

Meeting: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: March 9–10, 2015

Agenda Item

H

Auditing Financial Statement Disclosures

Objective of Agenda Item

1. To obtain the Representatives' and Observers' views on the final proposals for changes to the International Standards on Auditing (ISAs) to address comments from respondents to the IAASB's 2014 Exposure Draft (ED), [*Proposed Changes to the International Standards on Auditing: Addressing Disclosures in the Audit of Financial Statements*](#).

Project Status and Timeline

2. Appendix 2 to this paper provides a history of previous discussions with the CAG on this topic including links to the relevant CAG documentation.
3. The following provides a brief summary of the IAASB's activities to date in relation to the topic of auditing financial statement disclosures:
 - (a) January 2011—Release of the IAASB Discussion Paper (DP), [*The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*](#).
 - (b) January 2012— Release of the IAASB [*Feedback Statement*](#) summarizing what was heard in the responses to the DP from stakeholders.
 - (c) September 2012—IAASB approval of a project proposal on the Audit Implications of Disclosures Required by an Applicable Financial Reporting Framework.¹
 - (d) December 2012 – March 2014—Development and approval of the ED, which was published in May 2014 with comments due on September 11, 2014. Responses were received from 70 respondents (**Appendix 1** sets out the list of respondents to the ED).
 - (e) December 2014 – (planned) March 2015—Discussion of responses to the ED and further revisions to proposed changes.

¹ The project proposal stated the following project objectives: (i) To determine whether revisions (in the form of new or revised requirements, or additional application material) to the ISAs with respect to auditing disclosures are required and, if so, develop such revisions; (ii) To consider how such revisions should be presented, for example within the relevant ISAs or in a separate ISA; and (iii) To determine whether other types of non-authoritative guidance, such as an International Auditing Practice Note (IAPN) or Staff Questions and Answers (Staff Q&A) publication should be developed and, if so, develop the content of such a publication. The above objectives are not mutually exclusive, and deliberations on each are intended to inform the overall project.

4. The CAG discussed the ED at its March 2014 meeting. The report back on these discussions can be found in [Agenda Item C](#) from the September 2014 CAG meeting. There were no matters raised in September 2014 on which to report back.

Matters for CAG Consideration

5. The Representatives are asked to respond to the Matters for CAG Consideration set out below in relation to the proposed changes to the ISAs. The discussion on these topics will focus on the proposed changes to the ISAs as set out in **Agenda Item H.1**, including how they have been revised to respond to the comments raised in response to the IAASB's ED, as explained in paragraphs 20–24 below.

I. Responses to the Exposure Draft

Support for the Proposed ISA Changes

6. The following are the key themes arising from the responses to the ED. Other isolated comments were raised on various proposed changes, for which some further changes have been proposed, but this paper is intended to focus on those that are considered to be more significant to this project.
7. A strong majority of respondents supported the changes to the ISAs (55 out of 70 respondents), with 17 of these respondents (including the four Monitoring Group (MG) members) calling for more substantial changes to strengthen the standards in certain areas. The level of support varied across stakeholder groups.
 - (i) 38 respondents supported moving forward with the proposed changes to the ISAs.^{2,3}
 - (ii) 17 respondents (including the MG members),⁴ supported the proposed changes but emphasized that consideration be given to substantial strengthening of some standards either now as part of these changes, or in the future to respond to work in this area by others such as the International Accounting Standards Board (IASB).
 - (iii) 15 did not support making the proposed changes as presented.⁵
8. Key areas raised by respondents, particularly by those who were seeking further substantial changes (including the MG members and regulators and oversight bodies), included:
 - (i) The need for more requirements and guidance on applying the concept of materiality to disclosures (see paragraph 21(d) below).

² Notwithstanding that some of these respondents suggested amendments to the proposed changes, there was overall support for the appropriateness and sufficiency of the proposed changes.

³ **Regulators and Oversight Bodies:** FRC, MAOB; **NSS:** AUASB, CAASB, CNCC-CSOEC, HKICPA, JICPA, MAASB, NZAUSB, ZAAPB; **Accounting Firms:** BDO, EYG, GTI, RSM; **Public Sector:** AGA, GAO, PAS, SNAO; **Member Bodies:** ANAN, ASSIREVI, CalCPA, FACPCE, IBR-IRE, ICAG, ICAP, ICAS, ICAZ, IMCP, ISCA, KICPA, MICPA, NYSSCPA, SAICA, WPK, ZICA; **Academics:** HC; **Individuals:** CBarnard; DJuvenal

⁴ **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Regulators and Oversight Bodies:** EAIG, EBA, IRBA; **Accounting Firms:** ANA, CHI, DTT, KPMG; **NSS:** ASB; **Public sector:** ACAG; **Member Bodies:** FEE, FSR, IAA, NASBA

⁵ **NSS:** IDW, NBA; **Accounting Firms:** PWC; **Public sector:** AGNZ, CIPFA, NAOUK; **Member Bodies:** ACCA, CAANZ, CAI, CPAA, EFAA, ICAEW, INCP, SMPC; **Preparers:** QCA

- (ii) The need for more guidance on evaluating disclosure misstatements (see paragraph 24(a) below).
9. Other areas noted by respondents as requiring further IAASB consideration included:
- (i) Whether more requirements should be introduced in certain standards such as ISA 315 (Revised),⁶ ISA 330⁷ and ISA 700 (Revised)⁸ (see paragraphs 21(b), 23 and 24(b) below, respectively).
 - (ii) Strong support for the change to the definition of financial statements in ISA 200,⁹ but changes suggested to align the phrase “assets, liabilities and equity” with the accounting standard setters, and ensure the concept of “cross-referencing” is framework-neutral.
 - (iii) Whether the extension “including disclosures” was being used consistently in the ED, and whether the term “non-quantitative” would be appropriately understood (see paragraph 20(a)–(c) below).
 - (iv) Support for the introduction of the concept of “information from systems and processes that are not part of the general ledger system”, but a small number of concerns that: the term “general ledger system” is not widely known or might be difficult to understand, and that its selective placing in the ISAs could result in the auditor limiting their focus to the general ledger in other respects (see further discussion in paragraph 21(b) below).
 - (v) A request for additional guidance to address the challenges in obtaining sufficient appropriate audit evidence when auditing certain disclosures (see paragraphs 15–17 for further discussion).
 - (vi) Concern about the lack of prominence of going concern disclosures in the ED, with suggestions 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. However, the IAASB has established a new requirement in relation to evaluating going concern disclosures in its work to revise ISA 570,¹⁰ and therefore agreed that any further considerations about going concern would be better dealt with in a more holistic project on going concern.

⁶ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁷ ISA 330, *The Auditor's Responses to Assessed Risks*

⁸ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

¹⁰ 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

- (vii) The need for more guidance on documentation of the auditor's considerations when auditing disclosures, in particular qualitative disclosures (see paragraphs 23 and 24(a) below).
 - (viii) The need for additional guidance to address the auditing disclosures in the context of group audits within ISA 600.¹¹ The IAASB agreed that this would be considered by the Group Audits Working Group (see **Agenda Item B**).
10. There was strong support for the changes being made throughout the ISAs rather than developing a separate ISA for auditing disclosures. A few¹² respondents suggested that a separate ISA for auditing disclosures should be developed, but it was also noted that this separate ISA should only be applicable to audits of complete sets of general purpose financial statements of listed entities (i.e. in a similar manner to new ISA 701).¹³ These respondents had the view that the cost of implementing the proposed changes to the ISA will disproportionately affect the audits of small and medium-sized entities (SMEs) because those entities do not have the volume of disclosures in the financial statements typical of listed entities.
11. There was general support for integrating the assertions for presentation and disclosure with those for account balances and transactions. However, there were several respondents¹⁴ that, for various reasons, did not agree fully with the proposals (see paragraph 21(e) below for further discussion).
12. There was overall support for aligning the implementation date with that of the Auditor Reporting project¹⁵ and ISA 720 (Revised),¹⁶ particularly in light of concerns relating to "opening up" the same standards more than once for each of these projects. Some¹⁷ respondents did not feel that the implementation dates needed to be aligned, but one respondent¹⁸ requested the ED to be finalized as soon as possible.
13. The 15 respondents who did not believe that changes should be made to the ISAs as presented cited various reasons, including that:
- (i) The costs versus benefits of opening up ten ISAs should be further considered by the IAASB,¹⁹ with some suggestions made that a cost-benefit analysis be undertaken, or that the changes do not suit all stakeholders and that the IAASB should instead consider developing a standard that would apply to listed entities only.

International Financial Reporting Interpretations Committee's (IFRIC) Agenda Decision, as well as the US Financial Accounting Standards Board's (FASB) work on going concern.

¹¹ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹² **Accounting Firms:** ANA; **Member Bodies:** ACCA, EFAA

¹³ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁴ **NSS:** ASB, JICPA; **Member Bodies:** ACCA, CAI, CalCPA, EFAA, KICPA, SAICA, SMPC

¹⁵ The new and revised Auditor Reporting standards will be effective for periods ending on or after December 15, 2016

¹⁶ ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

¹⁷ **NSS:** NBA; **Member Bodies:** FEE, FSR, ICAS, ISCA

¹⁸ **Member Bodies:** SAICA

¹⁹ **NSS:** IDW, NBA; **Public Sector:** CIPFA, NAO; **Member Bodies:** ACCA, CAANZ, EFAA, ICAEW, SMPC

- (ii) The IAASB should rather wait for the outcomes of work by others in this area (such as the IASB's Disclosures and Materiality Initiatives) and then deliver a more comprehensive and substantial package of changes to the ISAs.²⁰
- (iii) The proposals do not go far enough to promote the intended behavioral changes required, including improved audit evidence²¹ and improving disclosures (by making more relevant).²²
- (iv) Non-authoritative guidance may be a more effective way to address the underlying issues in this area.²³

IAASB Decisions on the Way Forward in Response to Comments

- 14. The majority of respondents showed support for the IAASB's efforts to progress changes in this area now. To date, the CAG has also been very supportive of the need for these changes to the ISAs. In addition, other investor groups have encouraged the IAASB to implement the changes to the ISAs now because they see it as an important step in promoting improvements in auditing disclosures.
- 15. The Board agreed at its December 2014 IAASB meeting that the proposed changes to the ISAs are an important first step. However, it was also acknowledged 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.
- 16. The IAASB concluded that a longer term, phased approach to addressing disclosures in the audit of financial statements would be appropriate. Accordingly, in addition to the changes to the ISAs, the IAASB is considering further actions that, where relevant, would be aligned with the work being done by the IASB. The IAASB believes that this approach responds both to the concerns of those who are of the view that the IAASB should finalize the revisions to the ISAs as set out in the ED, as well as those respondents who would like more to be done in the future. In December 2014, the Board discussed the following proposed approach:
 - (i) Stream 1—The IAASB will continue to work towards finalizing the changes to the ISAs in March 2015, which will include consideration of some further amendments to strengthen the requirements in some areas (e.g., ISA 315 (Revised), ISA 330 and ISA 700 (Revised)), and improve and strengthen the application material where concerns have been raised.
 - (ii) Stream 2—As the IASB progresses its work on materiality, including any proposed changes arising therefrom, the IAASB may need to consider a more holistic revision of ISA 320.²⁴ The IAASB could also consider separate guidance on applying the concept of materiality to

²⁰ **Accounting Firms:** PWC; **Public Sector:** CIPFA

²¹ **Member Bodies:** INCP

²² **Preparers:** QCA

²³ **Member Bodies:** CAANZ, CAI, CPAA

²⁴ The recently approved [IAASB Work Plan for 2015–2016](#) contemplates a revision of ISA 320, *Materiality in Planning and Performing an Audit*, to be considered with other competing priorities for 2017–2018. However, if the IAASB agrees that this should be prioritized because of the work that the IASB is doing in this area, this will be considered in the first instance by the IAASB Steering Committee, and then the IAASB, to determine whether a project in this area should be prioritized ahead of other projects already underway or agreed to commence in the 2015–2016 period.

qualitative disclosures. The IAASB will also consider how it can work more proactively with the IASB (see further discussion on materiality and the changes proposed to the ISAs in paragraph 21(d) below).

- (iii) Stream 3—The IAASB will consider the most appropriate actions to address concerns that have been raised in relation to the challenges in obtaining sufficient appropriate audit evidence when auditing disclosures. It is proposed that the IAASB aims 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 IAPN, or other non-authoritative document that is more appropriate, could be developed to address issues in this area.

It is also alternatively possible that an IAPN or other non-authoritative document could be produced combining guidance developed from both streams 2 and 3 (e.g., covering guidance on applying the concept of materiality and obtaining sufficient appropriate audit evidence for certain types of qualitative disclosures).

- 17. At its March 2015 meeting, the Task Force will recommend to the Board that, upon completion of the project (Stream 1), a Working Group and Staff would continue to monitor the IASB’s progress on both materiality and disclosures, and keep the Board updated on a periodic basis about the progress being made. The group could be reconstituted as a Task Force as and when it is identified that work in this area should recommence, subject to other competing priorities, and available resources, of the Board at that time.

Matters for CAG Consideration

- 1. With respect to the way forward:
 - (a) Do Representatives and Observers support the IAASB’s views that it should finalize the proposed changes to the ISAs in March 2015, with an expectation that the IAASB would, at an appropriate time in light of the IASB’s work, undertake additional work on in relation to materiality and evidence in relation to disclosures; or
 - (b) Alternatively, should the IAASB delay making the changes to the ISAs until such time as the IASB has progressed its work, allowing for a more comprehensive revision of the ISAs at that time?

II. Proposed Changes to the ISAs

- 18. Throughout the development of the proposed changes to the ISAs, the Task Force and IAASB have been mindful of the issues and concerns raised in response to the IAASB’s DP. As previously discussed with the CAG, respondents to the DP had raised the concern that auditors do not focus on their planned approach to obtain evidence on disclosures early enough and, in some cases, the audit plan does not build in sufficient time for audit procedures on disclosures.
- 19. The following sets out the comments by respondents to the ED and the IAASB’s proposed response to address the issues or concerns.

A. Changes Across Several ISAs

20. From the responses to the ED, as well as further considerations by the IAASB and the Task Force, there have been issues raised that extend across a few ISAs. Changes have been proposed to address the issues as explained further below.

(a) Emphasizing Disclosures when Referring to the Financial Statements

- (i) Various respondents 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.
- (ii) The Task Force reflected on the use of the extensions in the ED and (i) where the Task Force was of the view that the emphasis was not needed, deleted the extension; or (ii) where the Task Force was of the view that it was important to keep the emphasis, deleted the extension and emphasized disclosures in other ways within the same paragraph.

In performing this exercise, the Task Force observed that there were a few other paragraphs in the ISAs that had not previously been considered by the Task Force (e.g., ISA 700 (Revised), paragraphs 48 and A62–A64), in which similar extensions were used and to which conforming amendments were therefore considered necessary.

(b) Using the Term “Qualitative” in Place of “Non-Quantitative” in Relation to Disclosures

The Task Force debated the use of the terms “qualitative” and “narrative” as alternatives to “non-quantitative”, and agreed that the term “qualitative” would be the most appropriate for a number of reasons, including that: the term is better understood by stakeholders; has greater prevalence in the current ISAs; and it encompasses everything that is not quantitative (i.e., purely numerical).

(c) Using the Terms “Qualitative” and “Quantitative” in Relation to Misstatements

The appropriateness of the terms ‘qualitative’ and ‘quantitative’ misstatements was also further considered by the Task Force. It was agreed that this distinction, when applied to ‘misstatements’, could be confusing as some quantitative misstatements could also have qualitative aspects. It has therefore been concluded that the term ‘qualitative’ would only be used to distinguish disclosures i.e., quantitative from qualitative disclosures. Instead, when seeking to distinguish misstatements that have a qualitative aspect, this has been referred to, for example, as ‘misstatements in qualitative disclosures’ or ‘misstatements of a size or nature that could result in a material misstatement’, depending on the circumstances.

Matter for CAG Consideration

2. Do Representatives and Observers agree that the proposed changes set out in paragraph 20 above address the issues and concerns raised by respondents to the ED?

B. Planning the Audit

21. As discussed in March 2014 with the CAG, the ED included proposed changes to ISAs 300, 315 (Revised), 320 and 330 to address planning related issues and concerns identified by respondents to the DP. The following sets out the relevant proposed changes as previously discussed, the respondents views on these matters, as well as the proposed revisions, if any, to respond to the comments from respondents to the ED:

(a) Focusing on disclosures early in the audit process.

Changes in the ED

- (i) The following paragraphs were highlighted as being relevant to focusing auditors on disclosures earlier in the audit process:
- **Paragraph A12b in 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 in ISA 315 (Revised)** focuses the auditor on disclosure-related issues during the engagement team discussion. Changes were also proposed to **paragraph A11 in ISA 240**²⁵ to specifically reference discussion about disclosures when the engagement team discusses the risks of material misstatement due to fraud.
 - **Paragraph A23 in ISA 210** to highlight to auditors, in a footnote in the engagement letter, that there may be matters to be explicitly included in the *engagement letter* relating to the financial statements and disclosures. This was intended to help focus management on disclosures early in the audit process.
 - **Paragraph A13 in ISA 260**²⁶ to emphasize matter that may communicated to those charged with governance when discussing the planned scope and timing of the audit relating to disclosures, such as relevant and significant changes in the financial reporting framework that may affect disclosures.

Respondents' Comments

- (ii) Respondents to the ED did not raise significant issues relating to these paragraphs. Some editorials have been made to address various isolated comments, as well as conforming changes explained elsewhere in this paper.

IAASB Response

- (iii) The IAASB discussed these matters and agreed that no further significant changes are needed. However, it was agreed that the engagement team, during its discussions, could also consider disclosures about complex matters, including those involving significant

²⁵ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

²⁶ ISA 260, *Communication with Those Charged with Governance*

judgment as to what information to disclose (**see Agenda Item H.1, ISA 315 (Revised) paragraph A21a**).

(b) Insufficient focus by auditors on disclosures that may contain information from systems or processes that are not part of the general ledger system.

Changes in the ED

- (i) The following paragraphs were highlighted as being relevant to focusing auditors on information from the systems and processes that are not part of the general ledger system:
- **Paragraph A89a in ISA 315 (Revised)** (providing examples of these other kinds of systems or processes that may generate the information to be audited).
 - **Paragraph A12a in ISA 300** highlights that auditors should also consider the information that is generated from systems and processes that are outside the general ledger; and
 - **Paragraph A11 in ISA 210** makes further reference to these other systems or processes in relation to the auditor having a “reasonable expectation of obtaining the information necessary for the audit.”

Respondents’ Comments

- (ii) Respondents to the ED agreed with the notion of focusing auditors on information (relevant to the financial statements) that is not generated by the general ledger system, but had some concerns about how this was articulated:
- A few respondents²⁷ suggested that the term “general ledger system” is not widely known or might be difficult to understand,²⁸ or could be further clarified.
 - Introducing a new concept of “information from systems and processes outside the general ledger” may be misinterpreted as a much broader investigation than the IAASB intended – the current descriptions of the “information” in financial statements is sufficient.²⁹
 - Emphasizing information outside the general ledger in selected places in the ISAs could have an unintended consequence that auditors might limit their focus to the general ledger in other respects.
 - Various editorial comments on some of the examples presented of systems and processes outside the general ledger.³⁰

²⁷ **Accounting Firms:** RSM; **Member Bodies:** FEE

²⁸ **NSS:** IDW

²⁹ **NSS:** ASB; **Member Bodies:** EFSA, FEE

³⁰ **NSS:** MIA; **Accounting Firms:** DTT; **Public Sector:** NAOUK

Some respondents³¹ also requested additional guidance on specific considerations for the internal controls around the production of financial statement disclosures, as these are likely to be different from the controls that related to other assertions about classes of transactions and events and account balances, and on testing the operating effectiveness of such controls

Task Force/IAASB Response

- (iii) At its December 2014 meeting, the Board discussed a re-articulation of the phrase information from systems or processes that are not part of the general ledger system”, and agreed to refine the wording to “information in financial statements that may be from accounting records that are outside the general and subsidiary ledgers”, and clarify the examples to help auditors understand what was intended. Additional examples were also added, and some of the examples on which the respondents had made comments were revisited. (see [Agenda Item 7-B from the December 2014 IAASB meeting, ISA 315 \(Revised\), paragraph A89a](#))
- (iv) The IAASB also agreed to add additional guidance about control activities to clarify that control activities may relate to information included in the financial statements obtained from outside the general and subsidiary ledgers [see Agenda Item H.1, ISA 315 \(Revised\), paragraph A99a](#)).
- (v) The IAASB also discussed whether further changes could be made to clarify that the auditor’s considerations of relevant systems and processes should extend beyond the general ledger, including in relation to understanding the information system (including the related business processes), relevant to financial reporting. The IAASB agreed in principle that it would be appropriate to clarify this in paragraphs 18(c),(e) and (f) of ISA 315, but asked the Task Force to consider further how this could be done as there were concerns about the proposals presented. The application material to this in paragraphs A89 and new A89a (which describes examples of this information that is not from the general ledger system) would support these revised requirements.
- (vi) The Task Force presented revised requirements to the IAASB on its January 2015 teleconference. Reservations have subsequently been expressed by some Board members and Task Force members about the potential unintended consequences of the revisions to paragraphs 18 and A89a of ISA 315 (Revised) that were presented to the Board at the December 2014 IAASB meeting and January 2015 teleconference. In particular, reservations were expressed about the expression “financial statements may contain information from accounting records that are outside the general and subsidiary ledgers”, and that the examples given focused on aspects of the information system from which such information was derived rather than on the nature of the information that was derived from outside the general and subsidiary ledgers. In light of the Board’s discussion during the January 2015 teleconference, the Task Force agreed to give further consideration to this matter. The primary concerns in adding this new material have been that it may:

³¹ **Monitoring Group:** BCBS; **NSS:** CNCC-CSOEC; **Member Bodies:** ICAG, ISCA

- Signify that records of the type referred to in the examples (that contain information generated, processed or recorded by the audited entity in systems and processes that are outside the general or subsidiary ledgers) are deemed to fall within the definition of 'accounting records', when that was not the intent when the definition was established; and,
- Consequently signify that some or all of the ISA requirements to perform risk assessment procedures and further audit procedures to obtain sufficient audit evidence apply to aspects of these systems that are, or may not be, relevant to the audit, even though those requirements would not otherwise have applied to those aspects of the systems.

Matters to Be Considered by the IAASB at Its Upcoming Meeting

- (vii) The Task Force has reconsidered the proposals in this area. In general, the Task Force continues to believe that the initial intent of focusing auditors on sources of information outside the general and subsidiary ledgers, from which many disclosures in the financial statements are sourced (especially those that have been identified as more difficult for the auditor to address), is an important enhancement to the ISAs.
- (viii) The majority of respondents to the ED agreed with the introduction of the concept of "information from systems outside the general and subsidiary ledgers" into the guidance in the ISAs. After further discussing the phrase, the Task Force agreed to propose the expression 'information obtained from [within or] outside the general and subsidiary ledgers' (including the words in square brackets when appropriate in the circumstances). The Task Force explored various alternatives to help address some of the concerns that have been raised and now recommends the following way forward with respect to these paragraphs in ISA 315:
 - With respect to ISA 315 (Revised), paragraph A89a, the Task Force proposes simplifying the introductory text to clarify that the financial statements may contain information obtained from outside the general and subsidiary ledgers (without interpreting the boundaries of the auditor's understanding of the information system relating to this information), and clarifying the language used in the examples given so that they describe relevant information that has been disclosed in the financial statements that has been obtained from outside the general or subsidiary ledgers. The Task Force believes that this approach is preferable to describing in this paragraph aspects of the systems or processes used to develop such information, which might be seen as interpreting the boundaries discussed above by suggesting that all aspects of those systems would be relevant to financial reporting, or otherwise relevant to the audit. *(see Agenda Item H.1, ISA 315 (Revised), paragraphs A89a and conforming amendments, as relevant, to ISA 315 (Revised), paragraph A99(a), and ISA 330, paragraphs 20, 30 and A13).*
 - With respect to ISA 315 (Revised), paragraph 18, the Task Force agreed to present for consideration by the IAASB the proposal that was supported by a majority of Task Force members, to introduce the emphasis on such information in the introductory text of this requirement. The proposal seeks to do so by clarifying

that the understanding the auditor is required to obtain includes an understanding of the information system relevant to information disclosed in the financial statements, whether such information was obtained from within or outside of the general and subsidiary. Under this proposal, the revisions in ISA 315 (Revised), paragraphs 18 (c) and (e), that were presented in the agenda papers for the January 2015 IAASB teleconference, would unnecessarily duplicate what is in the introductory text and have been removed.

Two Task Force members are not supportive of the proposed change to the introduction to ISA 315 (Revised), paragraph 18. Alternatives proposed by these two Task Force members included either not making any change to the extant introduction to, or revising the wording of selected sub paragraphs of, paragraph 18. These Task Force members expressed the concern that the revised introduction would, in their view, be open to the interpretation that the auditor needs to understand the full preparation of all of the information that ultimately gets into the financial reporting systems from the initial inception of the information (e.g., the complete actuarial valuation process or the complete tax preparation process). At a minimum, they believe that it would introduce ambiguity about how far an auditor should go in obtaining an understanding of the information system relevant to financial reporting. At worst, they believe that it would embed an expectation that an auditor needs to fully understand all systems that produce information. These Task Force members believe that the revised words would add to, rather than solve, the existing confusion that they believe the auditor faces in making judgments as to the boundaries of the understanding they are required to obtain under the extant requirement of paragraph 18.

Other members of the Task Force took the view that the proposed revision to the introductory text (addressing information disclosed in the financial statements whether obtained from within or outside of the general and subsidiary ledgers in the context of obtaining an understanding of the “information system ... relevant to financial reporting”) only emphasizes such information in applying the extant requirement in ISA 315 (Revised), paragraph 18. Accordingly, they were not concerned that the revision would be seen as interpreting the boundaries. They believe that the requirement in paragraph 18 (both with and without the proposed revision) limits the necessary understanding to what is relevant to financial reporting more generally but also when obtaining the required understanding in the areas required to be included in doing so that are specified in sub-paragraphs 18 (a)–(f). They also believe that the requirement in ISA 315 (Revised), paragraph 12 similarly limits the understanding of internal control required to be obtained to what is relevant to the audit. They also have the view that the proposed approach would avoid inserting the emphasis into some but not all of the elements of the information system relevant to financial reporting referred to in paragraph 18, sub-paragraphs (a)–(f), without a particular rationale for being selective in doing so, which could be seen as narrowing the scope of the emphasis in a manner that could in itself potentially be seen to interpret the boundaries (*see revised requirements in Agenda Item H.1, ISA 315 (Revised), paragraph 18*).

(c) The audit plan does not build in sufficient time for audit procedures on disclosures.

Changes in the ED

- (i) **Paragraph A14 in ISA 330** focused auditors on planning for sufficient time for disclosures by proposing application material on specific consideration of the timing for audit procedures for those disclosures that are not audited with the underlying numbers.

Respondents' Comments and IAASB Response

- (ii) No significant issues were raised by respondents to the ED and the IAASB proposes no further changes.

(d) The ISAs are not clear on how to apply materiality to disclosures, particularly non-quantitative disclosures.

Changes in the ED

- (i) At the March 2014 IAASB meeting at which the ED was approved, the IAASB considered a proposal for a new requirement 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 Board 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) (*see Agenda Item H.1, ISA 315 (Revised, paragraphs A128a and A128b)*). The Board 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.

Respondents' Comments

- (ii) In the responses to the ED, it was recognized that materiality is intricately linked and integral to auditing disclosures, 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 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 ED. There was general support for the proposed changes in application material relating to materiality as proposed in ISA 315 (Revised), but many emphasized that more guidance is needed on the application of the materiality concept to disclosures,³² particularly in the planning phase of the audit, as well as in the evaluation of misstatements in disclosures (see paragraph 24(a) below). A few regulatory respondents, including two MG members, specifically called for a requirement(s) to assist

³² **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Regulators and Oversight Bodies:** EAIG, FRC, IRBA; **NSS:** AUASB, HKIPCA, IDW, MAASB, NZAUASB; **Accounting Firms:** CHI, EYG, KPMG; **Public Sector:** CIPFA; **Member Bodies:** FEE, FSR, ICAEW, IMCP, ISCA, SMPC, WPK

the auditor in determining materiality in the context of disclosures (particularly qualitative disclosures).³³

- (iii) Respondents raised a number of 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 three MG members) called for further changes to ISA 320 (in the form of either requirements, application material or both) to be made now,³⁴ but 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.
 - Though there was general support for the proposed amendments to application material relating to materiality, some other respondents³⁵ cautioned that the IAASB should wait for the IASB to conclude its project work rather than proceeding with any changes in this area now.
 - Related, the IAASB should think about how it could work more proactively with the accounting standard setters (in particular the IASB) for a more holistic approach to addressing the concerns that have been raised about materiality.³⁶ Another regulator recommended that the IAASB continue to closely monitor the IASB's materiality project and consider further enhancements accordingly.³⁷
- (iv) One respondent³⁸ suggested that changes should be made only if a more comprehensive review of ISA 320 is undertaken. Another respondent³⁹ noted that, in order to achieve a change in auditor behavior, education and training was more appropriate than ISA changes. Other comments relating to the proposed changes in ISA 320 included:
- Various concerns about the proposed changes to paragraph 6 of ISA 320, including that it suggests that the auditor is able to design audit procedures to detect most (if not all) misstatements that could be material solely because of their nature,⁴⁰ or that the proposed change may focus auditors only on qualitative

³³ **Monitoring Group:** BCBS, IOSCO; **Regulators and Oversight Bodies:** FRC

³⁴ **Monitoring Group:** IAIS, IFIAR, IOSCO; **Regulators and Oversight Bodies:** EAIG, FRC, IRBA; **Accounting Firms:** ANA, CHI; **Member Bodies:** FSR, ISCA

³⁵ **NSS:** IDW; **Accounting Firms:** PwC; **Public Sector:** CIPFA; **Member Bodies:** ASSIREVI

³⁶ **Monitoring Group:** IAIS, IFIAR, IOSCO; **Regulators and Oversight Bodies:** EAIG, FRC, IRBA; **NSS:** CAASB, CNCC-CSOEC, HKICPA, NZAuASB; **Accounting Firms:** DTT, KPMG, PwC; **Public Sector:** UKNAO; **Member Bodies:** FEE, ICAEW, SMPC

³⁷ **Regulators and Oversight Bodies:** MAOB

³⁸ **Accounting Firms:** EYG

³⁹ **Member Bodies:** ACCA

⁴⁰ **NSS:** IDW; **Member Bodies:** SMPC; **Academics:** HC

disclosures.⁴¹ In addition, a few respondents⁴² suggested that additional guidance on the proposed changes in this paragraph would be helpful.

- Concerns about some of the examples added in ISA 320 paragraph A10.⁴³

Task Force/IAASB Response

- (v) Given 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 three 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), the Task Force 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 450.⁴⁴
- (vi) The Task Force concluded that, if a new requirement were to be needed, it would be one that was analogous to the existing requirement to determine quantitative materiality in accordance with paragraph 10 of ISA 320. At its December 2014 meeting, the IAASB considered a possible 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.”
- (vii) Notwithstanding the responses received to the ED, the Board agreed not to proceed at this time with the development of changes to the requirements in ISA 320 and instead to wait for the IASB to progress its work on materiality, at which time the Board could then consider a more holistic review of ISA 320. However, the Board asked that the Task Force consider whether other changes, such as application material to support the existing requirements, could be developed to address qualitative disclosures, whether this was in ISA 320 or ISA 315 (Revised).

Matters to Be Considered by the IAASB at Its Upcoming Meeting

- (viii) The Task Force has further explored ISA 315 (Revised) and ISA 320 and has proposed:
 - Introducing qualitative disclosures into 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 (*see Agenda Item H.1, ISA 315 (Revised), paragraphs 26(a) and (d)*).

⁴¹ **Accounting Firms:** DTT; **Member Bodies:** NASBA

⁴² **NSS:** MAASB; **Public Sector:** NAOUK

⁴³ **Accounting Firms:** PWC; **Public Sector:** AGA; **Member Bodies:** CAI, SAICA

⁴⁴ ISA 450, *Evaluation of Misstatements Identified during the Audit*

- Developed application material to paragraph 6 of ISA 320 (where the concept of “qualitative” disclosures was introduced in the ED) (**see Agenda Item H.1, ISA 320, paragraph A1a**).

(e) Insufficient guidance on performing risk assessments on disclosures

Changes in the ED

- (i) Changes to integrate the assertions for presentation and disclosure were proposed in the ED (by deleting the separate assertions for “presentation and disclosure”) (see **ED paragraphs A124(a) and (b) in ISA 315 (Revised)**) and additional application material was added in paragraph A124a for disclosures that were not directly related to transactions, events, or account balances (see **ED paragraph A124a in ISA 315 (Revised)**).

Respondents’ Comments

- (ii) The majority of respondents⁴⁵ across all stakeholder groups supported the integration of the assertions for presentation and disclosure with those relating to transactions and account balances. However, some of these respondents⁴⁶ (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.
- (iii) Some respondents supported the changes but were concerned about the costs associated with implementation⁴⁷ or whether the changes would achieve the intended results in practice.⁴⁸ One regulator⁴⁹ expressed concerns that the additions to the application material alone would have insufficient change in the behavior of the auditor vis-à-vis disclosures.
- (iv) Several respondents,⁵⁰ 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;⁵¹ (iii) the changes would not necessarily lead to an integration of the work on disclosures;⁵² (iv) the

⁴⁵ **Monitoring Group:** BCBS, IFIAR, IOSCO; **Regulators and Oversight Bodies:** EBA, FRC, IRBA, MAOB; **NSS:** AUASB, CAASB, CNCC-CSOEC, MAASB, NBA, NZAuASB, ZAAPB; **Accounting Firms:** BDO, CHI, EYG, KPMG, PWC; **Public Sector:** AGA, GAO, NAOUK, PAS, SNAO; **Member Bodies:** ANAN, ASSIREVI, FACPCE, FEE, FSR, ICAG, ICAP, ICAS, ICAZ, IMCP, INCP, ISCA, MICPA, NYSSCPA, WPK, ZICA; **Individuals:** DJuvenal, CBarnard

⁴⁶ **Monitoring Group:** IFIAR, IOSCO; **Regulators and Oversight Bodies:** IRBA; **NSS:** CNCC-CSOEC; **Accounting Firms:** EYG

⁴⁷ **Public Sector:** ACAG, CIPFA

⁴⁸ **Accounting Firms:** DTTL, EYG; **Member Bodies:** NASBA

⁴⁹ **Regulators and Oversight Bodies:** EAIG

⁵⁰ **NSS:** ASB, JICPA; **Member Bodies:** ACCA, CAI, CalCPA, EFAA, KICPA, SAICA, SMPC

⁵¹ **Member Bodies:** SMPC

⁵² **Member Bodies:** EFAA, SAICA

proposed changes may lead to an over-emphasis on disclosures, (v) the changes are not needed⁵³ 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.⁵⁴ Various other isolated comments were also received.

IAASB Response

- (v) At its December 2014 IAASB meeting, the IAASB agreed it would move ahead with these proposed changes to the assertions in light of the majority support for them. The IAASB also agreed that it was appropriate to include an assertion for “classification” for account balances and related disclosures. The IAASB has also inserted sub-headings 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 (with consequential movement of paragraph A125 to above the new sub-headings). The Task Force has also proposed a minor reordering of the assertions so that the presentation assertion is placed at the end of the list, as presentation would only be considered after the other assertions (*see Agenda item H.1, ISA 315 (Revised), paragraphs A123a to A124a*).

Matters for CAG Consideration

3. Do Representatives and Observers agree that the proposed changes in the ISAs relating to planning set out in paragraph 21 above address the issues and concerns raised by respondents to the ED?
4. Do Representatives and Observers agree with the IAASB’s view that any changes to requirements in ISA 320 should be deferred until the more holistic review of ISA 320?

C. Responding to Risks

Responses to the ED

22. The IAASB did not propose any changes to the requirements in ISA 330 in the ED. A few MG and regulatory respondents⁵⁵ suggested that consideration be given to elevating application material in paragraph A59 of ISA 330 (which relates 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.

Task Force/IAASB Response

23. The IAASB agreed that the auditor’s considerations set out in paragraph A59 of ISA 330 relating to the evaluation of the overall presentation of the financial statements would be carried out in all

⁵³ **Member Bodies:** CalCPA

⁵⁴ **NSS:** JICPA

⁵⁵ **Monitoring Group:** BCBS, IAIS; **Regulators and Oversight Bodies:** EBA

instances on an audit and therefore propose elevating the application material to a requirement. The Board accordingly discussed proposed revisions to paragraph 24 of ISA 330 at the December 2014 IAASB meeting. In addition, the Board considered that there was a need to clarify the extent of the auditor's work effort in agreeing or reconciling the information in the financial statements with the underlying accounting records in paragraph 20 of ISA 330 (with corresponding changes to the documentation requirement in paragraph 30). The Task Force has further considered the drafting of these requirements in light of feedback at the December 2014 IAASB meeting and January 2015 teleconference (**see Agenda item H.1, ISA 330, paragraphs 20, 24, 30 and A59**).

Matter for CAG Consideration

5. Do Representatives and Observers agree that the proposed changes in the ISAs in paragraph 23 above address the issues and concerns raised by respondents to the ED?

D. Evaluating Misstatements and Presentation of the Financial Statements

24. Respondents to the DP also called for more guidance when evaluating misstatements in relation to disclosures. The following sets out the changes in the ED, comments by respondents and the IAASB's proposed response to address the issues or concerns, if any.

(a) Guidance for misstatements in non-quantitative disclosures, including aggregation of such misstatements

Changes in the ED

- (i) The ED included enhancements to the application material in ISA 450, including:
- Further examples of misstatements to emphasize misstatements may also occur in disclosures (**paragraph A1 in ISA 450**);
 - Highlighting that misstatements in non-quantitative disclosures cannot be accumulated in the same way as misstatements in amounts (**paragraph A2a in ISA 450**, but nevertheless need to be collected and considered for their effect on the financial statements as a whole (**paragraph A13a in ISA 450**); and
 - Guidance for the auditor to consider that individual misstatements in disclosures, although not material collectively, could be indicative of misleading trends (**paragraph A17a in ISA 450**).

Respondents' Comments

- (ii) Respondents generally welcomed the IAASB's proposals for additional guidance in ISA 450. However, there was concern that some of the proposed application material did not sufficiently assist auditors in understanding how to apply the requirements when auditing qualitative disclosures. Many respondents⁵⁶ across stakeholder groups (including one MG member) had the view that further or strengthened guidance was needed to assist the auditor in evaluating misstatements of qualitative disclosures (e.g., when

⁵⁶ **Monitoring Group:** IOSCO; **Regulators and Oversight Bodies:** IRBA; NSS: HKICPA, NZAuASB; **Accounting Firms:** BDO, DTTL, KPMG; **Public Sector:** NAOUK; **Member Bodies:** CAI, FEE, FSR, IAA, ICAEW, ICAS, MICPA, NASBA, WPK

misstatements in disclosures should be accumulated, how this should be done and when they should be identified as clearly trivial). Other matters raised included:

- A few respondents⁵⁷ were of the view that some of the proposed amendments to the application material could be interpreted in practice as requirements. Two regulators,⁵⁸ including one MG member, had the view that certain material should be elevated to requirements as they reflected audit procedures that should always be carried out.
- One respondent⁵⁹ expressed concern that the additional guidance may result in auditors requesting the correction of more misstatements in the financial statements to avoid the practical challenges they face in accumulating and evaluating disclosure omissions or misstatements, and thereby contributing to the “disclosure overload”.
- A few respondents⁶⁰ expressed concern about the proposed new examples of misstatements in the definition, including the introduction of the term “objective-based disclosure,”⁶¹ and that paragraph A1(f) could be seen to be an inappropriate extension of the “stand-back” requirement in ISA 700 (Revised).⁶² However, a few respondents⁶³ specifically welcomed the additions.

Task Force/IAASB Response

- (iii) The IAASB reconsidered the need for requirements in ISA 450, and concluded at its December 2014 meeting that the current requirements remain adequate. However, the Task Force also discussed various additions and changes to the application material to clarify and strengthen the standard, as appropriate, including::
- Changes to various examples of misstatements in paragraph A1, including rearticulating what is meant by “objective-based disclosures” to express that this means disclosures required to meet disclosures objectives of certain financial reporting frameworks. The Task Force also agreed that the new example in paragraph 1(f), albeit rare, is a good example, and has added a footnote reference to International Financial Reporting Standards where these additional disclosures may be required (*see Agenda item H.1, ISA 450, paragraph A1(f)*).
 - Revising paragraph A2a to include guidance on the application of the “clearly trivial” concept to qualitative disclosures. This paragraph was also revised to clarify that misstatements in qualitative and qualitative disclosures are also accumulated,

⁵⁷ **NSS:** IDW; **Member Bodies:** SMPC

⁵⁸ **Monitoring Group:** BCBS; **Regulators and Oversight Bodies:** EBA

⁵⁹ **Member Bodies:** ISCA

⁶⁰ **Public Sector:** AGA; **Accounting Firms:** PWC

⁶¹ **Regulators and Oversight Bodies:** IRBA; **NSS:** NBA

⁶² **Accounting Firms:** PWC

⁶³ **Regulators and Oversight Bodies:** EBA, IRBA; **Accounting Firms:** EYG

and provides guidance on how this is done for misstatements in qualitative disclosures (*see Agenda item H.1, ISA 450, paragraph A2a*).

- 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 Agenda item H.1, ISA450, paragraph A13a*)/
- Providing more guidance about when accumulated misstatements in disclosures may be material (*see Agenda item H.1, ISA 450, paragraph A13b*).

(b) Guidance on evaluating the overall presentation of the financial statements

Changes in the ED

- (i) In developing proposed changes to ISA 700 (Revised), the IAASB considered further requirements in paragraphs 13 and 14 of ISA 700 (Revised), but concluded that no further enhancements were necessary and that the extant requirements were sufficiently robust. However, the ED did include additional proposed application material in relation to:
- Determining whether the accounting policies have been adequately disclosed in the financial statements (**paragraph A3a in ISA 700**);
 - Evaluating the relevance, reliability, comparability and understandability of the financial statements (**paragraph A3b in ISA 700**); and
 - Considering the adequacy disclosures to provide information to users about material transactions and events (**paragraph A3c in ISA 700**).

Guidance to support the “fair presentation” evaluation in ISA 700 (Revised), paragraph 14, was also added, including clarifying that fair presentation may include disclosures that are not necessarily required by the financial reporting framework, and providing the auditor with additional actions that may be considered as part of this evaluation (**paragraphs A4a–A4c in ISA 700**).

Respondents’ Comments

- (ii) Regulators⁶⁴ felt strongly that certain material presented in the ED could be further developed and enhanced to promote the effectiveness of auditing disclosures, and therefore promote the behavioral changes expected. Some⁶⁵ of these, and other, respondents had the view that elevating certain application material to requirements would further enhance the quality and robustness of the procedures when auditing disclosures. In particular, it was suggested that the list of matters for consideration included in the new proposed paragraph A3b (regarding the auditor’s evaluation of the understandability and fair presentation of the financial statements) would be considered

⁶⁴ **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Regulators and Oversight Bodies:** EAIG, EBA, IRBA

⁶⁵ **Monitoring Group:** BCBS, IAIS; **Regulators and Oversight Bodies:** EBA, FRC, IRBA; **NSS:** JICPA

by auditors in all instances, and therefore should be included as requirements. Other matters raised included:

- Concern about the change from “adequate” disclosures to “appropriate” disclosures in paragraph 13(a), and the possible inconsistency in the ISAs in the use of this term.⁶⁶
- The use of the term “misleading” in paragraph A4c, which was suggested would apply to a compliance framework only and not a fair presentation framework.⁶⁷
- A need for greater emphasis on the exercise of professional skepticism in respect of evaluating disclosures, in ISA 700 (Revised) but also in other ISAs (e.g., ISA 315 (Revised)).⁶⁸

Task Force/IAASB Response

- (iii) The IAASB agreed that the requirements in ISA 700 (Revised) should be enhanced regarding the auditor’s consideration of certain matters when evaluating the financial statements, with such enhancements developed by elevating relevant application material proposed in the ED. For example, certain matters as set out in the ED in paragraph A3a (and some matters in proposed paragraph A3b) would be considered by the auditor in all instances, and could therefore be elevated to a requirement. The IAASB agreed that strengthening the requirements will also help address the concerns of respondents who have the view that the proposed changes in the application material alone will not achieve the expected behavioral change. Proposed revised requirements were presented to the IAASB for discussion in December 2014. The IAASB agreed with the proposed changes in principle but asked that the Task Force further consider the way that these had been articulated.
- (iv) The Task Force presented revised requirements for discussion with the IAASB at its January 2015 teleconference. The IAASB considered the articulation of the requirements in response to the Board’s request at the December 2014 meeting. The Task Force was asked to further consider the drafting of these requirements (*see Agenda item H.1, ISA 700 (Revised), paragraphs 13(a) and (d)*).
- (v) The Task Force has also made amendments to the application material for evaluating whether the accounting policies have been appropriately disclosed in the financial statements (*see Agenda item H.1, ISA 700 (Revised), paragraph A3a*), as well as evaluating the understandability of the financial statements (*see Agenda item H.1, ISA 700 (Revised), paragraph A3b*). Changes have also been made as appropriate to address other issues that have been raised. The IAASB also agreed:
 - To not make the change from “adequate” to “appropriate” in paragraph 13(a) because “appropriate” is the correct term in the context of an evaluation of the

⁶⁶ **Accounting Firms:** DTTL; **Public Sector:** AGA; **Member Bodies:** CAI, NASBA

⁶⁷ **Member Bodies:** FEE, FSR, SMPC

⁶⁸ **Regulators and Oversight Bodies:** EBA

disclosure of significant accounting policies. In addition, paragraph 13(b) also requires evaluation about whether the accounting policies are appropriate.

- To not change the word “misleading” in proposed paragraph A4c in response to a view that it would apply to a compliance framework. The IAASB is of the view that the nature by which certain amounts or disclosures are presented in the financial statements can result in “misleading” information, regardless of whether the disclosures are prepared in accordance with a fair presentation framework or a compliance framework.
- (vi) The Task Force deliberated the request for a greater emphasis in ISA 700 (Revised) on the exercise of professional skepticism. On reflection, the Task force concluded that the concept of professional skepticism is already suitably addressed in ISA 700 (Revised) in the context of the auditor’s application of professional judgment. However, the IAASB supports further consideration of reinforcing the concept in ISA 315 (Revised), and has agreed to proposed changes in ISA 315 for this purpose (*see Agenda item H.1, ISA 315 (Revised), paragraph A127*).

Matter for CAG Consideration

6. Do Representatives and Observers agree that the proposed changes in the ISAs relating to the evaluation of misstatements and the evaluation of the financial statements as a whole set out in paragraph 24 above address the issues and concerns raised by respondents to the ED?

Supplemental Guidance on Auditing Disclosures

25. At its March 2015 meeting, the IAASB will also consider draft revised supplemental guidance that will be issued simultaneously with the final standards. Respondents to the ED supported the Board’s view that such guidance is helpful to illustrate the effects of the proposed changes across the ISAs, and illustrate the existing requirements relating to disclosures. This supplemental guidance is presented as a CAG Reference Paper for information purposes only.

Conforming Amendments to Other ISAs

26. In response to the feedback on the ED, the IAASB will also be asked to approve conforming amendments in ISA 580⁶⁹ for proposed changes to the engagement letter in ISA 210.⁷⁰ In addition, conforming amendments will be proposed to ISA 705 (Revised)⁷¹ for proposed changes in ISA 450; and to ISAs 800⁷² and 805⁷³ for changes to the definition of financial statements in ISA 200.

⁶⁹ ISA 580, *Written Representations*

⁷⁰ ISA 210, *Agreeing the Terms of the Engagement*

⁷¹ ISA 705 (Revised), *Modifications to the Opinion in the independent Auditor’s Report*

⁷² ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

⁷³ ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

IAASB Interaction with the IAASB CAG

27. The substantive issues being raised on this project for the purposes of the March 2015 IAASB meeting are included in both this paper and **Agenda Item H.1**. Accordingly, this serves as the final discussion of the project prior to its anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of proposed auditor reporting standards. Appendix 2 to this paper provides a project history, including links to the relevant CAG documentation.

Matter for CAG Consideration

7. Representatives and Observers are invited to share any further comments on any matters relevant to the finalization of the proposed changes to the ISAs.

Material Presented – IAASB CAG PAPER

Agenda Item H.1

Auditing Disclosures – Proposed Changes to the ISAs

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 2-E of the March 2015 IAASB
Meeting – Draft Staff Publication – *Addressing
Disclosures in a Financial Statement Audit*

[\[Link to be provided\]](#)

Appendix 1

List of Respondents to the Exposure Draft—Proposed Changes to the International Standards on Auditing: Addressing Disclosures in the Audit of Financial Statements

Note: Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent (70)	Region
Regulators and Oversight Authorities (9)			
1.	BCBS	Basel Committee on Banking Supervision	GLOBAL
2.	EAIG	European Audit Inspection Group (21 European Audit Regulators) ⁷⁴	EU
3.	EBA	European Banking Authority	EU
4.	FRC	Financial Reporting Council – UK	EU
5.	IAIS	International Association of Insurance Supervisors	GLOBAL
6.	IFIAR	International Forum of Independent Audit Regulators	GLOBAL
7.	IOSCO	International Organization of Securities Commissions	GLOBAL
8.	IRBA	Independent Regulatory Board for Auditors (South Africa)	MEA
9.	MAOB	Securities Commission of Malaysia - Audit Oversight Board	AP
National Auditing Standard Setters (11)			
10.	ASB	American Institute of Certified Public Accountants Auditing Standards Board	NA
11.	AUASB	Australian Auditing and Assurance Standards Board	AP
12.	CAASB	Canadian Auditing and Assurance Standards Board	NA
13.	CNCC-CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts-Comptables	EU
14.	HKICPA	Hong Kong Institute of Certified Public Accountants	AP
15.	IDW	Institut der Wirtschaftsprüfer	EU
16.	JICPA	The Japanese Institute of Certified Public Accountants	AP

⁷⁴ Austrian Auditors Supervisory Authority (Austria), Audit Public Oversight Council (Czech Republic), Danish Business Authority (Denmark), Auditors Activities Oversight Council (Estonia), Haut Conseil du Commissariat aux Comptes (France), Abschlussprüferaufsichtskommission (Germany), Auditors' Public Oversight Authority (Hungary), Irish Auditing & Accounting Supervisory Authority (Ireland), Authority of Audit and Accounting (Lithuania), Commission du Surveilance du Secteur Financier (Luxembourg), Netherlands Authority for the Financial Markets (The Netherlands), Finanstilsynet (Norway), Conselho Nacional de Supervisão de Auditoria (Portugal), Romanian Public Interest Oversight Body of Accounting Profession (Romania), Auditing Oversight Authority – UDVA (Slovakia), Agency for Public Oversight of Auditing (Slovenia), Instituto de Contabilidad y Auditoria de Cuentas (Spain), Revisorsnämnden (Sweden), Federal Audit Oversight Authority FAOA (Switzerland) and Financial Reporting Council (United Kingdom).

#	Abbrev.	Respondent (70)	Region
17.	MAASB	Auditing and Assurance Standards Board of Malaysian Institute of Accountants	AP
18.	NBA	Nederlandse Beroepsorganisatie van Accountants	EU
19.	NZAuASB	New Zealand Auditing and Assurance Standards Board	AP
20.	ZAAPB	Zimbabwe Accounting and Auditing Practices Board	MEA
Accounting Firms (9)⁷⁵			
21.	ANA	Altaf Noor Ali Chartered Accountants (Pakistan)	AP
22.	BDO*	BDO International Limited	GLOBAL
23.	CHI*	Crowe Horwath International	GLOBAL
24.	DTT*	Deloitte Touche Tohmatsu Limited	GLOBAL
25.	EYG*	Ernst & Young Global Limited	GLOBAL
26.	GTI*	Grant Thornton International Ltd	GLOBAL
27.	KPMG*	KPMG IFRG Limited (Network)	GLOBAL
28.	PWC*	PricewaterhouseCoopers International Limited	GLOBAL
29.	RSM*	RSM International	GLOBAL
Public Sector Organizations (8)			
30.	AGA	Auditor General of Alberta	NA
31.	ACAG	Australasian Council of Auditors-General	AP
32.	AGNZ	Auditor General of New Zealand	AP
33.	CIPFA	Chartered Institute of Public Finance & Accountancy	GLOBAL
34.	GAO	United States Government Accountability Office	NA
35.	NAOUK	National Audit Office (UK)	EU
36.	PAS	Provincial Auditor of Saskatchewan	NA
37.	SNAO	Swedish National Audit Office	EU
Member Bodies and Other Professional Organizations (29)			
38.	ACCA	Association of Chartered Certified Accountants	GLOBAL
39.	ASSIREVI	Associazione Italiana Revisori Contabili (Association of the Italian Auditors)	EU
40.	ANAN	Association of National Accountants of Nigeria	MEA
41.	CAI	Chartered Accountants Ireland – Audit and Assurance Committee	EU
42.	CalCPA	California Society of CPAs	NA

⁷⁵ Forum of Firms members are indicated with a *. The Forum of Firms is an association of international networks of accounting firms that perform transnational audits. Members of the Forum have committed to adhere to and promote the consistent application of high-quality audit practices worldwide, and use the ISAs as the basis for their audit methodologies.

#	Abbrev.	Respondent (70)	Region
43.	CAANZ	Chartered Accountants Australia and New Zealand (previously ICAA)	AP
44.	CPAA	CPA Australia	AP
45.	EFAA	European Federation of Accountants and Auditors for SMEs	EU
46.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas	SA
47.	FEE	Fédération des Experts Comptables Européens - Federation of European Accountants	EU
48.	FSR	Foreningen af Statsautoriserede Revisorer (Danish Institute of Accountants)	EU
49.	IBR-IRE	Institut des Réviseurs d'Entreprise/ Instituut van de Bedrijfsrevisoren	EU
50.	ICAEW	Institute of Chartered Accountants in England and Wales	EU
51.	ICAG	Institute of Chartered Accountants (Ghana)	MEA
52.	ICAP	Institute of Chartered Accountants of Pakistan	AP
53.	ICAS	Institute of Chartered Accountants of Scotland	EU
54.	ICAZ	Institute of Chartered Accountants of Zimbabwe	MEA
55.	IMCP	Instituto Mexicano de Contadores Públicos, A.C. (Mexican Institute of Public Accountants)	NA
56.	INDCP	Instituto Nacional De Contadores Públicos (Colombia)	SA
57.	ISCA	Institute of Singapore Chartered Accountants	AP
58.	IAA	Interamerican Accounting Association	SA
59.	KICPA	Korean Institute of Certified Public Accountants	AP
60.	MICPA	The Malaysian Institute of Certified Public Accountants	AP
61.	NASBA	National Association of State Boards of Accountancy	NA
62.	NYSSCPA	New York State Society of Certified Public Accountants	NA
63.	SAICA	South African Institute of Chartered Accountants	MEA
64.	SMPC	IFAC Small and Medium Practices Committee	GLOBAL
65.	WPK	Wirtschaftsprüferkammer (German Public Accountants MB)	EU
66.	ZICA	Zambia Institute of Chartered Accountants	MEA
Preparers (1)			
67.	QCA	Quoted Companies Alliance	EU
Academics (1)			
68.	HC	Hunter College Advanced Auditing Class at the Graduate School (Prof. Joseph A. Maffia)	NA
Individuals and Others (2)			
69.	CBarnard	Chris Barnard(Affiliated with ESMA, Germany)	EU
70.	DJuvenal	Denise Silva Ferreira Juvenal	SA

Appendix 2

Project History

Project: Disclosures

Summary

	CAG Meeting	IAASB Meeting
Project Commencement		March 2010
Development of Discussion Paper and Feedback Statement	March 2011	September 2010 December 2010 December 2011
Project proposal	March 2012 September 2012	June 2012 September 2012
Development of Proposed International pronouncement (up to Exposure)	April 2013 September 2013 March 2014 September 2014 (report back)	December 2012 April 2013 December 2013 March 2014
Discussion of Feedback from Exposure Draft and Development of Final ISAs	March 2015	December 2014 January 2015 March 2015

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Items N of the following): http://www.ifac.org/sites/default/files/meetings/files/5978_0.pdf</p> <p>See CAG meeting minutes: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf</p>
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	<p><u>March 2012</u></p> <p>See IAASB CAG Report Back meeting material: (in Agenda Item E.5 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120306-IAASBCAG-AgendaItem_E5-Disclosures.pdf</p> <p><u>September 2012</u></p> <p>See IAASB CAG meeting material: (in Agenda Items E and E-1 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_E-Disclosures_Draft_Project_Proposal-Cover%20Sheet.pdf</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_E1-Disclosures_Draft_Project_Proposal.pdf</p> <p>See CAG meeting minutes:</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASB-CAG-Agenda_Item_A-Public_Minutes-final.pdf</p> <p><u>April 2013</u></p> <p>See IAASB CAG Report Back meeting material: (in Agenda Item E.2 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/CAG-Agenda_Item_E-2_Disclosures-Reportback-final.pdf</p> <p><u>September 2013</u></p> <p>See IAASB CAG meeting material: (in Agenda Item I of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20130909-IAASB-CAG-Agenda_Item_I-Disclosures-Final.pdf</p> <p>See CAG meeting minutes:</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140314-IAASB-CAG-Sept_2013_Public_Meeting_Minutes_Approved_Final.pdf</p> <p>See IAASB CAG Report Back meeting material: (in paragraph 9 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASB-CAG-Agenda_Item_H-Disclosures-final.pdf</p> <p><u>March 2014:</u></p> <p>See IAASB CAG meeting material: (in Agenda Items H, H.1 and H.2 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASB-CAG-Agenda_Item_H-Disclosures-final.pdf</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASB-CAG-Agenda_Item_H1-Disclosures-Changes%20to%20ISAs%20Final_0.pdf</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_H2-Disclosures-Supplemental_Guidance-final.pdf</p>
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	<p>See CAG Minutes:</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_H2-Disclosures-Supplemental_Guidance-final.pdf</p> <p>See IAASB CAG Report Back meeting material discussed in September 2014: (in paragraph 9 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_C-Disclosures_Report_Back-final.pdf</p>
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