

11 September 2014

Kathleen Healy  
Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, 10017  
USA

Dear Kathleen,

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

Thank you for the opportunity to comment on this Exposure Draft. We submit the feedback from the New Zealand Auditing and Assurance Standards Board (NZAuASB) in the attachment.

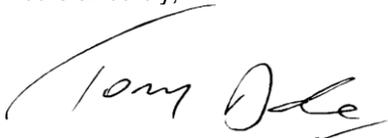
We welcome the opportunity to provide you with our comments. We would like to highlight that comments received from the New Zealand constituents are consistent with the range of issues that the IAASB is seeking to address through this exposure draft.

The NZAuASB is supportive of the IAASB's project to address disclosures in the audit of financial statements. We commend the IAASB's effort to provide guidance on auditing non-quantitative information. We also welcome the IAASB's move to highlight the importance of disclosures earlier on and throughout the audit assignment. We consider that at the practical level, the challenges lie in the fundamental change in practice to help avoid the "completing the checklist" approach, which is made up of a list of detailed accounting standard disclosure requirements.

We recommend that the IAASB continues with its effort in establishing regular interaction with the IASB and the IESBA when issuing standards. Many of the issues around disclosures cannot be solved by the IAASB alone, and the accounting standards need to address this matter first and then the auditing standards can follow. We strongly support and encourage the IAASB's collaborative work with the IASB and others on materiality and disclosure frameworks in the context of relevant disclosure requirements. We believe consideration should be given to how the outcomes of both this and the IASB's *Disclosures Initiative* project could be more closely aligned to avoid further changes to the ISAs in the near future.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Sylvia van Dyk ([sylvia.vandyk@xrb.govt.nz](mailto:sylvia.vandyk@xrb.govt.nz)).

Yours sincerely,



**Tony Dale**

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## Submission of the New Zealand Auditing and Assurance Standards Board

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

#### I Schedule of Responses to the IAASB’s Specific Questions

- 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 NZAuASB is of the view that the proposed changes to the ISAs are appropriate and sufficient for the purposes of enhancing the focus of the auditor on disclosures and will further support the proper application of current requirements in the ISAs. Please refer to the following for more detailed comments:

#### Clarifying the meaning of Disclosures:

The NZAuASB is supportive of the proposed change to clarify the meaning of disclosures. An all-encompassing definition of financial statements, that clarifies that it includes all disclosures subject to audit, irrespective of where they are located, is helpful. However, we also consider that where the clarified or additional guidance is aimed at increased focus on disclosures, it is useful to explicitly include specific reference to disclosures rather than relying on a broader definition of financial statements.

We also consider that repetition of the focus on disclosures specifically, throughout each stage of the audit, is helpful. We are supportive of proposals to add the words, “including disclosures” following the words financial statements, even if this may seem repetitive in nature, as this provides the added emphasis.

#### Guiding Auditors to Address Audit Consideration Relating to Disclosures Early in the Audit:

The NZAuASB is supportive of proposals that focus auditors to consider disclosure issues in the early stages of the audit. This in turn will also focus management on timely preparation of these disclosures, which could have a positive impact on the quality of the disclosures. We agree that the ISAs already cover these requirements, but support the additional guidance that this project brings to focus attention on disclosures earlier rather than later.

When considering feedback from assurance practitioners, the general consensus is that early planning and communication with management and those charged with governance require the same level of attention as completion of the audit. The NZAuASB believes it is a desirable practice to ensure that assurance practitioners and clients are on the same page in the early stages of the audit especially when having to deal with contentious issues that require disclosure. This will be even more prominent once the Auditor Reporting project is completed and ISA 701 is in effect.

#### Identifying, Assessing and Responding to Risks of Material Misstatement – Disclosure Considerations

The NZAuASB welcomes the additional guidance on identifying, assessing and responding to the risks of material misstatement, including at the assertion level for disclosures. Currently, there is a wide range of practice in auditing financial statements

disclosure and it is often different from assessing the misstatements affecting the primary financial statements. This will ensure some form of consistency in audit procedures in this area.

i. Assertions

The NZAuASB supports integrating the relevant assertions relating to disclosures rather than keeping them as separate assertions.

We strongly support emphasising the relevance of disclosures into the assertions. We do however are concerned that auditors adopt a tick box mentality when auditing disclosures, which we consider may be a contributing factor to voluminous disclosures that clutter the financial statements, obscuring the most relevant information. We therefore recommend that in respect of completeness of disclosures, the ISAs should explicitly refer to the completeness of all relevant disclosures required by the financial reporting framework.

In addition, with respect to accuracy, in order to ensure the related disclosures are appropriately measured, it assumes that the disclosures are capable of being measured, i.e. quantitative disclosures. This may not be appropriate for non-quantitative disclosures, of which there is an increasing trend. We recommend that the focus on measurement should explicitly be limited to information that can be measured.

ii. Sources of Information for Disclosures and Sufficient Appropriate Audit Evidence

The NZAuASB agrees with the IAASB that no further modifications to ISA 500 is necessary because of the overarching nature of ISA 500, and that it deals appropriately with the requirement that the auditor needs to obtain sufficient appropriate evidence.

We note that the IAASB will be considering concerns about the availability of audit evidence in some of the areas identified in the recently completed ISA Implementation Monitoring project later in 2014. At the recent NSS meeting, there were discussions on the employment of data analytics by both the preparer of financial statements and the assurance practitioners. With the rise of big data, cloud computing and off premises data centres, currently the laws surrounding the use of data remain largely at the local jurisdiction, and this could create significant compliance challenges in group audit situations. We recommend that the IAASB include these areas when considering concerns about the availability of audit evidence.

iii. Materiality for Non-Quantitative Disclosures

The NZAuASB is supportive of the IAASB pursuing a project to update ISA 320 and continuing to work with other standard setters to address the issue of cluttered and lengthy disclosures in the financial statements. We believe that auditing disclosures plays an important role in improving the quality of the information presented in the financial statements. We further believe that it is important to consider disclosures from the users' relevance and understandability perspective. It is not so much about reducing disclosures in the financial statements but about whether including a particular disclosure is relevant to inform users of the financial statements.

In practice auditors have, in the past, deferred to a full substantive approach due to the auditing standards being silent on matters such as materiality for non-quantitative disclosures and possibly to ensure compliance with the expectations of regulators. We consider that this is not a desirable position, as the default position of adding voluminous disclosures to financial statements may result in cluttered and incomprehensible financial statements.

The NZAuASB is supportive of:

- the additional guidance and examples provided in ISA 315 to aid assurance practitioners in applying materiality judgement when it comes to auditing non-quantitative disclosures, and
- the clarification in ISA 320 that the nature of potential misstatements in disclosures is also relevant to the design of audit procedures to address the risk of material misstatement.

**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:**

We would like to emphasise the urgency in addressing the issues of auditing disclosures based on the principle of materiality and greater consistency in treatment of misstatements in disclosures. We acknowledge the fact that there may be circumstances when the disclosure is extremely specific and the comparison with a similar entity is not practicable or not possible and the applicable standard is open for interpretations by assurance practitioners.

We strongly recommend additional clarification regarding the material non-quantitative misstatements and their effect on the audit opinion.

Another grey area is determining materiality for large group audits and determining the impact of component information on the relevant materiality of group disclosures. If the group spans across different jurisdictions, it is important to scope the significant components and the related risks at the planning stage rather than late in the audit of the financial statements process.

In New Zealand, we currently have a project underway to produce an accounting standard called *Public Benefit Entity Financial Reporting standard on Service Performance Reporting*. This standard deals mostly with non-financial reporting elements in the financial statements. We anticipate producing a standard to aid assurance practitioners who are engaged to provide assurance over these entities.

We believe the work efforts in enhancing the ISAs for the purpose of effecting auditing of disclosures as part of a financial statement audit is a step towards addressing requirements that may arise from projects such as one mentioned above. As we progress towards the trend of communicating other types of information regarding an entity apart from its financial position, it would be helpful to produce guidance on auditing these non-financial information to be applied consistently.

**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:**

Yes, we consider the proposed changes will assist to prompt an earlier response to auditing disclosures.

The key question would be whether the enhancement of guidance material and proposed changes to the assertions will align the expectations of the preparer, the assurance practitioner and the regulator when considering what is of significance for disclosure. We anticipate minor discrepancies arising convincing preparers to disclose information that is not explicitly required by the financial reporting framework.

## **II Schedule of Responses to the IAASB's General Matters Questions**

- A. *Effective Date* – Recognizing that the proposed changes to the ISAs affect some of the same ISAs as other IAASB projects currently being finalised, 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 review ISA 720. 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:**

The NZAuASB supports the proposed effective date. We further support the IAASB's efforts in ensuring that the effective dates are aligned as much as possible to other projects. This will allow for a period of stability to ensure effective implementation of standards. In New Zealand, the demographic is made up of mostly small and medium practices. Some of these firms are resource and time poor and face many challenges in implementing international standards. Practitioners prefer if such changes (which in effect are lots of little ones) were made in conjunction with other more major changes in terms of application dates.