September 11, 2014

Hunter College Graduate Program
Economics Department
695 Park Ave.
New York, NY 10065

International Federation of Accountants
545 Fifth Avenue
New York, NY 10017

Re: Exposure Draft of Proposed Changes to the International Auditing Standards – ***Addressing Disclosures in the Audit of Financial Statements***

To Whom It May Concern:

The Advanced Auditing class at the Hunter College Graduate program in New York appreciates the opportunity to comment on this exposure draft.

Our focus group discussed the above exposure draft and the changes recommended.
We have attached below our commentary and recommendations in relation to the draft.

If you would like to discuss our findings please contact Professor Joseph A. Maffia, at 212-792-6300.

Sincerely,

Joseph A. Maffia

Professor Joseph A. Maffia, CPA

Hunter College Graduate Program
Economics Department
Advanced Auditing Class

COMMENTS TO THE INTERNATIONAL AUDITING AND ASSURANCE STANDARS BOARD ON THE PROPOSED CHANGES TO THE DISCLOSURES REQUIREMENTS IN THE AUDIT OF FINANCIAL STATMENTS

September 10 2014

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Hunter College Graduate Program
Economics Department
Advanced Auditing Class

COMMENTS TO THE INTERNATIONAL AUDITING AND ASSURANCE STANDARS BOARD ON THE PROPOSED CHANGES TO THE INTERNATIONAL STANDARDS ON AUDITING (ISAs)

GENERAL COMMENTS

The Advanced Auditing Class has reviewed the above-referenced Exposure Draft and offers the following comments for consideration by the IAASB.

- ISA 200 – We suggest a restatement of the underlined definition of disclosures to a simpler meaning of "Disclosures are a summary of significant accounting policies comprised of explanatory or descriptive information on the face of the financial statements, when permitted by the applicable financial reporting framework." This proposed modification is intended to simplify further simplify the definition for individuals without an accounting background.

- Appendix 1 - Sample Audit Letter Changes
  - Objective and scope – We suggest changing the term "users" to "stakeholders" as the impact of financial statements aren't just directly related to those who utilize the financial statements. We agree with the overall statement but believe that the scope should be expanded
  - Auditor Responsibilities – We suggest changing bullet point 4 to "Evaluate the overall presentation, structure, and content of the financial statements including the <u>related</u> disclosures, and whether the financial statements represent the underlying transactions and events in a manner <u>that is fairly presented in accordance with generally accepted accounting standards"</u>

- General consistency - throughout the proposed changes you reference is made to changing the term "notes" to "disclosures". However, there are still references to the term "notes" for example in the sample audit letter per Appendix 1.
  - We suggest that all references to "notes" be consistently changed to "related disclosures"

- Comment on proposed change A11. (Ref: Para. 15) (Page 23) – We agree with adding clarification to this International Standard on Auditing (ISA) with regards to discussions on disclosures, but believe additional concerns should be addressed. The bold section should be added.
  - <u>"A consideration of the risk that management may attempt to obscure information by presenting disclosures that are not clear and understandable,</u> **<u>or that management will provide additional,</u>**

unnecessary information to distract from meaningful disclosures. This addition will benefit the discussion between client and engagement team by emphasizing that too much information is not the goal of disclosures.

- Planned Scope & Timing of the Audit (Ref: Para, 15)
    - A12: The idea of assessing material risk along with significant risk already identified is beneficial because it can allow the effective and accuracy of the audit to be more concise. It can potentially identify material risk that was not initially recognized.
        - "The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert." This specific addition helps specify the requirements and the area of information. This will allow the auditor to more clearly determine what and whom will be needed for the completion of the audit.
    - A13: Addition of "and how they affect, for example, the overall presentation, structure and content of the financial statements, including the relevance, reliability, comparability and understandability of the financial statements" Good addition to make the guidelines more detailed and precise.

    - A12: The Audit Plan (Ref: Para, 9)
        - a. We suggest you rephrase the second sentence because it is a bit repetitive to something along the lines of: Some of these disclosures that are affected may also affect the assessed risk by containing information from systems or processes that are not part of the general ledger system."
        - b. These changes are helpful to keeping the disclosures and information regarding the audit up to date and relevant during the period of audit.
        - Appendix: Where it says "Changes to the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures." Would be helpful to add the degree of change and why it was made.

- A1 (Ref: Para. 5) Addition of the words "any" and "all" may assist in emphasizing the importance of looking at every available information where audit consideration is necessary. Especially if the proposed changes are to emphasize financial statements in general. In addition, parentheses tend to make things seem of less importance so we suggest getting rid of it.

  "Identifying all areas of the financial statement, including any related disclosures, where special audit consideration may be necessary, for example, related party transactions, or the appropriateness of management's use of the going concern assumption, or when considering the business purpose of transactions;"

- A19 (Ref: Para. 9) The sentence is very wordy and confusing so we suggest a rewording.
  Suggestion: "Places where the auditor experienced difficulty in performing the necessary audit procedures relating to particular types of transactions, other events or account balances, and any related disclosures."

- A21A (Ref: Para. 10) This change is very important and necessary. Less emphasis gets put on disclosures because they are not a part of the actual financial statements but dire information that is material can be included in this section. This addition will assist in making disclosures an important part of audits and assist in the focused attention on disclosures as well as financial statements.

- A80. In addition to understanding the entity's business transactions, the auditor should have a clear view of the company's past history and its environment. Also, the auditor should acknowledge any risks in the financial statements related to relevant controls through the transactions' class, account balances and disclosures.

- Comment on proposed change Appendix 2 (Ref: Para. A40, A128) (Page 42). We agree with the list of examples regarding the conditions and events that may indicate risks of material misstatement, especially the point "significant transactions with related parties". However to clarify what type of transactions are considered related parties, the bold section should be added.
  - Significant transactions with related parties **include the following:**
    - **Conflict of interests statements obtained by the company from its management**
    - **Undisclosed relationships with major customers, suppliers, lenders or borrowers regarding the extent and nature of business transacted**

- Comment on proposed change ISA 320, Materiality in Planning and Performing an Audit
  - We agree with some of the proposed changes. We suggest that "Although" be not removed, also, we paraphrase the underlined statements to give it a clearer meaning.
    - 6. In planning the audit, the auditor makes judgments about the size of misstatements that will be considered material. These judgments provide basis for:

      (a) Determining the nature, timing and extent of risk assessment procedures;
      (b) Identifying and assessing the risks of material misstatements; and
      (c) Determining the nature, timing and extent of further audit

- The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. **Although,** it is not practicable to design audit procedures to detect all misstatements that could be material because of their nature<u>. However, the nature of potential misstatements in non-quantitative disclosures should be considered when **designing** audit procedures to address risk of material misstatements. In addition, when evaluating the effect on the financial statements of all uncorrected misstatements, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence when evaluating their effect on the financial statements.</u>

- Comment on proposed change A1. (f) (Ref: Para. 4(a)) (Page 50) – We agree with this proposed change to this International Standard on Auditing (ISA). To enhance the effectiveness of the proposed change, however, its wording and structure should be changed.
    - With regard to where misstatements may result from, instead of saying, "<u>For financial statements prepared in accordance with a fair presentation framework, the omission of disclosures beyond those specifically required by the framework that are necessary for fair presentation</u>," a more concise statement such as "<u>For financial statements prepared in accordance with a fair presentation framework, **the omission of required disclosures**</u>". This revision to the proposed change would provide clarity to auditors because it eliminates the redundancy of restating "framework" and "fair presentation".

- Comment on proposed change A13 (Ref:Para. 10-11) (Page 51) - We agree with the change of inserting "<u>of an amount" </u>to this ISA but believe it can be modified.
    - The reason for adding the term "amount" is clear - it is meant to differentiate quantifiable misstatements from non-quantifiable ones in A13a. People, however, often use the word amount to attempt to quantify entities that are, in fact, non-measurable entities. For example, one may say "amount of judgment" or "amount of power". To avoid ambiguity, we would suggest changing "<u>of an amount</u>" to <u>"of a quantifiable or measurable amount"</u>. Such a modification would make clear that A13. refers specifically to quantitative misstatements whereas A13a. refers to non-quantitative misstatements.

- Comment on proposed change A3a. (Ref:Para. 13(a)) (Page 55) - We agree with this proposed change in specifying the Accounting Policies Appropriately Disclosed in the Financial Statements. "A3a. The auditor's evaluation of whether the financial statements appropriately disclose the significant accounting policies selected and applied includes consideration of matters such as the relevance of the accounting policies to the entity, and the clarity with which they have been presented." It expands on the original ISA by specifying the matters to take into consideration, i.e. "Relevance of the accounting policies to the Entity" and "The clarity with which they have been presented." We would also include a process to assist auditors, which would allow them to **objectively** evaluate whether the financial statement as a whole are free from material misstatement due to accounting estimates.
- Comment on proposed change A4. (Ref:Para. 13(e)) (Page 56) - We agree with this proposed change and suggest replacing the wording "In such circumstances, the auditor evaluates" with "Evaluating." Although this edit may seem minor, it brings a more refreshing look to the ISA. We would like to recommend more concise writing throughout all ISAs, which could reduce potential misinterpretation due to verbiage of the current ISAs.

We thank the board for the opportunity to comment and will welcome feedback and questions on our proposed changes in wording and order. We feel the additions, clarifications, and changes made in this proposed redraft do achieve the objective of enhancing the focus of the auditors on disclosures and will support the proper application.