



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS

PROUD HOST:



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Ms Kathleen Healy  
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International Federation of Accountants  
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Dear Kathleen

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD ("IAASB") EXPOSURE DRAFT ("ED") ON PROPOSED CHANGES TO THE INTERNATIONAL STANDARDS ON AUDITING ("ISAs") – ADDRESSING DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS

The Auditing and Assurance Standards Board ("AASB") of the Malaysian Institute of Accountants ("MIA") welcomes the opportunity to comment on the *Proposed Changes to the International Standards on Auditing ("ISAs") – Addressing Disclosures in the Audit of Financial Statements* issued by the International Auditing and Assurance Standards Board ("IAASB") in May 2014.

Overall, we acknowledge that many issues surrounding financial reporting disclosures cannot be resolved by the IAASB alone. Collaborations with other stakeholders, including accounting standard setters and regulators, are required to effectively respond to issues surrounding disclosures. We note that some accounting standard setters have already commenced initiatives to further explore practical issues raised in relation to financial reporting disclosures.

We agree with the IAASB's move to consider areas in the ISAs where enhancements can be made with respect to disclosures, given the increasing importance of disclosures in facilitating informed decisions by users of audited financial statements.

We also find the recent preliminary IAASB staff publication on *Addressing Disclosures in the Audit of Financial Statements* useful in providing a holistic view on the evolving nature of disclosures and audit considerations relating to disclosures. Included in the publication are categories of disclosures that may be included in the financial statements. It may be helpful though for the publication to be further enhanced to include examples of instances that would constitute a material misstatement and related examples of evidence that would constitute sufficient appropriate audit evidence for these different categories of disclosures.

## Specific questions

Our comments to the specific questions in the exposure draft are as follows:

Q1. 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?

The enhancement to the ISAs are appropriate for the purpose of enhancing the focus of the auditor on disclosures. However, we believe that further improvements to the ISAs as noted in our other comments section of our response will help improve auditing practices in the audit of disclosures.

We agree with the change to the definition of “financial statements” to include all disclosures. However, we noted that throughout the exposure draft, the phrase “financial statements, including disclosures” is sometimes used. We believe emphasising that disclosures are part of the financial statements is not necessary given that the definition of financial statements clearly includes disclosures as part of the financial statements.

Q2. 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?

The IAASB noted in the explanatory memorandum that since the possible change to ISA 320, *Materiality in Planning and Performing an Audit* to emphasise to auditors that the concept of materiality applies to non-quantitative disclosures was intrinsically linked to some of the other issues identified in applying ISA 320 in practice, this issue should not therefore be addressed in ISA 320 in isolation. Whilst we understand that the extent of potential changes to ISA 320 is beyond the scope of this proposal, materiality of non-quantitative disclosures is intricately linked and integral to the audit of disclosures. In this regard, we recommend that the IAASB consider prioritising the review of ISA 320 as a key complementary effort to supplement the issuance of this proposed exposure draft as a standard.

Application material A12a of ISA 300, *Planning an Audit of Financial Statements* emphasises the importance of determining the nature, timing and extent of planned risk assessment procedures and further audit procedures relating to disclosures. We recommend the IAASB to consider repositioning this application material as a requirement in the standard, rather than its proposed application material status.

## Specific questions (continued)

We further recommend the IAASB to consider enhancements to the ISAs as follows:

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

Application material A89a provides examples of information from systems and processes that are not part of the general ledger system which may come from sources such as an entity's risk management system, a valuation report produced by an expert, model and other calculations used to develop estimates or sensitivity analysis derived from financial models. Additional examples of sources commonly found within regulated industries and related to disclosures of going concern uncertainties will be helpful in this ISA.

Additionally, we believe that including the different categories of disclosures that may be in the financial statements, which, at present is included in the staff publication on *Addressing Disclosures in the Audit of Financial Statements* will be helpful in the ISA.

- ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Application material A6 provides examples of matters that the auditor may consider in determining whether a deficiency or combination of deficiencies in internal control constitutes a significant deficiency and application guidance A7 provides indicators of significant deficiencies in internal control. We suggest to expand this application material to focus on disclosures, and in particular non-quantitative disclosures.

- ISA 320, *Materiality in Planning and Performing the Audit*

Paragraph 6 has been enhanced to clarify that the nature of potential misstatements in disclosures, in particular non-quantitative disclosures, is also relevant to the design of audit procedures to address the risks of material misstatement. As there may be practical difficulties in designing audit procedures to address risks of material misstatement for non-quantitative disclosures, additional guidance in the ISA in this regard would be helpful.

- ISA 450, *Evaluation of Misstatements Identified During the Audit*

Further guidance should be provided to address the concept of "clearly trivial" to non-quantitative disclosures. Additionally, we suggest to expand application material A17 to include ISA implications to be considered in relation to other areas of the audit if the misstatement in disclosures is attributable to bias in management's judgement.

- ISA 501, *Audit Evidence – Specific Considerations for Selected Item*

We suggest to include examples of specific considerations by the auditor in obtaining sufficient appropriate audit evidence in relation to disclosures that are not derived from the entity's accounting system.

## Specific questions (continued)

- ISA 560, *Subsequent Events*

We suggest to expand the application material to emphasise disclosures when considering events occurring between the date of the financial statements and the date of the auditor's report.

- ISA 570, *Going Concern*

Paragraph 122 of International Accounting Standard 1, *Presentation of Financial Statements* requires disclosure of the judgements made in applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The disclosure requirements of paragraph 122 of IAS 1 would apply to the judgement made in concluding that there are no material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern once the feasibility and effectiveness of planned mitigation was also considered. We recommend that additional application material on the nature, timing and extent of audit procedures on disclosures over the material uncertainties be introduced. In addition, we would also like the IAASB to consider introducing a rebuttal presumption that when a material uncertainty exists, the assessment on the related adequacy of disclosures in the financial statements shall be re-assessed as a significant risk of material misstatement.

- ISA 580, *Written Representations*

We suggest conforming amendments should be made to this standard to be consistent with changes being proposed to ISA 210, *Agreeing the Terms of Audit Engagements*.

- ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*

We suggest to include additional application material to address the effect of component disclosures on group materiality in relation to group disclosures. Also, to make clear that the discussion among group engagement team members and component auditors regarding the risk of material misstatement of the group financial statements should also include consideration of the disclosure requirements of the applicable financial reporting framework as reflected in the proposed application material A21a of ISA 315(Revised).

- ISA 705, *Modification to the Opinion in the Independent Auditor's Report*

We suggest to include illustrations of auditor's report with modification to the disclosures.

### Specific questions (continued)

Q3. 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?

We believe that changes to the assertions for 'presentation and disclosure' in ISA 315 by combining the assertions with the assertions for classes of transactions and events, and account balances will establish appropriate focus by the auditor in the audit of disclosures. Specifically, this will encourage the auditor to consider auditing disclosures concurrently with related classes of transactions and events, or account balances.

### General question

*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. 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.

We support IAASB's view that, to the extent possible, the effective date of the proposed changes to the ISAs that affect some of the same ISAs in other IAASB projects currently being finalised should be aligned with these other IAASB projects.

Yours sincerely,

MALYSIAN INSTITUTE OF ACCOUNTANTS



JOHAN IDRIS

President