

Meeting: IAASB Consultative Advisory Group
Meeting Location: New York
Meeting Date: September 14–15, 2015

Agenda Item

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Auditing Financial Statement Disclosures

Objective of Agenda Item

1. To provide a report back on the Representatives' and Observers' views on the final proposals for changes to the International Standards on Auditing (ISAs) to address disclosures in the audit of the financial statements.

Project Status

2. The changes to the ISAs for *Auditing Disclosures in the Audit of Financial Statements* was approved by the IAASB at its March 2015 meeting, and due process approved by the Public Interest Oversight Board in June 2015. The Final Pronouncement, Basis for Conclusions, At a Glance and related Staff Publication were published in July 2015 (links to the final documents can be found in the Materials Presented section below).
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.

March 2015 CAG Discussion

4. Below are extracts from the draft minutes of the March 2015 CAG meeting, and an indication of how the project Task Force (TF) or IAASB has responded to the Representatives' and Observers' comments.

Representatives' and Observers' Comments	Task Force/IAASB Response
GENERAL COMMENTS	
Mr. Stewart noted that the CAG Working Group (WG) for the Disclosures project had supported moving ahead with the changes to the ISAs. In the WG's view, these changes were not so significant so as to cause disruption in the future if further work on materiality and audit evidence for disclosures was undertaken. Mr. Hansen echoed his support for moving forward with the changes to the ISAs now, believing that they were in the public interest.	Support noted.

Representatives' and Observers' Comments	Task Force/IAASB Response
<p>Ms. McGeachy-Colby noted that the Small and Medium Practices (SMP) Committee did not support moving forward with the changes to the ISAs now. While the SMP Committee was supportive of the project, its main concern was about the possibility of making changes to the ISAs now, and then again at a later stage following the IASB's work. She noted the SMP Committee's view that a piecemeal approach would be unlikely to effect the behavioral change that was intended by making the changes now. Ms. Lang agreed, and added that the number of entities globally represented by the respondents who had not supported moving forward with the changes was significant, and that the costs of implementing these changes needed to be considered against the expected benefits. She also expressed concern about the use of references to IFRSs in the changes, as not all jurisdictions using the ISAs will use IFRSs.</p>	<p>Point not accepted.</p> <p>Mr. Grabowski noted that the SMP Committee had participated in a call with the TF, which took those comments seriously. He explained that the IAASB had weighted the balance between the need for changes at the listed company level, in particular to remind auditors that qualitative disclosures were becoming more prevalent and therefore required auditor attention. Mr. Grabowski was of the view that the proposed changes to the ISAs were inherently capable of being proportionately applied, as small- and medium-sized entities (SMEs) may have less qualitative disclosures. He suggested there might be an opportunity to draw attention to this fact in the Staff publication or by other means to explain that such changes may not be as relevant to SMEs or SMPs. Recognizing the concern for SMPs was over the timing of the implementation of the changes that were being proposed (rather than the validity of the changes themselves), Prof. Schilder queried Mmes. Lang and McGeachy-Colby when the suitable timing for implementation of such changes would be. Ms. Lang responded that the IAASB already had intentions of considering possible work on materiality and audit evidence to correspond to the timing of the progress of the work by the IASB, and that this timing may work better so as to only introduce one set of changes.</p> <p>In finalizing the changes, the IAASB recognizes that the changes are spread across ten ISAs, but is of the view that the strengthened requirements are responsive to those that believe that more is needed to enhance auditor performance and better focus auditors' risk assessment and response on disclosures. In addition, the IAASB is of the view that the specificity and clarity in the new and revised application material will reinforce the importance of auditor attention to disclosures throughout the audit, and will help with the application of both the existing requirements and the revised, strengthened requirements arising from this</p>

Representatives' and Observers' Comments	Task Force/IAASB Response
	<p>project. In light of the concerns from SMPs, the IAASB took a critical look at whether the changes that were originally proposed were in all cases necessary, focusing on areas where the change would be expected to contribute to changing auditor behavior or where clarity was seen to be necessary to result in a consistent interpretation of existing requirements. In acknowledging the concerns about the work of the accounting standard setters and the impact on the ISAs this may have in the future, the Board agreed that the proposed changes to the ISAs are an important first step. However, it was also recognized that there has been a strong call for further consideration by the IAASB about what more can be done, as the proposed changes to the ISAs are not enough on their own to solve all the challenges and meet the expectations of all stakeholders identified in the Discussion Paper.</p> <p>The IAASB also acknowledges the concerns of SMPs insofar as the changes could be viewed as being burdensome, but at the same time believes that they are capable of being proportionately applied, taking into account the entity and the nature of its disclosures, and this has been specifically acknowledged in the changes in paragraphs A128c and A131a of ISA 315 (Revised). To assist SMPs (and others) with the implementation of the changes, an updated Staff Publication, <i>Addressing Disclosures in the Audit of Financial Statements</i>, was published at the same time as the changes to the ISAs. That document highlights matters that may be of relevance to auditors when addressing disclosures as part of a financial statement audit. It is intended to help the consistent, effective and proper application of the ISAs as they relate to disclosures.</p> <p><i>(See explanation of IAASB decision in paragraphs 21–22 and 74–78 of the Basis for Conclusions; also see Final Pronouncement, ISA 315 (Revised) paragraphs A128c and A131a)</i></p>
<p>Mr. Koktvedgaard and Ms. Lang questioned whether an International Practice Note (IPN)</p>	<p>Point not accepted.</p>

Representatives' and Observers' Comments	Task Force/IAASB Response
<p>would be more effective and useful as the changes were mostly in the application material. Ms. de Beer reminded the Representatives and Observers that this had been discussed when the project had been scoped, and that the CAG had previously supported changes to the ISAs supplemented with Staff guidance.</p>	<p>Ms. Healy explained that, as the purpose of application material is to support the effective implementation of the requirements, the intended effect of the changes may be lost if the guidance was not in the ISAs.</p> <p>Mr. Grabowski also reminded the Representatives and observers that the changes to the ISAs had been supported by the majority of the respondents to the Exposure Draft (ED).¹ Prof. Schilder added that the intention of the Staff Publication was to collate all the relevant material relating to the audit of disclosures as part of a financial statement audit throughout the ISAs, including incorporating the new changes that were being made.</p>
<p>PROPOSED CHANGES TO THE ISAs – PLANNING</p>	
<p>Mr. Stewart noted that the CAG WG was of the view that the material added to the introduction in paragraph 18 to introduce the concept of information from outside the general and subsidiary ledgers does not scope in more than what is required for the financial statement audit. The WG was supportive of this change, as well as the changes in the application material in support of this requirement (paragraph A89a of ISA 315 (Revised)). Ms. Elliott and Mr. Waldron agreed. Mr. Waldron also preferred a change to strengthen the requirement rather than simply adding application material, as this was viewed as less effective to drive behavior.</p>	<p>Support noted.</p> <p>The IAASB agreed that it was important to incorporate this in the requirements. It concluded to do so by emphasizing that the information in the financial statements may be from within or outside the general and subsidiary ledgers, and would therefore need to be considered when performing the required procedures to obtain an understanding of the information system, including the related business processes, relevant to financial reporting in ISA 315 (Revised), paragraph 18. The changes agreed upon address two separate but related aspects of the IAASB's deliberations: (1) the need for it to be clear that the understanding of the information system also includes an understanding of how that information system relates to disclosures and (2) a further emphasis on the fact that certain of this information may be from outside the general and subsidiary ledgers.</p> <p><i>(See Final pronouncement, ISA 315 (Revised), paragraphs 18 and A89a)</i></p>
<p>Messrs. Kockvedgaard and Thompson suggested it was unclear whether this change may scope in "other information" in the annual</p>	<p>Point noted.</p> <p>Mr. Grabowski explained that the understanding required to be obtained was in the context of a</p>

¹ Exposure Draft, *Proposed Changes to the ISAs, Addressing Disclosures in the Audit of Financial Statements*

Representatives' and Observers' Comments	Task Force/IAASB Response
<p>report. Mr. Thompson suggested referring to “disclosures required by the financial reporting framework” to further clarify. Ms. de Beer and Mr. White agreed.</p>	<p>financial statement audit and would not extend the requirement to other information that was covered by ISA 720 (Revised).</p> <p>The IAASB was mindful to not inadvertently “scope into the requirement” the need to obtain a more comprehensive understanding of systems and processes that may not be relevant to the audit, thereby increasing the auditor’s work effort unnecessarily. Accordingly, the IAASB agreed to highlight in the application material that it is only the relevant aspects of the information systems that were applicable to this understanding, and that the extent of the understanding is matter of the auditor’s professional judgment. The IAASB also provided revised and clarified examples of what these other sources of information could be to provide guidance to the enhanced requirement.</p> <p><i>(See Final pronouncement, ISA 315 (Revised), paragraphs 18 and A89a)</i></p>
<p>Mr. Dalkin suggested that paragraph A89a should include an example more commonly found in the financial statements, as others that were included could be viewed as obscure.</p>	<p>Point accepted.</p> <p>A new example relating to leases has been added to the list of examples in ISA 315 (Revised), paragraph A89a.</p> <p><i>(See Final pronouncement, ISA 315 (Revised), paragraph A89a)</i></p>
<p>Mr. Koktvedgaard questioned whether the proposed change to paragraph 18 should include the notion of materiality, as this was the information that would be relevant to the audit.</p>	<p>Point not accepted.</p> <p>Paragraph 18 of ISA 315 (Revised) relates to obtaining an understanding of the entity’s information system. The amendments emphasize that the understanding of the information system should include the <u>relevant aspects</u> of the system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.</p>
<p>Mr. Koktvedgaard asked for clarification about the intent of the change that had been made to paragraph A14 of ISA 330 about the auditor building in sufficient time for disclosures.</p>	<p>Mr. Grabowski explained that this had been proposed in the ED to focus auditors on disclosures earlier in the audit. He noted that current practice indicated auditors tend to focus on disclosures towards the end of the audit, which could be</p>

Representatives' and Observers' Comments	Task Force/IAASB Response
	problematic if the auditor then needed to perform work on controls around disclosures.
<p>Mr. Koktvedgaard questioned why changes were being proposed to ISA 320 now if this standard would possibly be subject to review in the near future, and whether those changes now would achieve their intended effect. Ms. McGeachy-Colby agreed, reiterating the SMP Committee's view about the changes more broadly. She added that the behavioral change would be less likely without changes to materiality, and again suggested the IAASB should defer the changes currently being proposed until undertaking a more holistic project on ISA 320.</p>	<p>Point not accepted.</p> <p>Mr. Grabowski explained that the IAASB had explored the possibility of additional requirements in response to calls for more requirements and guidance to address how the concept of materiality is to be applied to disclosures, particularly qualitative disclosures. On reflection the IAASB decided that some of the potential changes considered in the context of disclosures could also be of relevance in the context of other items and that it would not therefore be appropriate to make these changes in isolation for disclosures. However, the Board did further consider whether more could be added in the immediate term to address some of the concerns about qualitative disclosures, while also strengthening the auditor's work on identifying and assessing the risks of material misstatement. Changes were agreed to paragraph 6 in ISA 320 to introduce the concept of 'qualitative' disclosures, and supporting application material added in paragraph A1a.</p> <p>In addition, Prof. Schilder cautioned that the timing of work on ISA 320 was uncertain and, due to the complexity of the subject matter, the next set of proposed changes may still be a number of years away.</p> <p><i>(See ISA 320, paragraphs 6 and A1a in the Final Pronouncement and paragraphs 55–56 in the Basis for Conclusions)</i></p>
<p>Mr. Ahmed queried whether the TF had considered banking-specific disclosures when considering the changes to materiality.</p>	<p>Point not accepted.</p> <p>Mr. Grabowski responded that more had been added about considering qualitative considerations in both ISA 315 (Revised) and ISA 320. However, considerations relating to banking-specific disclosures would be further considered in the IAASB's new project on financial institutions.</p>

Representatives' and Observers' Comments	Task Force/IAASB Response
PROPOSED CHANGES TO THE ISAS – RESPONDING TO RISKS	
Mr. Stewart noted that the WG had agreed with the proposed changes.	Support noted.
PROPOSED CHANGES TO THE ISAS – EVALUATING MISSTATEMENTS AND PRESENTATION OF THE FINANCIAL STATEMENTS	
Mr. Hansen questioned whether “clearly trivial” is the correct threshold for evaluating misstatements.	Point noted. Mr. Grabowski acknowledged the concern, noting that it was based on the auditor's judgment as to what was discussed with those charged with governance. He added that, in practice, experience has shown that it is not too low a level.
Mr. Hansen also asked whether the TF had addressed the concept of placement, in relation to certain information not being prominently placed. Mr. Hansen questioned the use of the word “obscure” and encouraged the TF to reconsider whether this was the most appropriate word.	Mr. Grabowski drew Mr. Hansen’s attention to paragraph A3b of ISA 700 (Revised). <i>(See ISA 700 (Revised), paragraph A3b in the Final Pronouncement)</i> Mr. Grabowski suggested this could possibly be rearticulated to explain the concept of misleading by including too much irrelevant or immaterial information. On further reflection, the IAASB agreed that this was the most appropriate word relating to the auditor’s required evaluation about whether the information presented in the financial statements is relevant, reliable, comparable and understandable. <i>(See ISA 700 (Revised), paragraph 13(d) in the Final Pronouncement)</i>
Mr. Greene suggested further consideration be given to the aggregation of misstatements in disclosures that are not material. He also highlighted that there may be a link between misstatements that are not material and internal control weaknesses.	Point accepted. Mr. Grabowski responded that guidance had been added to ISA 450 setting out the auditor’s considerations when there were pervasive misstatements in the disclosures. <i>(See ISA 450, paragraphs A2c and A13b in the Final Pronouncement)</i>
Mr. Fukushima encouraged the IAASB to continue working collaboratively with the IASB, in particular relating to making information in disclosures more entity-specific.	Point noted. As part of the ongoing IAASB-IASB liaison, the IAASB-IASB Liaison Working Group and IAASB Staff will continue to liaise with the IASB Staff on

Representatives' and Observers' Comments	Task Force/IAASB Response
	<p>matters of common interest (including disclosures and materiality).</p> <p><i>(See paragraphs 18, and 27–28 in the Basis for Conclusions)</i></p>

Matters for CAG Consideration

- The Representatives and Observers are asked to note the Report Back above, in particular the changes made as a result of the CAG's comments.

IAASB Interaction with the IAASB CAG

- This Report Back serves as the final update to the CAG Representatives on this project. There are no issues being raised at this time, as the Disclosures project has now been finalized.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Final Pronouncement, *Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments* https://www.iaasb.org/system/files/publications/files/IAASB-Disclosures-Final-Changes-to-the-ISAs_0.pdf

Basis for Conclusions, *Addressing Disclosures in the Audit of Financial Statements and Related Conforming Amendments* https://www.iaasb.org/system/files/publications/files/IAASB-Disclosures-Basis-for-Conclusions_0.pdf

Staff Publication, *Addressing Disclosures in the Audit of Financial Statements* https://www.iaasb.org/system/files/publications/files/IAASB-Disclosures-Staff-Publication_0.pdf

At a Glance, *Addressing Disclosures in the Audit of Financial Statements* https://www.iaasb.org/system/files/publications/files/IAASB-Disclosures-At-a-Glance_0.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 September 2013 March 2014 September 2014 (report back)	December 2012 April 2013 December 2013 March 2014
Discussion of Feedback from Exposure Draft and Development of Final ISAs	March 2015	December 2014 January 2015 March 2015

CAG Discussions: Detailed References

Project Commencement	<p><u>March 2011</u></p> <p>See IAASB CAG meeting material: (in Agenda Items N of the following): http://www.ifac.org/sites/default/files/meetings/files/5978_0.pdf</p> <p>See CAG meeting minutes: http://www.ifac.org/sites/default/files/meetings/files/20110912-IAASBCAG-AgendaItemA-Final_March_2011_Public_Minutes_APPROVED-v1-03.pdf</p> <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-</p>
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[AgendaItem_E5-Disclosures.pdf](#)

September 2012

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

See CAG meeting minutes:

http://www.ifac.org/sites/default/files/meetings/files/20130408-IAASB-CAG-Agenda_Item_A-Public_Minutes-final.pdf

April 2013

See IAASB CAG Report Back meeting material: (in Agenda Item E.2 of the following):

http://www.ifac.org/sites/default/files/meetings/files/CAG-Agenda_Item_E-2_Disclosures-Reportback-final.pdf

September 2013

See IAASB CAG meeting material: (in Agenda Item I of the following): http://www.ifac.org/sites/default/files/meetings/files/20130909-IAASB-CAG-Agenda_Item_I-Disclosures-Final.pdf

See CAG meeting minutes:

http://www.ifac.org/sites/default/files/meetings/files/20140314-IAASB-CAG-Sept_2013_Public_Meeting_Minutes_Approved_Final.pdf

See IAASB CAG Report Back meeting material: (in paragraph 9 of the following):

http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASB-CAG-Agenda_Item_H-Disclosures-final.pdf

March 2014:

See IAASB CAG meeting material: (in Agenda Items H, H.1 and H.2 of the following):

http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASB-CAG-Agenda_Item_H-Disclosures-final.pdf

http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASB-CAG-Agenda_Item_H1-Disclosures-Changes%20to%20ISAs%20Final_0.pdf

http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_H2-Disclosures-Supplemental_Guidance-final.pdf

See CAG Minutes:

http://www.ifac.org/sites/default/files/meetings/files/20140311-IAASBCAG-Agenda_Item_H2-Disclosures-Supplemental_Guidance-final.pdf

	<p>See IAASB CAG Report Back meeting material discussed in September 2014: (in paragraph 9 of the following):</p> <p>http://www.ifac.org/sites/default/files/meetings/files/20140908-IAASB_CAG-Agenda_Item_C-Disclosures_Report_Back-final.pdf</p> <p><u>March 2015:</u></p> <p>See IAASB CAG meeting material: (in Agenda Items H and H.1 of the following):</p> <p>http://www.ifac.org/system/files/meetings/files/20150309-IAASB_CAG_Agenda_Item_H-Disclosures_final.pdf</p> <p>http://www.ifac.org/system/files/meetings/files/20150309-IAASB_CAG_Agenda_Item_H.1-Disclosures_Proposed_Changes_to_ISAs_Final.pdf</p> <p>See draft CAG Minutes:</p> <p>http://www.ifac.org/system/files/meetings/files/20150911-Agenda_Item_A-Draft-IAASB_CAG_March_2015_Public_Session-Meeting_Minutes-Marked-final.pdf</p>
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