

**Meeting:** IAASB  
**Meeting Location:** New York  
**Meeting Date:** September 17-21, 2012

## Agenda Item

# 6

### Objectives of the Agenda Item

1. To approve the commencement of a project dealing with the audit implications of disclosures.

### Working Group (WG)

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

### Activities since Last IAASB Discussion

3. The WG met physically in mid-July 2012 and via teleconference at the end of July 2012 to develop the project proposal.
4. The Chair of the WG and another WG member met with the Co-Chairs of the Financial Stability Board's Enhanced Disclosures Task Force (FSB EDTF) in mid-July 2012. At this meeting, the activities of the FSB EDTF on risk disclosure issues were introduced by the Co-Chairs of the FSB EDTF, and the IAASB representatives discussed current initiatives and projects of the IAASB in this area.

### Background

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. A WG was established to explore the audit implications around disclosures.
6. In January 2011, the IAASB issued a Discussion Paper (DP), [The Evolving Nature of Financial Reporting: Disclosures and its Audit Implications](#). The DP included questions tailored for different stakeholder groups, however, respondents were invited to answer any questions if they wished to provide their views.
7. Responses to the DP were received from fifty-one stakeholders (see Appendix 1 of the attached project proposal for a list of respondents). The broad range of respondents 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.

8. In its *Strategy and Work Program, 2012–2014*,<sup>1</sup> the IAASB indicated that it will seek to clarify auditors' responsibilities regarding financial reporting disclosures,<sup>2</sup> 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.
9. 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.
10. In order to inform the IAASB of the deliberations of the WG in relation to the preparation of the project proposal, at the June 2012 IAASB meeting the WG presented some key issues including:
  - (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.

Preliminary views from the IAASB indicated that there was substantial agreement that work should commence now, 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 to the ISAs, 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.

11. Matters included in the June 2012 IAASB agenda material were also discussed with the IAASB-National Standard Setters Liaison Group (IAASB-NSS) in April 2012 and the Consultative Advisory Group (CAG) Working Group (WG) on Disclosures<sup>3</sup> in May 2012. Both the IAASB-NSS and CAG

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<sup>1</sup> 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](http://www.ifac.org/publications-resources/iaasb-strategy-and-work-program-2012-2014).

<sup>2</sup> Financial reporting disclosures refer to the requirements of an applicable financial reporting framework that are used to prepare audited financial statements.

<sup>3</sup> The CAG WG on Disclosures is made up of CAG Representatives from the IASB, the CFA Institute and the Associação Brasileira de Instituições Financeiras de Desenvolvimento. The CAG Chair also attended the discussion.

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, 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,<sup>4</sup> because such guidance 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.

#### **Material to Be Discussed during the Meeting**

12. The WG Chair will present an overview of key themes that have influenced the direction of the project proposal. The IAASB will then be asked to consider the project proposal, which is attached.

#### **Action Requested**

13. The IAASB is asked to approve the attached project proposal.

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<sup>4</sup> 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.

## **DRAFT IAASB PROJECT PROPOSAL—THE AUDIT IMPLICATIONS OF DISCLOSURES REQUIRED BY AN APPLICABLE FINANCIAL REPORTING FRAMEWORK**

### **I. Subject**

1. The role of auditors and how they should be applying auditing concepts when auditing disclosures,<sup>5</sup> in light of the increasingly complex financial reporting requirements and the need for appropriate high-quality disclosures, has been the focus of considerable attention.

### **II. Background and Relevant Developments**

2. Over the past decade, the nature of financial reporting has evolved to meet the changing needs of users. Financial reporting has had to keep up with these changes, most significantly with the widespread use of fair values and other estimates, which often involves more complex and judgmental measurements. As these financial reporting disclosures continue to evolve, challenges have arisen for preparers, investors, auditors and others about their consideration of this quantitative and qualitative information.
3. Financial reporting disclosure requirements and practices have evolved to require more detailed disclosures, including disclosure of assumptions, models, alternative measurement bases and sources of estimation uncertainty to provide more decision-useful information. Concerns have been raised that the volume of note disclosures has, in some cases, resulted in information that is either too detailed to be meaningful or may not be relevant.
4. There is a perception that current requirements in the ISAs are generally more focused on quantitative information in disclosures. As the nature and extent of qualitative information disclosed by entities continues to grow, auditors are seeking additional guidance, including revisions or enhancements to the ISAs, to be able to respond effectively to these changes. Determining how to apply underlying concepts, such as materiality, to disclosures as they become increasingly qualitative is one example of how the current ISAs have been perceived as requiring enhancement.
5. Regulators, in particular banking regulators, and others have also called for more transparent and understandable disclosures, and believe the auditor has an important role when preparers are communicating their financial results.
6. Auditors have also expressed the need for additional guidance in areas such as risk assessment, obtaining audit evidence for certain kinds of disclosures, applying materiality to disclosures and evaluating misstatements in disclosures in order to make their procedures more effective and efficient when auditing disclosures.

### **IAASB Consultation on the Audit Implications of Disclosures**

7. In light of the recent trends in the role and importance of financial reporting disclosures, and the questions that have arisen about how auditors should apply auditing concepts in obtaining sufficient appropriate audit evidence about financial statement disclosures to support their audit opinion on

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<sup>5</sup> “Auditing disclosures” means applying the requirements of the ISAs to disclosures as part of the audit of the financial statements. This term is used in the rest of this project proposal with this meaning.

the financial statements as a whole, the IAASB issued a Discussion Paper (DP), [The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications](#), in January 2011. The objective of the DP was to obtain an understanding of the views and perspectives on issues relevant to auditing disclosures in a financial statement audit by exploring a number of related issues through a series of consultation questions. These included questions about:

- (a) Recent trends in financial reporting and their impact on financial reporting;
- (b) How the ISAs currently deal with disclosures; and
- (c) Audit issues that the IAASB had identified regarding disclosures, for example in relation to evidence, materiality, misstatements and auditability.

The questions were tailored for different stakeholder groups, including preparers, investors, lenders and other creditors, regulators and auditors.

8. Comments were received from a broad range of respondents (see Appendix 1). The IAASB was of the view that the responses, which were both thoughtful and informative, were also relevant to accounting standard setters, regulators and other stakeholders. As a result, the IAASB published a [Feedback Statement](#) in January 2012 to summarize what was heard.

#### **Overview of Key Messages from Responses to Questions in the Discussion Paper**

9. The majority of the respondents to the DP recognized that the challenge of improving disclosures is not only the responsibility of the IAASB, but will involve the collaboration and cooperation between many interested stakeholders, including accounting standard setters, regulators, preparers and users. Issues about materiality, in particular, were highlighted as an example of an area where collaboration will be important in order to provide meaningful guidance for both auditors and preparers.
10. Notwithstanding that many respondents thought that the ISAs appropriately reflected the necessary risk-based approach to auditing disclosures, there were some areas where there were strong views that additional guidance or other enhancements to the existing standards would improve practice. Specific discussions of key matters noted on consultation are included in Section IV below.
11. The Disclosures WG believes that approving the commencement of a formal project on the audit implications of disclosures at this time would enable the IAASB to respond in a timely manner to these calls for further guidance and enhancements. This project proposal contemplates steps aimed at further understanding the issues and identifying appropriate ways to address them.

#### **Relevant Developments of Accounting Standard Setters and Others**

12. Accounting standard setters and others in certain jurisdictions have also identified the need to further explore how disclosure requirements are developed and applied, and have suggested the need to develop a robust disclosure framework that can be used by preparers, auditors, regulators and others. Staff and the WG have been closely following these developments and have incorporated the relevant aspects of these bodies' work into this project proposal. It is anticipated that ongoing monitoring of, and, as appropriate, interaction with, these bodies in relation to their work will be an important part of the IAASB's future project.
13. In light of the international and regional developments in this area, many respondents to the DP have strongly signaled the importance of coordinated efforts to improve the quality of financial

reporting disclosures, and have highlighted the role the IAASB has in that regard. The IAASB's Consultative Advisory Group (CAG) also echoed the view that commencement of a project to address the auditing issues identified in the responses to the DP would be an essential contribution to the improvement in the quality of financial reporting disclosures.

### III. Project Objectives, Scope, Focus and How They Serve the Public Interest

#### Project Objectives

14. The project objectives are to:

- (i) 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) Consider how such revisions should be presented, for example within the relevant ISAs or in a separate ISA.
- (iii) 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 will inform the overall project.

#### Project Scope

15. The scope of this project extends only to the disclosure requirements of the financial reporting standards that are covered by the audit opinion (i.e., requirements of an applicable financial reporting framework that are used to prepare the audited financial statements). Financial information in documents containing or accompanying the audited financial statements (which are not subject to audit), such as Management Discussion and Analysis (MD&A), will not be addressed in this project.<sup>6</sup> Nevertheless, learnings from the discussions in this project may be useful for further work on other assurance projects the IAASB may undertake in the future, such as assurance on integrated reporting.<sup>7</sup>
16. The underlying premise of the project is to enhance the requirements and guidance within the ISAs if changes are deemed to be necessary. In addition, consideration will be given to the development of a new ISA, and the content of that ISA, to better focus the auditor's efforts on disclosures.
17. In addition to standard-setting related activities, collaborating and coordinating in a pro-active way with accounting standard setters and others will promote a holistic approach to improve the quality of financial reporting disclosures. In this regard, initiatives such as the IAASB-International

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<sup>6</sup> The IAASB has a project on its current standard-setting work program to revise ISA 720, [The Auditor's Responsibilities in Relation to Other Information in Documents Containing Audited Financial Statements](#), which is the standard addressing the auditor's responsibilities in relation to this other information.

<sup>7</sup> Integrated Reporting is a new approach to corporate reporting that demonstrates the linkages between an organization's strategy, governance and financial performance and the social, environmental and economic context within which it operates. The [International Integrated Reporting Council \(IIRC\)](#) is leading the development of a global framework for Integrated Reporting.

Accounting Standards Board (IASB) liaison and communication with the Financial Stability Board's Enhanced Disclosures Task Force (FSB EDTF) are expected to be directly relevant.

### **Focus of the Project**

18. As evidenced by the responses to the DP, there are areas where there has been a strong call for additional requirements or guidance to enhance auditor performance when auditing disclosures. Therefore, a project to address the audit implications of disclosures may result in new or revised requirements in the ISAs, or expanded application material to support the proper application of current requirements in the ISAs, in order to respond to the issues and concerns included in the responses to the DP. The Task Force will also continue to closely follow the activities of accounting standard setters and others who are undertaking projects or initiatives on a disclosure framework, or work on materiality, with the purpose of using their developments to further inform the activities of the Task Force and the IAASB. If the Task Force believes it appropriate to develop non-authoritative guidance, in the form of an IAPN or Staff Q&A, this would also be considered.
19. As potential new or revised requirements or additional application material are being considered, the Task Force and the IAASB will also consider whether the standard-setting activities should result in a new, separate ISA that addresses auditing disclosures. A preliminary list of the standards where changes may be made can be found in Appendix 2.

### **How the Project Serves the Public Interest**

20. Disclosures are a fundamental part of the financial statements, and are increasingly seen as the primary way for preparers to “tell the story” about the entity and its financial position and financial performance.
21. As such, it is in the public interest that the IAASB contribute to enhancing the credibility and usefulness of financial reporting disclosures. Focusing auditors' efforts in this critical area through revisions to the ISAs, along with collaboration with accounting standard setters and others working to develop or enhance the underlying disclosure framework, will serve as a means of delivering value to users of the financial statements who rely on them.

## **IV. Outline of the Project**

### **Major Problems and Issues that Will Be Addressed**

22. Responses to the DP, and feedback from dialogue with others, have provided useful insight into the shifting practices relating to auditing disclosures, and have focused the IAASB's attention on a number of key areas where challenges and issues have arisen. Consideration will need to be given to those areas identified that the IAASB can address in standard setting, including how the ISAs can be revised in the most effective way. Consideration will also need to be given to those areas identified where the issues or concerns cannot be solved by the IAASB on their own, such as excessive disclosures, for which collaboration and cooperation of various stakeholders will be needed for an effective response.
23. Among others, as part of these efforts the Task Force will consider the following issues, together with proposals for an appropriate solution.

### *Materiality*

24. ISA 320<sup>8</sup> sets out the requirements and guidance for considerations around materiality in an audit. In the requirements, numerous references are made to including disclosures in the audit process, including planning. Respondents to the DP noted that there is a lack of guidance for auditors as to how to apply materiality when auditing disclosures, including narrative disclosures, and also a lack of understanding by different stakeholders as to how materiality applies to disclosures.
25. This issue, in particular, is one where the work of the accounting standard setters (as outlined in paragraphs 12 and 47) will affect the work of the IAASB. However it is expected that the IAASB could, as an initial step, debate how the concept of materiality should apply to different types of disclosures, particularly narrative disclosures, and determine whether additional requirements or guidance in this regard would be helpful in the ISAs.

### *Evaluating Misstatements*

26. ISA 450<sup>9</sup> sets out the requirements and guidance for the evaluation of misstatements that have been identified in the audit, and requires that misstatements identified in disclosures are also considered in this process. However, in light of feedback received on the DP, the Task Force will consider whether the guidance is adequate in relation to how auditors identify what constitutes a disclosure misstatement (particularly in relation to narrative disclosures), how to aggregate the misstatements identified, for both quantitative and qualitative disclosures, and also how to evaluate the misstatements in the context of the financial statements as a whole.

### *Quality of Disclosures*

27. The auditor is required to plan procedures to evaluate whether the overall presentation of the financial statements, including the related disclosures, is in accordance with the applicable financial reporting framework.<sup>10</sup> Also, in forming an opinion on the financial statements, the auditor is required to evaluate whether the information presented, in view of the requirements of the applicable financial reporting framework, is relevant, reliable, comparable and understandable,<sup>11</sup> including enabling the intended users to understand the effects of material transactions and events,<sup>12</sup> and, if applicable, whether the financial statements achieve fair presentation.<sup>13</sup>
28. It has been suggested that the volume of immaterial disclosures being included in the financial statements often obscures relevant information in the financial statements, and some believe that current auditing practice does not provide a useful basis for identifying and eliminating the excessive disclosures. There is also the view that preparers are not applying judgment in determining whether to include immaterial disclosures. Stakeholders also suggested that the disclosures included in financial statements are not sufficiently clear and understandable to provide users with proper information to evaluate the entity.

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<sup>8</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>9</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>10</sup> ISA 330, *The Auditor's Responses to Assessed Risks*, para. 24

<sup>11</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*, para. 13(d)

<sup>12</sup> ISA 700, para. 13(e)

<sup>13</sup> ISA 700, para. 14

29. More guidance from the accounting standard setters on materiality and how it is applied under an applicable financial reporting framework could alleviate some of the concerns. Nevertheless, the Task Force will consider whether there are opportunities for the ISAs to assist in focusing auditors on relevant materiality considerations when evaluating the overall presentation of the financial statements.

#### *Sufficient and Appropriate Evidence*

30. Various ISAs include requirements and guidance for obtaining sufficient and appropriate evidence for financial reporting disclosures.
31. ISA 330<sup>14</sup> requires the auditor to consider the likelihood of a material misstatement in disclosures, and plan and perform audit procedures to address any identified risks. In addition, irrespective of the assessed risk of material misstatement, the auditor is required to perform substantive audit procedures on all material disclosures.<sup>15</sup> The application material in ISA 330 does not contain guidance on how to apply these requirements to financial reporting disclosures.
32. Many of the audit evidence standards address some specific disclosure requirements, including ISA 500,<sup>16</sup> ISA 501,<sup>17</sup> ISA 540,<sup>18</sup> ISA 550,<sup>19</sup> ISA 560,<sup>20</sup> and ISA 570.<sup>21</sup> These standards contain requirements and some application material that can be used when auditing disclosures. However, some concerns have been raised in relation to the appropriateness and sufficiency of evidence for certain disclosures that are not seen as being addressed in the ISAs, particularly relating to qualitative disclosures and those where judgment of the preparer is required. Also, different stakeholders have been identified as having different expectations as to the work effort of auditors on different types of disclosures.
33. The Task Force will consider whether more guidance is needed to assist auditors in determining the nature and extent of evidence that is necessary for certain disclosures to support the audit opinion. Narrative disclosures, and also those that are objective-based<sup>22</sup> or contain forward looking information, were highlighted as areas where additional guidance would be valuable, including guidance on the extent of the auditor's documentation given the lack of requirements for preparers to provide documentation to support disclosures in many financial reporting frameworks.

#### *Other Issues and Concerns*

34. Amongst other matters that may be explored in light of comments received on the DP, the Task Force will consider the need for further guidance on the timing of the auditor's work on disclosures

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<sup>14</sup> ISA 330, paras. 7(a) and (b)

<sup>15</sup> ISA 330, para. 18

<sup>16</sup> ISA 500, *Audit Evidence*

<sup>17</sup> ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

<sup>18</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>19</sup> ISA 550, *Related Parties*

<sup>20</sup> ISA 560, *Subsequent Events*

<sup>21</sup> ISA 570, *Going Concern*

<sup>22</sup> In several new accounting standards, preparers are required to present those disclosures, which in their judgment, are necessary to meet the objectives of the standard.

in the context of the overall audit process, including the nature of this work, the application of professional skepticism, and the assignment and supervision of engagement team members for auditing disclosures.

### **Impact Analysis Considerations**

35. The primary benefit of this project is an increase in audit quality stemming from enhanced and consistent auditor performance and the potential improvements arising therefrom to the quality of financial reporting disclosures.
36. Regardless of whether the outcome of this project results in new audit requirements, there may be implications for the cost of the audit. This is because it is likely that the project will provide an additional focus on auditing disclosures either through additional requirements or application material in the ISAs or other guidance. It is anticipated that the impact on cost would vary depending on the size and complexity of the entity and other entity-specific factors. While audit costs may increase for certain entities, providing enhanced guidance for auditors may result in more effective and efficient audit procedures when auditing disclosures and therefore minimize any increase in cost.
37. Further consideration of costs and benefits will be an important part of the IAASB's evaluation of proposals in progressing the project. IFAC is currently developing an impact analysis framework for the standard-setting bodies that it supports.

### **V. Implications for any Specific Persons or Groups**

38. The project has particular implications for national standard setters (NSS) who have adopted ISAs, or use them as a basis for their own standards, as well as the International Organization of Supreme Audit Institutions (INTOSAI).
39. Depending on the nature of the proposals, there may be fewer implications to audits of small- and medium-sized entities (SMEs), as the disclosure requirements for these entities may not be as onerous as those for large public companies in some jurisdictions. IFAC's Small and Medium Practices (SMP) Committee will be kept apprised of developments to ensure appropriate input is received at key stages of the project.
40. This project also has implications for and linkages with activities of other IAASB WGs and Task Forces including Auditor Reporting, ISA 720, the IAASB-IASB liaison initiative and the ISA Implementation Monitoring project.
41. Apart from the implications for auditors, the project may also have specific implications for other stakeholders in the financial reporting supply chain, in particular preparers, users and regulators.

### **VI. Development Process, Project Timetable and Project Output**

#### **Development Process**

42. It is anticipated that the project will follow the normal developmental process of the IAASB for development or revision of an ISA.
43. Because there are a number of ongoing initiatives in the area of financial reporting disclosures, the project approach will include appropriate dialogue with accounting standard setters and others

actively working in this area so that, to the extent possible, consistent requirements and guidance are developed.

44. It will be necessary for the Task Force to consider and evaluate how the IAASB’s timing of the project, including its key milestones, should take into account the activities of others noted in paragraphs 12, 47 and 48, and how the IAASB may best be able to reflect the impact of those developments in the auditing standards.

**Project Timetable**

45. Subject to the IAASB’s approval of a project proposal, this project will commence immediately. The specific project milestones and outputs will be dependent on the matters that the project Task Force ultimately determines are appropriate to address as part of the project, and the priorities assigned to those matters and for which the timing and nature could be influenced by activities of others. The IAASB *Strategy and Work Program 2012—2014* recognizes the importance of this project and includes an indicative timing for the output. The Task Force, in deliberating its proposed work plan for this project, will bear this expectation in mind.

Timing	Focus
December 2012	Discussion of identified issues
April 2013 <sup>23</sup>	Discussion of proposed responses to specific issues identified, including timing of an anticipated exposure draft
Ongoing	Dialogue with stakeholders on key issues and proposals <sup>24</sup>

**Project Output**

46. The output of the project is anticipated to be additional or revised requirements or application material in the ISAs. As noted in the objectives in paragraph 14, the changes to the ISAs, if any, could be in individual ISAs, in a new standard on the audit implications of disclosures, or both. This output does not preclude the development of non-authoritative guidance, in the form of an IAPN or Staff Q&A, as the Task Force may determine appropriate.

**Related Initiatives of Accounting Standard Setters and Others**

47. As previously discussed, accounting standard setters and others had started initiatives or projects to further explore issues raised relating to financial reporting disclosures. Many of these are still at the start and definitive timing of future work efforts is still to be determined. Among others:
- (a) Internationally, the IASB now has work in this area on its horizon. In response to its [Agenda Consultation 2011](#), respondents expressed the view that a disclosure framework is needed to ensure that information disclosed in financial statements is more relevant to investors and to reduce the burden on preparers. The IASB has proposed the commencement of a review of

<sup>23</sup> At this time it is expected that the accounting standard setters and others with initiatives in this area will have progressed their work, which would better inform the Task Force when developing its proposals.

<sup>24</sup> Includes discussion with the IAASB CAG and IAASB-NSS Liaison Group

- research already done in this area by others. They have also noted that the disclosure chapter of the conceptual framework project is likely to constitute their major disclosure project and represents a longer-term standard-setting initiative. It has also been recommended that a short-term initiative be undertaken to explore how those applying International Financial Reporting Standards (IFRSs) can improve and simplify disclosures within the existing disclosure requirements. Roundtables for securities regulators, auditors, investors and preparers are being planned by the IASB for the second-half of 2012 to hear views about the benefit of short-term improvements without the need for current standard-setting intervention. The input from these roundtables is also expected to feed into their longer-term “conceptual framework—disclosures” project.
- (b) In the United States, the Financial Accounting Standards Board (FASB) has commenced a project to improve the effectiveness of disclosures in the notes to the financial statements. In July 2012, an Invitation to Comment (ITC) on a [Disclosure Framework](#) was released, open for comment through November 16, 2012. The objective and primary focus of the project is to improve the effectiveness of disclosures in the notes to the financial statements by clearly communicating the information that is most important to users of each entity’s financial statements. Although reducing the volume of the notes to the financial statements is not the primary focus, the FASB hopes that a sharper focus on important information will result in reduced disclosures. The ITC explains ideas that, if successfully developed into a disclosure framework, could change the way that disclosure requirements are set, and the way preparers determine the content, format and organization of notes to the financial statements.
  - (c) In Europe, the European Financial Reporting Advisory Group (EFRAG), the Autorité des Normes Comptables (ANC) in France, and the Financial Reporting Council (FRC) in the United Kingdom published a Discussion Paper (DP), [Towards a Disclosure Framework for the Notes](#), in July 2012, open for comment through December 31, 2012. The project was initiated to respond to concerns that the notes may not be providing users with information to meet their needs, while the volume of disclosures was seen to make them burdensome to prepare and difficult to use. The proposals in the DP set out a decision framework for both the standard setter in setting the requirements and for preparers, auditors and regulators in applying those requirements, placing emphasis on the need to improve the communication to investors, creditors and others who rely on the financial statements to make decisions. In addition, EFRAG is also engaging with other European NSS to provide timely and effective input to the early phases of the IASB’s work in this area.
  - (d) The European Securities and Markets Authority (ESMA) released a consultation paper on materiality, [Considerations of Materiality in Financial Reporting](#), in November 2011 to understand various aspects of materiality in an effort to contribute to a consistent application of this concept in financial reporting. The comment period closed on February 29, 2012 and forty-six comment letters were received.
  - (e) In March 2011, the FSB released its report, [Thematic Review on Risk Disclosure Practices](#), which summarized the actions of various stakeholders, including the IAASB, in response to earlier recommendations for change. In December 2011, the FSB held a roundtable about the current state of risks and related disclosures and how to improve their transparency. One of the outcomes of the roundtable was the establishment of a private sector task force to develop principles for improved disclosures based on current market conditions and risks,

including ways to enhance comparability of disclosures. The FSB EDTF is expected to have dialogue with regulators and other interested bodies, including accounting and auditing standard setters (including the IAASB) and its recommendations are expected to be published in October 2012. The Chair of the WG and another WG member met with the Co-Chairs of the FSB EDTF in mid-July 2012. At this meeting, the activities of the FSB EDTF on risk disclosure issues were introduced by the Co-Chairs of the FSB EDTF, and the IAASB representatives discussed current initiatives and projects of the IAASB in this area. It is also expected that the FSB will consider another roundtable towards the end of 2012 to facilitate further discussions in this area.

- (f) The Institute of Chartered Accountants of Scotland (ICAS) and the New Zealand Institute of Chartered Accountants (NZICA) were asked in October 2010 by the IASB to undertake a project to review the level of disclosure requirements in existing IFRSs and to recommend deletions and changes to disclosure requirements. The report, [\*Losing the Excess Baggage—Reducing Disclosures in Financial Statements to What's Important\*](#), was presented to the IASB in July 2011, and is expected to be considered further in the IASB's deliberations as part of their planned activities in this area.
  - (g) Arising from its project on reducing complexity in corporate reporting, the UK FRC published a DP, [\*Louder than Words: Principles and actions for making corporate reports less complex and more relevant\*](#), in June 2009. The paper included proposed actions to address some of the complexity identified in corporate reporting, including "cutting clutter" by preparers that was seen by some to be undermining the quality of the financial reports. Based on the feedback to the DP, the FRC set up a project team and an Advisory Panel to carry out further work on "cutting clutter." As part of this initiative, in April 2011 the UK Auditing Standards Board published [\*Cutting clutter: Combating clutter in annual reports\*](#). The publication contains a number of aids for reducing clutter including illustrations of what certain disclosures could look like without the clutter. The UK FRC also established the [\*Financial Reporting Lab\*](#), which is a forum for investors and companies to share ideas for pragmatic solutions to reporting needs.
  - (h) The Australian Financial Reporting Council (A-FRC) set up a Task Force to review the various accounting and other requirements, including those for disclosures, and to consider what might be done to address the "complexity" concerns in this area. The A-FRC Task Force carried out a review on what might be done to address some of the issues that had been identified. From this review they concluded that the way forward is to manage complexity and in May 2012 released a report [\*Managing Complexity in Financial Reporting\*](#). The report sets out the issues identified, including parts of the current accounting standards framework, and behavioral aspects, that have resulted in an increase in the number, and volume, of financial and other disclosures presented. The report also offers some suggested strategies to better manage the complexity and was open for comments through July 31, 2012.
48. In addition, the US Public Company Accounting Oversight Board (PCAOB), in the issuance of its risk assessment standards, placed a greater emphasis on disclosures in planning and assessing the risks of material misstatement.

## **VII. Resources Required**

49. A project Task Force will be established, consisting of 4-5 individuals including IAASB members and technical advisors. The project will be chaired by an IAASB member.
50. Consideration will also be given as to how best to obtain appropriate input from other stakeholders who have similar projects (in particular, accounting standard setters and regulators). This may be through membership on the project Task Force, correspondent membership, or by other means. In addition, if the Task Force determines that it would be appropriate to revise the ISAs, or to develop an IAPN, the Task Force would consider inviting experts to assist the Task Force, for example, with respect to specific complex topics such as Value at Risk (VAR) disclosures.
51. IAASB Staff will provide support to the project Task Force.

## Appendix 1

### List of Respondents to the Discussion Paper

No	Abbrev.	Respondent
<b>Users and Preparers (7)</b>		
1	HEOS	Hermes Equity Ownership Services
2	100 Group	The Hundred Group of Finance Directors
3	HoTARAC	Australian Department of Treasury and Finance
4	HQ	Hydro–Québec
5	IACVA	International Association of Consultants, Valuers and Analysts
6	ICGN	International Corporate Governance Network
7	QCA	The Quoted Companies Alliance
<b>Regulators and Oversight Bodies (10)</b>		
8	AOB	Audit Oversight Board–Securities Commission Malaysia
9	AIU	Audit Inspection Unit and Auditing Practices Board (UK) <sup>25</sup>
10	CPAB	Canadian Public Accountability Board
11	EBA	European Banking Authority
12	ESMA	European Securities and Markets Authority
13	FAOA	Federal Audit Oversight Authority of Switzerland
14	SEHK	The Stock Exchange of Hong Kong Limited
15	IAIS	International Association of Insurance Supervisors
16	IOSCO	International Organization of Securities Commissions
17	IRBA	Independent Regulatory Board for Auditors (South Africa)
<b>National Auditing Standard Setters (5)</b>		
18	AICPA	American Institute of Certified Public Accountants
19	AUASB	Australian Auditing and Assurance Standards Board
20	HKICPA	Hong Kong Institute of Certified Public Accountants
21	AASB–MIA	Auditing and Assurance Standards Board of the Malaysian Institute of Accountants
22	NZICA	New Zealand Institute of Chartered Accountants–Professional Standards Board
<b>Audit Firms (5)</b>		
23	DTT	Deloitte Touche Tohmatsu Limited

<sup>25</sup> For the purpose of this table only, the joint response letter from the AIU and AIU (UK) has been listed once only under the “Regulators and Oversight Authorities” category.

24	EYG	Ernst & Young Global
25	GT	Grant Thornton International
26	KPMG	KPMG IFRG Limited
27	PwC	Pricewaterhouse Coopers
<b>Professional Institutes – Americas (4)</b>		
28	FICPA	Florida Institute of Certified Public Accountants
29	IMCP	Instituto Mexicano de Contadores Públicos
30	NYSSCPA	New York State Society of Certified Public Accountants
31	OCAQ	Ordre des comptables agréés du Québec
<b>Professional Institutes – Europe &amp; Africa (15)</b>		
32	ACCA	The Association of Chartered Certified Accountants
33	AIA	The Association of International Accountants
34	ASSIREVI	Associazione Italiana Revisori Contabili
35	CNCC– CSOEC	Compagnie Nationale des Commissaires aux Comptes and the Conseil Supérieur de l'Ordre des Experts–Comptables
36	CNDCEC	Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili
37	EFAA	European Federation of Accountants and Auditors for SMEs
38	FAR	Institute for the Accountancy Profession in Sweden
39	FEE	Federation of European Accountants
40	FSR	Danske Revisorer (Danish Institute of Professional Accountants)
41	ICAEW	The Institute of Chartered Accountants in England and Wales
42	ICAS	The Institute of Chartered Accountants of Scotland
43	ICJCE	Instituto de Censores Jurados de Cuentas de España
44	IDW	Institut der Wirtschaftsprüfer
45	NBA	Nederlandse Beroepsorganisatie van Accountants
46	SAICA	The South African Institute of Chartered Accountants
<b>Professional Institutes – Asia / Oceania (3)</b>		
47	AAP	Australian Accounting Profession (CPA Australia, The Institute of Chartered Accountants in Australia, Institute of Public Accountants)
48	ICAP	The Institute of Chartered Accountants of Pakistan
49	JICPA	The Japanese Institute of Certified Public Accountants
<b>Individuals and Others (2)</b>		
50	FI	Felicitas T Irungu
51	JM	Dr. Joseph S. Maresca, CPA, CISA

## Appendix 2

### Preliminary List of ISAs that May Be Affected by a Project on Auditing Disclosures

The following highlights the ISAs that may be affected by a project on auditing disclosures. The amount of change, if any, to each standard may vary depending on the way the changes are going to be incorporated into the ISAs, and the changes, enhancements or additions, if any, that are considered necessary for each standard.

ISA	Name
General Principles and Responsibilities	
230	<i>Audit Documentation</i>
240	<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>
Risk Assessment and Response to Assessed Risks	
300	<i>Planning an Audit of Financial Statements</i>
315	<i>Identifying and Assessing Risks of Material Misstatement through Understanding the Entity and Its Environment</i>
320	<i>Materiality in Planning and Performing an Audit</i>
330	<i>The Auditor's Responses to Assessed Risks</i>
450	<i>Evaluation of Misstatements Identified during the Audit</i>
Audit Evidence	
500	<i>Audit Evidence</i>
501	<i>Audit Evidence—Specific Considerations for Selected Items</i>
540	<i>Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</i>
550	<i>Related Parties</i>
560	<i>Subsequent Events</i>
570	<i>Going Concern</i>
580	<i>Written Representations</i>
Using the Work of Others	
600	<i>Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)</i>
Audit Conclusions and Reporting	
700	<i>Forming an Opinion and Reporting on Financial Statements</i>

## Appendix 3

### Comments by IFAC Technical Managers

The comments of IFAC Technical Manager from each technical area are required before this Project Proposal is considered by the board or committee proposing to undertake the project.

#### **Technical Manager to the Compliance Advisory Panel and Professional Accountancy Organization Development Committee**

No comment.

Signed: Gabriella Kusz

Date: August 21, 2012

#### **Technical Manager to the International Accounting Education Standards Board (IAESB)**

Signed:

Date:

#### **Technical Manager to International Ethics Standards Board for Accountants (IESBA)**

No comment.

Signed: Chris Jackson

Date: August 7, 2012

#### **Technical Manager to the Professional Accountants in Business (PAIB) Committee**

Although out of scope of this project, but related to some degree, the issue the Board will need to tackle is auditing and assurance of broader based business reporting such as integrated reporting and narrative reporting more generally and how concepts of materiality apply. The placement of management commentary, or other narrative disclosure, in the annual financial report, and the introduction of the integrated report, will affect the level of assurance to be obtained thereon. If narrative reporting forms an integral part of the financial report (by way of inclusion or cross reference), and the financial statements are subject to audit, the narrative report will also be subject to some level of audit. If the IAASB has not addressed this already, it needs to be addressed.

Signed: Stathis Gould

Date: August 15, 2012

#### **Technical Manager to the International Public Sector Accounting Standards Board**

No comment.

Signed: Stephenie Fox

Date: August 15, 2012

#### **Technical Manager to the Small and Medium Practices (SMP) Committee**

The SMPC is supportive of this project. Given the potential implications for audits of SMEs, we welcome liaison with the IAASB and are prepared to input, where appropriate, at key stages of the project.

Signed: Paul Harrison

Date: August 13, 2012

#### **Technical Manager to the Transnational Auditors Committee (TAC)**

No comment.

Signed: Barry Naik

Date: August 14, 2012