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International Auditing and Assurance Standards Board (IAASB)
New York, New York

Dear IAASB,

Our comments on "Addressing Disclosures in the Audit of Financial Statements" are as follows.

In response to question 1, we support the changes. They enhance auditor focus on disclosures.

In response to question 2, our main points are that the IAASB should add to ISA315.25 that the auditor considers risk that the financial statements do not achieve fair presentation and, secondly, that in evaluating misstatements in ISA450, the auditor should give equal importance to errors or omissions of disclosure as to errors in measurement and recognition.

Specific areas of additional enhancement are:

- "Fair presentation" may be a function of or defined by the applicable financial reporting framework. But paragraphs ISA700.A4a, A4b and A4c may unintentionally be expanding upon definitions of fair presentation that are not in the applicable financial reporting framework. Considering whether information is relevant, reliable, comparable and understandable may be general characteristics of financial reporting but because applicable financial reporting frameworks may have only some of these characteristics (or others) in their concept of fair presentation, these characteristics may not always be appropriate to evaluate fair presentation.
    - More generally, if the audit standards are defining fair presentation independent of the applicable financial reporting framework, it may be useful to clarify what is meant by "fair." "Fair" may relate to "faithful representation." Perhaps "fair" is more a concept of equitable (fair) presentation such that the needs of various users are met by the general purpose financial statements: in what sense can financial statements with pages and pages of disclosures useful to investors but few if any disclosures useful to governments or public policy analysts be considered to be "fair?" Or perhaps "fair" is a question of level of quality, in a spectrum from poor to fair to good i.e. adequate or the best that could be done, given constraints of timeliness and cost. Factors mentioned in ISA700.A4b such as evolving financial reporting requirements or changing economic environment do not seem related to fair presentation but instead

    to early adoption of new accounting standards or MD&A disclosures about business prospects. If fair presentation is to be defined in auditing standards, this should be incorporated into ISA200.13.
    - It may be problematic to include throughout the audit standards more guidance and requirements for evaluation of disclosures in achieving fair presentation while still including the words “or implicitly” in the definition of a fair presentation framework. How can auditors translate “implicit requirements” into conclusions about explicit disclosures in a set of financial statements? ISA450.A1.f will be particularly difficult to apply – how can an auditor evaluate omission of disclosures beyond those specifically required by an “implicit requirement?” A way to proceed that may be helpful would be to more clearly relate ISA450.A1.f to the objectives or purposes of the disclosure as described in the applicable financial reporting framework for purposes of evaluation of omissions: the misstatement arises from the failure to meet the objectives or purposes of the disclosure. Alternatively, ISA450.A1.f could be related to a definition of fair presentation included in auditing standards.
    - With an increased focus on disclosure, paragraphs ISA700.19.A12 dealing with compliance frameworks, and the entire concept of compliance frameworks, may need reconsideration. The concept of compliance framework may be more clearly differentiated from “fair presentation” frameworks by removing the sentence starting at “However” from paragraph 19, and making it clear that an auditor only ever evaluates disclosures in a compliance framework with respect to whether the disclosures comply with the framework, and never would consider if additional disclosures were needed. If the intent of “addressing disclosures in the audit of financial statements” is that the auditor should consider if additional disclosures are needed, then perhaps the concept of a compliance framework does not apply to audits of historical financial statements.
- In ISA210.A23, in the sentence “expectation that management will provide access to all information (of which management is aware)” the phrase “of which management is aware” should be removed. It is unnecessary and may undermine the extent to which management is responsible for being aware of what is in its financial statements.
- ISA260/300 refer to “changes <u>to</u> the applicable financial reporting framework” (ISA260.A12 and ISA300 Appendix) and “changes <u>in</u> the applicable financial reporting framework” (ISA 300.A12b) in another. It is not clear if they are referring to the same concept or different concepts (i.e. changes in disclosures resulting from change of financial reporting frameworks or changes in the accounting standards within a framework).
- In ISA320.A10 – it is not clear why fair value accounting sensitivity analysis should be added to the examples of disclosures for which misstatements of lesser amounts than materiality may matter. Is the concept being suggested that where disclosures have quantitative basis that is not monetary (such as X% change results in $Y change in fair value), the auditor should apply some smaller materiality to the X%? So the auditor would

need to consider if disclosing 5.2% when the percentage was actually 5.3% was a material misstatement. Guidance for evaluating misstatements in quantitative but non-monetary disclosures may be helpful.

- In ISA 450, consider adding a paragraph that in evaluating disclosure misstatements the auditor shall treat these the same (as equally important or relevant to the auditor's report) as recognition/measurement misstatements. If this is not the case, disclosures may remain a secondary consideration to the primary consideration of whether the "numbers" are right.
- Consider whether specific management representations regarding disclosures should be required in ISA580. For example, the wording of ISA580.11(b) could be changed from "transactions have been recorded and are reflected" to "transactions and events have been recorded and appropriately disclosed."
- Clarify the auditor's responsibility when financial statements refer to information disclosed elsewhere e.g. "additional information on risks can be found on the company's website."
- ISA700.13(a) the word "adequate" has been replaced with "appropriate" yet (e) still retains "adequate disclosures" rather than "appropriate disclosures."
- In ISA700.A4 – a consideration included is for users to understand risks of material misstatement arising from transactions and events. Understanding of this risk (a matter of reliability that the auditor deals with) does not equate to understanding the entity's financial position or performance (a matter of relevance for users). A clearer concept may be whether disclosures are appropriate to assist the intended users to understand areas of measurement uncertainty, or routine/non-routine transactions, transactions where subjectivity is involved etc. in the financial statements.
- In various instances, there is inconsistent use of the term "disclosures" versus "related disclosures."

In response to question 3, we agree with the addition of the presentation assertion. Keeping paragraphs ISA315.A124a and ISA315.A125 in the standard allows auditor flexibility. However, consider that it is not clear whether the "presentation" assertion is an assertion that each disclosure is "fair" or that each disclosure is in accordance with the applicable financial reporting framework, or something else such as a broader view of how a specific disclosure may be understood in relation to other information in the financial statements or that the entire financial statements are "fairly presented." Assertions are about classes of transactions and events (a more specific view) rather than a broader view (overall set of financial statements). Also, it is not clear what "appropriately aggregated or disaggregated" means in ISA315.A124: is appropriateness to be evaluated with respect to what is required by the applicable financial reporting framework, best practices, or some broader "fair" criterion to be defined in the audit standards?

Paragraph ISA315.25(b) focuses the auditor at the assertion level, and with the proposed changes to ISA315, there will be presentation assertions for classes of transactions, account balances and disclosures. What may be necessary to add is also a general assertion at the financial statement level in ISA315.25(a) that fair presentation has been achieved, and that the auditor should consider risk of material misstatement that at the financial statement level fair presentation is not achieved. Paragraph ISA315.A118 would mention the risk that the financial statements fail to achieve fair presentation. This would better parallel, early in the audit, the evaluation that the auditor will be required to make at the end of the audit, in accordance with ISA700.14, to evaluate whether fair presentation has been achieved.

Thank you for the opportunity to respond.

Sincerely,

Wayne Morgan, PhD, CA, CISA