September 29, 2014

International Auditing and Assurance Standards Board
529 Fifth Avenue, 6th Floor
New York, New York 10017

Submitted electronically at: https://www.ifac.org/publications-resources/submit-comment?exposure-draft=26822

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

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 28,000 CPAs in public practice, business, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Auditing Standards and International Accounting and Auditing Committees deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Steven Wolpow, Chair of the Auditing Standards Committee at (631) 845-5252, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,

Scott M. Adair
President

Attachment

NEW YORK STATE SOCIETY OF

CERTIFIED PUBLIC ACCOUNTANTS

COMMENTS ON

EXPOSURE DRAFT, *PROPOSED CHANGES TO THE INTERNATIONAL STANDARDS ON AUDITING (ISAS)–ADDRESSING DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS*

September 29, 2014

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New York State Society of Certified Public Accountants

Comments on

Exposure Draft, ***Proposed Changes to the International Standards on Auditing (ISAs)– Addressing Disclosures in the Audit of Financial Statements***

General Comments

The New York State Society of Certified Public Accountants appreciates the opportunity to comment on the International Auditing and Assurance Standards Board's (the IAASB's or the Board's) *Proposed Changes to the International Standards on Auditing (ISAs), Addressing Disclosures in the Audit of Financial Statements* (the Exposure Draft).

Overall, we support the apparent objective and endorse the efforts of the Board as set out in the Exposure Draft. The proposed changes integrate well with existing literature, and would provide heightened awareness of matters relating to auditing financial statement disclosures and with the IAASB's other ongoing projects mentioned below.

As set out in our responses to the Board's *Invitation to Comment on Improving the Auditor's Report*, dated July 18, 2013, and October 2, 2012, and our response to its proposed revision of ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing or Accompanying Audited Financial Statements and the Auditor's Report Thereon,* (collectively referred to as the Auditor Reporting project), we continue to believe that any changes to auditor reporting should serve to narrow the expectation gap and should focus on objective criteria. Our responses to the specific matters posed in the Exposure Draft and its related request for general comments by preparers and users are set out below and are consistent with these overarching concepts.

Comments on Specific Matters

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?

Response: The changes will integrate well with the existing literature and provide heightened awareness of matters relating to auditing disclosures. To the extent that they affect existing standards, we believe the changes are likely to enhance the Board's effort to implement the current ISAs. However, we also believe that that the Board needs to go further to address ISAs and other standards that would be unaffected by the proposed changes. See our other comments under question 2 and elsewhere below.

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?

Response: Our experience brings to bear the question of whether the standard should discuss the nature, timing and extent of procedures that auditors currently use to audit disclosures.

The most utilized procedure is use of extensive disclosure checklists often published by outside vendors of practice aids and references deemed to be reliable. These checklists generally include all required disclosures as well as others that might be optional, or required only in certain cases depending on circumstances such as regulatory or industry requirements or based on common usage (so the resulting document is close to 100 pages under several frameworks including International Financial Reporting Standards IFRS). Auditors are often confronted by time constraints as the checklists are typically completed and reviewed during the conclusion of the engagement. We believe the standard should mention the auditor's responsibility for assuring that the checklist used is reliable, up-to-date and otherwise appropriate for the circumstances.

The review of complex areas of disclosure is often problematic when the auditor's experience or training or understanding is lacking. Problems can be exacerbated when the client's personnel are untrained or inexperienced. This stems from the fact that the assessment of the sufficiency of disclosures in accordance with the applicable financial reporting framework often includes areas that are highly technical. Accordingly, this issue should be included in a discussion of the auditor's responses to assessed risks, audit evidence, and perhaps in updated quality control standards (under supervision and review).

We also believe the standard should discuss the planning (scoping) side of materiality convention (see ISA 320) in relation to the auditing of disclosures. In such regard, an audit materiality should be used as a benchmark to delineate the extent of the amounts to audit, determined as a matter of "professional judgment," rather than an accounting materiality (*i.e.*, an adjustment threshold), which is ordinarily a much smaller amount.

To illustrate, we provide the following examples:

A) The client has several hundred related party transactions, many of which are very small and some large. If the unusual or sensitive transactions were appropriately identified and selected, which ones could be passed on for audit scrutiny? A determination that the upper misstatement limit for the remaining population of related party transactions could be set at 50% of general audit materiality, and would provide significant coverage satisfying the requirement or reducing the risk of material misstatement to an acceptably low level. Misstatements identified could be evaluated at much lower levels (for the waived adjustment threshold) and using qualitative criteria.

B) With regard to litigation, claims, and assessments, the auditor should obtain evidence relevant to (1) the existence of a condition, situation or set of circumstances indicating an uncertainty as to the possible loss to an entity arising from litigation, claims and assessments, (2) the period in which the underlying cause for legal action occurred, (3) the degree of probability of the outcome and (4) the range of probable loss. Due to legal confidentiality concerns and timing, this area is often contentious to audit.

In many instances, clients have accrued an estimate of probable loss (often the lowest estimate of the range of loss), even without direct input from outside counsel, when claims are in the early stages of discovery. The standard setters have had discussions about whether disclosure is necessary of the range of possible loss and the amounts accrued before withdrawing that potential course of action. If the client decides not to disclose anything about the claims or litigation in the financial statements, the auditor must ascertain the client's reasoning and make a decision whether to qualify the audit report. In these circumstances the matter of how to evaluate the significance of omitted disclosure would involve qualitative and quantitative materiality decisions based on the amounts being omitted, the client's financial strength and weakness, the uncertainty of the matters, and other client specific factors such as other adjustments and omissions. To further complicate the decision, firms may have their own guidance as to provide a more consistent approach to its professionals.

In addition, in practice auditors typically make planning decisions on whether a certain level of work can be passed based on the level of professional costs incurred (a materiality scope decision) and the level and nature of litigation activity in tandem with providing the client with some materiality levels within their audit inquiry requests of attorneys. These matters are often part of the discussion of audit planning with clients' personnel charged with governance or others in management. Other matters, such as whether individual reports of components of a group need to be issued, should be discussed in this context.

We expected that practical problems would be part of the application sections of the standard, but that did not occur. As the clarity standards are tested it would be desirable in our view to have implementation guidance in place along with case study training.

The point here is that these concepts are being used in practice to provide more consistency in firms in dealing with contentious issues such as the A and B above, yet the literature implies that almost all of these matters be individually evaluated against thresholds that are too small to be realistically attained or are so judgmental that any decision would be justifiable as long as it was documented.

With the exception of proposed paragraphs 21A and 89A of ISA 315 and paragraph 13A of ISA 450, the proposed standard that integrates changes and embellishments into the ten sections of the ISA's affected, in many instances, lack the specific detailed procedures that auditors should consider to accomplish their objectives.

The proposed standard does expand the auditor's awareness of disclosure issues.

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?

Response: We believe that the proposed changes to the assertions will be helpful to auditors in integrating their audit work on the underlying amounts; although we question whether the timing of the work will change for what are termed "public interest entities" given their typically short reporting deadlines. However, for other audited entities, it will likely provide a vehicle for enhanced efficiency.

Comments on General Matters

(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.

No comments

(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.

No comments

(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 comments

Effective Date

***Effective Date*—Recognizing that the proposed changes to the ISAs affect some of the same ISAs as other IAASB projects currently being finalized, 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 720.21 Accordingly, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after issuance of the final standards, but may be longer or shorter to align with the effective date of the revisions arising from the auditor reporting and ISA 720 projects. Earlier application would be permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the changes to the ISAs.**

Response: We believe that to address user needs as fully as practical, and to avoid an unnecessarily piecemeal approach to making enhancements to auditor reporting and performance, the IAASB should coordinate the effective date of this proposed standard with the effective dates of the standards that will ultimately be produced by the Board's Auditor Reporting and ISA 720 projects.