National Audit Office

Helping the nation spend wisely

Switchboard +44 (0)20 7798 7000
Facsimile +44 (0)20 7798 7070

IAASB

Direct Line +44 (0)20 7798 <Ext>
Email maggie.mcghee@nao.gsi.gov.uk

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Dear IAASB,

IAASB Exposure Draft "Addressing Disclosures in the Audit of Financial Statements”

The National Audit Office (NAO) is pleased to comment on the IAASB’s Exposure Draft “Addressing Disclosures in the Audit of Financial Statements” which proposes changes to the International Standards on Auditing (ISAs).

The NAO, on behalf of the Comptroller and Auditor General, carries out the external audit of UK Central Government departments, and a wide range of other UK and international public bodies. The NAO, a Supreme Audit Institution (SAI), applies ISAs issued by the IAASB and ISAs (UK and Ireland) issued by the UK Financial Reporting Council.

Public sector entities are often required to make additional disclosures beyond those traditionally required by International Financial Reporting Standards / Financial Reporting Standards to improve accountability and transparency of public sector accounts.

We do not generally object to any of the individual proposed changes, however we are concerned about the disproportionate degreee of effort required of stakeholders to update Standards, training materials, translate the changes and update methodologies for what are, in our view, mainly clarifications and further guidance. The proposals have made only minor changes to ISA requirements and as such, do not appear fundamental to the conduct of financial statement audits. As a SAI, we would welcome any further consideration relating to the audit of disclosures in the public sector context, particularly given the importance governments and stakeholders place on the transparency and clarity of their financial reporting.

We have provided more detailed comments in the Annex to this letter.

We would be happy to engage further on any of the comments we have made.

Yours sincerely

Maggie McGhee

Director General, Audit Quality

Annex - UK National Audit Office response to specific questions

1. Whether, in your view, the proposed changes to the ISAs are appropriate and sufficient for the purposes of enhancing the focus of the auditor on disclosures and, thereby, will further support the proper application of current requirements in the ISAs?

In principle, we do not object to any of the proposed changes or to what they are trying to achieve. In practice however, we consider that there would be disproportionate cost and effort required to implement these changes compared to the benefits they would bring. We believe that disproportionate effort would arise for national standard setters, firms updating their methodologies, non-English speaking countries translating the changes and training bodies updating their materials.

Further, the changes proposed largely focus on emphasising, highlighting, focussing and assisting the auditor, none of which are fundamental changes to the work required to meet the objectives of the ISAs.

We would like to see the IAASB working more closely with standard setters to jointly develop an approach to the materiality of disclosures for both financial reporting and audit purposes. This is of particular relevance in the public sector where additional financial reporting and disclosure requirements can reduce the transparency and understandability of financial statements.

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 the purposes of effective auditing of disclosures as part of a financial statement audit?

- The proposed changes in ISA 315 A21a provide examples of matters relating to disclosures for the team to consider. These examples would be more helpful if they were extended to say how the matters could give rise to a material misstatement in disclosures.
- ISA 315 A89a provides examples of systems that are not part of the General Ledger system. We do not feel that this adds anything to the requirements in ISA 315.18 which makes clear the auditor's responsibility this respect.
- ISA 315 A124a is right to remind auditors that disclosures may not be directly linked to transaction or balances however we consider this to be a fact and as such not necessary to include in the ISAs.
- ISA 315. A128c provides helpful examples of the type of disclosure that should be considered when assessing the risk of material misstatement but no guidance is given on what a material misstatement in such disclosures may actually look like. Further, the conditions that follow mention 'omission or obscuring of significant information in disclosures'. There is no guidance on how this relates to materiality, nor on what 'obscuring' would actually look like.
- The proposed change to ISA 330.20 is a useful enhancement. It should however be augmented to consider materiality. Auditors may otherwise expend nugatory time attempting to reconcile disclosures by which the user would not be influenced.
- We agree that auditors should consider and discuss with management disclosures as early as possible, which can help auditors to perform a quality audit. We are not convinced however that this needs to be included as we see this as more good practice than ISA application guidance. Considering the spectrum of audit firms and clients, given that smaller clients may not produce interim financial statements, the guidance may not be relevant to many smaller audit firms, reducing any positive impacts on quality across the

range of firms.

- The proposed changes to ISA 320.6 are a helpful addition however there is no associated application guidance to guide the auditor on what the nature of a potential misstatement in a non-quantitative disclosure may look like and how that would then tie to materiality or be evaluated.
- There is no guidance on how the auditor should go about combining or considering collectively misstatements in disclosures

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.

The proposed changes clarifying the definition of financial statements and changes to the assertions are both potentially helpful. However, the use of wording such as that at A124(b)(v) ‘appropriately aggregated or disaggregated….and understandable…’ leave a lot of scope for interpretation and judgement. Further examples of what a material disclosure misstatement may look like would be helpful.