AT A GLANCE
July 2015

IAASB®

Addressing Disclosures in the Audit of Financial Statements

This summary provides an overview of revisions to the International Standards on Auditing™ (ISAs™) related to addressing disclosures in the audit of financial statements.

Project Objective: The objective of the project was to focus auditors on addressing disclosures throughout the audit process by:

- Enhancing the requirements in various ISAs to drive changes in the auditor's approach and improve consistency in practice to more specifically address disclosures, in particular qualitative disclosures.
- Clarifying the auditor's work effort in relation to disclosures by providing additional guidance to assist auditors in better applying the requirements relating to disclosures.

Effective Date: Audits of financial statements for periods ending on or after December 15, 2016

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Staff has also developed guidance highlighting matters that may be of relevance for auditors when addressing disclosures as part of an audit of financial statements. It is intended to help the consistent, effective and proper application of the ISAs as they relate to disclosures.

Why did the IAASB revise the ISAs to more explicitly address disclosures?

The IAASB wanted to ensure that the ISAs appropriately acknowledge and address the auditor's expected effort in relation to disclosures, as this is essential to achieving a high-quality audit.

Feedback to the Board's January 2011 Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*, highlighted areas where more could be done in the public interest to strengthen auditor behavior in light of the evolving types of disclosures.[1]

Financial reporting continues to evolve to meet the changing needs of users of financial statements. Most significantly, the increasing and widespread use of fair values and other estimates, often involving complex and judgmental measurements, has resulted in financial reporting requirements and practices requiring more detailed disclosures, including disclosure of assumptions, models, alternative measurement bases and sources of estimation uncertainty to provide more decision-useful information. Increasingly, the information in such disclosures are obtained from sources outside the general and subsidiary ledgers and are often qualitative as well as quantitative in nature. As a result, there has been widespread recognition of the challenges for preparers, investors, auditors and others about their consideration of the quantitative and qualitative information included in disclosures.

The IAASB commenced a project in September 2012 to determine whether changes to the ISAs with respect to disclosures were needed (either through new or revised requirements, or expanded application material to support the proper application of current requirements in the ISAs).

Collaboration with Accounting Standard Setters

Throughout its work in developing the changes to the ISAs, the IAASB has been closely following developments by the accounting standard setters on the topic of disclosures. The International Accounting Standards Board (IASB) has on its agenda a "Principles of Disclosure" initiative, and is also working on the topic of materiality. The US Financial Accounting Standards Board (FASB) is also undertaking work on a Disclosures Framework, including focusing on four specific disclosures areas: fair value measurement; defined benefit plans, income taxes and inventory.

The IAASB will continue monitoring the progress on these projects, in particular through proactive engagement with the IASB as it advances its efforts on materiality and disclosures. At such time that these projects are sufficiently progressed, the IAASB will consider whether further amendments to the ISAs or another form of non-authoritative guidance is needed.

[1] See the IAASB's January 2012 *Feedback Statement* for a summary of responses to the Discussion Paper.

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Which ISAs are affected by the changes?

ISA 200 *Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*	Change to definition of "financial statements and enhancement to related application material	**ISA 315 (Revised)** *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*	Enhanced requirements and new application material – Highlighting the need for attention to information in disclosures obtained from outside of the general and subsidiary ledgers in the planning process. Revised assertions to integrate audit procedures for disclosures with account balances and transactions
ISA 210 *Agreeing the Terms of Audit Engagements*	New application material – encouraging management to provide information for disclosures earlier in the audit process	**ISA 320** *Materiality in Planning and Performing an Audit*	New introductory and application material – emphasizing that materiality needs to be considered for qualitative disclosures
ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*	New application material – considering whether there is intentional misstatement of disclosures that may constitute fraud	**ISA 330** *The Auditor's Responses to Assessed Risks*	Enhanced requirements and new application material – strengthened procedures around the reconciliation of the financial statements and consideration of the adequacy of the presentation and disclosure in the financial statements
ISA 260 (Revised) *Communication with Those Charged with Governance*	New application material – communicating with those charged with governance regarding financial statements and disclosures earlier in the audit process	**ISA 450** *Evaluation of Misstatements Identified during the Audit*	New application material – emphasizing that misstatements in disclosures need to be accumulated and evaluated
ISA 300 *Planning an Audit of Financial Statements*	New application material – encouraging auditors to consider disclosures earlier in the audit process.	**ISA 700 (Revised)** *Forming an Opinion and Reporting on Financial Statements*	Enhanced requirements and new application material – strengthening the audit procedures auditors perform when evaluating the financial statements

Where have requirements in the ISAs been strengthened to address disclosures?

The strengthened requirements are largely elevation of application material (existing and as proposed in the May 2014 Exposure Draft) because the auditor would be expected to perform those procedures on every audit.

Evaluating the Financial Statements

The requirements for the evaluation of the financial statements in ISA 700 (Revised) have been enhanced, as they relate to:

- The significant accounting policies: requiring auditors to consider the relevance and understandability of the accounting policies.
- The relevance, reliability, comparability and understandability of the financial statements: requiring auditors to consider completeness, classification, aggregation and disaggregation, characterization; and whether material information has been obscured.

Additional application material for evaluating the financial statements has also been developed.

Information from Systems and Processes that Are Not Part of the General and Subsidiary Ledgers

The required understanding of the information system in ISA 315 (Revised) has been enhanced to emphasize that this understanding includes those relevant aspects of that system relevant to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.

Adequacy of Presentation and Disclosure

The auditor’s requirement to reconcile the information in the financial statements with the underlying accounting records in ISA 330 has been enhanced to emphasize that this includes information from within or outside of the general and subsidiary ledgers.

In addition, the requirement to consider the adequacy of presentation and disclosure in the financial statements has been enhanced to include consideration of the classification and description of financial information and the underlying transactions, events and conditions, and the presentation, structure and content of the financial statements.

What other changes have been made to focus auditors on disclosures?

As disclosures are an integral part of the financial statements, it is important for the auditor to give attention to disclosures throughout the audit. New and enhanced application material has been developed to help auditors focus on disclosures earlier in the audit process, and when performing audit procedures on account balances and transactions for the related disclosures.

Planning for Audit Procedures on Disclosures Throughout the Audit Process

Changes have been made to application material to encourage auditors to:

- Include in the engagement letter the responsibilities of management in relation to providing all information relevant to the financial statements in a timely manner.
- Discuss with those charged with governance, as well as in the engagement team discussion, the planned approach to addressing changes to the financial reporting requirements, or the entity's environment, financial condition or activities, including the impact on disclosures.
- Consider information in disclosures that is obtained from outside of the general and subsidiary ledgers in all aspects of the planning process.
- Plan for audit procedures for the related disclosures as part of the planned audit procedures for account balances, classes of transactions and events.
- Plan for audit procedures on disclosures that are not directly related to account balances, classes of transactions or events.

Integrated Assertions

The assertions for presentation and disclosure in ISA 315 (Revised) have been integrated with account balances, classes of transactions and events to encourage addressing related disclosures with audit procedures for these elements. The changes also encourage the application of the assertions for disclosures not directly related to account balances, classes of transactions and events.

Assessing the Risk of Material Misstatement in Qualitative Disclosures

Changes have been made to ISA 315 (Revised) and ISA 320 to highlight considerations around qualitative disclosures when identifying and assessing the risks of material misstatement.

Definition of "Financial Statements"

Changes have been made to emphasize that disclosures form part of the financial statements, whether as part of the notes or incorporated by cross-reference.