

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: September 9–10, 2013

Agenda Item

Disclosures

Objective of Agenda Item

1. To discuss issues related to the project, in particular the approach taken to identify and assess potential gaps in the ISAs relating to auditing disclosures and the possible changes to address these gaps.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. Appendix 1 to this paper provides a history of previous discussions with the CAG on this topic including links to the relevant CAG documentation.
4. The IAASB's activities up to September 2012 in relation to the topic of auditing financial statement disclosures included:
 - January 2011—Release of the IAASB Discussion Paper (DP), [The Evolving Nature of Financial Reporting: Disclosures and its Audit Implications](#).
 - January 2012— Release of the IAASB [Feedback Statement](#) summarizing what was heard in the responses to the DP from stakeholders.
5. In September 2012, the IAASB approved a project proposal to establish a Task Force to address auditing financial statement disclosures. At the April 2013 CAG, a report back on the CAG's initial discussion of the project proposal was presented. As the Representatives did not raise substantive comments at that time, no report back is presented in this agenda paper. The IAASB has had substantive discussions on the topic at its December 2012 and April 2013 meetings, and will consider proposed changes to the ISAs at its September 2013 meeting. Accordingly, this CAG paper summarizes the Board's significant discussions to date and solicits Representatives' feedback on key areas of the project.
6. It has been widely acknowledged that many stakeholders have a role in improving financial reporting, including auditors. In addition to the IAASB's project in this area, others, including the

International Accounting Standards Board (IASB)¹ and the US Financial Accounting Standards Board (FASB) have commenced work on initiatives to address issues that have been raised relating to financial reporting disclosures. While the IAASB agreed that the Task Force should move forward in this project and not wait for the outcomes of others' work in this area, some of which could be far in the future, the Task Force continues to monitor the work of others with initiatives relating to disclosures with interest.

Matters for CAG Consideration

Overall Approach to Identifying Potential Gaps in the ISAs in Relation to Disclosures

7. The project proposals outlined the objectives of the project as follows: (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. (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.
8. Responses to the January 2011 IAASB Discussion paper (DP) indicated that the ISAs appropriately reflected the necessary risk-based approach to auditing disclosures, but highlighted areas where the IAASB could consider how best to enhance the auditor's work in relation to disclosures.
9. Underpinning the Task Force's initial views were the relevant definitions in the IAASB's *Glossary of Terms*.² 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" (emphasis added):

Financial Statements - structured representation of historical financial information, including related notes 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. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. 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.

The IAASB is of the view that it is therefore clear from this definitions that within the ISAs, references to 'financial statements' include the notes and disclosures.

10. Notwithstanding that there are many references to "financial statements" in the requirements and related application material throughout the ISAs, which are therefore also intended to address the auditor's work in relation to the notes to the financial statements, the Task Force was of the view that it would benefit auditors and enhance their understanding if amendments and enhancements

¹ The IAASB has commenced an initiative to further explore materiality, including consideration about whether additional guidance should be developed, and has involved both the IAASB and the International Organization of Securities Commissions (IOSCO).

² In the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*

are made to the ISAs in selected areas. Therefore the Task Force has carefully considered those areas where changes would be most impactful and how best to propose changes.

11. To determine an appropriate way forward, the Task Force performed a detailed analysis, the purpose of which was to identify more specifically where there may be gaps or deficiencies in the requirements in the ISAs. As a starting point, the responses to the DP were overlaid into an analysis undertaken by the Task Force (see **Appendix 3** of this Agenda Paper), and form the basis of the “issues identified” for the IAASB’s consideration. These identified issues were then considered in the context of the audit process and specific relevant standards by mapping the issues against the objectives and requirements of the relevant standards as they relate to disclosures.
12. Based on this analysis, which was presented at the December 2012 IAASB meeting, the IAASB agreed that there were three facets to the Task Force’s work that are necessary to enhance the auditor’s work effort in relation to disclosures and respond to the feedback received on the DP. These are:
 - (i) Limited amendments to certain requirements in the ISAs;
 - (ii) Enhancements to existing guidance and development of new application material in various ISAs to assist auditors in applying the principles-based requirements when auditing disclosures; and
 - (iii) Consideration of the development of non-authoritative guidance, such as an educational guide for auditing disclosures.

Each of these facets is discussed in more detail below.

13. The Task Force also considered whether it would be preferable to develop a new separate ISA addressing disclosures, rather than propose changes to a number of ISAs. The Task Force took a holistic view of how disclosures would be considered throughout a financial statement audit, and the IAASB agreed that auditing presentation and disclosures should remain an integral part of the audit, rather than be seen as a separate exercise. Accordingly, changes are proposed to a number of ISAs to reflect how disclosures could be approached at key stages of the audit. The Task Force is of the view that the proposed set of changes to the ISAs will drive auditor behavior and improve audit quality with regard to auditing disclosures, as these changes are intended to appropriately focus auditors on the unique aspects of auditing disclosures. The possible amendments should be considered as a package, rather than as isolated changes.
14. Notwithstanding the agreement of the IAASB to move forward with proposals affecting individual ISAs, the Task Force acknowledges the concern expressed by some IAASB members about implementing changes to a number of ISAs through this project, in particular because other significant current and planned IAASB projects may also affect a number of ISAs. However, the implementation date for any changes to the ISAs to address auditing disclosures will be determined taking into consideration other projects that are currently underway or would otherwise be finalized at that time.

Matters for CAG Consideration

1. In light of the feedback from respondents to the Discussion Paper (see Appendix 3), do Representatives agree with the approach taken by the Task Force to identify where there may be gaps or deficiencies in the requirements in the ISAs?
2. Do Representatives agree with the IAASB's decision to pursue changes to a number of ISAs, rather than develop a new ISA addressing disclosures? If not, why not?

I. Limited Amendments to Certain Requirements in the ISAs

15. **Appendix 2** of this Agenda Paper sets out a high-level summary (a “snapshot”) of the areas where potential gaps in the requirements have been identified. The possible changes to the ISAs are summarized in the table below. While the IAASB will consider all of these proposed changes at its September 2013 meeting, the focus of the CAG discussion will be on the proposed changes to the requirements (shaded in grey in the table below) and the proposed changes to the assertions; further detail on the Task Force’s considerations and views have been included following the table.

Affected ISA	Changes in requirements / application guidance	Summary of possible changes
ISA 210 ³	Application material	To consider making specific reference to information in the notes to the financial statements in the audit engagement letter .
ISA 240 ⁴	Application material	To emphasize that the engagement team discussions may also include consideration about the risk of material misstatement arising from fraud in the disclosures in the notes to the financial statements.
ISA 260 ⁵	Application material	To further emphasize ⁶ the importance of auditing disclosures in the notes to the financial statements as a matter that may be communicated to those charged with governance at

³ ISA 210, *Agreeing the Terms of Audit Engagements*

⁴ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

⁵ ISA 260, *Communication with Those Charged with Governance*

⁶ Appendix 2 of ISA 260 notes that matters that may be communicated with those charged with governance include adequate disclosures relating to accounting estimates, specific references to sensitive financial statement disclosures and views on the overall consistency, neutrality and clarity.

		the planning stage of the audit.
ISA 300 ⁷	Application material	To recognize the importance of planning audit procedures at an early stage for disclosures in the notes to the financial statements, particularly in light of the wide range of information that could be included in disclosures, and also to consider information that may be generated by systems outside traditional financial reporting systems. ⁸
ISA 315 ⁹ (Revised)	Application material	Application material To reinforce audit considerations with respect to disclosures when identifying and assessing the risks of a material misstatement , e.g., in the engagement team discussion, and to include consideration of information in disclosures from systems outside of traditional financial reporting systems. Assertions Revised assertions within Presentation and Disclosure, including modifying the descriptions and additional explanatory guidance for applying the assertions.
ISA 320 ¹⁰	Requirements and application material	Requirements A new requirement has been added to consider the risk of material misstatements in narrative disclosures , together with related application material. Application Material Additional examples have been provided on the types of areas in narrative disclosures that could be considered for further auditor work effort.
ISA 330 ¹¹	Application material	To highlight consideration of the expected timing of audit procedures with respect to disclosures when responding to risks of material misstatements , and to update the auditors considerations of the adequacy of presentation and disclosure to be consistent with changes proposed to the assertions

⁷ ISA 300, *Planning an Audit of Financial Statements*

⁸ An example would be disclosures generated outside of the general ledger, such as a model developed for a sensitivity analysis.

⁹ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

¹⁰ ISA 320, *Materiality in Planning and Performing an Audit*

¹¹ ISA 330, *The Auditor's Responses to Assessed Risks*

ISA 450 ¹²	Application material	To provide further application material on considerations around aggregating and evaluating misstatements in disclosures , including in narrative disclosures.
ISA 700 ¹³	Requirements and application material	Clarifying that the auditor's evaluation includes consideration of the requirements of the applicable financial reporting framework and the ISA assertions, with relevant amendments to the related application material.

Changes Proposed to ISA 320, *Materiality in Planning and Performing and Audit*

16. From the gap analysis performed, the IAASB was 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 paragraph 10 of ISA 320 appears to only apply to numerical disclosures, the IAASB agreed that 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 is also being considered as part of an effective solution to address the concerns outlined in Appendix 3 in relation to materiality.
17. The Task Force explored possible changes to ISA 320 with the IAASB in April 2013. Concern was expressed by a few IAASB members about the possible changes presented addressing the auditor's application of materiality, including performance materiality, to qualitative disclosures. Some IAASB members had the view that the issue was the relevance of disclosures rather than applying the concept of materiality. The Task Force re-deliberated and formed the view that an additional requirement to consider narrative disclosures, separate from the auditor's consideration of quantitative amounts (both in the primary financial statements and the notes), would appropriately focus the auditor on those narrative disclosures and highlight that unique audit effort may be needed. To support the new and revised requirements, the Task Force is also proposing new application material to provide examples of the types of factors that the auditor may consider in relation to narrative disclosures.
18. The proposed changes to the requirements in ISA 320 are as follows (proposed changes are shown in underline):

Requirements

Determining Materiality and Performance Materiality When Planning the Audit

10. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is an amount relating to one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole

¹² ISA 450, *Evaluation of Misstatements Identified during the Audit*

¹³ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A2–A11)

11. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. A12)

11a. When planning the audit, consideration shall also be given to narrative disclosures for which a misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole. (Ref: Para. A12a)

Application and Other Explanatory Material

Planning Considerations for Narrative Disclosures (Ref: Para. 11a)

A12a. In considering narrative disclosures for planning purposes, the auditor has regard to the type of disclosures, and their relative importance in the context of the entity and its financial statements that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole, for example:

- Disclosures around liquidity and loan covenants of an entity in financial distress.
- Disclosure of the events or circumstances that have led to the recognition of an impairment loss.
- Disclosure of the assumptions about the future, and other major sources of estimation uncertainty.
- The disclosure of the nature of a change in accounting policy, and other relevant disclosures required by the financial reporting framework, where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.
- Disclosure about share-based payment arrangements, including information about how any amounts recognized were determined, and other relevant disclosures.
- Disclosure of relevant information about related parties, and related party transactions.

19. In addition, the Task Force had the view that additional examples, specifically referencing disclosures, may assist auditors in determining whether they may need to focus on certain disclosures where misstatements of lesser amounts than materiality may be relevant to users for making economic decisions. The changes proposed to the application material in ISA 230 can be found in Agenda Item 4-B.3 of the September 2013 IAASB meeting, which is included as a CAG Reference Paper.

20. The Task Force also considered whether to add a requirement around documentation for the new requirement relating to narrative disclosures. However, the Task Force is of the view that this is adequately covered in principle by ISA 230.¹⁴

ISA 700, *Forming an Opinion and Reporting on Financial Statements*

21. 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. The Task Force considered the requirements of ISA 700, in particular regarding the “stand-back review”, as some respondents to the DP had expressed concern about the assessment of the audited financial statements as a whole. Respondents were concerned not only in relation to whether the ISA appropriately addresses the relationship between compliance with the disclosure requirements of the applicable financial reporting framework and whether this is sufficient to achieve fair presentation, but also the need for auditors to have a role in eliminating excessive disclosures. The Task Force is of the view that the requirement in ISA 700¹⁵ is sufficient in principle. However, due to the evolving nature of disclosures, and the growing importance of them, the Task Force has identified possible amendments to the requirement to strengthen the auditor’s evaluation of the financial statements in view of the requirements of the applicable financial reporting framework with regard to disclosures, including relating this evaluation back to the (proposed) revised assertions (see paragraph 26 below).
22. The proposed changes to the requirements in ISA 700 are as follows (proposed changes are shown in underline and strikethrough):

Requirements

Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.^{16,17}
11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:
- (a) The auditor's conclusion, in accordance with ISA 330, whether sufficient appropriate audit evidence has been obtained;¹⁸
 - (b) The auditor’s conclusion, in accordance with ISA 450, whether uncorrected misstatements are material, individually or in aggregate;¹⁹ and

¹⁴ ISA 230, *Audit Documentation*

¹⁵ ISA 700, paragraph 14 requires the auditor to evaluate whether the financial statements achieve fair presentation.

¹⁶ ISA 200, paragraph 11

¹⁷ Paragraphs 24–25 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

¹⁸ ISA 330, *The Auditor’s Responses to Assessed Risks*, paragraph 26

¹⁹ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

- (c) The evaluations required by paragraphs 12–15.
12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)
13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:
- (a) The financial statements adequately disclose the significant accounting policies selected and applied;
 - (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;
 - (c) The financial reporting requirements have been met, and that the information presented and disclosed is appropriately classified and aggregated, complete, understandable and accurate.
 - (ed) The accounting estimates made by management are reasonable;
 - ~~(d) The information presented in the financial statements is relevant, reliable, comparable, and understandable;~~
 - (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions, and events and other relevant matters on the information conveyed in the financial statements; and (Ref: Para. A4)
 - (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.
14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:
- (a) The overall presentation, structure and content of the financial statements; and
 - (b) Whether the financial statements, including the related notes, represent the underlying transactions, and events and other relevant matters in a manner that achieves fair presentation.
15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A5–A10)

Corresponding changes have been made to the application material included in Appendix 2 of Agenda Item 4-A of the September 2013 IAASB meeting, which is included as a CAG Reference Paper.

Matters for CAG Consideration

3. Do Representatives agree with need for the changes proposed to the requirements in ISA 320 and ISA 700 and the manner in which they have been articulated?
4. Taking into account the analysis included in Appendix 3, are there other specific ISAs where additional requirements should be further considered by the Task Force?

II. Enhancements to Existing Guidance and Development of New Application Material in Various ISAs

Assertions: Presentation and Disclosure

23. Paragraph A123 of ISA 315 (Revised) notes that, in representing that the financial statements are in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding the recognition, measurement, presentation and disclosure of the various elements of financial statements and related disclosures. Paragraph A124 explains that assertions are used by the auditor to consider the different types of potential misstatements that may occur. Questions have arisen about whether the assertions for presentation and disclosure explained in paragraph A124 of ISA 315 (Revised) are appropriate and useful when auditing disclosures.
24. At the April 2013 IAASB meeting, the Task Force presented their initial views, for IAASB consideration, on changes that could be made to the assertions. At that time, the Task Force had mixed views on the way that the possible changes could be made, for example either to:
 - Revise and enhance the descriptions of the assertions as they are currently presented;
 - Separate the assertions into their component parts and revise the description appropriately; or
 - Make fundamental changes to the extant assertions and descriptions.

IAASB views

25. The IAASB agreed that this was a difficult area to address and supported the Task Force's efforts in considering whether changes were necessary. Different views were also expressed by IAASB members on how to make changes to the extant assertions.
26. Detailed comments from IAASB members included that:
 - (a) Any changes proposed should assist auditors to sensibly and practically apply the assertions for presentation and disclosure.
 - (b) The assertions should be simplified, even if it resulted in a more fundamental change to the assertions. Others had the view that the extant assertions should remain unchanged, but changes made to the explanation of what they represented to make them more relevant and support their use in practice. Another Board member had the view that fundamental changes to the assertions may not significantly enhance audit quality.

- (c) Consideration should be given to separating presentation from disclosure because they are different by nature—disclosures encompass a much broader set of information. Others had the view that they were closely related and should remain together as one assertion.
 - (d) Further consideration should be given to the wording of the fundamental qualitative characteristics of financial information in the financial reporting standards, as some had the view that the qualitative characteristics were clearer. However, this did not mean re-characterizing the auditing assertions to be the same as the financial reporting qualitative characteristics, because they are used for different purposes.
 - (e) Consideration be given to including the concept of the “stand-back” review, i.e., whether the financial statements achieve fair presentation, or give a true and fair view, into the assertions.
27. It was also noted that the IAASB should continue to work with the IASB in this area as they further reflect on their Conceptual Framework project that is currently underway. However, it should be noted that at this point the IASB has not given any indication that it will be reconsidering the fundamental qualitative characteristics.

Task Force views

28. The Task Force has extensively discussed various options for changes to the assertions, including separating presentation from disclosure, revising the assertions within presentation and disclosure, and revising the descriptions.
29. The auditing standards do not define what either “presentation” or “disclosure” means. The following paragraphs set out the financial reporting interpretation of the meaning of “presentation” and “disclosure”, and how this may differ from the auditing standards use of these terms.
30. In the context of financial reporting, “the term “presentation” may attract different meanings. IAS 1²⁰ prescribes the basis for presentation of general purpose financial statements to ensure comparability.... Others have the view that “presentation” has a more specific meaning, i.e., the depiction of financial information in words and monetary amounts on the face of the entity’s financial statements.”²¹ For the purposes of discussion on their conceptual framework, the IASB uses presentation to mean the disclosure of financial information on the face of the entity’s primary financial statements.
31. In the Task Force’s view, presentation for auditing purposes applies to both the face of the primary financial statements, as well as to the notes. For example, the “presentation” of certain notes, such as segment reporting, may be particularly important to an entity and therefore would require auditor attention. The Task Force does not believe that this difference in interpretation with the financial reporting standards would cause confusion but has added application material to make this clear

²⁰ International Accounting Standard (IAS) 1, *Presentation of Financial Statements*

²¹ Paragraphs 7.9 to 7.10 of the IASB’s Discussion Paper, *A Review of the Conceptual Framework for Financial Reporting*, (IASB Conceptual Framework DP) issued in July 2013. Paragraph 7.14 of the IASB DP defines the term “primary financial statements” to mean the statement of financial position; the statement of profit or loss and OCI (or the statement of profit or loss and the statement of comprehensive income); the statements of changes in equity; and the statement of cash flows.

(see paragraph A124a of Agenda Item 4-B.2 of the September 2013 IAASB meeting, which has been included as a CAG Reference Paper).

32. Financial reporting standards interpret disclosure to have a broader meaning than presentation. “Disclosure is the process of providing relevant financial information about the entity to users. It is the entity’s own facts and circumstances that determine what information is presented in the primary financial statements and what information is disclosed in the notes to the financial statements. The notes disclose relevant information required by the applicable financial reporting framework that is not presented on the face of the primary financial statements.”²² The Task Force agrees with this view that disclosure applies to both the face of the primary financial statements and the notes to the financial statements, and has therefore agreed that no further guidance in the ISAs is required.
33. The Task Force has reflected on the possible changes that could be made to enhance the assertions, and has the view that:
 - (a) The category “presentation and disclosure” should not be separated. Notwithstanding that disclosures is a broader concept than presentation, both concepts apply to the primary financial statements as well as to the notes to the financial statements (with a proposed change to make this point in the application material). Separating presentation from disclosure would result in repetition of some assertions within each category, which may be confusing to auditors.
 - (b) Changes should be made to the four existing assertions within the presentation and disclosure category²³ to make them more relevant for evolving financial reporting and more understandable and usable. In addition, changes are proposed to the description of each where necessary.
 - (c) Adding further application guidance to emphasize that the assertions applying to account balances at the end of the period, and transactions and events during the period, also apply to disclosures directly related to these will reinforce that the audit of the related disclosures is done at the same time as the underlying numbers, and is not a separate exercise.
34. In revising the assertions about presentation and disclosure, the Task Force has considered the accounting qualitative characteristics, what others have defined as their assertions for presentation and disclosure,²⁴ and what is being done in practice. The Task Force believes that the proposed changes will satisfy the desire to simplify the assertions, and make them useful and practical for auditors to apply.
35. The proposed changes to the revised descriptions for the assertions are as follows (proposed changes are shown in underline and strikethrough):

²² Paragraphs 7.11 to 7.13 of the IASB’s Conceptual Framework DP

²³ The extant assertions are: Occurrence and rights and obligations; completeness; classification and understandability; and accuracy and valuation.

²⁴ Other standard setters, such as the US Public Company Accounting Oversight Board (PCAOB), only have one assertion for presentation and disclosure (defining it as “the components of the financial statements are properly classified, described, and disclosed”), and most of the large firms also only have one assertion covering presentation and disclosure.

ISA 315 (Revised), paragraph A124(c)

Assertions about presentation and disclosure:

- (i) ~~Occurrence and rights and obligations—Classification and aggregation—disclosed events, transactions, and other matters have occurred and pertain to the entity—~~all account balances, transactions and other amounts are appropriately classified and aggregated.
- (ii) Completeness—all disclosures that should have been included in the financial statements have been included.
- (iii) ~~Classification and u~~ Understandability—~~financial information is appropriately presented and described in a clear, concise and balanced manner., and disclosures are clearly expressed.~~
- (iv) ~~Accuracy and valuation—financial and other information presented or are disclosed in the financial statements is correctly, or where appropriate reasonably measured and described. fairly and at appropriate amounts.~~

Matters for CAG Consideration

5. Do Representatives agree with the proposed changes to the assertions in ISA 315 (Revised), including the Task Force's recommendation to continue to link the assertions relating to presentation and disclosure? If not, why not?

Other Potential Changes to Application Material in the ISAs

36. In addition to highlighting the ISAs for which changes to the requirements are proposed, the Table in paragraph 15 above summarizes the potential changes to application material in other ISAs proposed as a result of the Task Force's deliberations. As evidenced in Appendix 3, the Task Force's discussions and deliberations did not identify any potential gaps in the requirements of these ISAs relating to auditing disclosures. The rationale for the proposed changes are as follows:
 - ISA 210 – The IAASB suggested that consideration should be given to specifically including disclosures in the audit engagement letter to remind management of their responsibilities to provide the disclosures to the auditor on a timely basis, and to obtain agreement between the auditor and management as to when they would be prepared. Should this change be agreed, a corresponding change will be needed to the illustrative management representation letter in ISA 580.²⁵
 - ISA 240 – The Task Force agreed that making reference in ISA 240 to disclosures in explaining the matters that may be discussed by the engagement team when considering the risk of material misstatement arising from fraud and error to specifically include disclosures would be consistent with the proposed change to ISA 315 (Revised) (see below) and would also be helpful to focus the auditors on this element during their engagement team discussions.

²⁵ ISA 580, *Written Representations*

- ISA 260 – The Task Force agreed that ISA 260 should include disclosures and the implications on the planned audit approach in the communications with those charged with governance at the planning stage of the audit.
 - ISA 300 – The Task Force is proposing changes to emphasize that planning early would be beneficial when considering the wide range of information that may be included in disclosures, and that the information may be generated by systems outside traditional reporting systems. The Task Force has also enhanced the considerations in establishing the overall audit strategy to include disclosures more specifically in the Appendix to ISA 300.
 - ISA 315 (Revised) – In addition to the changes to the assertions, the Task Force is proposing changes to urge the engagement team to specifically discuss the susceptibility of the financial statements to the risk of material misstatement, whether due to fraud or error, arising from disclosures, and other changes variously to emphasize consideration of disclosures in understanding the entity and assessing the risk of material misstatement.
 - ISA 330 – Additional application material emphasizes that, when responding to the risk of material misstatement, the auditor considers when the disclosures will be prepared in determining the timing of the work to be performed. It also clarifies that the planned work for the evaluation of the overall presentation of the financial statements includes the assertions for presentation and disclosure.
 - ISA 450 - Additional application material is proposed to support the requirements to aggregate identified misstatements, and evaluate these misstatements, to respond to concerns raised on the DP.
37. More information on the nature of the proposed changes and the Task Force's deliberations about the need for such changes can be found in Agenda Items 4-A, and 4.B.1-5 of the September 2013 IAASB meeting, which are included as CAG Reference Papers. Representatives are welcome to raise points in relation to these matters as necessary.
- III. Consideration of the Development of Non-Authoritative Guidance, such as an Educational Guide*
38. In identifying and developing the potential changes to the ISAs, the Task Force began by capturing in narrative form the current state of developments in reporting requirements in respect of disclosures and the “thought process” an auditor might undertake when planning the audit in respect of disclosures. This took into account the existing requirements and guidance in the ISAs, the experience and expectations of the Task Force members and, as appropriate, areas where heightened attention may be needed by auditors. The Task Force found this narrative helpful in its deliberations and as a basis for identifying the potential changes to the ISAs.
39. The Task Force believes that the material in this educational guide would be useful to support the existing material in the ISAs and the changes that are being proposed, and is continuing to develop and refine the educational guide. While a draft of this educational guide was presented to the IAASB at its April 2013 meeting and is included as a CAG Reference Paper, it is incomplete and has not been discussed in detail with the Board.

IV. *Way Forward*

40. Subject to comments at the September IAASB meeting, the Task Force expects to present the Exposure Draft for approval at the June 2014 IAASB meeting, with finalization expected towards the end of 2015.

IAASB Interaction with the IAASB CAG

41. The substantive issues being raised on the project for the purposes of the September 2013 IAASB meeting are included in this paper. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Material Presented – IAASB CAG REFERENCE PAPERS

- Appendix 2 of Agenda Item 4-A of the September 2013 IAASB Meeting – Auditing Disclosures – Issues and Task Force Views http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB_Agenda_Item_4A_Disclosures-Issues_and_Task_Force_Views-final.pdf
- Agenda Item 4-B.1 of the September 2013 IAASB Meeting – Proposed Changes to ISA 300 http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-Agenda_Item_4B.1_ISA%20300%20-%20Mark%20Up%20Final.pdf
- Agenda Item 4-B.2 of the September 2013 IAASB Meeting – Proposed Changes to ISA 315 (Revised) [http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-Agenda_Item_4B.2_ISA%20315%20\(Revised\)%20-%20Mark%20Up%20Final.pdf](http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-Agenda_Item_4B.2_ISA%20315%20(Revised)%20-%20Mark%20Up%20Final.pdf)
- Agenda Item 4-B.3 of the September 2013 IAASB Meeting – Proposed Changes to ISA 320 http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-Agenda_Item_4B.3_ISA%20320%20-%20Mark%20Up%20Final.pdf
- Agenda Item 4-B.4 of the September 2013 IAASB Meeting – Proposed Changes to ISA 330 http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-Agenda_Item_4B.4_ISA%20330%20-%20Mark%20Up%20Final.pdf
- Agenda Item 4-B.5 of the September 2013 IAASB Meeting – Proposed Changes to ISA 450 http://www.ifac.org/sites/default/files/meetings/files/20130916-IAASB-Agenda_Item_4B.5_ISA%20450%20-%20Mark%20Up%20Final.pdf
- Agenda Item 5-C of the April 2013 IAASB Meeting – Audit [Planning] Considerations Relating to Disclosures (“Educational Guide”) [http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB_Agenda_Item_5-C_Audit_Planning_Consideration_Relating_to_Disclosures%20\(Final\).pdf](http://www.ifac.org/sites/default/files/meetings/files/20130415-IAASB_Agenda_Item_5-C_Audit_Planning_Consideration_Relating_to_Disclosures%20(Final).pdf)

Appendix 1

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	December 2012 April 2013 June 2013

CAG Discussions: Detailed References

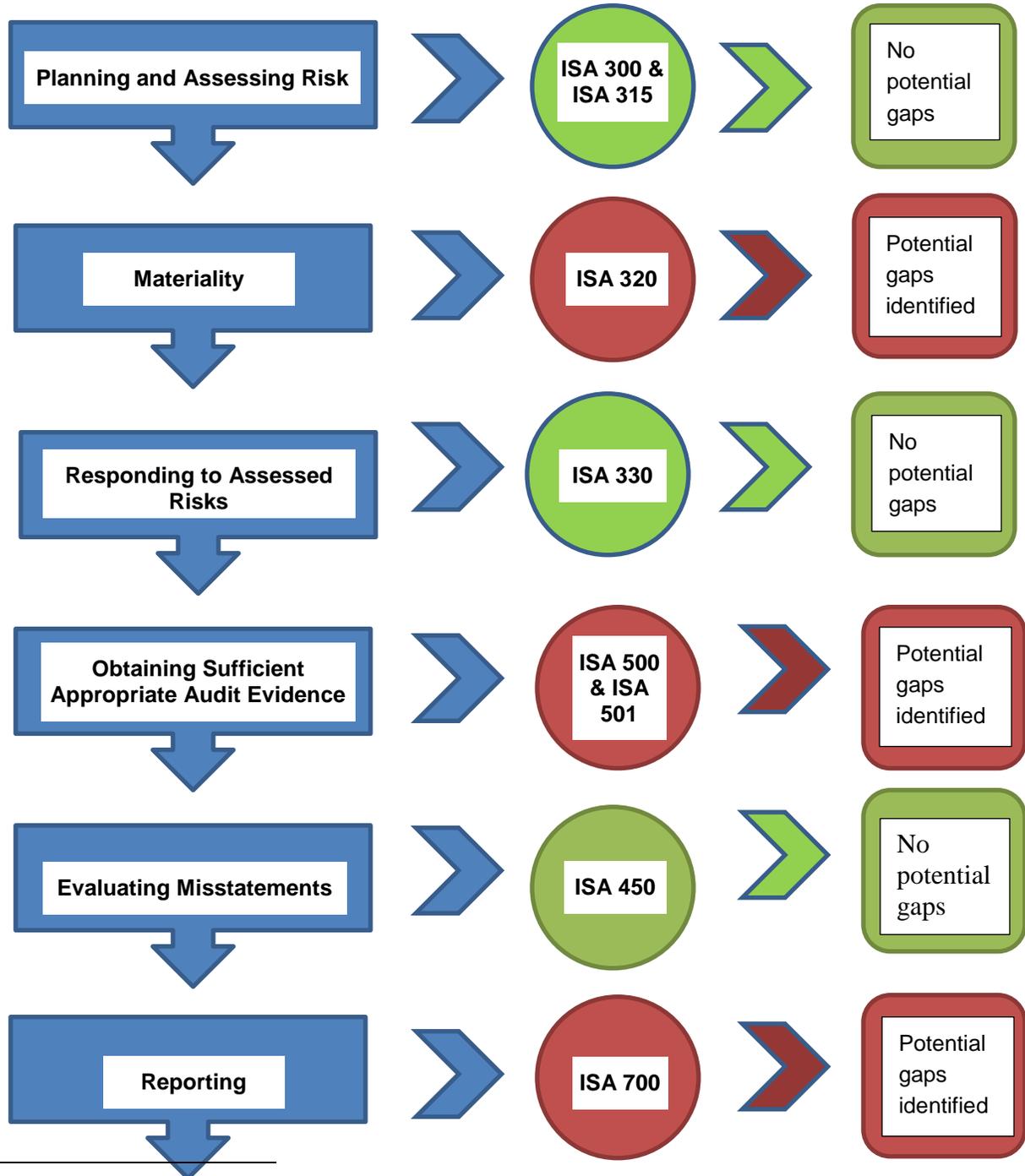
<p>Project Commencement, Development of Discussion Paper and Feedback Statement, and Project Proposal</p>	<p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Item N of the following): http://www.ifac.org/sites/default/files/meetings/files/5978_0.pdf</p> <p>See CAG meeting minutes: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf</p> <p><u>March 2012</u></p> <p>See IAASB CAG Report Back meeting material: (in Agenda Item E.5 of the following): 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): http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_E-Disclosures_Draft_Project_Proposal-Cover%20Sheet.pdf http://www.ifac.org/sites/default/files/meetings/files/20120911-IAASBCAG-Agenda_Item_E1-Disclosures_Draft_Project_Proposal.pdf</p>
--	---

Disclosures
IAASB CAG Public Session (September 2013)

	<p>See CAG meeting minutes (in Agenda Item E of the following: http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASB-CAG-Agenda_Item_A-Public_Minutes-v5-APPROVED_0.pdf</p> <p>See Report Back on September 2012 meeting (in paragraph 3 of the following): http://www.ifac.org/sites/default/files/meetings/files/CAG-Agenda_Item_E-2_Disclosures-Reportback-final.pdf</p>
Development of Proposed International Pronouncement (up to Exposure)	<p><u>April 2013</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/sites/default/files/meetings/files/CAG-Agenda_Item_E-2_Disclosures-Reportback-final.pdf</p> <p>No comments were received on the report back discussed at the April 2013 meeting.</p>

Appendix 2

The Audit Process – Summary of Potential Gaps in Requirements²⁶ Relating to Disclosures



²⁶ 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.

Task Force Analysis of Issues and Related ISA Requirements

The following analysis sets out the broad issues identified, together with the requirements of each relevant ISA relating to disclosures, and the Task Force's views on identified potential gaps. This analysis was considered by the IAASB at its December 2012 meeting, with support noted for the areas where potential gaps had been identified.

Planning and Understanding the Entity and Assessing the Risks of Material Misstatement (ISA 300²⁷ and ISA 315²⁸)

Issues Identified in the Responses to the Discussion Paper	ISA Objective: ²⁹ Has the Auditor...	Disclosures Related Requirements in ISA ³⁰	Potential Gaps ³¹ in ISA Requirements and Task Force Views
<p>Respondents to the DP had the view that:</p> <p>(a) Auditors do not focus on their planned approach to obtain evidence on disclosures early enough; and</p> <p>(b) Planning, in some cases, does not build in sufficient time for audit procedures on disclosures.</p>	<p>Planned the audit so that the audit will be performed in an effective manner?³²</p>	<p><u>ISA 300:</u> The auditor shall establish an overall audit strategy that sets the scope, timing and direction of the audit, and that guides the development of the audit plan. <i>No specific reference to disclosures but they would be included implicitly in the requirement.</i> (ISA 300, para 7)</p>	<p>No potential gaps in requirements in ISA 300 have been identified by the Task Force.</p>
<p>Respondents to the DP, particularly auditors, noted that there was insufficient</p>	<p>Identified and assessed the</p>	<p><u>ISA 315:</u> The auditor shall obtain an understanding of...(b) the</p>	<p>No potential gaps in requirements in ISA 315</p>

²⁷ ISA 300, *Planning an Audit of Financial Statements*

²⁸ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

²⁹ The objective of the ISA has been included as it is relevant to assess whether the objectives are being met in light of the issues raised.

³⁰ For the purposes of this analysis, only requirements relating to auditing disclosures have been included. There may be other requirements in each standard that have not been repeated here as they are not relevant to auditing disclosures. Also, for brevity, the requirements in some cases have been shortened, which has been indicated by "...", however the relevant parts of the requirement have been repeated here. If it is not clear what the actual requirement is, the relevant ISA should be referred to.

³¹ The potential gaps identified by the Task Force include areas where potential additions may be useful.

³² ISA 300, paragraph 4

Issues Identified in the Responses to the Discussion Paper	ISA Objective: ²⁹ Has the Auditor...	Disclosures Related Requirements in ISA ³⁰	Potential Gaps ³¹ in ISA Requirements and Task Force Views
<p>guidance on:</p> <p>(a) Performing risk assessments for note disclosures. In particular, at what level this risk assessment is performed (i.e., financial statements as a whole or at the individual disclosure level); and</p> <p>(b) How to apply risk assessment procedures to disclosures (such as understanding the control processes around disclosures)</p>	<p>risks of material misstatement...at the financial statement and assertion levels... thereby providing a basis for designing and responding to the assessed risks of material misstatement? ³³</p>	<p>nature of the entity,... to enable the auditor to understand... <u>disclosures</u> to be expected in the financial statements (ISA 315, para 11)</p> <p>The auditor shall obtain an understanding of the information system..., relevant to financial reporting, including... (e) the financial reporting process used to prepare the entity's financial statements, including... <u>disclosures</u>... (ISA 315, para 18)</p> <p>The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. <i>No specific reference to disclosures but they would be included implicitly in the requirement.</i> (ISA 315, Para 20)</p> <p>The auditor shall identify and asses the risk of material misstatement at (a) the financial statement level; and (b) the assertion level for... and <u>disclosures</u>, to provide a basis for designing and performing further audit procedures. (ISA 315, para 25)</p> <p>For this purpose, the auditor shall: (a) identify risks throughout the process of obtaining an understanding</p>	<p>have been identified by the Task Force.</p>

³³ ISA 315, paragraph 3

Issues Identified in the Responses to the Discussion Paper	ISA Objective: ²⁹ Has the Auditor...	Disclosures Related Requirements in ISA ³⁰	Potential Gaps ³¹ in ISA Requirements and Task Force Views
		of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, and <u>disclosures</u> in the financial statements;... (ISA 315, para 26)	

Materiality (ISA 320)³⁴

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>Respondents to the DP had the view that:</p> <p>(a) There is a lack of clear guidance on how to apply materiality to disclosures, including the application of 'performance materiality'.</p> <p>(b) There is insufficient guidance on applying the concept 'clearly trivial' to disclosures, particularly qualitative and narrative disclosures.</p> <p>(c) It is difficult to apply materiality principles to narrative disclosures / ISAs should clarify the difference in the determination of materiality for quantitative disclosures compared to what is required for qualitative disclosures.</p>	<p>Applied the concept of materiality appropriately in planning and performing the audit?³⁵</p>	<p>When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or <u>disclosures</u> for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or <u>disclosures</u>. (ISA 320 para 10) The auditor shall revise materiality for the financial</p>	<p>The Task Force has identified the following potential gaps in ISA 320:</p> <ul style="list-style-type: none"> Paragraph 10 of ISA 320 refers to amounts, with limited references to narrative or qualitative types of disclosures. As a result at the planning stage identification of material misstatements

³⁴ ISA 320, *Materiality in Planning and Performing an Audit*

³⁵ ISA 320, paragraph 4

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>(d) There is not sufficient guidance on how materiality is to be applied when quantitative amounts are substantially larger than any financial statement line item (e.g., notional amounts for derivatives).</p> <p>(e) There is insufficient guidance on the relationship between estimation uncertainty and materiality assessment, particularly where measurement uncertainty is greater than materiality.</p> <p>(f) The impact of components on group materiality for disclosures can be challenging in large group audits.</p>		<p>statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or <u>disclosures</u>) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially (ISA 320, para 12)</p> <p>If the auditor concludes that a lower materiality...(and if applicable, materiality level or levels for particular classes of transactions, account balances or <u>disclosures</u>) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality... (ISA 320, para 13)</p> <p>The auditor shall include in the audit documentation the following amounts and factors considered in their determination:... (b) if applicable, the materiality level or levels for particular classes of transactions, account balances or <u>disclosures</u>; ... (ISA 320, Para 14)</p>	<p>that are not numerical is causing difficulty in applying ISA 320.</p> <ul style="list-style-type: none"> • Performance materiality – it is not clear if, and how, performance materiality applies to disclosures.

Planning Procedures to Respond to Assessed Risks of Material Misstatement (ISA 330)³⁶

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views

³⁶ ISA 330, *The Auditor's Responses to Assessed Risks*

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>Respondents to the DP had the view that there is insufficient guidance on how to apply professional judgment to determine the nature and extent of work on qualitative and objective-based³⁷ disclosures arising from the unique characteristics of those types of disclosures, e.g.,:</p> <ul style="list-style-type: none"> (a) Disclosures based on information that is not generated by the accounting system. (b) Disclosures including estimation uncertainty and sensitivity analyses. (c) Disclosure of fair value of an amount recorded on the balance sheet using a different measurement basis. (d) Overarching objective-based disclosure requirements. 	<p>Obtained sufficient appropriate audit evidence regarding the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks?</p>	<p>In designing further audit procedures to be performed, the auditor shall (a) consider the reasons for the assessment given to the risk of material misstatement at the assertion level for each class of transactions, account balance, and <u>disclosure</u>, including: (i) the likelihood of material misstatement due to the particular characteristic of the relevant class of transactions, account balance, or <u>disclosure</u>... (ISA 330, para 7)</p> <p>Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material ... <u>disclosure</u>. (ISA 330, para 18)</p> <p>The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements, including the related <u>disclosures</u>, is in accordance with the applicable financial reporting framework. (ISA 330, para 24)</p>	<p>No potential gaps in requirements in ISA 330 have been identified by the Task Force.</p>

Obtaining Sufficient Appropriate Audit Evidence (ISA 500³⁸ and ISA 501³⁹)

³⁷ One of the themes of recent financial reporting standard-setting activities has been the increased use of objective based disclosure requirements in addition to specific disclosure requirements. For example IFRS 7.7 states “An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance”.

³⁸ ISA 500, *Audit Evidence*

³⁹ ISA 501, *Audit Evidence—Specific Considerations for Selected Items*

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>Respondents to the DP had the view:</p> <p>(a) That there is insufficient guidance on what constitutes sufficient appropriate evidence in relation to different categories of note disclosures, including management judgments, assumptions and estimation uncertainty.</p> <p>(b) That more guidance is required for assessing sufficiency and appropriateness of audit evidence with respect to disclosures, particularly narrative disclosures.</p> <p>(c) That more guidance is required for determining the appropriate level of audit work required on accounting estimates or other items that are disclosures but not recognized in the financial statements</p> <p>(d) That areas where difficulty has been experienced in obtaining sufficient appropriate audit evidence include going concern, especially around management plans and intentions and factors to mitigate going concern issues.</p>	<p>Designed and performed audit procedures in such a way so as to be able to draw reasonable conclusions on which to base the auditor's conclusions?⁴⁰</p>	<p><u>ISA 500:</u> The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. <i>No specific reference to disclosures but they would be implicitly included.</i> (ISA 500, para 6)</p> <p><u>ISA 501:</u> <i>Litigation and Claims</i> Written representations – The auditor shall request management... to provide written representations that all known actual or possible litigation and claims whose effects should be considered.... have been <u>disclosed</u> to the auditor and accounted for and <u>disclosed</u> in accordance with the applicable financial reporting framework. (ISA 501, para 12) <i>Segment Information</i> The auditor shall obtain sufficient appropriate evidence regarding the presentation and <u>disclosure</u> of segment information in accordance with the applicable financial reporting framework... (ISA 501, para 13)</p>	<p>No potential gaps in requirements in ISA 500 have been identified by the Task Force. A potential gap in ISA 501 has been identified by the Task Force relating to sufficient appropriate evidence in relation to different types of note disclosures.</p>

⁴⁰ ISA 500, paragraph 4

Evaluating Misstatements (ISA 450)⁴¹

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>Respondents to the DP had the view that there is insufficient guidance on:</p> <ul style="list-style-type: none"> (a) What constitutes a material misstatement in disclosures for both qualitative and quantitative information; and (b) Accumulating misstatements in note disclosures (particularly those that are expressed in non-monetary terms) and combining with misstatements from the primary financial statements. 	<p>Evaluated the effect of identified misstatements on the audit and the effect of uncorrected misstatements, if any, on the financial statements?⁴²</p>	<p>If... management has examined a class of transactions, account balance or <u>disclosure</u> and corrected misstatements that were detected, the auditor shall perform additional procedures to determine whether misstatements remain. (ISA 450, para 7)</p> <p>The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:</p> <ul style="list-style-type: none"> (a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or <u>disclosures</u> and the financial statements as a whole, and the particular circumstances of their occurrence; and (b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or <u>disclosures</u>, and the financial statements as a whole. <p>(ISA 450 para 11)</p> <p>The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate,</p>	<p>No potential gaps in requirements in ISA 450 have been identified by the Task Force.</p>

⁴¹ ISA 450, *Evaluation of Misstatements Identified During the Audit*

⁴² ISA 450, paragraph 3

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
		<p>may have on the opinion in the auditor's report, unless prohibited by law or regulation. ... (ISA 450, para 12)</p> <p>The auditor shall also communicate with those charged with governance the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or <u>disclosures</u>, and the financial statements as a whole. (ISA 450, para 13)</p>	

Evaluation of Evidence and Forming an Opinion (ISA 700)⁴³

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>Respondents to the DP had the view that:</p> <p>(a) Principles of fair presentation, as currently practiced; do not provide a useful basis for identifying and eliminating excessive disclosures; and</p> <p>(b) There is insufficient guidance on the requirement to consider whether management's compliance with specific requirements of the accounting framework provide sufficient information for the financial statements to be presented fairly. It was also noted that this has become increasingly challenging as the</p>	<p>Formed an opinion on the financial statements based on evaluation of the conclusions drawn from the audit evidence obtained?⁴⁴</p>	<p>The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. <i>No specific reference to disclosures but they would be included implicitly in the requirement.</i> (ISA 700, paragraph 12)</p> <p>In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework: ...</p> <p>(e) The financial statements provide adequate <u>disclosures</u> to enable the intended users to understand the effect of material transactions and events on the information</p>	<p>A potential gap has been identified by the Task Force relating to the stand back review in ISA 700. Notwithstanding that paragraph 14(b) refers to "related notes", the references to "transactions and events" may not be enough with respect to the evolving types of disclosures.</p>

⁴³ ISA 700, *Forming an Opinion and Reporting on Financial Statements*

⁴⁴ ISA 700, paragraph 6(a)

Issues Identified in the Responses to the Discussion Paper	ISA Objective: Has the Auditor...	Disclosures Related Requirements in ISA	Potential Gaps in ISA Requirements and Task Force Views
<p>accounting standards incorporate more objective-based disclosure requirements, in particular whether these are complete.</p>		<p>conveyed in the financial statements; and... (ISA 700, para 13)</p> <p>When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required... shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of:</p> <ul style="list-style-type: none"> (a) The overall presentation, structure and content of the financial statements; and (b) Whether the financial statements, including the <u>related notes</u>, represent the underlying transactions and events in a manner that achieves fair presentation. <p>(ISA 700, para 14)</p>	