



17 September 2014

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The International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, 10017
United States of America

Dear Members of the International Auditing and Assurance Standards Board

**IAASB EXPOSURE DRAFT – PROPOSED CHANGES TO THE INTERNATIONAL STANDARDS
ON AUDITING – ADDRESSING DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS**

Thank you for the opportunity to provide comments on the IAASB Exposure Draft – *Proposed Changes to the International Standards on Auditing – Addressing Disclosures in the Audit of Financial Statements* (the Exposure Draft).

The Exposure Draft is concerned with disclosures in the context of the audit of historical financial information. In the New Zealand public sector disclosures often include historical non-financial information that is required to be audited. Such information covers the services provided by each public entity and the impacts achieved. In our view, the International Auditing and Assurance Standards Board (the IAASB) needs to expand its standards (that currently apply only to the provision of assurance on historical financial information) to also include provision of assurance on historical non-financial information.

This would require acknowledgement by the IAASB that there are three broad types of information presented in annual reports being financial information, non-financial information, and other information, the latter not being subject to assurance.

Appendix 1 to our submission responds to the questions listed in the Explanatory Memorandum dated May 2014.

If you have any questions about our submission, please contact either myself or Roy Glass (roy.glass@oag.govt.nz).

Yours sincerely

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Appendix 1 - Our Specific Responses to the IAASB Questions in the Exposure Draft

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?*

Auditors have a role in questioning the relevance of disclosures in financial statements, and in assessing whether disclosures are needed (or are sufficiently clear) to fully explain a material matter affecting the entity.

However, in our view, the proposed changes in the Exposure Draft do little to encourage auditors to question the relevance of disclosures. And the references in the Exposure Draft to this important role tend to be remote in that they are found within the Application and Other Explanatory Material section, and are somewhat obscure.

For example, there are two references to disclosures needing to be “relevant and understandable” in paragraphs A124(a)(iv) and A124(b)(v) of ISA 315. Paragraph A17a of ISA 450 refers to a trend towards duplicative or uninformative disclosures that may obscure significant information in the financial statements. Paragraphs A3b and A4c of ISA 700 refer to the need to evaluate the understandability and relevance of disclosures.

In our view, the important role of the auditor in assessing the relevance of disclosures is not sufficiently emphasised in the Exposure Draft.

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?*

Apart from the matters raised in our covering letter and in our response to question 1 above, we have not identified any specific areas where additional enhancement to either the requirements or guidance of the ISAs are necessary.

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?*

Our concerns have been raised in our covering letter and in our response to question 1 above.

In addition to the request for specific comments above, the IAASB is also seeking comments on the general matters set out below:

- (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.*

We have no comments to make on the Exposure Draft from a preparer’s or user’s perspective.

- (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.*

Developing nations face difficulties in applying the ISAs when both auditing and financial reporting expertise is in short supply.

- (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.*

We have no comments to make on potential translation issues.

- (d) *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.*

An effective date of 12 to 15 months after the issuance of the final standard seems reasonable.