

Basis for Conclusions
Prepared by the Staff of the IAASB®
July 2015

*Revised International Standards on Auditing™
(ISAs™)*

Addressing Disclosures in the Audit of Financial Statements

and

Related Conforming Amendments

IAASB

International Auditing
and Assurance
Standards Board®

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The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

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CHANGES TO THE ISAS: ADDRESSING DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS

This Basis for Conclusions has been prepared by Staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, the changes to the International Standards on Auditing (ISAs) that were made as part of the IAASB's project to address disclosures in the audit of financial statements (hereinafter referred to as "changes to the ISAs"). Substantive changes were made to the following ISAs:

- ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.
- ISA 210, *Agreeing the Terms of Audit Engagements*.
- ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.
- ISA 260 (Revised), *Communication with Those Charged with Governance*.
- ISA 300, *Planning an Audit of Financial Statements*.
- ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.
- ISA 320, *Materiality in Planning and Performing an Audit*.
- ISA 330, *The Auditor's Responses to Assessed Risks*.
- ISA 450, *Evaluation of Misstatements Identified during the Audit*.
- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*.

The IAASB approved the changes to the ISAs in March 2015, together with conforming amendments to ISA 540,¹ ISA 580,² ISA 705 (Revised),³ ISA 800⁴ and ISA 805.⁵

The changes to the ISAs and the conforming amendments were each approved with the affirmative votes of 17 out of 17 IAASB members present for the vote at the March 2015 meeting.⁶

Background

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-

¹ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

² ISA 580, *Written Representations*

³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁴ ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁵ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

⁶ For a full record of the voting on the changes to the ISAs and the conforming amendments, see the minutes of the March 16–20, 2015 IAASB meeting at <http://www.ifac.org/auditing-assurance/meetings/brussels-belgium-1> under the heading "Minutes." One IAASB member was not present for the vote at the March 2015 meeting and was therefore ineligible to vote.

useful information. Increasingly, such disclosures are obtained from sources outside the general and subsidiary ledgers and are often qualitative as well as quantitative in nature.

2. 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.
3. Recognizing the importance of disclosures in informing the decisions of users of audited financial statements, and in light of the feedback to the IAASB's January 2011 Discussion Paper (DP), [The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications](#),⁷ the IAASB commenced a project in September 2012 to determine whether changes to the ISAs with respect to disclosures were needed (through either new or revised requirements, or expanded application material to support the proper application of current requirements in the ISAs).
4. In initially deliberating the application of the ISAs when auditing disclosures as part of a financial statement audit, the IAASB broadly recognized that the ISAs appropriately reflect the necessary risk-based approach to disclosures in the audit, for example by including explicit requirements for doing so throughout the ISAs. Nonetheless, the IAASB agreed that there were areas in the ISAs where enhancements could be made. Throughout the development of the proposed changes to the ISAs, the IAASB and the Disclosures Task Force have been mindful of the issues and concerns raised in response to the IAASB's DP.
5. In May 2014, the IAASB published an Exposure Draft, *Proposed Changes to the International Standards on Auditing: Addressing Disclosures in the Audit of Financial Statements* (Disclosures ED), which proposed changes to ten ISAs.
6. Seventy responses were received, across a broad range of stakeholders. Respondents included four Monitoring Group (MG) members,⁸ other regulators and audit oversight bodies, accounting firms, national standard setters, public sector representatives, as well as representatives of small and medium practices (SMPs).
7. Although investor groups did not formally comment on the Disclosures ED,⁹ the Task Force reached out to them separately for feedback on the proposals, in particular to understand their expectations of auditors in relation to disclosures and any potential expectations gaps.
8. This Basis for Conclusions explains the more significant issues raised by respondents to the Disclosures ED, and how the IAASB has addressed them.
9. The IAASB also discussed this project with the IAASB Consultative Advisory Group (IAASB CAG) on seven occasions, including during the development of the DP and consideration of the feedback received thereon, prior to the issuance of the Disclosures ED and prior to the finalization of the changes to the ISAs.

⁷ See the IAASB's January 2012 [Feedback Statement](#) for a summary of responses to the DP.

⁸ The Monitoring Group comprises the Basel Committee on Banking Supervision (BCBS), the European Commission (EC), the Financial Stability Board (FSB), the International Association of Insurance Supervisors (IAIS), the International Forum of Independent Audit Regulators (IFIAR), the International Organization of Securities Commissions (IOSCO), and the World Bank (WB). BCBS, IAIS, IFIAR and IOSCO responded to the proposals on the changes to the ISAs.

⁹ Two investor groups, Hermes Equity Ownership Services and the International Corporate Governance Network, responded to the 2011 DP.

Public Interest Issues Addressed by This Project

10. The IAASB continues to focus on addressing public interest issues as it develops new standards or makes changes to enhance its extant standards. Investors and others expect high-quality audits that will serve as a means of enhancing the credibility of financial reporting and help to support global financial stability. Understandable and relevant disclosures in the financial statements are essential to users of financial statements. Consequently, increased auditor attention on disclosures may also engender greater attention on them by preparers, and is therefore in the public interest.
11. The changes that have been made to the ISAs are intended to provide workable solutions for issues that have been identified by a broad range of stakeholders relating to the perceived need for auditors to more explicitly address disclosures as part of the financial statement audit. In particular, IFIAR has published inspection findings related to the need for auditors to focus more on auditing disclosures. The IAASB believes that changes to the ISAs in this regard will further contribute to high-quality audits and, through this, enhanced focus on disclosures by preparers and higher-quality financial reporting.
12. The purposes of the changes to the ISAs can be summarized as follows:
 - (a) Focus auditors' attention on disclosures throughout the audit process, thereby contributing to relevant and adequate disclosures for users of the financial statements.
 - (b) Enhance 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.
 - (c) Clarify the auditor's work effort in relation to disclosures by providing additional guidance in the application material in the ISAs to assist auditors in better applying the requirements, regardless of the applicable financial reporting framework, and draw specific attention to evolving types of disclosures and the auditor's work effort in relation to them.

Improving Disclosures for Users of the Financial Statements

13. The trend toward the provision of information in disclosures that is more relevant to users, including being adequate for their needs, has focused the attention of many stakeholders on the disclosures process. It has been acknowledged that improving the quality of disclosures, and thereby the usefulness of the information to users of the financial statements, will require effort by many different stakeholders, including the accounting and auditing standard setters.
14. As explained above, the IAASB commenced a project to explore what changes could be made to the ISAs to help focus auditors on disclosures, particularly in light of the increased focus on this aspect of the financial statement audit.
15. The International Accounting Standards Board (IASB) has also commenced work on two related areas: materiality and disclosures. In relation to its materiality project, the IASB plans to release for public consultation a draft Practice Statement for applying materiality to financial statements in mid-2015. The IASB is also continuing activities in relation to its "Principles of Disclosures" project with the objective of assisting entities to determine the basic structure and content of a complete set of financial statements.
16. The US Financial Accounting Standards Board (FASB) is also undertaking work on a Disclosures Framework, with the project evaluating four disclosures areas: fair value measurement; defined benefit plans, income taxes and inventory. The FASB issued an exposure draft, *Conceptual*

Framework for Financial Reporting: Chapter 8 Notes to the Financial Statements, in March 2014, and are currently re-deliberating comments received. In addition, the US Securities and Exchange Commission is in the process of considering “Disclosure Effectiveness” and is currently in the process of collecting input and comments on how to improve disclosures and make disclosures more effective.

17. Many respondents to the ED, including three MG respondents, encouraged the IAASB to continue working closely with the IASB to help ensure that the proposed changes to the auditing standards are effective and consistent with any proposed changes to the accounting standards. Specifically, these respondents were of the view that preparers and auditors should pay attention to the application, by the entity, of the provisions of the financial reporting framework on the relevance and specificity of the information provided by the entity (i.e., avoiding boilerplate disclosures).
18. What preparers need to do in relation to disclosures is expected to develop further with any changes made to the financial reporting frameworks in relation to materiality and disclosures. The IAASB acknowledges that such developments may give rise to further implications for the ISAs, in particular those addressing the auditor’s consideration of materiality and audit evidence relating to disclosures. As part of the ongoing IAASB-IASB liaison, the Task Force and IAASB Staff will continue to liaise with the IASB Staff on matters of common interest in this area. As a result of what has been learned from this ongoing activity the IAASB may determine that its *Work Plan for 2017–2018*¹⁰ should include a new project related to aspects of disclosures or a more holistic exploration of issues related to materiality, including possible revision to ISA 320 (see further discussion on these matters in paragraphs 28 and 27, respectively).

Strengthening How the ISAs Address Disclosures through Changes that Are Capable of Consistent Application in Audits of Financial Statements of Entities of All Sizes, and in All Jurisdictions and Sectors

19. Addressing the information included in disclosures in the financial statements is an integral part of the audit, regardless of the financial reporting framework under which the financial statements have been prepared. A main consideration in this project was therefore whether the manner in which the ISAs acknowledged and addressed the auditor’s work effort in relation to disclosures was not only sufficient from the perspective of achieving a high-quality audit, but also clear enough to result in a workable and consistent application across all audits. In developing the changes to the ISAs, the IAASB focused on whether they were articulated in a way such that the expected work effort would be well-understood by auditors.
20. Different financial reporting frameworks may apply depending on the size or nature of the entity, or the jurisdiction or sector in which it operates. It is therefore in the public interest that the ISAs be “framework- neutral” and therefore capable of consistent application regardless of the applicable financial reporting framework.
21. The IAASB acknowledges that, for certain entities, a lack of complexity in the nature of its operations may mean that there is less need for extensive or complex disclosures and that certain financial reporting frameworks may require less extensive disclosures than other frameworks. Significant concern was expressed by some respondents to the Disclosures ED, in particular those representing the SMP community, that the proposed changes to the ISAs would unduly burden

¹⁰ As noted in its Work Plan for 2015–2016, the IAASB plans to consult publicly on its Work Plan for 2017–2018. Any new projects identified for this period will be considered at that time in light of existing Board resources,

these entities. These respondents suggested the IAASB should defer making changes to the ISAs for disclosures until planned later work on certain of the ISAs, citing concerns over the volume of changes and the potential effects on smaller practitioners who would need to factor these changes into their audit methodologies and training. They believed that the impact of implementing the changes would outweigh the benefits of doing so in their environment.

22. The IAASB gave careful consideration to these concerns, as effective implementation of the ISAs is fundamental to achieving audit quality regardless of the size of the entity or the accounting firm. The IAASB reflected upon the rationale behind the proposed changes and, on balance, believed that making changes to the ISAs at this time is necessary in the public interest and had the support of a wide range of stakeholders. The changes to the ISAs continue to build on the fundamental principles in a risk-based audit. The IAASB therefore believes they would be capable of being applied proportionately in audits of entities of all sizes, and in all jurisdictions and sectors. See further discussion in paragraphs 71–78 below.

The Need for Strengthened Requirements to Address Auditing Disclosures

Background and Summary of Comments Received on Exposure

23. In developing the changes to the ISAs proposed in the Disclosures ED, the IAASB considered that the extant requirements in principle adequately addressed the auditor’s work effort in relation to disclosures in most circumstances, but that more guidance was needed to explain how some of the requirements were expected to be applied in addressing disclosures. Accordingly, the majority of the proposed changes in the ED were developed to clarify the application of existing requirements, or to provide additional guidance to explain more precisely what the relevant requirement means or is intended to cover, or to provide examples of procedures that may be appropriate in the circumstances. The IAASB also believed that changing the definition of “financial statements” in ISA 200¹¹ would have a ripple effect across the rest of the ISAs and would make it much clearer that particular requirements (including those addressing the auditor’s risk assessment and response) applied equally to disclosures.
24. However, many respondents to the Disclosures ED, particularly those who were seeking further substantial changes (including the MG members, and other regulators and audit oversight bodies), were of the view that more requirements and guidance would be needed to address how the concept of materiality is to be applied to disclosures. Others suggested that changes to introduce greater specificity in some of the extant requirements would be helpful to drive auditor behavior. Specific areas noted by respondents for further IAASB consideration included:
- Evaluating the financial statements, including disclosures, when forming an opinion (ISA 700 (Revised))—Some respondents, in particular two MG members and other regulators and audit oversight bodies, had the view that certain material presented in the Disclosures ED could be developed and enhanced further to promote the effectiveness of auditing disclosures, and therefore promote the behavioral changes expected. A few of these respondents, as well as others, had the view that elevating certain application material, including that related to aspects of the auditor’s evaluation of the financial statements in view of the requirements of the applicable financial reporting framework, to requirements would further enhance the quality and robustness of the procedures when auditing disclosures.

¹¹ ISA 200, paragraph 13(f)

- The need to further address specific considerations for internal control over the preparation of financial statement disclosures (ISA 315 (Revised))—In the Disclosures ED, to respond to comments received to the DP to give prominence to sources of information in disclosures, the IAASB proposed addressing this through the introduction of the concept of “information from systems or processes that are not part of the general ledger system”. While supporting the concept generally, some respondents encouraged the IAASB to further consider how best to describe such information and the intended work effort thereon to enhance consistency in practice in this important area.
- Further consideration about the adequacy of presentation and disclosure (ISA 330)—A few respondents, including two MG members, suggested that consideration be given to elevating application material in paragraph A59 of ISA 330 relating to the adequacy of presentation and disclosure, to a requirement, as these are procedures that an auditor would be expected to ordinarily undertake in all instances.
- Evaluating misstatements (ISA 450)—Some respondents, including one MG member, had the view that the application material proposed in the Disclosures ED did not really help auditors in understanding how to apply the requirements in ISA 450 when evaluating misstatements in qualitative disclosures, and suggested consideration be given to strengthening ISA 450 to assist the auditor in these circumstances.
- Concerns about the availability of audit evidence for some disclosures—Some respondents to the Disclosures ED (including two MG members) suggested additional guidance to address the challenges in obtaining sufficient appropriate audit evidence when auditing certain disclosures.
- Encouraging auditors to be alert to management’s use of boilerplate language and to encourage management to limit its use and to enhance the disclosures, where necessary, to reflect current entity-specific facts and circumstances surrounding specific activities of the entity—One MG member was of the view that this notion could be included in ISA 315 (Revised) and was important in light of users’ expectations of disclosures.

IAASB Decisions

25. The IAASB reconsidered the adequacy of the requirements in the noted standards, in light of its overarching aim of enhancing auditor behavior in relation to disclosures. The IAASB agreed that these could be strengthened in some areas, in particular ISA 330 and ISA 700 (Revised), as explained in paragraphs 34–35 and 29–30, respectively. Based on feedback from the ED, the IAASB also agreed further changes to strengthen certain requirements in ISA 315 (Revised) (see paragraphs 31–33).
26. In relation to the requirements in ISA 450 addressing misstatements, the IAASB continues to have the view that the requirements are sufficiently robust insofar as they apply in addressing disclosures, but did give more consideration to enhanced and strengthened application material to help auditors in applying the requirements (as is explained further in paragraph 58).
27. The IAASB also considered whether additional requirements relating to the qualitative aspects of disclosures could be developed within this project. However, as also described in paragraphs 55–56, in exploring this aspect of materiality, the IAASB decided that some of the potential changes considered in the context of disclosures could also be of relevance in the context of other items and that it would therefore not be appropriate to make these changes in isolation for disclosures.

Additionally, similar issues were likely to be addressed in the IASB's work on the topic of materiality, and the IAASB ultimately agreed that this would be better dealt in light of the outcome of that work with a more holistic review of ISA 320, if considered necessary, as part of the IAASB's *Work Plan for 2017–2018*. The IAASB CAG Representatives supported this approach, noting that changes to the accounting standards in relation to materiality could potentially affect a number of ISAs.

28. The IAASB considered enhancing the requirements and guidance in relation to obtaining sufficient appropriate audit evidence for disclosures. The requirements for disclosures, relating to their relevance, understandability and quality – including considerations for evidence supporting the disclosures – are embedded in the financial reporting standards. Currently, in the absence of a “disclosures framework”, some of these aspects relating to disclosures are not specifically addressed in many financial reporting standards. The IASB and FASB have both commenced work in this area—the IASB has commenced a project on “Principles of Disclosures” (as noted in paragraph 15) and the FASB is deliberating a disclosures framework around specific disclosures (as noted in paragraph 16). Accordingly, the IAASB has agreed that introducing new requirements and guidance in relation to obtaining sufficient appropriate audit evidence, before more specificity around these aspects of disclosures is introduced into the financial reporting standards, may lead to confusion, misinterpretation and misapplication. Therefore, the IAASB agreed to continue to work proactively alongside the IASB as it progresses its “Principles of Disclosures” Initiative until it is sufficiently progressed to consider whether amendments to the ISAs (e.g., in the ISA 500-series) or an International Auditing Practice Note (IAPN), or other non-authoritative document, could be developed to address issues in this area.

Strengthened Requirements in ISA 700 (Revised)

29. The IAASB agreed to enhance the requirements in ISA 700 (Revised) regarding the auditor's consideration of the evaluation of the financial statements, as it relates to the relevance of the significant accounting policies,¹² and the relevance, reliability, comparability and understandability of the financial statements.¹³ This was done by elevating application material proposed in the Disclosures ED, as upon further reflection the IAASB agreed the actions proposed in the guidance would be expected to be undertaken by the auditor in all instances.
30. In addition to the changes made in ISA 700 (Revised) as described in paragraph 29 above, the IAASB is of the view that this is an area that will require collaborative effort for an effective response. Other stakeholders have also acknowledged this issue, and are working towards their own part of the solution. In this regard, the accounting standard setters have commenced work on the financial reporting requirements for disclosures, and once this work is complete, the IAASB may need to revisit this area as part of its further work.

Strengthened Requirements in ISA 315 (Revised)

31. The Disclosures ED introduced the concept of “information from systems or processes that are not part of the general ledger system,” to acknowledge that these other sources of information were an integral part of the preparation of the financial statements and therefore needed sufficient attention at an early stage during the audit. The IAASB CAG acknowledged the relevance to the public interest, in particular as such information may be generated from an entity's risk management

¹² ISA 700 (Revised), paragraph 13(a)

¹³ ISA 700 (Revised), paragraph 13(d)

system, or may be included in disclosures that further explain fair value accounting estimates recognized in the financial statements.

32. The IAASB agreed that it was important to incorporate this in the requirements. It concluded to do so by emphasizing that the information in the financial statements may be from within or outside the general and subsidiary ledgers, and would therefore need to be considered when performing the required procedures to obtain an understanding of the information system, including the related business processes, relevant to financial reporting in ISA 315 (Revised).¹⁴ The changes agreed upon address two separate but related aspects of the IAASB's deliberations: (1) the need for it to be clear that the understanding of the information system also includes an understanding of how that information system relates to disclosures and (2) a further emphasis on the fact that certain of this information may be from outside the general and subsidiary ledgers.
33. The IAASB was mindful to not inadvertently "scope into the requirement" the need to obtain a more comprehensive understanding of systems and processes that may not be relevant to the audit, thereby increasing the auditor's work effort unnecessarily. Accordingly, the IAASB agreed to highlight in the application material that it is only the relevant aspects of the information systems that were applicable to this understanding, and that the extent of the understanding is matter of the auditor's professional judgment. The IAASB also provided revised and clarified examples of what these other sources of information could be to provide guidance to the enhanced requirement.¹⁵

Strengthened Requirements in ISA 330

34. Similarly, the IAASB agreed changes to the proposed requirement in ISA 330 relating to the auditor's consideration of the adequacy of presentation and disclosure.¹⁶ The IAASB was of the view that greater prescription in the requirement would be useful for consistency of application and therefore agreed to elevate the relevant application material to a requirement.
35. In considering the reconciliation of the financial statements with the underlying accounting records, the IAASB also believed it would be necessary to more explicitly address information in disclosures whether such information is from within or outside of the general and subsidiary ledgers.¹⁷ A consequential change to the related documentation requirement,¹⁸ as a result of the changes to paragraph 18 of ISA 315 (Revised), has also been made.

Behavioral Change – Focusing Auditors on Disclosures throughout the Audit Process

36. In addition to the strengthened requirements to encourage behavioral change, the IAASB is of a strong view that further enhancing the focus of the auditor on disclosures throughout the audit process, particularly at the early stages of the audit, will result in additional focus by companies in their financial statement preparation process, thereby improving the quality of disclosures.

¹⁴ ISA 315 (Revised), paragraph 18

¹⁵ ISA 315 (Revised), paragraph A89a

¹⁶ ISA 330, paragraphs 24 and A59

¹⁷ ISA 330, paragraph 20(a)

¹⁸ ISA 330, paragraph 30

Definition of Financial Statements

Background and Summary of Comments Received on Exposure

37. The IAASB believed that where the term “financial statements” is used in the ISAs, it should be clarified that it is intended to include disclosures subject to audit and that such disclosures may be found on the face of a financial statement, in the notes, or incorporated therein by cross-reference as expressly permitted or otherwise allowable by the applicable financial reporting framework.
38. The IAASB also agreed that emphasizing disclosures in the definition of “financial statements,” as was proposed in the Disclosures ED, would also focus auditors on disclosures throughout the audit process.
39. There was strong support for the change made to the definition, with further changes subsequently made to address specific comments received from respondents and support some of the concepts, such as cross-referencing.
40. In the Disclosures ED, the IAASB had in some cases included the extension “including disclosures” when referring to “financial statements” as a matter of emphasis. Various respondents, including all the MG members, had noted that the use of extensions to the phrase “financial statements”, such as “financial statements including disclosures” and “financial statements including related disclosures,” was confusing and may lead to insufficient attention or work effort being given to disclosures in places in the ISAs where the extension “including disclosures” was not used. The IAASB agreed that the extension was not needed, as the revised definition of financial statements now clearly included disclosures. Where appropriate, the emphasis has been achieved in other ways, or the extension has been deleted.

Considering Disclosures Earlier in the Audit Process

Background and Summary of Comments Received on Exposure

41. The IAASB proposed various changes in the Disclosures ED to focus the auditor’s attention on disclosures earlier in the audit process:
 - Paragraph A12b of ISA 300 highlights that attention at an early stage in the audit is beneficial and provides examples of matters the auditor may identify early so that adequate consideration can be given when *planning the audit*.
 - Paragraph A21a of ISA 315 (Revised) focuses the auditor on disclosure-related issues during the engagement team discussion. Changes were also proposed to paragraph A11 of ISA 240¹⁹ to specifically reference discussion about disclosures when the engagement team discusses the risks of material misstatement due to fraud.
 - Paragraph A23 of ISA 210 highlights that there may be matters to be explicitly included in the *engagement letter* relating to the financial statements and disclosures (and which has been emphasized in a footnote in the draft engagement letter in the Appendix to ISA 210). This was intended to help focus management on disclosures early in the audit process.
 - Paragraph A13 of ISA 260 (Revised) emphasizes matters that may communicated to those charged with governance when discussing the planned scope and timing of the audit relating to disclosures.

¹⁹ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

42. Respondents to the Disclosures ED supported these changes and did not raise significant issues relating to these paragraphs.

IAASB Decisions

43. In addition to retaining these proposed changes, the IAASB agreed further guidance in ISA 315 (Revised) could be useful to acknowledge how the engagement team discussions could consider disclosures about complex matters, including those involving significant judgment as to what information to disclose.²⁰

Identifying and Assessing the Risks of Material Misstatements in Disclosures

Integration of Assertions for Presentation and Disclosure in the Risk Assessment Process

Background and Summary of Comments Received on Exposure

44. Changes to integrate the assertions for presentation and disclosure were proposed in the Disclosures ED (by deleting the separate assertions for “presentation and disclosure”) (see Disclosures ED, paragraphs A124(a)– (b) of ISA 315 (Revised)) and additional application material was added in for disclosures that were not directly related to transactions, events, or account balances.
45. The majority of respondents across all stakeholder groups, including MG members, supported the integration of the assertions for presentation and disclosure with those relating to classes of transactions and events, and account balances. However, some of these respondents (including two MG members) expressed concern that, in integrating the assertions relating to presentation and disclosure into the assertions about classes of transactions and events and account balances, any reference to “classification” (other than in the case of assertions for classes of transaction and events) had been eliminated. Two MG members also called for more emphasis on disclosures that are not directly related to classes of transactions or events, and account balances, such as segment reporting and going concern disclosures.
46. Some respondents supported the changes, but were concerned about the costs associated with implementation or whether the changes would achieve the intended results in practice. Several respondents, mainly member bodies, did not support making the changes because either: (i) the integration may actually lose the focus on disclosures; (ii) the benefits associated with these changes would not outweigh the cost; (iii) the changes would not necessarily lead to an integration of the work on disclosures; (iv) the proposed changes may lead to an over-emphasis on disclosures, (v) the changes are not needed or (vi) the changes could undermine the effective conduct of the audit by requiring the risk assessment for a number of assertions about presentation and disclosure for each class of transaction, event and account balance.

IAASB Decisions

47. The IAASB agreed with respondents that the integration of the assertions for presentation and disclosure with those for classes of transactions and events, and account balances, would further focus auditors on the related disclosures when addressing the underlying transactions and events, and account balances, in the audit.

²⁰ ISA 315 (Revised), Paragraph A21a

48. In finalizing the changes, the IAASB also agreed that it was appropriate to include an assertion for “classification” for account balances and related disclosures and added it to paragraph A124(b) of ISA 315 (Revised).
49. Notwithstanding that the assertions are in the application material, the guidance in paragraph A123a of ISA 315 (Revised) explains that they may be expressed differently, provided all aspects have been covered. Accordingly, the revisions made to integrate the assertions for presentation and disclosure may therefore be expressed differently on implementation of these changes for those concerned that the costs would outweigh the benefits.
50. The IAASB also agreed to insert subheadings to further clarify the differentiation between (a) assertions about transactions, account balances and related disclosures, and (b) assertions about other disclosures that are not directly related to recorded classes of transactions, events or account balances, in order to emphasize the risk assessment process for those disclosures not directly related to account balances, or classes of transactions and events.

The Interaction of Risk Assessment and Materiality

Background and Summary of Comments Received on Exposure

51. At the time that the Disclosures ED was approved, the IAASB had considered a proposal for a new requirement (together with related application material) to make a preliminary determination of those non-quantitative disclosures for which misstatement thereof reasonably could be expected to influence the economic decisions of users taken on the basis of the financial statements. The IAASB had agreed that the guidance relating to these considerations was better placed in ISA 315 (Revised) in support of the existing requirements in paragraphs 25–26 of that ISA. Accordingly, the application material previously proposed for ISA 320 was moved to ISA 315 (Revised). The IAASB also agreed at that time not to revise the requirements in ISA 320 until such time that a more holistic review of the standard is undertaken.
52. The responses to the Disclosures ED recognized that the consideration of materiality is critical in addressing disclosures in the audit, and therefore the auditing standards should provide guidance on the basis or factors on which auditors can make materiality judgments in relation to disclosures, particularly in the case of qualitative disclosures. However, respondents also recognized that issues relating to applying the concept of materiality to disclosures cannot be solved by the IAASB alone, as acknowledged by the IAASB in the Explanatory Memorandum to the Disclosures ED. There was general support for the proposed changes in the application material in ISA 315 (Revised) relating to the risk of material misstatement, but many emphasized that more guidance is needed on the application of the concept of materiality to disclosures, particularly in the planning phase of the audit, and in the evaluation of misstatements in disclosures.
53. Respondents also raised a number of diverse points regarding the interaction of the work of the IAASB with the work of the accounting standard setters, primarily the IASB, and in relation to when the IAASB should consider developing further guidance or requirements on the application of the concept of materiality when auditing disclosures. In particular:
 - Several respondents (including all MG members) called for changes to ISA 320 (in the form of either requirements, application material or both) to be made now in order to enhance practice specifically in relation to evaluating disclosures, in particular qualitative disclosures. These respondents also suggested that further changes should be considered at an appropriate time to respond to any revisions to the concept of materiality and other related

developments made by the IASB. The IAASB CAG expressed a similar view on the need to look more holistically at the concept of materiality within the ISAs as the IASB's work evolves.

- Though there was general support for the proposed amendments to application material relating to materiality, some other respondents cautioned that the IAASB should wait for the IASB to conclude its project work rather than proceeding with any changes in this area now.
54. Two MG members also had the view that a more integrated approach to auditing balances with the related disclosures may also be achieved by including more explicit provisions in ISA 315 (Revised) for the identification and assessment of the risks of material misstatement relating to disclosures.

IAASB Decisions

55. The IAASB acknowledged the level of concerns raised by respondents regarding the difficulties faced by auditors in applying the concept of materiality to the audit of disclosures, and the calls by a number of respondents (including all members of the MG) for changes to introduce new requirements or additional guidance now to assist auditors in determining materiality in the context of disclosures (particularly qualitative disclosures). Accordingly, the IAASB further explored the implications and feasibility of introducing a new requirement for the auditor to make a preliminary determination of the nature of a qualitative misstatement of disclosures that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole, including making conforming amendments to other paragraphs in ISA 320 and ISA 450. However, as also described in paragraph 27, in exploring this aspect of materiality, the IAASB decided that some of the potential changes considered in the context of disclosures could also be of relevance in the context of other items and that it would not therefore be appropriate to make these changes in isolation for disclosures. Additionally, similar issues were likely to be addressed in the IASB's work on the topic of materiality, and the IAASB ultimately agreed that this would be better dealt in light of the outcome of that work with a more holistic review of ISA 320, if considered necessary, as part of the IAASB's *Work Plan for 2017–2018*.
56. Notwithstanding this decision, the Board further considered whether more could be added in the immediate term to address some of these concerns about qualitative disclosures, while also strengthening the auditor's work on identifying and assessing the risks of material misstatement. The IAASB agreed to introduce:
- Specific reference to qualitative disclosures in ISA 315 (Revised), paragraph 26(a), and to remove reference to "magnitude" in ISA 315 (Revised), paragraph 26(d), to emphasize that misstatements could arise in amounts or narrative disclosures.
 - New application material to support paragraph 6 of ISA 320 (where the concept of "qualitative" disclosures was introduced in the ED) in the form of examples about factors to consider when misstatements in disclosures could be material, in order to help support auditors in their consideration of qualitative disclosures.²¹

²¹ ISA 320, paragraph A1a

Clarifying and Enhancing the Guidance for Auditors when Evaluating Misstatements in Disclosures

Background and Summary of Comments Received on Exposure

57. The Disclosures ED included enhanced application material in ISA 450 to focus on various aspects relating to misstatements in disclosures, particularly qualitative disclosures. This included:
- Further examples of misstatements to emphasize misstatements may also occur in disclosures (see paragraph A1 of ISA 450);
 - Highlighting that misstatements in non-quantitative disclosures cannot be accumulated in the same way as misstatements in amounts (see paragraph A2a of ISA 450), but nevertheless need to be evaluated individually and in aggregate (i.e., collectively) to determine whether they are material (see paragraph A13a of ISA 450); and
 - Guidance for the auditor to consider that individual misstatements in disclosures, although not material collectively, could be indicative of misleading, duplicative or uninformative disclosures (see paragraph A17a of ISA 450).
58. Respondents generally welcomed the IAASB's proposals for additional guidance in ISA 450. However, as noted above, there was concern that some of the proposed application material did not sufficiently assist auditors in understanding how to apply the requirements when addressing qualitative disclosures.

IAASB Decisions

59. The IAASB reconsidered the guidance and agreed to enhance and strengthen the proposed application material by:
- Enhancing and clarifying the examples of misstatements as they relate to disclosures (see paragraph A1 of ISA 450);
 - Clarifying that "clearly trivial" applies to all information in the financial statements, whether judged by any size, nature or circumstances, and that if not clearly trivial, misstatements, including misstatements in disclosures, need to be accumulated (see paragraphs A2 and A2b of ISA 450);
 - Providing more practical guidance about whether a misstatement in a qualitative disclosure may be material, taking into account the nature of the misstatement and the circumstances of the entity (see paragraph A13a of ISA 450);
 - Clarifying that all misstatements, whether in the individual statements or disclosures, needed to be evaluated individually and in combination with other misstatements (see paragraph A2c of ISA 450); and
 - Emphasizing the concept of professional skepticism when evaluating the effect of misstatements in disclosures (see paragraph A17 of ISA 450).

Guidance on Evaluating the Overall Presentation of the Financial Statements

Background and Summary of Comments Received on Exposure

60. The Disclosures ED included enhanced application material in ISA 700 (Revised) relating to the auditor's evaluation of the financial statements in forming an opinion, including:

- Determining whether the accounting policies have been adequately disclosed in the financial statements (paragraph A3a of ISA 700 (Revised));
 - Evaluating the relevance, reliability, comparability and understandability of the financial statements (paragraph A3b of ISA 700 (Revised)); and
 - Considering the adequacy disclosures in providing information to users about material transactions and events (paragraph A4 of ISA 700 (Revised)).
61. Guidance to support the “fair presentation” evaluation required by paragraph 14 of ISA 700 (Revised) was also introduced. This included clarifying that fair presentation may include disclosures that are not specifically required by the financial reporting framework. The guidance also provides the auditor with additional actions that may be considered as part of this evaluation (paragraphs A4a–A4c of ISA 700 (Revised)).
62. As discussed in the section *The Need to Strengthen the Requirements*, some respondents, in particular regulators, including the MG members, felt strongly that certain material presented in the Disclosures ED could be further developed and enhanced to promote the effectiveness of the audit when addressing disclosures, and therefore promote the behavioral changes expected.
63. Some respondents, including three MG members, had the view that more explicit requirements about assessing the content and quality of disclosures should be considered.

IAASB Decisions

64. The IAASB agreed, as set out above, to strengthen requirements in a number of ISAs, including ISA 700 (Revised), by elevating some of the application material.
65. In doing so, the IAASB also identified areas where further guidance would be useful to clarify the enhanced requirements, including:
- Providing further guidance about the auditor’s considerations when considering whether the entity’s accounting policies are appropriately disclosed.²²
 - Providing further examples for the auditor when evaluating the understandability of the financial statements.²³
66. Strengthening the requirements and enhancing the application material when evaluating the financial statements would, in the IAASB’s view, focus the auditor more on the understandability and relevance of the disclosures. However, in light of the work on disclosures by the IASB and as more fully explained in paragraph 27), the IAASB is of the view that further changes about evaluating the content and quality of disclosures would be better informed by the IASB’s work in this area and therefore does not propose further changes at this time.

Other Board Considerations

67. The Disclosures ED referred to the term “non-quantitative” when referring to those disclosures that were not purely quantitative. Concern was raised by a few respondents, including a MG member, that this term was not widely understood. The IAASB debated the use of the terms “qualitative” and

²² ISA 700 (Revised), paragraph A3a

²³ ISA 700 (Revised), paragraph A3b

“narrative” as alternatives to “non-quantitative”, and agreed that the term “qualitative” would be the most appropriate for a number of reasons, in particular, because the term is better understood by stakeholders; has greater prominence in the current ISAs; and it encompasses everything that is not quantitative (i.e., purely numerical).

68. Concern was expressed by a few respondents to the Disclosures ED, including two MG members, about the lack of prominence of going concern disclosures in the ED. It was suggested that the IAASB expand the proposed changes to the ISAs to specifically include additional requirements and guidance for the auditor when auditing going concern disclosures.
69. In finalizing the Auditor Reporting standards, the IAASB established a new requirement in relation to evaluating going concern disclosures within ISA 570 (Revised).²⁴ In addition, the changes to the ISAs highlight disclosures relevant to going concern (for example, see paragraphs A1 and A89a of ISA 315 (Revised), as well as Appendix 2 to ISA 315 (Revised) that supports the revised requirement in paragraph 26(a) of ISA 315 (Revised)). The IAASB was of the view that this additional guidance, together with the approach taken in ISA 570 (Revised) and the overarching requirement in ISA 700 (Revised) related to fair presentation, will enhance the auditor’s focus on disclosures related to going concern and management’s assessment of the entity’s ability to continue as a going concern more broadly.²⁵ Notwithstanding this, the IAASB acknowledged that further consideration about going concern, including relevant disclosures, may be necessary in the future in light of developments in accounting standards in the US and other initiatives currently underway.
70. Included in the responses to the Disclosures ED were some isolated comments, that on balance of views, the IAASB has agreed would not be taken up, because the IAASB was of the view that:
- The topics proposed to be addressed were adequately covered by other ISAs. For example, although it was suggested that the IAASB could emphasize that disclosures should be audited by members of the engagement team with adequate level of experience and seniority, the IAASB was of the view that this topic was sufficiently addressed by paragraph 31 and A31 of ISQC 1.²⁶ Similarly, a MG member suggested that disclosures should be a focus area for the engagement quality control reviewer. The IAASB was of the view that this would be addressed in the project to revise ISQC 1, which has the area of engagement quality control reviews in its remit.

²⁴ Within ISA 570 (Revised), *Going Concern*, the IAASB has made changes to enhance the auditor’s work effort relating to going concern disclosures by:

- Providing further guidance regarding the consideration of appropriate disclosures when a material uncertainty exists. Importantly, the auditor’s consideration is in light of the definition of a material uncertainty and related disclosure considerations set out in the ISA, and is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate.
- Requiring the auditor to evaluate the adequacy of disclosures in “close call” situations in view of the requirements of the applicable financial reporting framework. ISA 570 (Revised) also provides guidance on the types of disclosures that may be required by the applicable financial reporting framework in a “close call” situation, incorporating concepts from the International Financial Reporting Interpretations Committee’s (IFRIC) Agenda Decision, as well as the US Financial Accounting Standards Board’s (FASB) work on going concern.

²⁵ An overview of how the new auditor’s report will address going concern and the enhanced auditor work effort can be found [here](#).

²⁶ International Standards on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- The comments may not be applicable to all entities (i.e., they could be viewed as too industry-specific). For example, one MG respondent suggested that “solvency or capital requirements” should be included in the examples of disclosures that may be relevant when assessing the risk of material misstatement in disclosures.²⁷ The IAASB was of the view that this type of industry-specific guidance may be better considered in the context of its planned project to address special considerations in auditing financial institutions.
- The matters were addressed by other means. For example, one MG respondent suggested that the omission of material disclosures should be specifically referenced as a risk of fraud in the matters to be discussed by the engagement team. The IAASB considered this to be too specific for the other matters listed for consideration by the engagement team²⁸ but acknowledged that this was addressed earlier in ISA 240 as a manner in which fraud can be committed by management (see paragraph A4 of ISA 240). Another MG respondent suggested highlighting the need for adequate expertise to audit some complex disclosures (such as those included in ISA 315 (Revised), paragraph A128b). The IAASB is of the view that the use of an auditor’s expert with the necessary skills is adequately covered by paragraph 14 of ISA 220.²⁹

Rationale for Making Changes to the ISAs Now

Background and Summary of Comments Received on Exposure

71. When developing the Disclosures ED, the IAASB had the view that enhancements to the ISAs should be made now, notwithstanding the uncertainty around the timing and outcome of the work of the accounting standard setters, and the consequential impact that this may have on the future work of the IAASB.
72. The IAASB noted that a strong majority of respondents to the Disclosures ED supported making the proposed changes to the ISAs. The four MG respondents emphasized that consideration should be given to substantial strengthening of some standards now to the greatest extent possible, while also considering whether further changes may be needed in the future in light of the work of the IASB and potentially others.
73. Other respondents suggested the IAASB needed to consider whether, in light of potential for further changes, it is appropriate for the Board to be making changes to the ISAs at this time, given the nature and extent of the changes proposed. Concern has been expressed in particular from SMPs and organizations representing them that the widespread changes would be burdensome at this stage. Various reasons were cited by respondents not supporting making the changes now, including:
 - (a) The need to further consider the costs versus benefits of opening up ten ISAs at this time, with a view that the changes would be more relevant to audits of financial statements of listed entities with more substantial disclosures (as compared to audits of financial statements of small- and medium-sized entities (SMEs), which may have less complex disclosures).

²⁷ ISA 315 (Revised), paragraph A128b

²⁸ ISA 240, paragraph A11

²⁹ ISA 220, *Quality Control for an Audit of Financial Statements*

- (b) A preference for the IAASB to defer the changes and then deliver a more comprehensive and substantial package of changes to the ISAs that reflect all changes necessary when the work of others in this area is finalized.
- (c) A view that the proposals do not go far enough to promote the intended behavioral changes required, including improved audit evidence and improving disclosures (by making more relevant).
- (d) The suggestion that non-authoritative guidance may be a more effective way to address the underlying issues in this area.

IAASB Decisions

74. Weighing up the balance of views about moving forward on the changes to the ISAs, the IAASB continues to have the view that it is important, and in the public interest, to make the changes to the ISAs now to improve auditor focus on disclosures thereby helping improve the quality of disclosures in financial statements. In addition to the support for the changes to the ISAs from the respondents to the Disclosures ED, strong support for the changes being made now has been received from the MG members, other regulators and oversight bodies, the IAASB CAG, as well as from investor groups.
75. The IAASB recognizes that the changes are spread across ten ISAs, but is of the view that the strengthened requirements are responsive to those that believe that more is needed to enhance auditor performance and better focus auditors' risk assessment and response on disclosures. In addition, the IAASB is of the view that the specificity and clarity in the new and revised application material will reinforce the importance of auditor attention to disclosures throughout the audit, and will help with the application of both the existing requirements and the revised, strengthened requirements arising from this project. In light of the concerns from SMPs, the IAASB took a critical look at whether the changes that were originally proposed were in all cases necessary, focusing on areas where the change would be expected to contribute to changing auditor behavior or where clarity was seen to be necessary to result in a consistent interpretation of existing requirements.
76. In acknowledging the concerns about the work of the accounting standard setters and the impact on the ISAs this may have in the future, the Board agreed that the proposed changes to the ISAs are an important first step. However, it was also recognized that there has been a strong call for further consideration by the IAASB about what more can be done, as the proposed changes to the ISAs are not enough on their own to solve all the challenges and meet the expectations of all stakeholders identified in the DP.
77. Notwithstanding this view, the IAASB's decisions have acknowledged the fact that more changes may be needed in the future. In particular, the IAASB is of the view that there are some areas where challenges have been identified and where making changes now would be premature (i.e., in respect of materiality and sufficient appropriate audit evidence for disclosures) in light of the IASB's work on materiality and disclosures. The IAASB intends to actively monitor the work and progress of the IASB and others in these areas, in order to consider what further work on materiality and sufficient appropriate audit evidence for disclosures is necessary. The timing of this work will need to be considered in light of other competing priorities at such time that the IASB has sufficiently progressed its work to enable the IAASB to make informed decisions regarding the impact of any financial reporting changes on the ISAs. As part of its consultations on its *Work Plan for 2017–*

2018, the IAASB may determine that it should include a new project relating to sufficient appropriate audit evidence for disclosures.

78. The IAASB acknowledges the concerns of SMPs insofar as the changes could be viewed as being burdensome, but at the same time believes that they are capable of being proportionately applied, taking into account the entity and the nature of its disclosures, and this has been specifically acknowledged in the changes in paragraphs A128c and A131a of ISA 315 (Revised). To assist SMPs (and others) with the implementation of the changes, an updated [Staff Publication, *Addressing Disclosures in the Audit of Financial Statements*](#), was published at the same time as the changes to the ISAs. That document highlights matters that may be of relevance to auditors when addressing disclosures as part of a financial statement audit. It is intended to help the consistent, effective and proper application of the ISAs as they relate to disclosures.

Conforming and Consequential Amendments to Other ISAs

79. The Disclosures ED did not include proposed changes to other ISAs as a result of the changes proposed, as the changes were already made across ten ISAs. On further reflection, the IAASB has agreed conforming and consequential changes to a limited number of ISAs.

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