

Meeting: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: September 11, 2012

Agenda Item

E

Objectives of the Agenda Item

1. To obtain:
 - (a) The Representatives' views on key matters identified in the project proposal on the Audit Implications of Disclosures.
 - (b) The Representatives' input on any other relevant initiatives underway by their organizations or in their jurisdictions, or any other matters relevant to the IAASB's consideration of the project proposal.
2. The project proposal will be presented to the IAASB at its September 2012 meeting for approval.

Papers to be Referred to during Discussion

3. The discussion on this topic will follow the structure of this paper. The project proposal to be presented to the IAASB can be found at Agenda Item E.1.

Working Group (WG)

4. The WG comprises:
 - Arch Archambault, Chair, IAASB Member
 - Cédric Gélard, IAASB Member
 - Tomokazu Sekiguchi, IAASB Member
 - Bruce Winter, IAASB Member

Background and Timeline

5. In December 2009, the IAASB recognized that the topic of disclosures, and the implications of evolving trends in financial reporting on the auditor's responsibilities and practices, should be further considered.
6. The issue of auditor's responsibilities and practices regarding disclosures was discussed by the IAASB in December 2009 and in September and December 2010, by the IAASB CAG in March and September 2009 and September 2010, and at the IAASB-National Standard Setters (NSS) meeting in June 2010. In March 2010, the IAASB agreed the establishment of a working group to recommend the way forward for the IAASB on this topic.
7. The IAASB published a Discussion Paper (DP), [*The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*](#) in January 2011 to explore the views and perspectives of different stakeholder groups on issues and challenges around financial reporting disclosures. The DP included questions tailored for different stakeholder groups, however, respondents were invited to answer any questions if they wished to provide their views.

8. An update on the initiative and summary of the purpose and content of the DP was provided to the IAASB CAG in March 2011, at which time several Representatives noted their support for an IAASB initiative in this area.¹
9. Responses to the DP were received from 51 stakeholders (see Appendix 1 of the project proposal at Agenda Item E.1 for a list of respondents). The broad range of respondents to the DP and the thoughtful comments received demonstrated the importance of the initiative, and in January 2012 the IAASB released a [Feedback Statement](#) to share the comments and views received.
10. In its *Strategy and Work Program, 2012–2014*,² the IAASB indicated that it will seek to clarify auditors' responsibilities regarding financial reporting disclosures,³ recognizing their importance in informing the decisions of users of audited financial statements. A new project on auditing financial reporting disclosures has been included in the work program. This new project would seek to address concerns and issues related to those note disclosures required by the applicable financial reporting framework and the audit thereof as part of the financial statement audit conducted in accordance with ISAs.
11. The Disclosures WG commenced the development of a project proposal for this initiative early in 2012. In agreeing to include a new project, the IAASB indicated that consideration would be given first to assessing whether standard setting is the most appropriate way to address the issues raised and, if not, what other actions may need to be undertaken. In addition, the IAASB recognized that staying close to financial reporting developments, particularly in relation to disclosures, was very important. Therefore, ongoing liaison initiatives with the accounting standard setters, such as the International Accounting Standards Board (IASB), are essential to monitor relevant developments.
12. In April 2012, aspects of the way forward were discussed with the IAASB-NSS to obtain their views and input to inform the deliberations of the WG. Also, in May 2012, a teleconference was held with the CAG Working Group on Disclosures to obtain preliminary views on these same aspects of the way forward. Key issues discussed included:
 - (a) The way forward for a project to review the ISAs to assess whether additional requirements and application material focused on auditing disclosures should be developed. This included discussions on the most appropriate way to commence the project, i.e., whether to commence with standard-setting activities or to delay these activities until the accounting standard setters have progressed their various initiatives and projects on a disclosure framework; and
 - (b) If changes are identified, whether the WG should consider developing a new ISA or incorporate the changes into existing ISAs.
13. Both the IAASB-NSS and CAG WG on Disclosures indicated that it was important for the IAASB to continue work in this area. The CAG WG on Disclosures had also indicated that the absence of a comprehensive framework for disclosures, and the related auditability issues identified,

¹ The meeting minutes are available at http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf (see Agenda Item N)

² The IAASB's *Strategy and Work Program, 2012–2014* was approved in March 2012 and can be accessed at www.ifac.org/publications-resources/iaasb-strategy-and-work-program-2012-2014.

³ Financial reporting disclosures refer to the requirements of an applicable financial reporting framework that are used to prepare audited financial statements.

strengthened the case for the need for auditors to have guidance in this area to ensure consistent practice. They also expressed concerns about the development of non-authoritative guidance, such as an IAPN,⁴ because such guidance is limited to current parameters within the ISAs and cannot be used to create new, or interpret existing, requirements, and expressed the view that a focus on changing the ISAs would be more appropriate.

14. At the June 2012 IAASB meeting, the WG presented the same issues as above in order to inform the IAASB of the deliberations of the WG, as well as discussions with the CAG WG on Disclosures and others in relation to the preparation of the project proposal.
15. Preliminary views from the IAASB indicated that there was substantial agreement that work should commence, where possible, notwithstanding the uncertainty around the timing and outcome of the work of the accounting standard setters and others in this area. There were mixed views on what the nature of the work effort at the start should be: a few Board members expressed the view that the project should commence with the development of non-authoritative guidance and then determine the other changes necessary, if any, while others expressed the view that the development of authoritative guidance would be the best way to proceed. There was support from several IAASB members to further explore the development of a new standard. The IAASB also agreed that continuing liaison with the accounting standard setters and others with initiatives in this area, and following the related developments, was important.

Matters for CAG Consideration

1. Do the Representatives agree with the objectives of the project as set forth in the Project Proposal?
2. What are the Representatives views on developing authoritative versus non-authoritative guidance?
3. What are the Representatives views on the timing of the development of the response by the IAASB to address the concerns and issues raised?
4. Are there any other initiatives by the Representatives' organizations or in their jurisdictions relevant to the IAASB's consideration this project?

IAASB Interaction with the IAASB CAG

16. The substantive issues being raised on the project for the purposes of the September 2012 IAASB meeting are included in this paper.

⁴ Paragraph 21 of the *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* explains that:

International Auditing Practice Notes (IAPNs) do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor's responsibility to comply with all ISAs relevant to the audit. IAPNs provide practical assistance to auditors. They are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.

Material Presented – IAASB CAG PAPER

Agenda Item E.1

Draft IAASB Project Proposal – The Audit Implication of
Disclosures Required by an Applicable Financial Reporting
Framework