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By email to: j.jackson@frc.org.uk

4 August 2014

Dear Ms Jackson

FRC Invitation to Comment on IAASB Exposure Draft (April 2014) – *Proposed Changes to the International Standards on Auditing (ISAs) – Addressing Disclosures in the Audit of Financial Statements*

Deloitte LLP is pleased to respond to the FRC's request for comments on the IAASB's May 2014 exposure draft. Our responses to the detailed questions asked by the FRC are set out in the Appendix to this letter. As with other recent IAASB exposure drafts, Deloitte Touche Tohmatsu Limited (DTTL) will be responding on behalf of the network and its member firms. We will send you a copy of this response when it is complete.

We agree that the IAASB's project is necessary, given the increasing relevance of disclosures to decision-making by users of financial statements. We are supportive of the overall direction of the IAASB's proposals, although we have a few overarching comments:

- We can see arguments both for and against changing the assertions. On the one hand, many disclosures need to be considered alongside related account balances, classes of transaction and events, and it makes sense to combine the related assertions. On the other hand, this change could be seen as deemphasising disclosures as the related assertions are less prominent.
 - Once the final drafting is complete, the IAASB should stand back and consider whether the message is strong enough that disclosures are an integral part of the audit and that the audit of disclosures is therefore not just a by-product of testing of account balances and classes of transactions.
 - Each reference in the assertions is now to "related disclosures". The IAASB should consider whether this covers disclosures that do not fit with specific items – for example, the summary of significant accounting policies or the identity of an ultimate controlling party.
 - Finally, we suspect that some auditors, particularly those dependent on external providers for

methodologies, training and systems, may use ISA 315.A125 to continue use of the old assertions. Indeed, given that the assertions are often a deep-seated part of audit methodologies as part of the mapping from risks of misstatement to testing, making a change to the new assertions may require significant time to rework software, manuals and training. We suggest that the Staff Publication could explain that if an auditor adopts this approach, this will require them to demonstrate that they have embedded disclosure in the heart of the audit, including appropriate supplementation of existing materials.

- The change to the definition of financial statements to be clear that these include all disclosures is welcome. However, in some cases the phrase “financial statements, including disclosures” is used and in others it is not, which may cause confusion. The IAASB should check each reference is appropriate.
- Finally, in some but not all cases, “adequate disclosures” has been changed to “appropriate disclosures”. We support this change, in particular because of the concerns we share with the FRC that in some cases “adequate” disclosures might lead auditors to avoid challenging a decision to include too much disclosure which may obscure an important issue. This issue is one which will require work from accounting standard setters as well as auditing standard setters, and we suggest that the IAASB ought to co-ordinate the effective date of the resulting amendments to their standards with that of the IASB’s ED/2014/1 project.

In the appendix to this letter we set out some initial observations on specific paragraphs of the requirements and application material which may be worthy of thought by the Auditing and Assurance Council in drafting their comment letter. This is not an exhaustive list of possible comments.

We welcome the idea of the proposed Staff Publication, which will be particularly useful in promoting the changes to the ISAs to auditors as they are scattered throughout multiple standards. It may be helpful for the Publication to include a handful of additional requirements. We suggest that the FRC ought to give consideration as to how it can promote such publications to UK and Irish auditors.

We would be happy to discuss our letter and the draft proposals with you. If you have any questions, please contact Richard Gillin on 020 7007 0202 or rgillin@deloitte.co.uk.

Yours sincerely

A handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, slightly stylized font.

Deloitte LLP

Appendix

Detailed comments on the IAASB's exposure draft

Proposed requirement/application material	Suggestion
ISA 240.A4	We suggest an additional bullet "inappropriate disclosure of assumptions and judgements" is added.
ISA 260.A13	In order to align with the proposed change to ISA 260.A12, the third bullet might usefully refer additionally to changes in the entity's business.
ISA 300.A12b	This refers to the potential involvement of auditor's experts. It would be helpful if this also made clear there may be a need to consider additional work by component auditors. Alternatively, this point may need to be reflected in ISA 600.
ISA 330.30	The words "and information from systems or processes that are not part of the general ledger system" is needed to make clear that auditors should not only tick and tie figures back to the core accounting systems. This aligns the requirement with proposed ISA 330.20.
ISA 450.A14	The words "about amounts" may lead auditors to believe that this guidance only related to numerical disclosures.