

3 October 2014

Ref: 14/73

Prof. Arnold Schilder
Chairman
International Auditing and Assurance Standards Board
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York
10017 U.S.A.

Dear Professor Schilder,

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

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the IAASB Exposure Draft: *Proposed Changes to the International Standards of Auditing (ISAs) - Addressing Disclosures in the Audit of Financial Statements* (the exposure draft). This is a topic of significant interest to the IAIS.

In 2011, the IAIS provided detailed comments on the IAASB's Discussion Paper: *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*. We are satisfied to see that this IAASB exposure draft has addressed a number of concerns we expressed in our comments on the discussion paper. In particular, we believe that the IAASB has appropriately addressed the:

- Importance of the disclosures in relation to financial statements;
- Need to embed the audit of the disclosures in each step of the audit approach, also engaging management's commitment to make available information relevant to disclosures early in the process so as to ensure the audit approach relative to the disclosures is developed in a timely manner;
- Importance of the identification and assessment of the risk of material misstatement within disclosures in relation to the assertions; and
- Importance of the communication with those charged with governance on the usefulness of the disclosures in order to reinforce the relevance, reliability, comparability and understandability of the financial statements.

However, we believe that further improvements can be made to the proposals. We provide the following detailed comments on the specific exposure draft proposals:

Elevation of certain application material to ISA requirements

We believe that some of the application material should be elevated to ISA requirements, as they reflect audit procedures that would be carried out in all audits of disclosures. For example:

- Evaluating the adequacy of presentation and disclosure as described in paragraph A59 in ISA 330¹;
- Evaluating misstatements in non-quantitative disclosures as discussed in paragraph A13a in ISA 450²; and
- Evaluating the appropriateness of the disclosure of significant accounting policies and the understandability and relevance of the information presented in the financial statements as described in paragraphs A3a and A3b, respectively, in ISA 700.³

ED - ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

We believe that it is important to emphasise the view that - in light of the increasing relevance of disclosures to the understandability of financial statements – the audit of disclosures is as important as the audit of the primary financial statements. Disclosures are an integral part of the financial statements and should be audited with the same rigour as the audit of the other parts of the financial statements. As a result, we fully agree with the inclusion of the disclosures in the definition of the financial statements.

However, we observed that the terminology used is not always consistent with the new definition since the references to financial statements are sometimes followed by “including disclosure”.

ED - ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

Regarding A 11, the omission of material disclosures should be also considered as a risk of fraud.

ED - ISA 300, *Planning an Audit of Financial Statements*

We support the changes proposed. However, the standard should better emphasise that the application of a suitable professional judgment to the overall presentation, structure and content of the financial statements should involve members of the audit team with an adequate level of experience and seniority. This is particularly true in assessing the contribution of the disclosure to the relevance, reliability, comparability and understandability of the financial statements, considering the expectations of investors and other stakeholders.

Regarding the use of experts (A 12b), we would also stress the need for adequate expertise to audit the disclosures, where there are complexities, relating also to other areas such as fair values, impairment of intangibles and sensitivity analysis.

ED - ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

We support the proposed changes.

¹ ISA 330, *The Auditor’s Responses to Assessed Risks*

² ISA 450, *Evaluation of Misstatements identified during the Audit*

³ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

However, we believe the information relative to the solvency capital requirement should be added in the list (A 128c) of the disclosures that may be relevant when assessing the risks of material misstatement affecting information that may influence the economic decisions of users.

ED - ISA 320, *Materiality in Planning and Performing an Audit*

We believe that disclosures in relation to solvency capital and risk sensitivity analysis should be considered when determining the materiality threshold for the audit of financial reporting disclosures.

More generally, we believe that coordination with the IASB, who are engaged in a project which aims to improve the usefulness and clarity of financial statement disclosures, would be a useful endeavour for the IAASB, particularly with respect to considering the definition of materiality within the context of disclosures. We believe that a material misstatement exists if the disclosure or its omission could mislead the user of the financial statements.

ISA 500 *Audit evidence*

In auditing financial reporting disclosures, auditors should gather sufficient, appropriate audit evidence that supports the accuracy of these disclosures, and should challenge the preparers on the appropriateness, adequacy and understandability of these disclosures. In this context, we believe that the standards should provide more guidance to auditors on audit procedures that should be carried out to meet these requirements.

We suggest that the IAASB consider enhancing ISA 500 to improve the audit of financial reporting disclosures by providing more information about how the auditor should deal with:

- Information derived through processes other than accounting processes (for example, disclosures relating to embedded value);
- Management judgments and assumptions;
- Qualitative disclosures;
- Risk management disclosures; and
- The extent to which it is appropriate to rely on management representations for disclosures which are highly subjective.

ISA 700 *Forming an Opinion and Reporting on Financial Statements*

Under ISA 700, the auditor is required to stand back and evaluate whether the information presented in the financial statements is relevant, reliable, comparable and understandable. We can understand that in an objective-based disclosure approach, not all the disclosures required by the regulator are considered for inclusion in financial statement disclosures. In such cases, we believe that the entity and the auditor should document and justify their judgment.

If you have further questions regarding this letter, please contact Mark Causevic at the IAIS Secretariat (tel: +41 61 280 8323; email: mark.causevic@bis.org) or Markus Grund, Chair of the IAIS Accounting and Auditing Working Group (tel: +49 228 4108 3671; email: markus.grund@bafin.de).

Yours sincerely,



Peter Braumüller
Chair, Executive Committee



Michael McRaith
Chair, Technical Committee