

Amendments to IAS 1 and the Impact on the ISAs: Disclosure of Material Accounting Policy Information

This publication has been developed by the International Auditing and Assurance Standards Board's (IAASB's) International Accounting Standards Board (IASB) Liaison Working Group to address the impact on the International Standards on Auditing (ISAs) of certain narrow-scope amendments made by the IASB to International Accounting Standard (IAS) 1, Presentation of Financial Statements (the "amendments"). This publication does not amend or override the ISAs, the texts of which alone are authoritative. Reading this publication is not a substitute for reading the ISAs.

The narrow-scope amendments to IAS 1 require entities to disclose their *material accounting policy information*, instead of *significant accounting policies*. The amendments will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted. Guidance has been provided by the IASB on how to apply the concept of materiality to accounting policy disclosures.



Read the [announcement](#) from the International Financial Reporting Standards (IFRS) Foundation.

The IAASB endeavors to remain framework neutral in the development of the ISAs. However, in doing so the IAASB takes into account financial reporting framework¹ developments that may have an impact on the ISAs.

When management prepares the financial statements of an entity in accordance with IFRSs, the auditor will need to evaluate the appropriateness of management's disclosures, including how management has addressed the effect of the amendments to IAS 1 on the entity's disclosures about accounting policies. This includes understanding the effect of these amendments on the entity's financial reporting process (i.e., what management may need to change to implement the amendments and the nature and extent of change in disclosures about the entity's accounting policies) as well as the related impact on the auditor's report.

Various ISAs contain requirements that are relevant to the auditor's work on disclosures in the financial statements, which include, if the applicable financial reporting framework is IFRSs, the entity's disclosure of *material accounting policy information* as required in accordance with the amendments to IAS 1. ISAs relevant to the auditor's identification and assessment of risks of material misstatement related to disclosures in the financial statements, the auditor's responses to assessed risks, evaluating information in disclosures, communicating significant findings from the audit, and reporting, may include:

- ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*
- ISA 330, *The Auditor's Responses to Assessed Risks*
- ISA 450, *Evaluating Misstatements Identified During the Audit*
- ISA 260 (Revised), *Communication with Those Charged with Governance*

¹ For example, the International Financial Reporting Standards (IFRSs).

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

In addition, other aspects of the audit engagement that may be impacted include the audit engagement letter and communicating deficiencies in internal control to and requesting written representations from management and, where appropriate, those charged with governance.

Recognizing that the ISAs are framework neutral and do not make references to specific financial reporting frameworks except by example and to the extent necessary to clarify the IAASB's intent, the amendments to IAS 1 do not impact the principles-based requirements of the ISAs.

However, there are a number of illustrative auditor reports throughout the ISAs that assume as part of the fact pattern for the illustrations that the financial statements are prepared by the management of the entity in accordance with IFRSs.² The IAASB will update these illustrations³ to align relevant terminology with the amendments to IAS 1. Such updates will be included in the 2022 edition of the IAASB Handbook.

Where the circumstances are such that management of the entity is preparing the financial statements in accordance with the IFRSs, including the amendments to IAS 1, the change to the illustrations of the independent auditor's reports on financial statements is as follows:

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information ~~a summary of significant accounting policies~~.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (or) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

² Refer to the illustrative auditor reports included in the appendices of the following standards: ISA 510, *Initial Audit Engagement—Opening Balances*; ISA 570 (Revised), *Going Concern*; ISA 600 (Revised), *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*; ISA 700 (Revised); ISA 705 (Revised); ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*; ISA 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*; ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

³ In addition to the illustrations referred to in footnote 2, there is also an example of an audit engagement letter in Appendix 1 of ISA 210, *Agreeing the Terms of Audit Engagements*, that assumes an audit engagement of general purpose financial statements prepared in accordance with IFRSs. Similarly, there are illustrations in Appendix 1 and Appendix 2 of ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*, that will be updated to align relevant terminology.

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