

Comments o IFAC Discussion Paper on Financial Statement Disclosures and impact on Audit

General Comments

1. Matters relating to Environmental Reporting not adequately addressed and in some cases not considered at all since there is no Accounting Standard that deals with you and the disclosures are largely guided by the requirements of the standards both IFRS and ISAs.

Non disclosure of inadequate disclosure of environmental issues may lead to material misstatement in the Financial Statements.

2. Corporate Reporting is enhanced by Management Commentaries which is only done for some companies like the listed entities, SEC clients etc.
3. Faithful Representation of Financial Statements which entails:
 - Completeness
 - Neutral and
 - Free From Error

I consider it important to still emphasize **Reliability** of Financial Statements as the user of FS would need assurance of their reliability.

The three elements of Faithful Representation would make FS Relevant and Reliable, thus possibly consider mentioning – Relevant, Reliable and Faithful Representation.

4. Disclosures whether prepared by the client or the auditors is usually done as the last thing at the risk of omitting crucial information that needs to be disclosed. Often the disclosure checklists are completed last and not as the audit progresses.

If it is possible as the audit sections are completed the necessary disclosures are also made in the working papers then transferred to the FS like is done with the Fixed assets Schedule this might enhance completeness and accuracy of disclosures.

Guidance on industry specific Mandatory Disclosures would also enhance the quality and completeness of disclosure.

Consultation questions for Preparers

1. One of the challenges faced by preparers is that some clients do not have qualified accountants who are well versed with the developments in the standards, hence may not come up with adequate disclosures and rely more on the auditors to this.

Possibly recommend accounting/audit software that can be used for the audit and assist with the disclosures which will be made in the relevant section of the FS as the audit progresses. This will be very useful especially for the SMEs and SMPs.

2. Material misstatement of a disclosure
 - a) Judgment and reasons – non disclosure of basis of conclusion and assumptions made, hence evidence to support the judgment made.
 - b) Assumption/models/inputs – not stating the assumptions made and justification
 - c) Sources of estimation uncertainty/sensitivity analysis disclosures – not stating the source of data
 - d) Description of internal processes –
 - e) Disclosure of fair value information for a line item recorded on the Balance Sheet using a different measurement basis – non disclosure of reason for change of measurement basis and impact on the FS of this change of basis from the previous basis used.

Consultation question for investors, lenders and other creditors

1. Disclosures determined not auditable :
If they are material would prefer to include in the financial statements and label them “unaudited” with an explanation why they are not audited. If they are not material have them outside the FS.

Consultation question for Regulators including Oversight Bodies

1. The manner in which a financial reporting regulator enforces financial reporting requirements may influence how auditors approach the audit of financial statements, including disclosures.

I agree with this to a great extent. Thus the need for Prudential Guidelines issued by Regulators to be harmonized with the IFRS requirements to minimize potential exposure due to inadequate disclosure.

Consultation question for Auditors

1. Immaterial disclosures – some of the factors to include:
 - If amounts involved are not material
 - Impact on the FS is not deemed to be significant