



11 September 2014

Our Ref.: C/AASC

International Auditing and Assurance Standards Board  
529 Fifth Avenue, 6<sup>th</sup> Floor,  
New York  
NY 10017  
USA

Dear Sirs,

**Exposure Draft on IAASB's Proposed Changes to the International Standard on Auditing (ISAs) Addressing Disclosures in the Audit of Financial Statements**

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. We welcome the opportunity to provide our comments on the captioned IAASB Exposure Draft (ED).

We support the IAASB's continuing efforts to address disclosures in the audit of financial statements. However, we note the proposed changes in the ISAs do not reflect the depth of issues and discussion as highlighted in the 2011 Discussion Paper "Evolving Nature of Financial Reporting: Disclosure and its Audit Implications". Given the complexity of financial statements disclosures in recent years, we believe it is important for the IAASB to continue its dialogue with the International Accounting Standards Board (IASB) to align the respective standards on key issues such as the application of materiality concept and evaluation of misstatements.

We appreciate the IAASB's difficulties in proposing appropriate level of changes in the ISAs to deal with the different types of disclosures. We encourage the IAASB to further develop guidance to cover key issues encountered by practitioners. Our responses to the specific questions in the ED are included in the attachment.

We trust that our comments are of assistance to the IAASB in finalising the ED. If you require any clarification on our comments, please do not hesitate to contact our Selene Ho, Associate Director at [selene@hkiipa.org.hk](mailto:selene@hkiipa.org.hk).

Yours faithfully,

Simon Riley  
Acting Director  
Standard Setting Department

SH/jn

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS'**  
**COMMENTS ON THE IAASB'S EXPOSURE DRAFT ON PROPOSED**  
**CHANGES TO THE ISAs ADDRESSING DISCLOSURES**  
**IN THE AUDIT OF FINANCIAL STATEMENTS**

**Request for Specific Comments**

- 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?**

Overall, the proposed changes do provide some guidance to auditors in addressing disclosures and we appreciate the IAASB's efforts for the proposed changes.

However, we are of the view that it does not provide in-depth guidance in regards to the key concern for auditing disclosures "materiality" and how it should be applied for non quantitative disclosures in ISA 320. Auditors would be required to make judgements on how the misstatements in disclosures (including the non quantitative) impact the financial statements. The proposed changes do not provide guidance on the basis or factors for making those judgements.

- 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?**

We recommend the IAASB to include additional guidance for the following areas:

- Practical difficulties can arise in large group audits in determining the impact of component information on the relevant materiality in group disclosures. Given reporting practices in some entities and/or jurisdictions, disclosures may be considered late and/or given limited attention in the financial reporting process, impacting the group audit teams' ability to fully scope significant components and determine risks related to disclosures at the planning stage of the audit.
- Group reporting situations can also present difficulties if reporting systems and/or management's information collation processes are such that information is compiled only for those disclosures deemed in advance to be necessary. There may, therefore, be incomplete information to enable the auditor to determine the relative materiality of certain disclosures.
- Guidance in ISA 705 for omitted disclosures, which are considered material to users understanding of the overall financial statements.
- Guidance on how the auditor should obtain sufficient appropriate evidence to support management's judgement on disclosures that have not been included because management consider them not to be material.

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?**

Generally, we believe the proposed changes would help the auditor to understand the nature, timing and extent of work to be performed on disclosures. However, as highlighted in our responses in 2 above, additional guidance in respect of group audits would be useful.

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