

Stellungnahme zum Entwurf des IAASB *Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements*

Die Wirtschaftsprüferkammer hat mit Schreiben vom 9. September 2014 gegenüber dem IAASB zum Exposure Draft *Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements* wie nachfolgend wiedergegeben Stellung genommen.

We are pleased to take this opportunity to comment on the IAASB's Exposure Draft: *Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements*. Below we would like to start with some general remarks on the Exposure Draft before we answer the specific questions raised by the IAASB.

General Remarks

In recent years both the importance of the notes as well as their number of requirements increased. Against this background we believe it is important to clarify that

- notes shall be audited as other elements of the financial statement, and
- irrelevant and excessive notes are to be avoided. The auditor must ensure that only the required information are contained in the notes and these are clear and meaningful.

On the other side, we see difficulties with the materiality considerations for non-quantitative disclosures according to their accuracy and completeness.

Specific Questions

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? (specific matter 1)

We support the proposed changes in the way of enhancing the focus on disclosures especially the consideration of

- disclosures early in the audit (text 11; ISA 300.A12a)
- disclosure requirements as part of the discussion among the engagement team (text 13; ISA 315.A21a)
- systems and processes that are not part of the general ledger system but generate information in the financial statements (text 13; ISA 315.A89a) and of controls that address risks of material misstatement from disclosures (text 13; ISA 315.A99a)
- when to perform audit procedures in dependence of the timing of the preparation of the financial statements (ISA 330.A14).

Concerning the above mentioned consideration of systems and processes, all ISAs should clearly express that this refers to information in the financial statements (incl. disclosures).

In ISA 210 you clarify that in terms of understanding of internal controls also internal controls are meant that are not part of the general ledger system but are

- “necessary for the audit” (ISA 210.A11)
- “relevant to the preparation of the financial statement” (ISA 210.A23)
- “relevant to the audit” (ISA 210.Appendix 1)

Regarding these formulations we recommend to harmonize the wording.

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? (specific matter 2)

All considerations to material misstatements/materiality for non-quantitative disclosures (text 13, 26, 28; ISA 315, 320, 450) seem to be very theoretical and hard to implement in practice. Maybe it is sufficient to claim that the auditor evaluates the effect of all uncorrected misstatements according to non-quantitative information in disclosures on the financial statement as a whole as described in the new ISA 450.A13a. On the other side in some financial reporting frameworks some

required disclosures have no influence on the financial statement as a whole (e.g. the disclosure of the first and last name of all members of the management and the advisory board). Additional guidance in this context would be helpful.

The assessment of non-quantitative disclosures as a “misstatement of which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole” in ISA 315.A128b. appears difficult to implement because of the different users of a financial statement and their different interest in the financial statement. But we welcome the examples in A128c. and hope that with time more examples of non-quantitative disclosures are developed.

Regarding the requirement of a fair presentation in the financial statement you speak of “disclosures beyond those specifically required by the framework” (text 30; e.g. ISA 450.A1.(f), ISA 700.A4a.). We recommend in this regard adding more examples.

In our view a clarification of the term "financial statement" is not necessary because usually a financial reporting framework contains a definition of that term too. As far as we know disclosures are always part of the financial statement and therefore need to be audited whether as part of the balance sheet or the income statement or in the notes itself.

As far as a definition seems to be necessary we think that in the proposed definition the use of the term “financial statements” as part of the definition might be unclear. We suggest changing the last two sentences (ISA 200.13.(f)).

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? (specific matter 3)

WPK supports the proposed changes to the assertions. We think it makes clear that disclosures should be audited in the same manner as classes of transactions or account balances (text 15; ISA 315.A124.). We also appreciate the integration of the concept of the relevance of disclosures into the assertions because it helps to focus on the implications of irrelevant or excessive disclosures (text 19).

Concerning ISA 315.A123 we suggest the following modification: “... assertions regarding recognition, measurement, presentation and disclosure.” Thereby becomes even clearer that besides transactions and events and account balances also disclosures must be recognized, measured and presented.

Regarding ISA 315.A124 we suggest that the description of the assertion ‘Accuracy’ should besides “measured and described” be supplemented by “recognized”. In our view, the supplement

could contribute that the focus is placed on irrelevant or excessive information what could help to avoid them.

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. (general matter c)

In order to increase acceptability and understandability of IAASB releases (especially for non-English native speakers) we recommend the enhanced use of “plain English” and the avoidance of boilerplate or overloaded wording.

We would like to thank you for the opportunity to comment on the above mentioned consultation paper and hope that you will find our comments useful. We would be delighted to answer any further questions that you may have.
