

## **Auditing Disclosures – Issues and IAASB Task Force Recommendations on Changes to the ISAs**

### **Introduction and Structure of This Paper**

1. The objectives of the IAASB project on auditing disclosures are to:
  - (i) Determine whether revisions (in the form of new or revised requirements, or additional application material) to the International Standards on Auditing (ISAs) with respect to auditing disclosures are required and, if so, develop such revisions.
  - (ii) Consider how such revisions should be presented, for example within the relevant ISAs or in a separate ISA.
  - (iii) Determine whether other types of non-authoritative guidance, such as an International Auditing Practice Note (IAPN) or Staff Questions and Answers (Staff Q&A) publication should be developed and, if so, develop the content of such a publication.
2. As agreed by the IAASB in December 2013, the Task Force has progressed the proposed changes to the requirements and application material in the ISAs to be presented for approval as an exposure draft (ED). The proposed changes are presented in **Agenda Item 3-B**, and discussion about the changes made to the proposals to address the concerns and issues raised at the December 2013 IAASB meeting can be found in **Section A** below.
3. A discussion about the Task Force's considerations regarding conforming amendments arising from the proposed changes can be found in **Section B** below.
4. The IAASB previously agreed that the revisions would be better placed in the individual ISAs, and that the Task Force should not explore developing a separate ISA for auditing disclosures. In September 2013, the IAASB Consultative Advisory Group (CAG) also agreed with making the changes in the relevant ISAs, noting that a separate ISA may imply that auditing disclosures is a separate exercise rather than an integral part of the audit.
5. The Task Force has concentrated its efforts on progressing the changes to the ISAs, rather than developing supplementary guidance, as it was agreed by both the IAASB and the CAG that changes to the ISAs would more likely drive auditors to focus on disclosures and therefore contribute to an improvement in the quality of financial statement disclosures. Nonetheless, the Task Force has explored whether additional educational material would be useful, and is putting forth proposals in **Agenda Item 3-C**.
6. Throughout the development of the proposed changes to the ISAs, the Task Force has been mindful of the issues and concerns raised in response to the IAASB's Discussion Paper, *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* (DP).<sup>1</sup> The Appendix to this paper sets out the issues relating to auditing disclosures that the IAASB agreed to address (see Agenda Item 3-B from the December 2012 IAASB Meeting) together with an explanation of Task Force action.

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<sup>1</sup> The DP was published in January 2011. A summary of the responses can be found in the [Feedback Statement](#) published in January 2012.

## A. Proposed Changes to the ISAs

7. At the December 2013 IAASB meeting, the IAASB asked the Task Force to finalize the proposals for changes to the ISAs for approval as an ED at the March 2014 IAASB meeting.
8. The following sets out, by ISA, significant changes that have been made to the proposals to respond to issues and concerns discussed at the December 2013 IAASB meeting. Other editorial and other minor changes have also been reflected in **Agenda Item 3-B** but have not been discussed further here. In Agenda Item 3-B, all new changes made since December 2013 have been highlighted in yellow.

### *ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing – Section A of Agenda Item 3-B*

9. The IAASB supported the intent of the Task Force's proposal to amend the definition of "financial statements," to clarify that disclosures are included in the definition, and to improve consistency of the use of the terms "disclosures" and "notes to the financial statements." The proposed amendments also make it clear that the term "disclosures" includes, under some financial reporting frameworks, information that may be found outside of the financial statements but is included in those statements by cross-reference.<sup>2</sup>
10. To respond to concerns raised by the IAASB, the definition was modified to be more direct, including replacing "face of the financial statements," which some Board members noted may not be understood in all jurisdictions, with "primary financial statements." The Task Force broadly agreed that using the term "primary financial statements" was preferred to "primary statements" as it is more commonly used.
11. Also, various changes have been made to other ISAs to be consistent with the proposed revised definition.

### *ISA 210, Agreeing the Terms of Audit Engagements – Section B of Agenda Item 3-B*

12. The IAASB asked the Task Force to consider whether the proposed enhancement for management's responsibility to provide adequate information about disclosures should be extended to information about all amounts in the financial statements. The Task Force agreed and considered the changes that would need to be made. The Task Force noted that management's responsibility for providing information beyond disclosures is already covered by paragraph A11 of ISA 210 – "the auditor has a reasonable expectation of obtaining the information necessary for the audit." However, this does not emphasize that this should include information from systems or processes that are not part of the general ledger system. Accordingly, the Task Force has proposed amending paragraph A11 to highlight that some of the information may also be contained in systems or processes that are not part of the general ledger system, with a corresponding change in paragraph A23. This change should assist auditors in understanding the changing sources of information for, but not limited to, disclosures.

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<sup>2</sup> For example, International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures*, paragraph B6, states that the "disclosure requirements...shall either be given in the financial statements or incorporated by cross-reference to the financial statements in some other statement..."

13. In the example audit engagement letter in the Appendix to ISA 210, the Task Force has proposed:
- Amending the introductory paragraph for consistency with the proposed revised definition of “financial statements”. The Task Force has also proposed removing the term “including a summary of significant accounting policies” as this is incorporated in the definition of “financial statements.” While this is an important part of the notes to the financial statements, emphasizing it here may have the unintended effect of de-emphasizing other important elements of disclosures.
  - Removing the proposed changes to insert a new paragraph (c)(ii) in the “acknowledgement of responsibility” paragraph. This paragraph corresponds to the requirement in paragraph 6(b)(iii) and, as no change is being proposed to that requirement, the Task Force is of the view that the example audit engagement letter should remain consistent with that. In addition, on further reflection on the application material in paragraph A23, the Task Force is of the view that there are other matters that could also be included in the audit engagement letter. Therefore, the Task Force has proposed a new footnote to highlight that the auditor may consider matters noted in paragraph A23 for inclusion in the audit engagement letter.

*ISA 580, Written Representations*

14. A change was proposed to ISA 580<sup>3</sup> in the December 2013 agenda materials to correspond to the proposed change being made to the example audit engagement letter in ISA 210. As the Task Force has eliminated this change in ISA 210, the corresponding change in ISA 580 is no longer necessary. Therefore, there are no proposed changes relating to ISA 580.

*ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements – Section C of Agenda Item 3-B*

15. There are no changes to those proposed in December 2013.

*ISA 260, Communication with Those Charged with Governance – Section D of Agenda Item 3-B*

16. In addition to editorial changes, the Task Force is proposing to add additional application material to note that the auditor may consider discussing the overall presentation, structure and content of the financial statements with those charged with governance (see paragraph A14). This addition responds to an IAASB member’s reflection regarding the role of those charged with governance in relation to the financial statements.

*ISA 300, Planning an Audit of Financial Statements – Section E of Agenda Item 3-B*

17. Limited editorial changes have been made to paragraphs A12a and A12b. Also, a Board member asked the Task Force to consider providing additional examples in the new proposed application material on matters that the auditor may identify by considering disclosures early in the audit process (see paragraph A12b), such as auditor consideration of disclosures where difficulties had been experienced in past audits. Notwithstanding that the Task Force agreed in substance with the addition, it is of the view that these matters would be better placed in ISA 315 (see paragraph 20 below).

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<sup>3</sup> ISA 580, *Written Representations*

18. In addition, another Board member asked the Task Force to consider extending the application material that had been added in paragraph A12b beyond disclosures, and therefore to cover all matters in the financial statements, as the examples would be equally applicable to these wider matters. However, the Task Force is of the view that extending the application material beyond disclosures may dilute the intended effect of the proposed change to focus auditors on disclosures in the early stages of an audit. The Task Force also considered that this would be beyond its remit.

*ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment – Section F of Agenda Item 3-B*

19. The Task Force was asked to consider clarifying the level at which risk assessment for disclosures is performed, that is, whether this is done at the individual disclosure level or a higher level. As this is matter of professional judgment and will depend on the circumstances of the audit, the Task Force believes the existing requirements and application material are sufficient and has not added any material to ISA 315 (Revised). However, the Task Force believes there may be an opportunity to develop additional supplementary guidance (see **Agenda Item 3-C**).
20. Other changes made to ISA 315 (Revised) include:
- Adding that considering the auditor's experiences in past audits, in particular when difficulties were encountered in auditing certain disclosures, would further inform the auditor during the planning process. This change arose from matters that a Board member asked the Task Force to consider relating to ISA 300 (see paragraph 17), but that the Task Force felt was better placed in ISA 315 (Revised) (see paragraph A19).
  - In addition to other clarifying changes, revising the example in paragraph A119 to better reflect an issue, relating to disclosures, which could be pervasive in the financial statements.

**Assertions**

21. The majority of the IAASB agreed with the proposal to combine the assertions for disclosures with those for classes of transactions and events, and account balances, as presented in December 2013. However, concern was raised over the removal of the assertions for presentation, including its underlying concepts. The Task Force agreed, and the assertion for presentation has been reinstated, including the underlying concepts of relevance and understandability.

*ISA 320, Materiality in Planning and Performing an Audit – Section G of Agenda Item 3-B*

22. At the December 2013 IAASB meeting, a few IAASB members had the view that the new proposed requirement for the consideration of non-qualitative disclosures is better placed in ISA 315 (Revised), where the concept of materiality is operationalized, while others agreed that ISA 320 was appropriate.
23. The Task Force deliberated whether to retain the new requirement as proposed, and agreed that the proposed change in ISA 320 has value, in that it encourages the auditor to start reflecting on the types of matters that may be material from a non-quantitative perspective earlier in the audit process. The Task Force acknowledges that the determination of misstatements in non-quantitative disclosures is usually done in the context of the financial statements as a whole, which is usually towards the end of the audit, but still believes that it is beneficial for the auditor to start considering this earlier in the audit. The Task Force further considered the articulation of the new requirement

and has made clarifying amendments. The Task Force deliberated whether to keep the sub-heading preceding the new requirement, and agreed that this should remain with some minor changes, as it clearly delineated non-quantitative disclosures from the determination of materiality amounts.

24. The Task Force has also included relevant application material for considering how to make the preliminary determination of materiality for non-quantitative disclosures as application material to this new requirement (see introductory language in paragraph A12a of ISA 320.)
25. A Board member expressed concern about the documentation requirements relating to the proposed changes. The Task Force is of the view that a narrative explanation of the auditor's considerations about those non-quantitative disclosures that could be material would satisfy the overall documentation requirements established by ISA 230,<sup>4</sup> and no further changes to the ISAs were needed.
26. In considering consequential amendments arising from the proposals in the ED, the Task Force is proposing a new change in paragraph 6 of ISA 320 to clarify that misstatements are not for amounts only, and to delete that "it is not practicable to design audit procedures that could be material solely because of their nature", as this would conflict with the new requirement being proposed.

*ISA 330, The Auditor's Responses to Assessed Risks – Section H of Agenda Item 3-B*

27. The Task Force has revisited the proposed changes to the application material in paragraph A59 of ISA 330 for the requirement relating to the evaluation of the overall presentation of the financial statements (paragraph 24 of ISA 330.) Concern was expressed that the nature of the guidance had been changed, and that this was no longer consistent with the requirement. The Task Force has reverted to the extant application material and made minor amendments where considered necessary.

*ISA 450, Evaluation of Misstatements Identified during the Audit – Section I of Agenda Item 3-B*

28. The Task Force has revised one of the proposed examples of misstatements relating to disclosures to clarify that this relates to a fair presentation framework (see paragraph A1), as concern had been raised that the example proposed in the December 2013 agenda materials did not clearly distinguish between a fair presentation and compliance framework, and that misstatements could also arise in audits of financial statements prepared in accordance with a compliance framework. A Task Force member also expressed concern about using the term "objective-based disclosures" (see paragraph A1(b)). While the term is not explicitly used in the financial reporting standards, a footnote has been added to explain its meaning by providing an example (see footnote 27 in Agenda Item 3-B).
29. The Task Force has further reflected on the application material for accumulating misstatements in non-quantitative disclosures, and believes that it is more useful for this guidance to include accumulation of all misstatements in disclosures (see changes made to paragraph A2a). In making the changes, the Task Force has used the word "aggregation" where it relates to amounts that can

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<sup>4</sup> ISA 230, *Audit Documentation*

be added together, and has clarified that misstatements in non-quantitative disclosures are assessed individually and collectively. The Task Force is also of the view that further supplementary guidance on this may be further explored (see **Agenda Item 3-C**).

30. On further reflection on the previously proposed application material in respect of omissions of disclosures being included in the assessment of misstatements in disclosures (previously paragraph A14a), the Task Force is of the view that this is adequately covered by the example misstatements in paragraph A1 and recommends the deletion of this proposed paragraph.

*ISA 700, Forming an Opinion and Reporting on Financial Statements – Section J of Agenda Item 3-B*

31. The Task Force has further refined the proposed application material for evaluating the relevance, reliability, comparability and understandability of the financial statements, in particular to make it understandable (see paragraph A3b).
32. The Task Force has also changed the proposed revised application material for evaluating whether adequate disclosures have been provided to enable users to understand the effect of material transactions and events on the financial statements. The Task Force has also revisited the examples of matters that may be relevant to users so that they are specific to the requirement (see paragraph A4).

*Sufficient Appropriate Audit Evidence for Disclosures*

33. In an audit of financial statements, 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<sup>5</sup> explains what constitutes audit evidence, and deals with the auditor's responsibility to design and perform audit procedures to meet this objective.
34. The issues raised in response to the DP in relation to sufficient appropriate audit evidence for disclosures largely related to the nature of evidence that can be gathered for certain types of disclosures. Specifically, respondents highlighted particular challenges in obtaining evidence about non-quantitative (including narrative) disclosures. In addition, evolving financial reporting requirements for disclosures, such as the disclosure of forward-looking information, management intentions and sensitivity analyses, have also been identified as challenging to audit, partly because of the availability of underlying evidence.
35. Some of the proposed changes in the ED impact the gathering of audit evidence. The proposed change in ISA 210 highlights to management the need for early preparation of the draft financial statements and the expectation that management will provide information necessary for the audit, in particular for those disclosures containing information from systems or processes that are not part of the general ledger system. In addition, various changes have been made in the application material addressing the planning stage of the audit (including in ISA 300 and ISA 315 (Revised)) for the auditor to focus on disclosures containing information from systems or processes that are not part of the general ledger system.

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<sup>5</sup> ISA 500, *Audit Evidence*

36. In its gap-analysis performed on the ISAs in relation to the issues and concerns raised in the responses to the DP,<sup>6</sup> the Task Force was of the view that enhancement to the requirements of ISA 500, which broadly address information to be used as audit evidence, are not necessary. Rather, there appears to be an underlying practical issue of applying these requirements to the types of disclosures mentioned in paragraph 34. While additional guidance and considerations around gathering audit evidence for different types of disclosures could assist auditors in applying the requirements of ISA 500, the Task Force believes that the wide variety of disclosures and the detail of information that could be found in disclosures would make this additional guidance impractical for inclusion in an ISA.
37. In addition, some of the issues and concerns relating to sufficient appropriate audit evidence are not solely limited to disclosures, but also may be applicable to the audit of the underlying amounts recognized in the financial statements. Concerns have been raised in other IAASB projects, such as the recently completed ISA Implementation Monitoring project, about whether auditors are obtaining sufficient appropriate evidence in certain areas, some of which are consistent with the concerns raised in the responses to the DP. These concerns about sufficient appropriate audit evidence that apply to more than the scope of the Disclosures project will be considered by the IAASB as it finalizes its future *Strategy 2015–2019 and Work Program 2015–2016* later in 2014.
38. Nevertheless, the Task Force is of the view that there may be merit in developing further supplemental guidance in relation to specific disclosures, and if such guidance were to be developed, that it would be better placed in supplemental guidance material. However, the Task Force has not fully considered what the nature or extent of this would be, and would need to further explore the development of such guidance, which likely goes beyond what is contemplated in **Agenda Item 3-C**.

## **B. Conforming Amendments**

39. The Task Force has considered whether any additional conforming amendments to the ISAs should be proposed.

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

40. There are plans to review ISA 800 and other standards in the ISA 800-series in the context of the auditor reporting project. Although any revisions to ISA 800 are likely to be limited, the Disclosures Task Force will work with the ISA 700 Drafting Team to include any conforming amendments for auditing disclosures that may be necessary in the planned ED incorporating changes arising from those in ISA 700.

### *Other Conforming Amendments*

41. The Task Force has reviewed other ISAs not included in the ED, in particular in relation to the proposed changes for the definition of “financial statements” and in relation to accounting systems where the information in disclosures is from systems or processes that are not part of the general ledger system, but is of the view that no further changes are needed.

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<sup>6</sup> See [Agenda Item 3-B](#), and relevant discussion in [Agenda Item 3-A](#), from December 2012.

## Effective Date

42. During previous IAASB discussions, some IAASB members expressed concern about the burden on practitioners and national standard setters arising from implementing changes to the ISAs from this project if IAASB consideration is not also given to other possible changes to the ISAs arising from significant planned IAASB projects and, therefore, how all such changes may best be packaged. Balancing this concern, however, is the IAASB's support for the changes themselves and the need for timely enhancement to the ISAs and thereby audit quality.
43. The IAASB's proposed Work Program for 2015–2016 does not contemplate finalizing new projects that may result in revisions to other ISAs until mid-2017 (with changes then effective at some 15-18 months subsequently). Seeking to align an effective date for the disclosure proposals to such future projects would therefore represent a considerable delay before implementation, and would link decisions to initiatives that have not yet commenced.
44. The IAASB plans to finalize its new and revised auditor reporting standards, including revised ISA 700, in 2014, and will consider an appropriate effective date for those standards at such time. As such, it would seem appropriate that the proposed changes to the ISAs addressing disclosures should come into effect as soon as practicable, taking into account the effective date of the auditor reporting standards.
45. Consistent with current practice, the Explanatory Memorandum will draw attention to the matter of an appropriate effective date for the proposals.

### Matter for IAASB Consideration

1. The IAASB is asked to provide feedback on the changes to the ISAs included in **Agenda Item 3-B**.

## Appendix

### Table of Issues Identified<sup>7</sup> by the DP Illustrating How they Have Been Addressed<sup>8</sup>

Throughout the process to develop the ISAs, both the Task Force and the IAASB have been mindful of the feedback received to the DP, in particular the recurring issues that were identified in the responses to the DP. The following is an analysis prepared to explain how those issues have been addressed in the ED, where relevant. However, actions in relation to some of the issues set out below, in the view of the Task Force, are more appropriately addressed outside the ISAs, and **Agenda Item 3-C** discusses further development of educational guidance.

Issues Identified in the Responses to the Discussion Paper	Task Force Response to the Issue
<b>ISA 300</b>	
<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>To focus auditors on disclosures earlier in the audit process, various amendments and enhancements have been proposed, including:</p> <ul style="list-style-type: none"> <li>• Development of paragraphs A12a and A12b in ISA 300 specifically to focus auditors on disclosures earlier in the audit process.</li> <li>• A specific proposal regarding timing of planned audit procedures has been added to ISA 330, paragraph A14.</li> <li>• An emphasis on disclosures at the engagement team discussion, which often occurs early in the audit process (see ISA 315, paragraph A21a and ISA 240, paragraph A11.)</li> <li>• An emphasis on management’s responsibilities relating to providing adequate information for the audit, including from systems and processes that are not part of the general ledger system, when agreeing the terms of the engagement in ISA 210 (see paragraphs A11 and A23), and new proposed footnote in the illustrative audit engagement letter highlighting to auditors matters that they may consider including in the engagement letter.</li> <li>• Specific consideration about financial statement</li> </ul>

<sup>7</sup> Issues identified are consistent with those used for the Task Force’s ‘gap analysis’ from the responses to the DP – see [Agenda Item 3-B](#) from December 2012 IAASB meeting.

<sup>8</sup> References to the proposed amendments can be found in the ED (see [Agenda Item 3-B](#) from March 2014 IAASB meeting)

Issues Identified in the Responses to the Discussion Paper	Task Force Response to the Issue
	disclosures when discussing planning matters with those charged with governance (see ISA 260, paragraph A13.)
<b>ISA 315</b>	
<p>Respondents to the DP, particularly auditors, noted that there was insufficient 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>(a) The Task Force is of the view that it is a matter of professional judgment as to what level the risk assessment is performed at. Many factors may influence this, including the circumstances of the entity, the wide range of disclosures that may be found in a set of financial statements, as well as the detail in the disclosures, and the auditor’s assessment of materiality. Therefore the Task Force believes there may be an opportunity to develop additional educational guidance—see further discussion in Agenda Item 3-C.</p> <p>In addition, the assertions for presentation and disclosure have been combined with the assertions for classes of transactions and events, and account balances, which should encourage the assessment of the risk of material misstatement in disclosures to be performed at the same time as the risk assessments are done for amounts recognized.</p> <p>(b) The Task Force has added a specific example relating to control activities – see ISA 315, paragraph A98. Further supplemental guidance in this area may be considered—see further discussion in Agenda Item 3-C.</p>
<b>ISA 320</b>	
<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</p>	<p>(a) A new requirement for the auditor to consider the concept of materiality in relation to non-quantitative disclosures has been proposed. This makes it clear that “performance materiality” does not apply to such disclosures (see ISA 320, paragraph 11a).</p> <p>(b) The Task Force is of the opinion that this could not apply practically, and has articulated the new requirement for auditor consideration of non-quantitative disclosures to make it clear that no such concept would apply.</p>

Issues Identified in the Responses to the Discussion Paper	Task Force Response to the Issue
<p>clarify the difference in the determination of materiality for quantitative disclosures compared to what is required for qualitative disclosures.</p> <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>(c) A new requirement relating to non-quantitative disclosures has been proposed, and related application material has been developed for implementation of the new requirement (see paragraph A12a).</p> <p>(d) This situation has not been directly addressed in the ISAs as it would be a matter of professional judgment in the particular circumstances. However, additional application material has been proposed in paragraphs A10 and A12a for possible considerations by the auditor on matters that may be material.</p> <p>(e) The Task Force is of the view that this underlying audit issue is beyond the scope of the disclosures project. However, as noted in (d) above, additional application material has been proposed in paragraphs A10 and A12a for considerations by the auditor on matters that may be material</p> <p>(f) The Task Force considered whether changes should be made to ISA 600<sup>9</sup> arising from the changes being proposed to ISA 320, but agreed that issues related to component materiality would form part of the IAASB's planned future work on ISA 600.</p>
<b>ISA 330</b>	
<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-based<sup>10</sup> disclosures arising from the unique characteristics of those types of disclosures, e.g.,:</p> <p>(a) Disclosures based on information that is</p>	<p>The Task Force is of the view that adding guidance for specific disclosures is more in the nature explanatory guidance, and may be further considered—see further discussion in Agenda Item 3-C. Notwithstanding this, changes have been made to acknowledge some of these specific disclosures as follows:</p> <p>(a) In both ISA 300 and ISA 315 an emphasis on disclosures from information contained in</p>

<sup>9</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>10</sup> 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".

<b>Issues Identified in the Responses to the Discussion Paper</b>	<b>Task Force Response to the Issue</b>
<p>not generated by the accounting system.</p> <p>(b) Disclosures including estimation uncertainty and sensitivity analyses.</p> <p>(c) Disclosure of fair value of an amount recorded on the balance sheet using a different measurement basis.</p> <p>(d) Overarching objective-based disclosure requirements.</p>	<p>systems and processes that are not part of the general ledger system have been proposed (for example, see ISA 300, paragraph a12a, Appendix to ISA 300, ISA 315 paragraph A89a (explains what these are and also makes it clear that these systems and processes are part of the accounting system)).</p> <p>(b) The nature and extent of work on these specific disclosures would depend on the circumstances of the entity. However, examples relating to these have been used variously in the proposed changes (for example, see ISA 315, paragraph A89a and ISA 320 paragraph A10).</p> <p>(c) This may be further considered in the development of explanatory guidance—see Agenda Item 3-C..</p> <p>(d) Application material has been added to ISA 700 about evaluating the financial statements in compliance with the applicable financial reporting framework, and the auditor’s evaluation of the fair presentation of the financial statements (see paragraphs A3a to A4b in ISA 700).</p>
<b>ISA 500 and ISA 501</b>	
<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>In the Task Force’s view, the wide variety of disclosures and the detail of information that could be found in disclosures would make it impractical to include such specific guidance so as to cover these matters in an ISA, and that it would be better placed in supplemental guidance. As explained in Agenda Item 3-C, the need for further reflection by the IAASB on how to address issues identified relating to sufficient appropriate audit evidence for disclosures will be considered .</p>

<b>Issues Identified in the Responses to the Discussion Paper</b>	<b>Task Force Response to the Issue</b>
<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>	
<b>ISA 450</b>	
<p>Respondents to the DP had the view that there is insufficient guidance on:</p> <p>(a) What constitutes a material misstatement in disclosures for both qualitative and quantitative information; and</p> <p>(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>	<p>(a) Additional examples of misstatements in disclosures have been added to paragraph A1.</p> <p>(b) Additional explanatory material for accumulating misstatements in disclosures, and assessing the misstatements, has been added in paragraphs A2a and A13a.</p>
<b>ISA 700</b>	
<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 accounting standards incorporate more objective-based disclosure requirements, in particular whether these are complete.</p>	<p>Additional application material for the auditor when:</p> <p>(a) Evaluating whether the financial statements are in accordance with the applicable financial reporting framework; and</p> <p>(b) Evaluating whether fair presentation has been achieved, where applicable, has been developed. (See ISA 700, paragraphs A3a to A4b)</p>