment could limit the focus of the auditor on such 'claims' only rather than – as is currently the case - on a wider consideration of all potential liabilities of the reporting entity, as defined by the relevant financial reporting framework?

In the proposed amendments to paragraph A23, reference is made to management providing access "to all information (of which management is aware) that is relevant to the preparation of financial statements". AAC points out that there may be other information that management would not consider relevant to the preparation of the financial statements, but to which auditors may require access for the purposes of their audit, e.g. debtors' confirmations.

<u>ISA 240</u>

Whilst AAC has no major objections to the proposed changes in ISA 240, the committee notes that the definition of 'financial statements' encompasses the disclosures and considers that there may be, therefore, a risk that the proposed amendments might overemphasise the importance of the disclosures in this regard. AAC suggests that the Board consider the overall impact of the proposed amendments to ensure this is not the case.

<u>ISA 315</u>

Paragraph A21a

AAC is concerned that A21a, under the heading 'Discussions among the engagement team' is drafted at a more granular level of detail than A21 and as such, for example, focuses on new disclosure requirements arising from new financial reporting requirements, whilst not also emphasising the implications for the rest of the financial statements from such new financial reporting requirements. In contrast, A21 is drafted at a high level and encompasses a consideration of account balances, classes of transactions and disclosures together. Whilst not disagreeing with the intention behind these amendments, AAC considers that the wording should be revisited in order to achieve consistency of message between A21 and A21a.

Paragraph A128c

AAC would note that the list of circumstances, which may be relevant when assessing the risk of material misstatement, would be applicable to misstatements of any nature, not solely those within disclosure notes. AAC further considers that this issue might be more appropriately discussed within ISA 320 *Materiality in Planning and Performing an Audit* rather than within ISA 315.

Appendix 2

AAC notes that 'misstatement' is defined in the glossary to the ISAs as "a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework". Thus, material misstatement is clear in referring to misstatements in the financial statements, including the notes, and the amendment is not therefore required.

Also, the proposed amendment to include "and related disclosures" at the third last bullet point (i.e. "Events or transactions that involve significant measurement uncertainty, including accounting estimates **<u>and related disclosures</u>**") would appear to AAC to change the context of the list, which is a list of "examples of conditions and events…".

As noted in the cover letter, AAC is concerned that the significant flaw in the current standards necessitating these proposed amendments has not been satisfactorily explained in the document.

<u>ISA 320</u>

Paragraph 6

AAC does not see the value of the changes proposed to paragraph 6. If something specific is deemed necessary with regard to disclosures, then AAC considers it should be done in a separate paragraph.

Paragraph A10

AAC considers the extant example of 'newly acquired business' is broader than the proposed 'acquisition of a new subsidiary'.

ISA 330

Paragraph A52

Whilst AAC has no objection to the addition of the phrase "financial statement closing process', it is concerned that the reference to 'substantive procedures' suggests a more onerous requirement than 'examination of journal entries', which may result in differences in the understanding of what is required between practitioners and regulators.

ISA 450

Paragraph A2a

AAC considers that the wording of this paragraph is difficult to understand, as whilst accumulation and aggregation of items included in the primary financial statements is clear, it is unclear what those terms could mean in relation to disclosures. AAC notes that the misstatements in disclosures are considered together with other misstatements, and not just in isolation, when considering the impact on the true and fair view provided by the financial statements, but that this does not represent accumulation/ aggregation. AAC suggests that the first sentence of the paragraph be deleted, such that the paragraph would just read:

"Although misstatements in non-quantitative disclosures cannot be aggregated in the same manner as misstatements of amounts, they are still evaluated individually, and collectively, with other misstatements."

ISA 700

Paragraphs 13, A3a and A3b

The cover letter discusses AAC's concerns with regard to the proposed amendments to ISA 700, including the proposed change to the auditor evaluating whether the financial statements "appropriately disclose the significant accounting policies" from the existing requirement to evaluate the adequacy of the disclosures.

Also, the cover letter raises AAC's concerns about how auditors are to exercise judgement the clarity and conciseness of disclosures and about the prominence of the placement of significant disclosures, when the financial reporting framework gives no consideration to those issues.

AAC suggests that both paragraphs A3a and A3b should be deleted.

Paragraph A4

AAC considers that the changes to this paragraph, in terms of trying to address the true and fair view presentation, should be part of a separate project and should not be undertaken in a limited fashion in this project addressing the audit of disclosure.

AAC considers generally that there is no adequate underpinning for the proposed amendments to ISA 700.

Q2: Are there any specific areas where, in your view, additional enhancement to either the requirements or guidance of the ISAs would be necessary for the purposes of effective auditing of disclosures as part of a financial statement audit?

AAC has not identified specific areas requiring additional enhancement to ISA requirements or guidance for the purposes of effective auditing of disclosures.

Q3: Will the proposed changes to the assertions 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?

As mentioned elsewhere in this response, AAC considers that there may be a risk that the proposed amendments might actually lead to an over-emphasis on disclosures. AAC also considers that the rationale for the proposed changes has not been adequately explained in the document and therefore finds it difficult to come to a conclusion that the proposed amendments will effectively address a perceived lack of effectiveness in the audit of disclosures, given that the IAASB does not consider the requirements of the standards themselves to be defective.

AAC suggests that any clarifications of the wording of the standards and/or application guidance may be more effectively addressed via a staff paper.