Auditing Disclosures – Issues and Task Force Views

I. Scope of this Paper

1. The IAASB and its Consultative Advisory Group (CAG) reinforced the need to identify areas within the standards that may need to be strengthened in relation to auditing disclosures and, if necessary, decide on the manner by which any such issues should be addressed.

2. At this stage, the Task Force has not made any recommendations on how to facilitate any changes. Accordingly, once agreement has been reached on the areas that will be pursued in this project, the Task Force will then consider the best way to approach these, i.e., whether the changes to the requirements in the International Standards on Auditing (ISAs) or guidance, if any, will be added to the Application and Other Explanatory Material, or will be presented in other non-authoritative guidance such as an International Auditing Practice Note (IAPN) or a Staff Questions & Answers (Staff Q&A).

3. This discussion of potential gaps identified will be used as the basis for the Task Force's proposed responses to specific issues identified, including timing of the work effort, which will be presented to the IAASB in April 2013 (as approved in the project proposal in September 2012).

II. Methodology for Identification of Potential Gaps

4. The starting point for this project was the consultation (DP) in January 2011 to assist the IAASB in gaining a robust understanding of views and perspectives on issues relevant to auditing disclosures. The DP explored a number of issues through a series of consultation questions on issues that had been identified. The IAASB summarized the views from the broad and extensive responses received on the DP in the Disclosures Feedback Statement, which was published in January 2012.

5. This paper is not intended to present a detailed analysis of respondents' comments to the DP—an analysis of the detailed comments received from respondents can be found in:

   (a) IAASB Meeting December 2011 Agenda Paper 10A; and

   (b) IAASB Meeting September 2012 Agenda Paper 6.

6. The responses to the DP have been overlaid into the analysis that the Task Force has undertaken in Agenda Item 3-B, and form the basis of the 'issues identified' as the starting point for the Task Force's efforts. These identified issues have then been considered in the context of the audit process and specific relevant standards by mapping the issues against the objectives and requirements, as they relate to disclosures, of the relevant standards.

7. **Agenda Item 3-B** provides the detail of the analysis performed, the purpose of which was to identify more specifically where there may be gaps or deficiencies in the ISAs, including the preliminary views of the Task Force. The remainder of this paper provides the specific observations and views of the Task Force on matters to further consider and deliberate.

8. The analysis follows the order of a typical audit process. Only ISAs where issues have been identified have been included in the analysis, and requirements have been presented only to the extent that they related to auditing disclosures.

III. Overview of the Task Force Analysis and Initial Findings

9. Responses to the DP indicated that the ISAs appropriately reflected the necessary risk-based approach to auditing disclosures. However, there were some areas where respondents thought that additional guidance or other enhancements to existing standards would improve practice.

10. The Task Force has further explored the areas where issues were identified, in light of current requirements in the ISAs, to identify whether they appear adequate with respect to disclosures to meet the objectives of each relevant ISA. Based on the analysis, the Task Force has identified four potential gaps where enhancements to the requirements would provide clarity, particularly in relation to the evolving nature of disclosures, and have the view that it would be beneficial to further consider these areas. The requirements identified include:

    (a) ISA 320, *Materiality in Planning and Performing an Audit* – application of materiality to disclosures that are qualitative (see further details in section (V)(A) on ISA 320 later in this paper);

    (b) ISA 320 – clarification of the application of performance materiality to disclosures(see further details in section (V)(A) on ISA 320 later in this paper);

    (c) ISA 501, *Audit Evidence—Specific Considerations for Selected Items* – additional guidance to address information being generated whose source is different from that being generated directly by the accounting system (see further details in section (V)(D) on ISA 500 and ISA 501 later in this paper); and

    (d) ISA 700, *Forming an Opinion and Reporting on Financial Statements* – clarification that the ‘stand back’ review requirement includes evolving types of disclosures (see further details in section (V)(F) on ISA 700 later in this paper).

11. Except for the above, the Task Force is of the view that there are sufficient requirements in the ISAs to meet the objectives in relation to auditing disclosures. There are areas where additional guidance is proposed, however the quantum of the additional guidance, together with deliberations about the most effective way to incorporate the additional guidance, is still to be resolved.

12. The broad issue of whether sufficient attention is being devoted to auditing disclosures is still to be further explored, and ways to address this further deliberated by the Task Force. One possible solution to this would be the development of a new ISA with all related requirements and guidance in one place for auditing disclosures, which may enhance practice in this area. However, separating the requirements and guidance may result in disclosures becoming a separate part of the audit, and many have the view that they should remain an integral part of the audit.

IV. Existing Requirements and Guidance in the Auditing and Accounting Standards

13. Underpinning the auditing standards are relevant definitions in the IAASB’s *Glossary of Terms*. These provide essential context for the requirements and guidance in the rest of the standards. Most importantly, the definition of ‘Financial Statements’ includes references to ‘the related notes’:

> **Financial Statements** - structured representation of historical financial information, <u>including related notes</u> intended to communicate an entity’s economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. <u>The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.</u> The term ‘financial statements’ refers to a complete set of financial statements as determined by the

requirements of the applicable financial reporting framework, but it can also refer to a single financial statement.

It is therefore clear from the definitions that within the ISAs, references to 'financial statements' include the notes and disclosures. Other relevant definitions, including definitions for the assertions 'presentation and disclosure', 'misstatements" and 'performance materiality', can be found in **Appendix A**.

14. It should also be noted that the accounting literature contains essential context in relation to disclosures, in that it sets out management's responsibilities for the preparation of disclosures to meet the objective of the relevant financial reporting framework.

15. For example, the International Financial Reporting Standards (IFRSs) developed by the IASB also include various definitions and guidance relating to disclosures, including a definition for 'materiality' (see discussion on materiality in Section V(B) of the analysis later in this paper). The IASB's *Conceptual Framework*[1] also sets out the concepts that underlie the preparation and presentation of financial statements for external users. Further relevant accounting definitions and requirements can be found in **Appendix B**.

16. The Task Force believes that disclosures have become more important and, in some cases, more useful than the numbers in the primary financial statements. This shifting focus to disclosures, together with the evolving types of disclosures, has resulted in many of the issues that have been raised in this area. Therefore the Task Force will continue to follow the IASB's developments in this area.

V. Discussion on Potential Gaps in ISA Requirements and Application Materials

17. Below is the analysis to identify potential gaps in the requirements and application materials relating to auditing disclosures. The Task Force views below are only preliminary and are presented to obtain IAASB views. The proposed solutions are not definitive, nor are they the only alternatives in some cases.

18. The discussion below is based on the analysis in **Agenda Item 3-B**, which sets out further detail on the issues that had been identified from the responses to the DP, the requirements of each standard as they relate to disclosures, and a brief outline of the Task Force's views. The use of this analysis with the discussion below may be useful in assisting with understanding the Task Force's views. In addition, **Appendix C** of this Agenda Paper sets out a high level summary (a 'snapshot') of the areas where potential gaps in the requirements have been identified.

A. Planning and Understanding the Entity and Assessing the Risks of Material Misstatement (ISA 300[2] and ISA 315[3])

19. In the planning stage of the audit, the objective of the auditor is to have the audit organized and managed so that appropriate attention is devoted to important areas of the audit, thereby performing audit procedures in an effective manner to reduce audit risk to an acceptably low level.

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1 The IASB agreed in September 2012 to restart their project to revise their *Conceptual Framework*, focusing on specific elements of financial statements, including presentation and disclosure. The project is expected to be complete by September 2015.

2 ISA 300, *Planning an Audit of Financial Statements*

3 ISA 315, *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*

As part of the planning process, the auditor is required to understand the entity, its internal control and its environment for the purpose of assessing the risks of material misstatement both at the financial statement and assertion levels.

20. ISA 300 covers the broad requirements for planning an audit. ISA 315 requires the auditor to understand the entity and identify and assess the risks of material misstatement, whether due to fraud or error, both at the financial statement level, and the assertion level, to provide a basis for responding to assessed risks to reduce audit risk to an acceptably low level.

21. The Task Force is of the view that the ISA 300 requirements are sufficient to meet the objectives of the standard in relation to auditing disclosures. However, consideration may be given to providing additional guidance in the Application and Other Explanatory Material related to helping drive the auditor to establish appropriate focus on auditing disclosures earlier in the planning process

22. The Task Force is also of the view that the requirements of ISA 315 are sufficient to meet the objectives of the standard in relation to auditing disclosures. However, the Task Force identified some areas where further guidance may be considered, including:

    (a) Adding a definition for disclosures, which would further explain their nature and make clear that they encompass a wide variety of disclosures, for example, disclosures that are a further numerical breakdown of amounts in the primary financial statements, and disclosures that are narrative and that are not related to specific amounts in the primary financial statements.

    (b) Clarifying the assertions relating to presentation and disclosure in paragraph A111(c)[4] in light of the evolving nature of disclosures, particularly the increase in narrative and objective based disclosures. This may more clearly emphasize the nature and characteristics of disclosures rather than being the same as those for the primary financial statements. This may also assist auditors with understanding their responsibilities when auditing disclosures.

    (c) Adding further guidance incorporating examples of risk assessment procedures for different types of disclosures, e.g., understanding control processes around disclosures and when it is appropriate to test those controls.

Matters for IAASB Consideration

1. The IAASB is asked whether it agrees with the areas identified by the Task Force for potential improvement and that these improvements would be effectively addressed by providing additional guidance, as opposed to developing new, or modifying the existing, requirements?

2. Does the IAASB agree with the Task Force that additional guidance may be helpful as outlined in paragraphs 21 and 22?

B. Materiality (ISA 320)

23. The objective of the auditor is to determine materiality for planning and performing the audit to reduce audit risk to an acceptably low level. ISA 320 sets out the auditor's responsibility to apply the concept of materiality in planning and performing the audit.

4 The assertions include Occurrence and rights and obligations; Completeness; Classification and understandability; and Accuracy and valuation. Further detail on the assertions can be found in Appendix A.

24. In addition to the auditing requirements, the accounting standards also have requirements for materiality, which provides essential context in this area. Materiality considerations are included in Chapter 3 of the IASB's *Conceptual Framework*:

> Information is material if omitting it or misstating it could influence decisions that users make on the basis of the financial information about a specific reporting entity. In other words, materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report. Consequently, the Board cannot specify a uniform quantitative threshold for materiality or predetermine what could be material in a particular situation.

In addition, IAS 1[5] includes the following definition for materiality:

> Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

IAS 1 contains further guidance on materiality, specifically that an entity "need not provide a specific disclosure required by an IFRS if the information is not material".

25. The Task Force is of the view that some enhancements to the requirements in ISA 320 would be beneficial to improving the application of the concept of materiality to the evolving types of disclosures. As the current requirement in ISA 320 paragraph 10 appears to only apply to numerical disclosures, changes to this paragraph would be beneficial to make clear that the concept applies to both quantitative and qualitative disclosures. In addition, further guidance on how the concept is to be applied to qualitative disclosures would also be part of an effective solution.

26. Furthermore, the Task Force has the view that consideration should be given to the application of the concept of performance materiality to non-numerical disclosures and, if it does apply, how to apply this concept at the planning stage of the audit. The Task Force has tentatively proposed that to address the major issues relating to applying the concept of materiality to disclosures, changes to the relevant requirements and guidance would be necessary.

27. In addition, further guidance relating to the application of the concept of materiality to focus on the unique characteristics of disclosures would be beneficial, particularly in the following areas:

    (a) How to apply the concept of 'clearly trivial' to qualitative disclosures;

    (b) How to apply materiality when the amounts in the disclosures are substantially larger than the financial statement line item;

    (c) How to apply the concept of materiality to non-financial quantitative information;

    (d) How to respond when estimation uncertainty is greater than materiality; and

    (e) The impact of component disclosures on group materiality in relation to group disclosures.

[5] IAS 1, *Presentation of Financial Statements*

Matters for IAASB Consideration

3. The IAASB is asked whether it agrees with the Task Force's assessment:

    (a) That it would be beneficial to further clarify the requirements in ISA 320 in order to meet the objective of that standard in relation to disclosures, and if not, why not; and

    (b) That additional guidance to address the other issues raised, as detailed in paragraph 27, would be useful, including whether these areas appear appropriate.

C. Planning Procedures to Respond to Assessed Risks of Material Misstatement (ISA 330)[6]

28. The objective of the auditor is to respond to the assessed risks of material misstatement to plan the audit to obtain sufficient appropriate evidence to reduce audit risk to an acceptably low level. ISA 330 sets out the requirements for designing the procedures to obtain sufficient appropriate audit evidence.

29. The Task Force's discussions and deliberations have not identified any potential gaps in the requirements of ISA 330 relating to auditing disclosures.

30. The Task Force has the view that the application of judgment as to what constitutes sufficient appropriate evidence is sufficiently covered in ISA 330, paragraph A62, and do not propose to enhance the guidance on how to apply professional judgment any further.

31. Notwithstanding this, additional guidance has been identified to further explain the types of procedures that could be carried out when looking at different types of disclosures, particularly those that have not been derived from the entity's accounting system such as forward-looking information, disclosure of estimation uncertainty, models and management intentions etc. Specific disclosures that could be addressed include:

    (a) Disclosures on sensitivity analysis.

    (b) Disclosure of fair value of an amount recorded on the balance sheet using a different measurement basis.

    (c) Overarching objective-based disclosure requirements, particularly in relation to completeness of these types of disclosures.

Matters for IAASB Consideration

4. The IAASB is asked whether it agrees with the areas identified by the Task Force for potential improvement and that these improvements would be effectively addressed by providing additional guidance, as opposed to developing new, or modifying the existing, requirements?

5. Does the IAASB agree with the Task Force that additional guidance may be helpful as outlined in paragraph 31?

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

D. *Obtaining Sufficient Appropriate Audit Evidence (ISA 500[7])*

32. The objective of the auditor is to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion. ISA 500 explains what constitutes audit evidence, and deals with the auditor's responsibility to design and perform audit procedures to meet this objective.

33. The issues identified in relation to sufficient appropriate audit evidence largely relate to the nature of evidence that can be gathered for certain types of disclosures, particularly those that have evolved with financial reporting changes such as more narrative disclosures, and those with forward looking information, management intentions and sensitivity analyses. These 'new' and evolving disclosures are a source for many of the issues that have been identified relating to disclosures for the entire audit process.

34. The Task Force is of the view that the requirements of ISA 500, which broadly address information to be used as audit evidence, do not require enhancements or changes to address the issues raised. Rather, it appears to be a practical issue of applying these requirements to the types of disclosures mentioned in the previous paragraph. Additional guidance and considerations around gathering audit evidence for these types of disclosures would help auditors apply the requirements. For example:

    (a) What documentation would constitute appropriate evidence for information sourced outside the entity's accounting system;

    (b) Examples of the kinds of procedures that could be performed for specific kinds of disclosures could be provided; and

    (c) Guidance on the appropriateness of different kinds of audit tests for the specific disclosures identified.

35. One area that the Task Force has identified that could be further considered is adding requirements and guidance on "Auditing Qualitative Disclosures and Other Non-Financial Information" to ISA 501. The focus would be on 'themes' in disclosures, such as information that is: forward looking; based on management intent; narrative; etc. This would result in additional requirements, but the majority of the changes would be application guidance and other explanatory material, where it would be possible to focus on those additional considerations for auditors around the disclosures that appear to be giving rise to many of the issues raised. The principles established in such guidance could then be applied to other areas in auditing where issues commonly arise such as auditing estimates, fair values, related parties, going concern, risk and sensitivities etc. all of which incorporate similar underlying issues i.e., how to audit information whose nature is different to that where it has been generated directly by the entity's accounting system.

Matters for IAASB Consideration

6. The IAASB is asked whether it agrees with the areas identified by the Task Force for potential improvement and that these improvements would be effectively addressed by providing additional guidance, as opposed to developing new, or modifying the existing, requirements?

[7] ISA 500, *Audit Evidence*

7. Does the IAASB agree with the Task Force that additional guidance may be helpful as outlined in paragraph 34?

8. Does the IAASB agree that further consideration should be given to further explore enhancements to ISA 501 to provide requirements and guidance based on the nature of disclosures?

E. Evaluating Misstatements (ISA 450)[8]

36. ISA 450 requires the auditor to evaluate the effect of identified misstatements on the audit of uncorrected misstatements, if any, on the financial statements. The auditor's conclusion that is required by ISA 700 takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements.

37. Misstatements arising from disclosures are included in the definition of 'misstatement' in the Glossary of Terms (see Appendix A). The Task Force is of the view that any changes to the requirements and guidance in ISA 320 on materiality relating to disclosures will assist with the issue of defining what a misstatement is. Potentially, further consideration could be given to the addition of further guidance to support the definition with an example specifically covering disclosures in paragraph A1 of ISA 450 (e.g, a misstatement could arise in narrative disclosures).

38. The Task Force has the view that the requirements in ISA 450 are sufficient to meet the objective of the standard, in relation to auditing disclosures. There is a requirement in ISA 450 to accumulate all identified misstatements, however the Task Force is considering whether additional guidance on how to accumulate misstatements identified in disclosures, including qualitative and non-financial disclosures, would address some of the issues raised, as it may help focus auditors on this part of the audit process in relation to disclosures.

Matters for IAASB Consideration

9. The IAASB is asked whether it agrees with the areas identified by the Task Force for potential improvement and that these improvements would be effectively addressed by providing additional guidance, as opposed to developing new, or modifying the existing, requirements?

10. Does the IAASB agree with the Task Force that additional guidance may be helpful as outlined in paragraph 38?

F. Evaluation of Evidence and Forming an Opinion (ISA 700)

39. ISA 700 requires the auditor to evaluate the sufficiency and appropriateness of audit evidence to form an opinion on whether the financial statements as a whole are free from material misstatement. ISA 700, together with ISA 705[9] and ISA 706[10] deal with the form and content of the auditor's report (that is subject to a separate project currently being undertaken by the IAASB and will not be addressed here).

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8 ISA 450, *Evaluation of Misstatements Identified During the Audit*

9 ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*

10 ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

40. In reviewing the requirement in ISA 700, paragraph 14, the Task Force noted that references in paragraph (b) related to 'underlying transactions and events' and did not make reference to the evolving types of disclosures, such as objective-based disclosures. The Task Force has the view that further consideration should be given to amending this requirement to incorporate references to all types of disclosures, and provide further guidance if considered necessary. The same consideration may also apply to ISA 700, paragraph 13(e).

41. In addition, the Task Force is of the view that additional guidance be considered to further explain the meaning of "the financial statements provide adequate disclosures" in ISA 700, paragraph 13(e).

42. The issue raised with regard to eliminating excessive disclosures, which includes comments received on the 'checklist mentality,' is an area that cannot be solved by the IAASB on its own. As was noted in the Disclosures Feedback Statement, an effective response to address this concern would require a collaborative approach with other stakeholders. Other stakeholders have also acknowledged this issue, and are working towards their own part of the solution. In this regard, the accounting standard setters and others have recognized that further guidance on disclosures is required, and some (such as the US Financial Accounting Standards Board and European Financial Reporting Advisory Group) are in the early stages of the development of a disclosures framework. In addition, the IASB has commenced work on its *Conceptual Framework* project, part of which will be further considering presentation and disclosure.[11] The work by the accounting standard setters and others in this area may potentially provide more definitive guidelines for what is to be included in the disclosures.

Matters for IAASB Consideration

11. The IAASB is asked whether it agrees with the Task Force's assessment:

    (a) That the requirements relating to disclosures in ISA 700 should be further considered as set out in paragraph 40?

    (b) That additional guidance is further considered in relation to the meaning of "the financial statements provide adequate disclosures", as detailed in paragraph 41?

VI. Other Matters

43. In this paper the Task Force has identified the areas that they believe are important to obtain IAASB views to further inform their deliberations. The Task Force will continue to consider all ISAs, relating to both requirements and application and other explanatory material, and as a result there may be further ISAs affected by the Task Force's recommendations, including conforming changes which may arise.

44. Paragraph 13 above and Appendix A have provided relevant definitions.

[11] The IASB is to host a public "Disclosure Forum" in January 2013 to consider the challenging area of disclosure overload. The intention is to foster dialogue between preparers, auditors, regulators, users of financial statements and the IASB about how to improve the usefulness and clarity of financial disclosures. Output from this will inform the IASB's work on its *Conceptual Framework.*

Matters for IAASB Consideration

12. The IAASB is asked for their views on the relevant definitions in relation to disclosures, in particular whether they appear to be sufficient and appear to provide appropriate emphasis for disclosures.

13. Are there any other matters in relation to disclosures that the Task Force should consider?

Appendix A

Relevant Definitions from the IAASB's Glossary of Terms

Assertions about Presentation and Disclosure (ISA 315, Paragraph 111(c))

(i) Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.

(ii) Completeness—all disclosures that should have been included in the financial statements have been included.

(iii) Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed.

(iv) Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts.

Misstatement (ISA 450, paragraph 4(a))

A difference between the amount, classification, presentation, or <u>disclosure</u> of a reported financial statement item and the amount, classification, presentation, or <u>disclosure</u> that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

Where the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or <u>disclosures</u> that, in the auditors judgment, are necessary for the financial statements to be presented fairly, in all respects, or to give a true and fair view.

Performance Materiality (ISA 320, paragraph 9)

The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or <u>disclosures.</u>

Appendix B

Relevant Accounting Literature

1. The responsibility for the preparation of disclosures in the financial statements rests with management. The underlying financial reporting standards set out the requirements and guidance for preparers as to what should be included to meet the objective of the financial reporting framework.

2. The following has been included to reinforce what the requirements for preparers are when considering the preparation of their disclosures. The requirements and guidance below have been extracted from the IFRS requirements, and have been taken into consideration in the Task Force's deliberations about the issues raised when auditing disclosures.

Concepts Underlying, and Requirements for the Preparation of, the Notes to the Financial Statements

2. The IASB's *Conceptual Framework* sets out the concepts that underlie the preparation and presentation of financial statements for external users. As set out in the Preface to IFRSs, a "complete set of financial statements includes a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and accounting policies and explanatory notes…..The term 'financial statements' includes a complete set of financial statements prepared for an interim or annual period….".[12]

3. IAS 1[13] sets out the requirements for preparation of the 'notes'[14] to the financial statements. This includes disclosing: the basis of preparation and specific accounting policies used; information required by the IFRSs that is not presented elsewhere; and providing information that is relevant to understanding the financial statements.[15] In addition, it states that an entity shall "as far as practicable, present notes in a systematic manner",[16] normally in the following order: statement of compliance with IFRS; summary of significant accounting policies applied; supporting information for items presented in the primary statements[17] in the order in which each statement and each line item is presented; and other disclosures, including contingent liabilities and unrecognized contractual commitments, and non-financial disclosures, such as the entity's financial risk management objectives and policies.[18]

4. Chapter 3 of the Conceptual Framework sets out the "qualitative characteristics of useful financial information" that is likely to be most useful to existing and potential investors, lender and other

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[12] *Preface to IFRSs,* paragraph 11

[13] IAS 1, *Presentation of Financial Statements*

[14] The 'notes' are defined in IAS 1 as "containing information in addition to that presented in the statement of financial position, statement of comprehensive income, separate income statement (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements about items that do not qualify for recognition in those statements."

[15] IAS 1, paragraph 112

[16] IAS 1, paragraph 113

[17] The 'primary statements' include: the statement of financial position, the statement of comprehensive income (and income statement if separately presented), the statement of changes in equity and the statement of changes in cash flows.

[18] IAS 1, paragraph 114

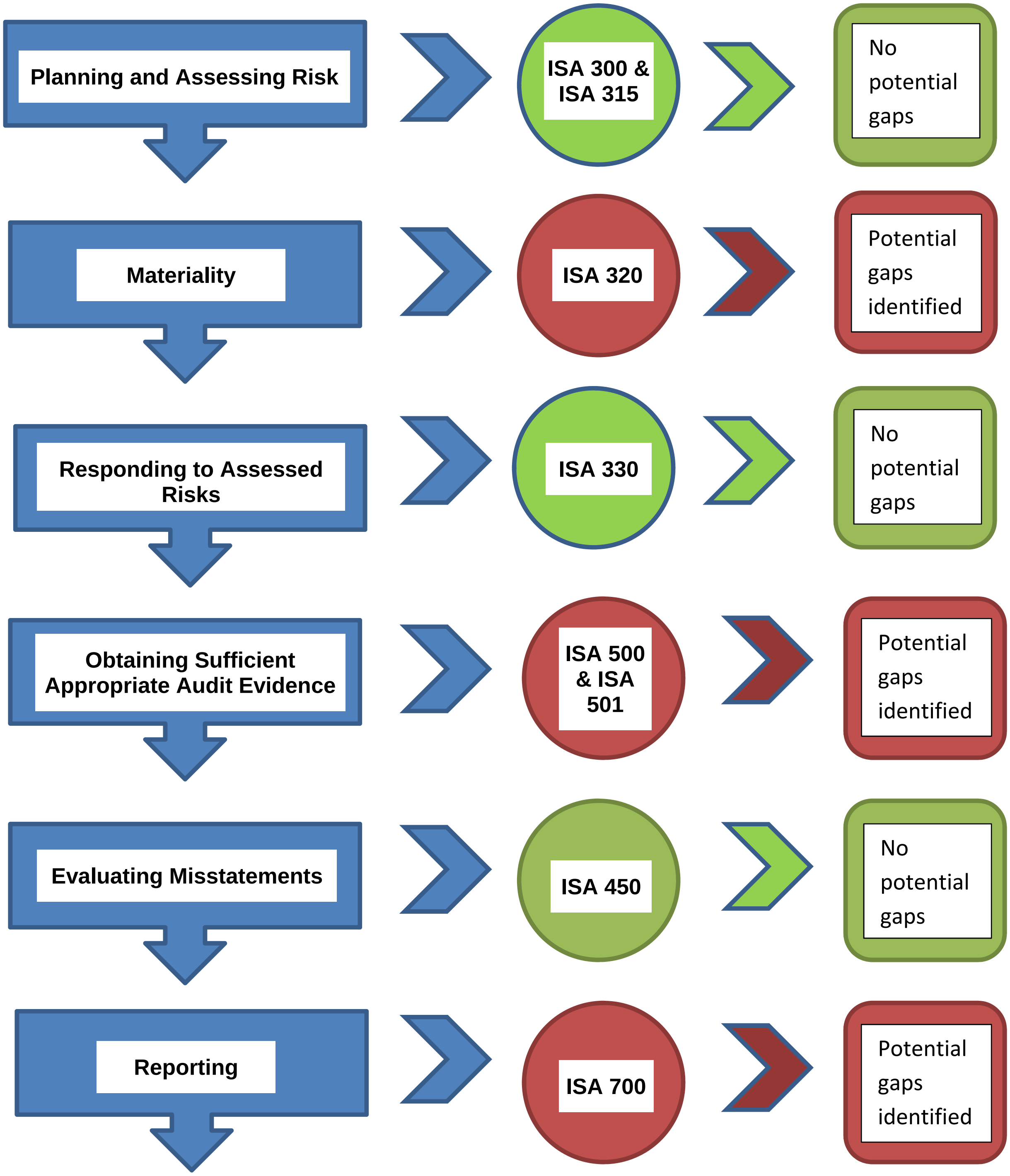
creditors for making decisions about the reporting entity on the basis of information in its financial report.[19] It further states that "if financial information is to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable."[20]

[19] *Conceptual Framework,* Chapter 3, QC1

[20] *Conceptual Framework,* Chapter 3, QC4

Appendix C

The Audit Process – Summary of Potential Gaps in Requirements[21] Relating to Disclosures



[21] For each ISA above, areas for further consideration where additional application or other guidance may be helpful has been identified but has not been noted here. See discussion in section V of this paper for further detail on the analysis of each area of the audit process above.