

Disclosures—Summary of Exposure Draft Responses and Task Force Recommendations

Overview

The Task Force proposes to only discuss the “key themes” from the responses to the ED with the IAASB in December 2014. Other matters arising from the responses will be presented for IAASB views in March 2015 (see paragraphs 21 to 24).

The following are the key themes arising from the responses to the May 2014 Exposure Draft (ED), [Proposed Changes to the International Standards on Auditing \(ISAs\): Addressing Disclosures in the Audit of Financial Statements](#) that have been used by the Task Force in developing its recommendations included in this paper. In summary, these key themes include:

- **Support for the proposed ISA changes**—The majority of respondents across most stakeholder groups expressed support for the proposed changes in addressing disclosures in the audit of financial statements (referred to in this paper as “auditing disclosures”):
 - 38 respondents supported moving forward with the proposed changes.
 - 17 respondents supported the changes as proposed but would like more substantial guidance or requirements in certain areas (for example, applying the concept of materiality to disclosures and evaluating misstatements in disclosures).
 - 15 respondents did not support making the proposed changes as presented.

(Section A explains in more detail about respondents general comments)
- **The need for more requirements and guidance on applying the concept of materiality to disclosures**—Whilst recognizing that the accounting standard setters have commenced work, but have more to do, in this area, many respondents are of the view that the proposed changes could and should go further, and have called for additional requirements or guidance on how to apply the concept of materiality when assessing disclosures (either at this stage or at a later stage). (Section B)
- **The need for more guidance on evaluating disclosure misstatements**—The proposed additional guidance on how to evaluate misstatements in disclosures, in particular qualitative disclosures, was welcomed by many. However, suggestions were made that further guidance was needed, specifically in relation to the evaluation of misstatements in qualitative disclosures. (Section C)
- **The need for more requirements in ISA 700 (Revised)**¹—A strong message from regulators that some of the application material presented in the ED should be elevated to requirements. (Section D)
- **The need for more requirements in ISA 330**²—Some respondents suggested further consideration about the need to elevate some of the application material to requirements. (Section E)

¹ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

² ISA 330, *The Auditor's Responses to Assessed Risks*

- **Support for the integration of the assertions** (*Section F*)
- **Support for the proposed changes to the definition** (*Section G*)
- **Support for the changes in ISA 315 (Revised)³ (other than those relating to the assertions)** (*Section H*)
- **The need for more guidance on obtaining sufficient appropriate audit evidence** (*Section A*)
- **Not moving forward at this time with the proposed changes**—there were some respondents (15) who were not in favor of moving forward, for various reasons including that the cost of making changes to ten ISAs (including changing methodologies, translations, training etc.) would outweigh the benefits, while a few were of the view that the proposed changes would not result in the behavioral changes that are needed. (*Section A*)

A. Support for the Proposed ISA Changes

Summary of Responses for Support

1. As noted above, a strong majority of respondents supported the changes to the ISAs (55 out of 70 respondents), with 17 of these respondents (including the four Monitoring group (MG) members) calling for more substantial changes to strengthen the standards in certain areas. The level of support varied across stakeholder groups. Overall:
 - 38 respondents supported moving forward with the proposed changes to the ISAs.^{4,5}
 - 17 respondents (including the MG members),⁶ supported the proposed changes but emphasized that consideration be given to substantial strengthening of some standards either now as part of these changes, or in the future to respond to work in this area by others such as the International Accounting Standards Board (IASB).
 - 15 did not support making the proposed changes as presented.⁷

³ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

⁴ Notwithstanding that some of these respondents suggested amendments to the proposed changes, there was overall support for the appropriateness and sufficiency of the proposed changes.

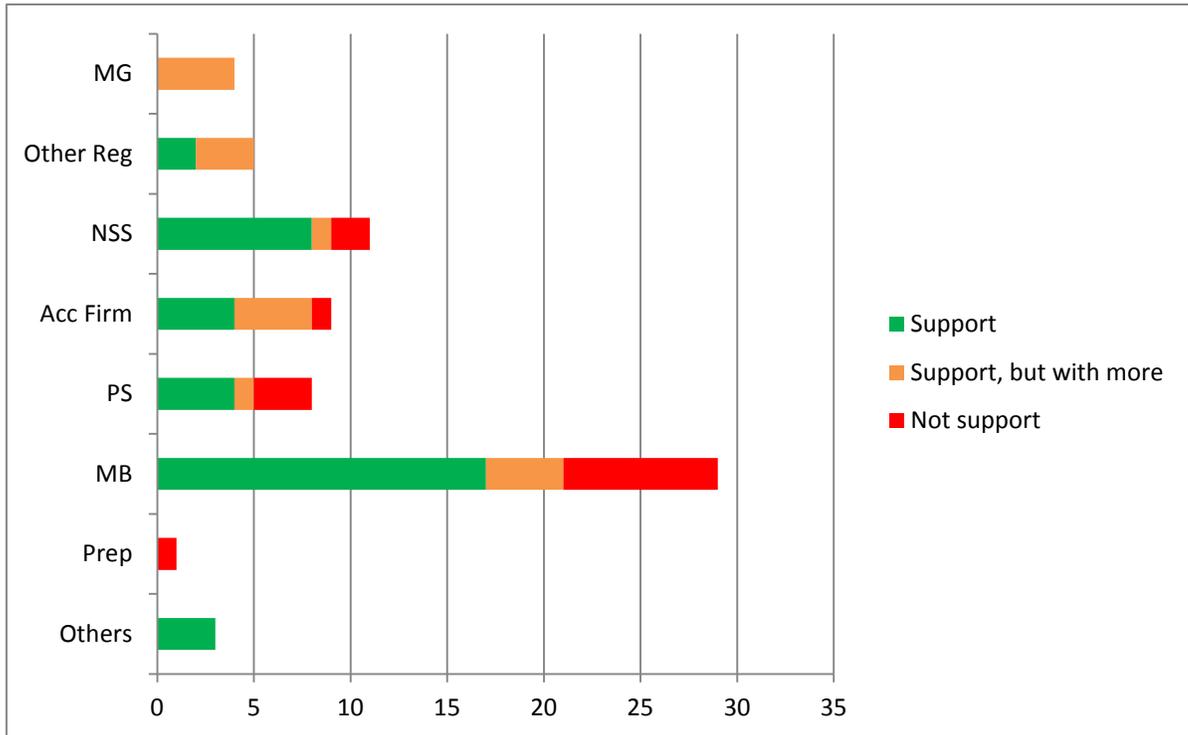
⁵ **Other Regulators:** FRC, MAOB; **NSS:** AUASB, CAASB, CNCC-CSOEC, HKICPA, JICPA, MAASB, NZAUSB, ZAAPB; **Accounting Firms:** BDO, EYG, GTI, RSM; **Public Sector:** AGA, GAO, PAS, SNAO; **Member Bodies:** ANAN, ASSIREVI, CalCPA, FACPCE, IBR-IRE, ICAG, ICAP, ICAS, ICAZ, IMCP, ISCA, KICPA, MICPA, NYSSCPA, SAICA, WPK, ZICA; **Academics:** HC; **Individuals:** CBarnard; DJuvenal

⁶ **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Other Regulators:** EAIG, EBA, IRBA; **Accounting Firms:** ANA, CHI, DTT, KPMG; **NSS:** ASB; **Public sector:** ACAG; **Member Bodies:** FEE, FSR, IAA, NASBA

⁷ **NSS:** IDW, NBA; **Accounting Firms:** PWC; **Public sector:** AGNZ, CIPFA, NAOUK; **Member Bodies:** ACCA, CAANZ, CAI, CPAA, EFAA, ICAEW, INCP, SMPC; **Preparers:** QCA

2. Within stakeholder groups, there was support as follows:

Stakeholder Group	Support	Support, but with more	Not Support	Total
Monitoring group	-	4	-	4
Other regulators	2	3	-	5
National standard setters (NSS)	8	1	2	11
Accounting firms	4	4	1	9
Public sector	4	1	3	8
Member bodies	17	4	8	29
Preparers	-	-	1	1
Others	3	-	-	3
TOTAL	38	17	15	70



Key Themes Noted in the Responses

3. Two key areas raised by respondents, particularly by those who were seeking further substantial changes (in particular the regulators, including the MG members), included:
- The need for more requirements and guidance on applying the concept of materiality to disclosures.
 - The need for more guidance on evaluating disclosure misstatements.

Sections B and C below provide more detail on respondents' comments on these areas, as well as the Task Force's recommendations in moving forward.

Other Themes Noted in the Responses

4. Other areas noted by respondents as requiring further IAASB consideration included:
- Whether more requirements should be introduced in certain standards such as ISA 700 (Revised), ISA 330 and ISA 315 (Revised). (See further discussion in Sections D, E and H)
 - Strong support for the change to the definition of financial statements in ISA 200.⁸ (See further discussion in Section G)
 - Whether the extension "including disclosures" was being used consistently in the ED. (See further discussion in Section G)
 - Whether the introduction of the new phrase "information from systems and processes that are not part of the general ledger system" was necessary, or whether "general ledger system" was known terminology, with alternative descriptions being suggested. (See further discussion in Section H)
 - A request for additional guidance to address the challenges in obtaining sufficient appropriate audit evidence when auditing certain disclosures. (See below for further discussion)
 - Concern about the lack of prominence of going concern disclosures in the ED, with suggestions that the IAASB expand the proposed changes to the ISAs to specifically include additional requirements and guidance for the auditor when auditing going concern disclosures. (See below for further discussion)
 - The need for more guidance on documentation of the auditors' considerations when auditing disclosures, in particular qualitative disclosures. (See below for further discussion)
 - The need for additional guidance to address the auditing disclosures in the context of group audits within ISA 600.⁹ (See below for further discussion)
5. There was strong support for the changes being made throughout the ISAs rather than developing a separate ISA for auditing disclosures. A few¹⁰ respondents suggested that a separate ISA for auditing disclosures should be developed, but it was also noted that this separate ISA should only be applicable to audits of complete sets of general purpose financial statements of listed entities

⁸ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

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

¹⁰ **Accounting Firms:** ANA; **Member Bodies:** ACCA, EFAA

(i.e. in a similar manner as new ISA 701).¹¹ This was suggested by a few of the respondents who had the view that the cost of implementing the proposed changes to the ISA will disproportionately affect the audits of small and medium-sized entities because those entities do not have the volume of disclosures in the financial statements typical of listed companies.

6. There was general support for integrating the assertions for presentation and disclosure with those for account balances and transactions. However, there were a several respondents¹² that, for various reasons, did not agree fully with the proposals (see Section F below for further discussion).
7. There were no notable issues raised in relation to translation of the proposed changes.
8. There was overall support for aligning the implementation date with that of the Auditor Reporting project¹³ and proposed ISA 720 (Revised),¹⁴ particularly in light of not ‘opening up’ the same standards more than once for each of these projects. Some¹⁵ respondents did not feel that the implementation dates needed to be aligned, but one respondent¹⁶ requested the ED to be finalized as soon as possible.
9. Of the 15 respondents who did not believe that changes should be made to the ISAs as presented,¹⁷ various reasons were cited including that:
 - The costs versus benefits of opening up ten ISAs should be further considered by the IAASB,¹⁸ with some suggestions made that a cost-benefit analysis be undertaken, or that the changes do not suit all stakeholders and that the IAASB consider developing a standard that would apply to listed entities only.
 - The IAASB should rather wait for the outcomes of work by others in this area (such as the IASB’s Disclosures and Materiality Initiatives) and then deliver a more comprehensive and substantial package of changes to the ISAs.¹⁹
 - The proposals do not go far enough to promote the intended behavioral changes required, including improved audit evidence²⁰ and improving disclosures (by making more relevant or).²¹
 - Non-authoritative guidance may be a more effective way to address the underlying issues in this area.²²

¹¹ ISA 701, *Communicating Key Audit Matters in the Independent Auditor’s Report*

¹² **NSS:** ASB, JICPA; **Member Bodies:** ACCA, CAI, CalCPA, EFAA, KICPA, SAICA, SMPC

¹³ The new and revised Auditor Reporting standards will be effective for periods ending on or after December 15, 2016

¹⁴ Proposed ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

¹⁵ **NSS:** NBA; **Member Bodies:** FEE, FSR, ICAS, ISCA

¹⁶ **Member Bodies:** SAICA

¹⁷ Notwithstanding that they had the view that changes should not be made to the ISAs now, a few of these respondents still provided areas for further consideration if the IAASB agreed to move ahead with the proposed changes to the ISAs now.

¹⁸ **NSS:** IDW, NBA; **Public Sector:** CIPFA, NAO; **Member Bodies:** ACCA, CAANZ, EFAA, ICAEW, SMPC

¹⁹ **Accounting Firms:** PWC; **Public Sector:** CIPFA

²⁰ **Member Bodies:** INCP

²¹ **Preparers:** QCA

²² **Member Bodies:** CAANZ, CAI, CPAA

10. One respondent²³ was of the view the proposed changes would result in more “clutter” (i.e., disclosure overload in the financial statements). Another respondent²⁴ suggested that the IAASB should expand its standards (that currently apply only to the provision of assurance on historical financial information) to also include provision of assurance on historical non-financial information.

Task Force Recommendations—Moving Forward

11. The majority of respondents have shown support for the IAASB’s efforts to “do something now,” and the IAASB’s Consultative Advisory Group have been very supportive of changes to the ISAs. In addition, investor groups have encouraged the IAASB to implement the changes to the ISAs now because they see it as an important step in promoting improvements in auditing disclosures (see **Agenda Item 7** for further detail on liaison with these groups).
12. The Task Force agrees that the proposed changes to the ISAs are an important first step. The Task Force also acknowledges 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 (DP), [*The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*](#).
13. The Task Force therefore proposes consideration of a longer term, phased approach to addressing disclosures in the audit of financial statements. Accordingly, in addition to the changes to the ISAs, the Task Force proposes further actions and, where relevant, that these actions would be aligned with the work being done by the IASB. The Task Force believes that this approach will respond to the concerns of those who are of the view that the IAASB should finalize the revisions to the ISAs as set out in the ED, as well as those respondents who would like more to be done in the future. The proposed approach is as follows:
- (i) Stream 1—The IAASB will continue to work towards finalizing the changes to the ISAs in March 2015, which will include consideration of some further amendments to strengthen the requirements in some areas (e.g., ISA 320,²⁵ ISA 315, ISA 330 and ISA 700 (Revised)), and improve and strengthen the application material where concerns have been raised.
 - (ii) Stream 2—The IAASB will further consider the application of the concept of materiality to disclosures, in light of the work that the IASB is doing in this area (see **Agenda Item 7**, paragraphs 20 to 23).²⁶ The IAASB may need to consider a more holistic revision of ISA 320 depending on changes made by the IASB, or separate guidance on applying the concept of materiality to qualitative disclosures, as well as consideration about how the IAASB can work more proactively with the IASB in this area.
 - (iii) Stream 3—The IAASB will consider the most appropriate actions to address concerns that have been raised in relation to the challenges in obtaining sufficient appropriate audit evidence when auditing disclosures. It is proposed that the IAASB aims to work proactively

²³ **Public Sector:** AGNZ

²⁴ **NSS:** NZAuASB

²⁵ ISA 320, *Materiality in Planning and Performing an Audit*

²⁶ As acknowledged in the recently approved *IAASB Work Plan for 2015–2016*, as part of the considerations in finalizing the changes to the ISAs in this project, the IAASB would consider whether further work in this area is needed (subject to competing priorities at that time as well as available resources).

alongside the IASB as it progresses its “Principles of Disclosures Initiative” until it is sufficiently progressed to consider whether amendments to the ISAs (e.g., in the ISA 500-series) or an International Auditing Practice Note (IAPN), or other non-authoritative document that is more appropriate, could be developed to address issues in this area.

It is also alternatively possible that an IAPN or other non-authoritative document could be produced combining guidance developed from both streams 2 and 3, i.e., covering, for example, guidance on applying the concept of materiality and obtaining sufficient appropriate audit evidence for certain types of qualitative disclosures.

14. During each stream, it is proposed that consideration be given to promoting effective implementation of the IAASB’s outputs, including developing an appropriate communication strategy. The diagram in the Appendix presents the proposed plan for discussion by the IAASB.

Matters for IAASB Consideration

1. With respect to the way forward:
- (a) Does the IAASB support the Task Force’s views, in particular that: the IAASB should continue to progress with the proposed changes to the ISAs with a view to finalizing these in March 2015, with an expectation that the IAASB would undertake additional work on the application of materiality to, and obtaining sufficient appropriate audit evidence for, disclosures in parallel with the IASB’s further projects; or
 - (b) If not, should the IAASB continue to progress with the proposed changes to the ISAs with a view to finalizing these in March 2015, without establishing an expectation for additional work in this area in future; or
 - (c) If not, should the IAASB delay making the changes to the ISAs until such time as the IASB has progressed its work allowing for a more comprehensive revision of the ISAs at that time?

Going Concern

15. Some respondents²⁷ expressed concern about the lack of material in the ED regarding the auditing of going concern disclosures. One regulator respondent²⁸ suggested that the information required to be provided and disclosed by preparers relating to going concern requires specific attention by the auditors, and this is not dealt with in the ED. Other suggestions for additional material included:
- Additional application material on the nature, timing and extent of audit procedures for disclosures on material uncertainties, and examples of going concern disclosures so as to assist the auditor when assessing risk of material misstatement.²⁹
 - Elevating the application material currently in ISA 315 which relates to going concern considerations (such as going concern and liquidity issues) to requirements.³⁰

²⁷ **Monitoring Group:** IFIAR, IOSCO; **Other Regulators:** EAIG, IRBA; **NSS:** MAASB; **Accounting Firms:** CHI

²⁸ **Other Regulators:** EAIG

²⁹ **Monitoring Group:** IFIAR

³⁰ **Monitoring Group:** IOSCO

- Introducing a rebuttable presumption that when a material uncertainty exists, the assessment of the related adequacy of disclosures in the financial statements shall be re-assessed as a significant risk of material misstatement.³¹
16. The Task Force is of the view that, in light of the changes that have been made to ISA 570 (Revised) as part of the Auditor Reporting project, consideration will be given to additional examples in the application material currently being changed (e.g. in ISA 315) but not to propose further changes to ISA 570 (Revised) until a more holistic review of that standard is carried out.³²

Matter for IAASB Consideration

2. Does the IAASB agree with the Task Force's view to postpone any proposed amendments to ISA 570 (Revised) until such time as a more holistic review of the standard may be carried out?

The Audit of Disclosures in Group Financial Statements

17. Some³³ respondents requested additional guidance in ISA 600 to address auditing disclosures in the context of group audits.
18. A few³⁴ respondents suggested that guidance could be included to facilitate the earlier consideration of disclosures in the reporting, and consolidation, process of a group audit (in particular the impact of component disclosures on the relevant materiality of group disclosures), thus properly addressing the impact of component financial statement disclosures on the group financial statements. Respondents³⁵ also suggested that the discussion among group engagement team members and component auditors regarding the risk of material misstatement of the group financial statements should also include consideration of the disclosure requirements of the applicable financial reporting framework.
19. One respondent suggested that auditors may face greater challenges when accumulating uncorrected misstatements in a group audit, especially for qualitative disclosures, and therefore additional guidance in this area would be welcome, including how the group auditor should communicate the threshold for reporting of uncorrected misstatements relating to qualitative disclosures to the component auditors.
20. The Task Force recommends that consideration should be given to the inclusion of additional application material in ISA 600, but as part of the project to revise ISA 600.

Matter for IAASB Consideration

3. Does the IAASB agree with the Task Force's view that any additional material relating to ISA 600 should be considered as part of the project to revise that standard?

³¹ **NSS:** MAASB

³² In the recently approved *IAASB's Work Plan for 2015–2016*, it was agreed that a revision of ISA 570 (Revised) would be considered, together with other competing priorities, for the 2017-2018 Work Plan

³³ **Other Regulators:** FRC; **NSS:** HKICOA, MAASB, NZAuASB; **Member Bodies:** ISCA, MICPA

³⁴ **Other Regulators:** FRC; **NSS:** MAASB, NZAuASB

³⁵ **NSS:** MAASB

Other ISAs

21. Various comments were received about other changes that had been proposed in the ED: to ISA 210,³⁶ ISA 240,³⁷ ISA 260 (Revised)³⁸ and ISA 300.³⁹ As the Task Force agreed to focus the discussions at the December 2014 IAASB meeting on the more significant issues, the respondents' comments as well as the related Task Force's recommendations for these standards will be discussed with the IAASB at the March 2015 meeting.
22. In addition, various suggestions were made about other ISAs that were not originally included in the ED. These include: ISA 220⁴⁰ (e.g., disclosures should be included as a focus area for engagement quality control reviewers); ISA 230⁴¹ (e.g., consider including disclosure specific documentation requirements for considerations about qualitative disclosures); ISA 265⁴² (consideration of expanding application material to include guidance on significant control deficiencies relating to disclosures); ISA 560⁴³ (additional application material relating to disclosures of post balance sheet events) and ISA 580⁴⁴ (conforming amendments from ISA 210 or consideration of further specific management representations relating to disclosures required).
23. In relation to ISA 230, the Task Force had previously considered whether it was necessary to include a documentation requirement (or requirements) in ISA 230 in relation to the auditor's considerations about disclosures but had agreed that the overall documentation requirements established by ISA 230 were already sufficient for this purpose, and no further changes to ISA 230 were necessary. This was discussed and agreed with the IAASB at the March 2014 meeting.
24. In relation to the suggestions for changes to ISA 220, ISA 230, ISA 265, ISA 560 and ISA 580, the respondents' comments as well as the related Task Force's recommendations for these standards will be discussed with the IAASB at the March 2015 meeting.

B. The Need for More Requirements and Guidance on Applying the Concept of Materiality to Disclosures

Summary of Responses

25. In the responses it was recognized that materiality is intricately linked and integral to auditing disclosures, and therefore, the auditing standards should provide guidance on the basis or factors on which auditors can make materiality judgments in relation to disclosures, particularly in the case of qualitative disclosures.
26. Respondents did recognize that issues relating to applying the concept of materiality to disclosures cannot be solved by the IAASB alone, as acknowledged by the IAASB in the Explanatory

³⁶ ISA 210, *Agreeing the Terms of Audit Engagements*

³⁷ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

³⁸ ISA 260 (Revised), *Communication with Those Charged with Governance*

³⁹ ISA 300, *Planning an Audit of Financial Statements*

⁴⁰ ISA 220, *Quality Control for an Audit of Financial Statements*

⁴¹ ISA 230, *Audit Documentation*

⁴² ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

⁴³ ISA 560, *Subsequent Events*

⁴⁴ ISA 580, *Written Representations*

Memorandum to the ED. There was general support for the proposed changes in application material relating to materiality as proposed in ISA 315,⁴⁵ but many emphasized that more guidance is needed on the application of the materiality concept to disclosures,⁴⁶ particularly in the planning phase of the audit, as well as in the evaluation of misstatements in disclosures (see Section C). A few regulatory respondents, including two MG members, specifically called for a requirement(s) to assist the auditor in determining materiality in the context of disclosures (particularly qualitative disclosures).⁴⁷

27. Respondents raised a number of points regarding the interaction of the work of the IAASB with the work of the accounting standard setters, primarily the IASB, and in relation to when the IAASB should consider developing further guidance or requirements on the application of the concept of materiality when auditing disclosures, relative to future progress in the IASB's work in that area. In particular :

- Several respondents (including three MG members) called for further changes to ISA 320 to be made now,⁴⁸ but also suggested that further changes should be considered at an appropriate time to respond to any revisions to the concept of materiality and other related developments made by the IASB. This point was raised by those respondents who called for a further requirement for materiality now, as well as others who called only for additional guidance in the application material now.
- Though there was general support for the proposed amendments to application material relating to materiality, some other respondents,⁴⁹ however, cautioned that the IAASB should rather wait for the IASB to conclude its project work before proceeding with any changes in this area now.
- The IAASB should think about how it could work more proactively with the accounting standard setters (in particular the IASB) for a more holistic approach to addressing the concerns that have been raised about materiality⁵⁰ (this included respondents from both groups above, and others). Another regulator recommended that the IAASB continues to

⁴⁵ At the March 2014 IAASB meeting, at which the ED was approved, the IAASB considered a proposal for a new requirement to make a preliminary determination of those non-quantitative disclosures for which misstatement thereof reasonably could be expected to influence the economic decisions of users taken on the basis of the financial statements. The Board agreed that the guidance relating to these considerations was better placed in ISA 315, and agreed that the guidance more appropriately supported the existing requirements in paragraphs 25-26 of ISA 315. Accordingly, the application material previously proposed for ISA 320 was moved to ISA 315 (Revised). The Board also agreed at that time that a new requirement in ISA 320 was not needed. (See further discussion in paragraph 33 and footnote 59.)

⁴⁶ **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Other Regulators:** EAIG, FRC, IRBA; **NSS:** AUASB, HKIPCA, IDW, MAASB, NZAUASB; **Accounting Firms:** CHI, EYG, KPMG; **Public Sector:** CIPFA; **Member Bodies:** FEE, FSR, ICAEW, IMCP, ISCA, SMPC, WPK

⁴⁷ **Monitoring Group:** BCBS, IOSCO; **Other Regulators:** FRC

⁴⁸ **Monitoring Group:** IAIS, IFIAR, IOSCO; **Other Regulators:** EAIG, FRC, IRBA; **Accounting Firms:** ANA, CHI; **Member Bodies:** FSR, ISCA

⁴⁹ **NSS:** IDW; **Accounting Firms:** PwC; **Public Sector:** CIPFA; **Member Bodies:** ASSIREVI

⁵⁰ **Monitoring Group:** IAIS, IFIAR, IOSCO; **Other Regulators:** EAIG, FRC, IRBA; **NSS:** CAASB, CNCC-CSOEC, HKICPA, NZAUASB; **Accounting Firms:** DTT, KPMG, PwC; **Public Sector:** UKNAO; **Member Bodies:** FEE, ICAEW, SMPC

closely monitor the IASB's materiality project and consider further enhancements accordingly.⁵¹

28. One respondent⁵² suggested that changes should be made only if a more comprehensive review of ISA 320 is undertaken. Another respondent⁵³ noted that in order to achieve a change in auditor behavior, education and training was more appropriate than ISA changes.
29. Other comments relating to the proposed changes in ISA 320 included:
 - Various concerns about the proposed changes to paragraph 6 of ISA 320, including that it suggests that the auditor is able to design audit procedures to detect most (if not all) misstatements that could be material solely because of their nature,⁵⁴ or that the proposed change may focus auditors only on qualitative disclosures.⁵⁵ In addition, a few respondents⁵⁶ suggested that additional guidance on the proposed changes in this paragraph would be helpful.
 - Concerns about some of the examples added in ISA 320 paragraph A10.⁵⁷
 - The term “non-quantitative” is not well understood.⁵⁸

Task Force Recommendations—Moving Forward

30. Given the level of concerns raised by respondents regarding the difficulties faced by auditors in applying the concept of materiality to the audit of disclosures, and the calls by a number of respondents (including three members of the MG) for changes to introduce new requirements or additional guidance now to assist auditors in determining materiality in the context of disclosures (particularly qualitative disclosures), the Task Force debated the need for a new requirement to determine qualitative materiality for disclosures, or for additional application material, and, if there was such a need, whether it should be included in ISA 320. The Task Force has mixed views about these matters.
31. The Task Force concluded that if a new requirement were to be needed, it would be one that was analogous to the existing requirement to determine quantitative materiality in accordance with paragraph 10 of ISA 320. To help the IAASB understand what a new requirement could look like, the Task Force developed a possible requirement for the auditor to “make a preliminary determination of the nature of a qualitative misstatement of disclosures that could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole.”
32. The Task Force also recognizes that, if introduced, such a requirement would need application material to help auditors operationalize it. If further consideration is supported by the Board, the

⁵¹ **Other Regulators:** MAOB

⁵² **Accounting Firms:** EYG

⁵³ **Member Bodies:** ACCA

⁵⁴ **NSS:** IDW; **Member Bodies:** SMPC; **Academics:** HC

⁵⁵ **Accounting Firms:** DTT; **Member Bodies:** NASBA

⁵⁶ **NSS:** MAASB; **Public Sector:** NAOUK

⁵⁷ **Accounting Firms:** PWC; **Public Sector:** AGA; **Member Bodies:** CAI, SAICA

⁵⁸ **Monitoring Group:** IOSCO; **Member Bodies:** SAICA

Task Force intends to further deliberate and develop such application material to consider whether such a requirement could be operationalized. Initial considerations of the Task Force include that such application material, if developed, might explicitly acknowledge that:

- Qualitative misstatements could also be material – to support this, application material could include some illustrative examples of qualitative misstatements that could be material in specific circumstances;
- In determining the nature of qualitative misstatements that could be material, the auditor may wish to consider the types of qualitative misstatements that can occur in disclosures required by the applicable financial reporting framework that are relevant in the context of the particular audit, and then consider which of these types of misstatement could reasonably be expected to influence the economic decisions of users; and
- The auditor would need to apply professional judgment when determining whether particular types of qualitative misstatements of a disclosure could reasonably be expected to influence the economic decisions of users and the application material should provide examples of factors that may assist in doing so and examples that illustrate this in particular circumstances.

33. In discussing where such a requirement, if needed, should be placed in the ISAs, and given the analogous nature of such a requirement to the requirement in paragraph 10 of extant ISA 320, the Task Force recognized that one possible placement is in that paragraph. However, the Task Force is also aware that a similar proposal was debated and rejected by the Board when the Exposure Draft was being debated in March 2014. The Task Force acknowledges the concerns raised by IAASB members at the time in arriving at that decision⁵⁹ and recognizes that if such a placement were to be made, those concerns would need to be adequately addressed. Several members of the Task Force themselves have concerns about the practical application of, or demonstrating compliance with, a requirement for the auditor to make a preliminary determination of the nature of qualitative misstatements of disclosures that could be material.
34. Accordingly, whilst the Task Force believes further consideration of this possibility is warranted in view of the responses received, several members of the Task Force have significant doubts about whether it will be possible to overcome the concerns they and other IAASB members expressed in relation to including such a requirement in ISA 320. The Task Force is not therefore proposing any such change at this time but rather proposes to consider this further if the IAASB supports it doing so. If the IAASB considers that a requirement is needed but doing so in ISA 320 is not considered appropriate, further consideration could also be given to whether a requirement could alternatively be introduced in ISA 315 to address the concerns raised by respondents in this area.
35. The Task Force would therefore like to obtain the IAASB's views on continuing to explore moving forward as follows:
- (a) **To further consider the implications and feasibility of introducing a new requirement for the auditor to make a preliminary determination of the nature of a qualitative misstatement of disclosures that could reasonably be expected to influence the**

⁵⁹ Concern was expressed by one IAASB member, and supported by others, that the guidance that had been proposed in ISA 320 that was being considered was rather part of the risk assessment process (and therefore better placed in ISA 315) because it was more in the nature of determining where there could be a risk of material misstatement in disclosures.

economic decisions of users taken on the basis of the financial statements as a whole, including making conforming amendments to other paragraphs in ISA 320 and ISA 450 (see a preliminary illustration of possible changes in **Agenda Item 7-B**—a new paragraph 10(b) and conforming amendments to paragraphs 11, 12 and 13).⁶⁰ In the illustration, the requirement in extant paragraph 10 would in effect be expanded to make clear that determining materiality includes both quantitative (paragraph 10(a)) and qualitative (new proposed paragraph 10(b)) considerations. The Task Force debated various options for the requirement, including considering what was previously presented to the Board in March 2014. The Task Force rejected a reversion to the March 2014 proposal and instead have presented for illustrative purposes a new requirement in the form set out in ISA 320 in **Agenda Item 7-B** as one alternative to provide a clearer, and more analogous, articulation of what the auditor would be expected to do when determining the nature of qualitative misstatements in disclosures that could be material as that already required when determining the size of quantitative misstatements that could be material.

As noted in paragraph 32 above, and subject to the IAASB discussions in December 2014, the Task Force would also continue to develop guidance on the practical application of this new proposed requirement.

If this approach is supported, the Task Force would welcome views on whether this should be a separate requirement or should be incorporated in paragraph 10 as illustrated. If further consideration of a requirement is supported but not through an amendment to ISA 320, the Task Force would welcome views on further consideration of whether a requirement could alternatively be introduced in ISA 315 to address the concerns raised by respondents in this area.

- (b) **To make other changes to ISA 320, as appropriate, in light of the approach explained above and to respond to issues and concerns raised on consultation, including further considering the implications and feasibility of changes to paragraph 6**, to clarify the judgments the auditor makes in relation to both quantitative and qualitative⁶¹ misstatements during the audit, and other editorials as appropriate in ISA 320 and ISA 330 to conform with these changes. The Task Force discussed the concerns raised about the additional examples added to paragraph A10 in particular, and propose to retain the additional examples as they provide relevant guidance for auditors, subject to some minor changes for the purpose of consistency and clarification.
- (c) **To change the term “non-quantitative” to “qualitative”**. The Task Force debated various options but agreed that the term “qualitative” appears to be better understood by stakeholders and has greater prevalence in the current ISAs.

⁶⁰ Conforming changes to ISA 450 will be developed if the IAASB agrees to this proposed change.

⁶¹ This would also include further consideration of the reference to ‘nature’ in paragraph 6, in light of the conclusions of the Board when ISA 320 was revised, and the consistency of its use in the new requirement being put forth.

- (d) **To consider either a further revision of ISA 320,⁶² or to develop guidance, as appropriate, once the IASB has concluded its work on materiality** (see **Agenda Item 7**, paragraphs 20 to 23 for the current status of the IASB's work on materiality). The Task Force anticipates the inclusion of more guidance about how to make judgments in applying materiality to disclosures, including qualitative disclosures. Consideration will also need to be given to whether the IAASB will work on its own or more proactively with the IASB in this area.

36. **Agenda Item 7-B** sets out revised proposed changes to ISA 320 to address concerns that have been raised.

Matters for IAASB Consideration

4. What are the IAASB's views regarding the options proposed by the Task Force in Paragraph 35? In particular, should the Task Force:
- (a) Continue to explore the introduction of a new requirement (whether in ISA 320 or elsewhere) and continue to develop related application material (as explained in paragraph 35(a) above)?
 - (b) Continue to explore other changes to the application material and paragraph 6 in line with the proposed changes in ISA 320 as presented in **Agenda Item 7-B** (as explained in paragraphs 35(b) and (c) above)?
 - (c) Not move forward with any further changes to ISA 320 until the IASB has progressed its work, with consideration for any changes to ISA 320 at that time?

C. The Need for More Guidance on Evaluating Disclosure Misstatements

37. Respondents generally welcomed the IAASB's proposals for additional guidance in ISA 450.⁶³
38. However, there was concern that some of the proposed application material did not really help auditors in understanding how to apply the requirements when auditing qualitative disclosures, and many respondents,⁶⁴ across stakeholder groups and including one MG member, had the view that further, or strengthened, guidance was needed to assist the auditor in evaluating misstatements of qualitative disclosures. For example when misstatements in disclosures should be accumulated, how this should be done and when they should be identified as clearly trivial.

⁶² The recently approved *IAASB Work Plan for 2015–2016* contemplates a revision of ISA 320, to be considered with other competing priorities for 2017–2018. However, if the IAASB agrees that this should be prioritized because of the work that the IASB is doing in this area, this will be considered in the first instance by the IAASB Steering Committee, and then the IAASB, to determine whether a project in this area should be prioritized ahead of other projects already underway or agreed to commence in the 2015–2016 period.

⁶³ ISA 450, *Evaluation of Misstatements Identified during the Audit*

⁶⁴ **Monitoring Group:** IOSCO; **Other Regulators:** IRBA; NSS: HKICPA, NZAuASB; **Accounting Firms:** BDO, DTTL, KPMG; **Public Sector:** NAOUK; **Member Bodies:** CAI, FEE, FSR, IAA, ICAEW, ICAS, MICPA, NASBA, WPK

39. Other matters raised included:

- A few respondents⁶⁵ were of the view that some of the proposed amendments to the application material could be interpreted in practice as requirements. Two regulators,⁶⁶ including one MG member, had the view that certain material should be elevated to requirements as they reflected audit procedures that should always be carried out.
- One respondent⁶⁷ expressed concern that the additional guidance may result in auditors requesting the correction of more misstatements in the financial statements to avoid the practical challenges they face in accumulating and evaluating disclosure omissions or misstatements, and thereby contributing to the ‘disclosure overload’.
- A few respondents⁶⁸ expressed concern about the proposed new examples of misstatements in the definition, including the introduction of the term “objective-based disclosure,”⁶⁹ and that paragraph A1(f) could be seen to be an inappropriate extension of the ‘stand-back’ requirement in ISA 700 (Revised).⁷⁰ However, a few respondents⁷¹ specifically welcomed the additions.

40. In addition, a few respondents⁷² suggested that further consideration be given to the interaction of ISA 450 with ISA 705 (Revised),⁷³ i.e., at what point the auditor would qualify based on the assessment of misstatements in disclosures.

Task Force Recommendations—Moving Forward

41. The Task Force reconsidered the need for requirements in ISA 450, and concluded that the current requirements remain adequate. However, the Task Force did discuss various additions and changes to the Application Material to clarify and strengthen the standard, as appropriate, including (all proposed changes have been presented in **Agenda Item 7-B**):

- Changes to various examples of misstatements in Paragraph A1, including rearticulating what is meant by “objective-based disclosures” to rather express that this means disclosures required to meet disclosures objectives of certain financial reporting frameworks. The Task Force also agreed that the new example in paragraph 1(f) is a good example, albeit rare, and has added a footnote reference to International Financial Reporting Standards where these additional disclosures may be required.
- Revising paragraph A2 (where the concept of “clearly trivial” is introduced) to include guidance on the application of this concept to qualitative disclosures.

⁶⁵ **NSS:** IDW; **Member Bodies:** SMPC

⁶⁶ **Monitoring Group:** BCBS; **Other Regulators:** EBA

⁶⁷ **Member Bodies:** ISCA

⁶⁸ **Public Sector:** AGA; **Accounting Firms:** PWC

⁶⁹ **Other Regulators:** IRBA; **NSS:** NBA

⁷⁰ **Accounting Firms:** PWC

⁷¹ **Other Regulators:** EBA, IRBA; **Accounting Firms:** EYG

⁷² **NSS:** AUASB, HKICPA, MAASB

⁷³ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

- Revising new paragraph A2a (where the accumulation and aggregation of misstatements in disclosures is discussed) to clarify the difference between accumulating misstatements and considering their effect in aggregate, to replace the term ‘aggregate’ with the term ‘add up’, and make clearer what the auditor may consider when applying the requirements of Paragraph 5 (that requires the auditor to accumulate misstatements).
- Adding a conforming amendment arising from the new proposed requirement in ISA 320 (see paragraph 34 above) to Paragraph A11 for the auditor to consider whether there are any circumstances that may suggest an increased risk of material misstatements in qualitative disclosures at the evaluation stage of the audit.
- Providing more practical guidance about whether a misstatement in a qualitative disclosure may be material, taking into account the nature of the misstatement and the circumstances of the entity (see paragraph A13a).

Matters for IAASB Consideration

5. Does the IAASB agree with the Task Force view that the requirements of the ISA remain sufficient to meet the objectives stated in the ISA in relation to the accumulation and assessment of misstatements in disclosures identified during the audit?
6. What are the IAASB’s views on the other proposed amendments to ISA 450 as presented in **Agenda Item 7-B**? Are there any other areas of ISA 450 where the Task Force should consider introducing additional guidance?

D. The Need for More Requirements in ISA 700 (Revised)

42. Regulators⁷⁴ felt strongly that certain material presented in the ED could be developed and enhanced further to promote the effectiveness of auditing disclosures, and therefore promote the behavioral changes expected. Some⁷⁵ of these, and other, respondents had the view that elevating certain application material to requirements would further enhance the quality and robustness of the procedures when auditing disclosures. In particular, it was suggested that the list of matters for consideration included in the new proposed paragraph A3b (regarding the auditor’s evaluation of the understandability and fair presentation of the financial statements) would be considered by auditors in all instances, and therefore should be included as requirements.
43. Other matters raised by one respondent in each case included:
 - Concern about the change from ‘adequate’ disclosures to ‘appropriate’ disclosures in paragraph 13(a), and the possible inconsistency in the ISAs in the use of this term.⁷⁶
 - The use of the term ‘misleading’ in paragraph A4c, which it was suggested would apply to a compliance framework only and not a fair presentation framework.⁷⁷

⁷⁴ **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Other Regulators:** EAIG, EBA, IRBA

⁷⁵ **Monitoring Group:** BCBS, IAIS; **Other Regulators:** EBA, FRC, IRBA; **NSS:** JICPA

⁷⁶ **Accounting Firms:** DTTL; **Public Sector:** AGA; **Member Bodies:** CAI, NASBA

⁷⁷ **Member Bodies:** FEE, FSR, SMPC

- More emphasis on the exercise of professional skepticism in respect of evaluating disclosures, in ISA 700 (Revised) but also in other ISAs (e.g., ISA 315).⁷⁸

Task Force Recommendations—Moving Forward

44. The Task Force is of the view that the requirements in ISA 700 (Revised) should be enhanced regarding the auditor’s consideration of certain matters when evaluating the financial statements, with such enhancements developed by elevating relevant application material proposed in the ED. For example, the Task Force agrees with the view that when evaluating the financial statements, certain matters as set out in the ED in paragraph A3a (and some matters in proposed paragraph A3b), would be considered by the auditor in all instances, and could therefore be elevated to a requirement. The Task Force is of the view that strengthening the requirements will also address the concerns of respondents who have the view that the proposed changes in the application material alone will not achieve the expected behavioral change. The proposed amendments to the requirements are set out in ISA 700 (Revised) paragraphs 13(a) and (d) in **Agenda Item 7-B**.
45. The Task Force has also accordingly made amendments to the application material for evaluating the understandability of the financial statements (see revised proposed paragraph A3a). Changes have also been made to address other issues that have been raised, which in the Task Force’s view, are appropriate. The Task Force also agreed:
 - To not make the change from “adequate” to “appropriate” in paragraph 13(a) because “appropriate” is the correct term in the context of an evaluation of the disclosure of significant accounting policies. In addition, Paragraph 13(b) also requires evaluation about whether the accounting policies are appropriate. However, the Task Force has agreed to reassess the consistency in use of these words throughout the ISAs as they relate to disclosures.
 - To not change the word ‘misleading’ in proposed paragraph A4c, to respond to a respondent’s view that it would apply to a compliance framework. The Task Force is of the view that the nature by which certain amounts or disclosures are presented in the financial statements can result in “misleading” information regardless of whether the disclosures are prepared in accordance with a fair presentation framework or a compliance framework.
46. The Task Force deliberated the request for a greater emphasis in ISA 700 (Revised) on the exercise of professional skepticism. On reflection, the Task force concluded that the concept of professional skepticism is already suitably addressed in ISA 700 (Revised), in the context of the auditor’s application of professional judgment. However, the Task Force supports further consideration of reinforcing the concept in ISA 315, and has proposed changes in ISA 315 for this purpose (see **Agenda Item 7-B**, ISA 315, paragraph A128a).

Matters for IAASB Consideration

7. Does the IAASB agree that the application material should be elevated as illustrated in paragraphs 13(a) and (d) in **Agenda Item 7-B**?
8. What are the IAASB’s views on the other proposed amendments to ISA 700 (Revised) as presented in **Agenda Item 7-B**?

⁷⁸ *Other Regulators*: EBA

E. The Need for More Requirements in ISA 330

47. A few MG and regulatory respondents⁷⁹ suggested that consideration be given to elevating application material in paragraph A59 of ISA 330, which relates to the adequacy of presentation and disclosure, to a requirement as these are procedures that an auditor would be expected to ordinarily undertake in all instances.
48. Other comments included:
- That the proposed new text in paragraph A14 referencing the “balance sheet, income statement and cash flow statement” is outdated terminology and it should be changed to “statement of financial position, statement of financial performance and statement of cash flows”.⁸⁰
 - That the change to the requirement in paragraph 20 should be reflected in the complementary documentation requirement in paragraph 30.⁸¹
49. One respondent⁸² expressed concern that the proposed changes to ISA 330 regarding “information obtained outside the general ledger system” will expand the auditor’s responsibilities beyond the scope of the requirement in ISA 500 paragraph 9 for the auditor to evaluate whether the information is sufficiently reliable for the auditor’s purposes.

Task Force Recommendations—Moving Forward

50. The Task Force agree that the auditor’s considerations set out in paragraph A59 of ISA 330 would be carried out in all instances on an audit and therefore propose elevating the application material to a requirement (see Paragraph 24 of ISA 330 in **Agenda Item 7-B**). The related application material in paragraph A59 has been revised accordingly.
51. The Task Force has also proposed a corresponding change to the documentation requirement to include those accounting records that are outside the general and subsidiary ledgers (see further explanation of this terminology in paragraph 73 of this paper, and also the corresponding change made to paragraph 20(a) of ISA 330). In the Task Force’s view, strengthening the documentation requirements for these accounting records outside the general and subsidiary ledgers would help address some of the concerns raised by respondents to the DP, who had noted this as a particular area as requiring further attention.
52. The Task Force also proposes to update the terminology in A14 as suggested by respondents.

Matters for IAASB Consideration

9. Does the IAASB agree that the application material in paragraph A59 of the ED should be elevated as illustrated in Paragraph 24 in **Agenda Item 7-B**?

⁷⁹ **Monitoring Group:** BCBS, IAIS; **Other Regulators:** EBA

⁸⁰ **Other Regulators:** IRBA; **NSS:** ZAAPB; **Member Bodies:** SAICA

⁸¹ **Other Regulators:** FRC; **NSS:** CAASB; **Accounting Firms:** DTTL; **Public Sector:** PAS; **Member Bodies:** ICAG, ISCA, NASBA

⁸² **Accounting Firms:** KPMG

10. What are the IAASB's views on the other proposed amendments to ISA 330 as presented in **Agenda Item 7-B?**

F. Support for the Integration of the Assertions⁸³

53. The majority of respondents,⁸⁴ across all stakeholder groups, supported the integration of the assertions for presentation and disclosure with those relating to transactions and account balances.
54. Some respondents⁸⁵ (including two MG members) expressed concern that in integrating the assertions relating to presentation and disclosure into the assertions about classes of transactions and events and account balances, any reference to classification (other than in the case of assertions for classes of transaction and events) had been eliminated.
55. Some respondents supported the changes but were concerned about the costs associated with implementation⁸⁶ or whether the changes would achieve the intended results in practice.⁸⁷
56. One regulator⁸⁸ expressed concerns that the additions to the application material alone would have insufficient change in the behavior of the auditor vis-à-vis disclosures.
57. Several respondents,⁸⁹ mainly member bodies, did not support making the changes because either: (i) the integration may actually lose the focus on disclosures; (ii) the benefits associated with these changes would not outweigh the cost;⁹⁰ (iii) the changes would not necessarily lead to an integration of the work on disclosures;⁹¹ (iv) the proposed changes may lead to an over-emphasis on disclosures, (v) the changes are not needed⁹² or (vi) the changes could undermine the effective conduct of the audit by requiring the risk assessment for a number of assertions about presentation and disclosure for each class of transaction, event and account balance.⁹³
58. Respondents suggested a number of editorial amendments to the proposed assertions including:
- That they should be changed to be consistent with that of the accounting standard setters' fundamental characteristics of financial information and the IAASB align their usage of the terms 'presentation' and 'disclosure.'

⁸³ It should be noted that this was a specific question asked in the ED.

⁸⁴ **Monitoring Group:** BCBS, IFIAR, IOSCO; **Other Regulators:** EBA, FRC, IRBA, MAOB; **NSS:** AUASB, CAASB, CNCC-CSOEC, MAASB, NBA, NZAuASB, ZAAPB; **Accounting Firms:** BDO, CHI, EYG, KPMG, PWC; **Public Sector:** AGA, GAO, NAOUK, PAS, SNAO; **Member Bodies:** ANAN, ASSIREVI, FACPCE, FEE, FSR, ICAG, ICAP, ICAS, ICAZ, IMCP, INCP, ISCA, MICPA, NYSSCPA, WPK, ZICA; **Individuals:** DJuvenal, CBarnard

⁸⁵ **Monitoring Group:** IFIAR, IOSCO; **Other Regulators:** IRBA; **NSS:** CNCC-CSOEC; **Accounting Firms:** EYG

⁸⁶ **Public Sector:** ACAG, CIPFA

⁸⁷ **Accounting Firms:** DTTL, EYG; **Member Bodies:** NASBA

⁸⁸ **Other Regulators:** EAIG

⁸⁹ **NSS:** ASB, JICPA; **Member Bodies:** ACCA, CAI, CalCPA, EFAA, KICPA, SAICA, SMPC

⁹⁰ **Member Bodies:** SMPC

⁹¹ **Member Bodies:** EFAA, SAICA

⁹² **Member Bodies:** CalCPA

⁹³ **NSS:** JICPA

- Keeping the assertions as proposed while at the same time retaining the separate presentation and disclosure assertions as they currently exist in paragraph A124(c) of the extant ISA 315.
- That the proposed ‘presentation’ assertion should be amended to include a reference to ‘reliability and comparability’ alongside ‘relevance and understandability’ so that it is consistent with paragraph 13(d) of ISA 700 (Revised) which requires the auditor to evaluate whether the information presented in the financial statements is relevant, reliable, comparable and understandable.

Task Force Recommendations—Moving Forward

59. In light of the strong support for the proposed assertions, the Task Force recommends moving forward with proposed assertions as presented in the ED, subject to the amendments as set out in **Agenda Item 7-B** and as explained further below.
60. The Task Force has agreed that to promote consistency in the application material, a classification assertion should be added to the assertions about account balances.
61. The Task Force has agreed to insert sub-headings in this section of ISA 315 to emphasize the new material on assertions about disclosures that are not related to classes of transactions and events, and account balances. This has resulted in the movement of paragraph A125 to A123a which is more general in nature.
62. The Task Force discussed the other changes to the assertions that had been suggested, but in light of the strong support for the assertions as proposed have agreed no further changes. In particular:
 - The Task Force does not propose to revisit whether the assertions:
 - Should be changed to be consistent with the accounting standard setters' fundamental characteristics of financial information, as it was previously agreed with the IAASB that such qualitative characteristics serve a different purpose than the auditing assertions.
 - Should be changed to be consistent with the evaluation required by ISA 700 (Revised). Similarly, the IAASB have previously agreed that the assertions were not the same as the aspects to be carried out at the evaluation stage and therefore did not have to be consistent.
 - The Task Force does not propose retaining the “Presentation and Disclosure” assertions as they currently exist in paragraph A124(c) of the extant ISA 315 (in addition to the proposed changes, as suggested) as this would result in a duplication in the ISA and may not achieve the desired effect of encouraging the auditors to consider the assertions about classes of transaction and events and account balances at the same time as the assertions for the related disclosures.

Matters for IAASB Consideration

11. Does the IAASB agree to move forward with the integrated assertions?
12. What are the IAASB's views on the proposed further amendments to the assertions as presented in **Agenda Item 7-B**?

G. Support for the Changes to the Definition of Financial Statements

63. The majority of respondents did not specifically comment on the proposed changes to the definition of the financial statements.
64. A few respondents noted that the definition should be aligned with the definition of financial statements in the applicable financial reporting framework, to ensure consistency of application of the definition and avoid contradictions between the auditing standards and the financial reporting standards.⁹⁴ It was also noted by a few respondents⁹⁵ that the IAASB should not be the body defining disclosures.
65. One member body respondent,⁹⁶ did not agree with the proposed changes because, in its view, the definition is well understood and another respondent⁹⁷ did not believe that the changes enhanced the definition in any way or had resulted in an inappropriate over-emphasis on disclosures. In addition, a few respondents⁹⁸ had concerns that eliminating references to significant accounting policies undermines their importance.
66. Other suggestions included that:
 - The definition of disclosures should be separated from the definition of the financial statements (previously discussed by the Task Force and it was agreed to keep disclosures as an integral part of the definition).⁹⁹
 - “Claims” should be changed back to “obligations” as the latter phrase is better understood in practice, or there appears to be no justification for the change in light of the objective of the Disclosures project.¹⁰⁰
 - The definition in extant ISA 200 is technically incorrect by referring to financial statements (plural), since a single financial statement may be intended to communicate an entity's economic resources or obligations, the changes therein, or both. In addition, it was suggested that the definition as proposed by the ED inappropriately includes the term “financial statements” within its own definition by referring to “the face of the financial statements” when seeking to clarify where disclosures may be found.¹⁰¹

⁹⁴ **Monitoring Group:** IFIAR; **Other Regulators:** EAIG; **Member Bodies:** FSR, KICPA

⁹⁵ **Member Bodies:** FEE, FSR

⁹⁶ **Member Bodies:** ACCA

⁹⁷ **Member Bodies:** EFAA

⁹⁸ **Member Bodies:** ACCA, EFAA, FEE, FSR

⁹⁹ **Member Bodies:** ICAG, ACCA

¹⁰⁰ **Member Bodies:** EFAA, CAI

¹⁰¹ **NSS:** IDW

67. It has been noted by many¹⁰² respondents that there has been inconsistent use of the terms “financial statements” and “financial statements including disclosures” throughout the ED. Some of these respondents have suggested that in order to avoid any confusion or inconsistency the phrase “including disclosures” should be deleted as disclosures are clearly integral to the financial statements.

Task Force Recommendations—Moving Forward

68. The Task Force is of the view that:
- As only a minority of respondents did not agree with the proposed changes, the IAASB should move forward with the definition as previously proposed, subject to the changes set out in **Agenda Item 7-B**.
 - The change to “claims against the entity” should be reverted to “obligations” but to add “and equity interests” to further clarify the intent of the proposed amendment to the definition of financial statements.
 - A change in the definition, when noting where disclosures may be located, from “financial statements” (plural) to “a financial statement” (singular) is appropriate. The Task Force does not propose revising the definition of financial statements any further, as proposed by the respondent in paragraph 65, as the definition already notes that the term “financial statements” ordinarily refers to a complete set of financial statements but can also refer to a single financial statement.
 - The use of the term “financial statements” with the extension “including related disclosures” is unnecessary as the term “disclosures” is included in the definition of financial statements. Accordingly “financial statements including related disclosures” will be replaced with “financial statements” to maintain consistency throughout the proposed changes in the ISAs. However, as the purpose of the extension had been to emphasize the relevance of considering disclosures in applying the relevant guidance, amendments have been made in such a way as to retain this emphasis.

Matters for IAASB Consideration

13. Does the IAASB agree to move forward with the revised definition, subject to the other amendments proposed in **Agenda Item 7-B**?
14. What are the IAASB’s views on the proposed amendments to the revised definition as presented in **Agenda Item 7-B**?

H. Support for Changes to ISA 315 (excluding commentary on Assertions)

69. Overall, excluding comments made by respondents on the proposed assertions, many respondents commented on the proposed changes to ISA 315. The majority of those comments were editorial in nature with a small number of more specific comments as follows:

¹⁰² **Monitoring Group:** BCBS, IAIS, IFIAR, IOSCO; **Other Regulators:** EBA, FRC, IRBA; **NSS:** MAASB, NBA, ZAAPB; **Accounting Firms:** BDO, DTTL, EYG; **Public Sector:** ACAG, AGA; **Member Bodies:** CAI, ICAS, NASBA, SAICA,

- Some respondents¹⁰³ requested additional guidance on specific considerations for the internal controls around the production of financial statement disclosures as these are likely to be different from the controls that related to other assertions about classes of transactions and events and account balances, and on testing the operating effectiveness of such controls.
 - A few respondents¹⁰⁴ suggested that the term ‘general ledger system’ is not widely known or might be difficult to understand,¹⁰⁵ or could be further clarified.
 - Introducing a new concept of “information from systems and processes outside the general ledger” may be misinterpreted as a much broader investigation than the IAASB intended – the current descriptions of the ‘information’ in financial statements is sufficient.¹⁰⁶
 - Various editorial comments on some of the examples presented of systems and processes outside the general ledger.¹⁰⁷
70. One respondent¹⁰⁸ has expressed concern that in highlighting the importance of the auditor’s responsibility to take into account certain systems and processes beyond the general ledger system in selected places in the ISAs, without specific prompting in other relevant areas auditors might limit their focus to the general ledger alone in those areas.
71. Some respondents expressed concern that some of the proposed material resulted in an excessive focus, or over-emphasis, on disclosures,¹⁰⁹ such as the audit engagement team’s specific discussion about disclosures, during the engagement team discussion.

Task Force Recommendations—Moving Forward

72. The Task Force has reconsidered whether further changes could be made to clarify that the auditors’ considerations of relevant systems and processes should extend beyond the general ledger, including in relation to related controls. The Task Force has agreed that it would be appropriate to clarify this in paragraphs 18(e) and (f) of ISA 315. The Task Force did not consider that there were any other additional changes needed to the requirements in ISA 315 based on the responses received.
73. The Task Force has proposed some amendments to the new application material relating to the discussion among the engagement team and added another example of a matter that may be discussed in order to improve the clarity of this guidance. Whilst some respondents raised a concern that the emphasis on disclosures in this paragraph was at too granular a level, the Task Force remains of the view that it is important to emphasize disclosures at this important stage of the audit in order to encourage behavioral change.

¹⁰³ **Monitoring Group:** BCBS; **NSS:** CNCC-CSOEC; **Member Bodies:** ICAG, ISCA

¹⁰⁴ **Accounting Firms:** RSM; **Member Bodies:** FEE

¹⁰⁵ **NSS:** IDW

¹⁰⁶ **NSS:** ASB; **Member Bodies:** EFAA, FEE

¹⁰⁷ **NSS:** MIA; **Accounting Firms:** DTT; **Public Sector:** NAOUK

¹⁰⁸ **Monitoring Group:** IFIAR

¹⁰⁹ **Accounting Firms:** PwC; **Member Bodies:** CAI, FSR

74. The Task Force agreed to consider clarifying the term “information from systems and processes outside the general ledger”. The Task Force discussed various alternatives, and agreed that the term “accounting records that are outside the general and subsidiary ledgers” would be a more appropriate term. This will also ensure consistency with existing terms in the ISAs, in particular ISA 500,¹¹⁰ paragraph 5(a) that describes what is meant by “accounting records.” Corresponding changes will be made throughout the proposed changes where this term has been used.
75. The Task Force also agreed that it was necessary to clarify the link between the examples of disclosures that may be relevant when assessing the risk of material misstatement in paragraph A128c with the application material regarding the auditor’s consideration of disclosures in the financial statements in A128b.

Matter for IAASB Consideration

15. What are the IAASB’s views on the amendments to ISA 315 (excluding the assertions) as presented in **Agenda Item 7-B**?

I. General Matters

Matter for IAASB Consideration

16. There have been comments made by a few of respondents¹¹¹ that the proposed changes over-emphasize disclosures throughout the audit. Based on a view of the overall changes that are being proposed to the ED, does the IAASB have the view that the additional requirements and strengthening of the application material would over-weight the emphasis on disclosures as compared with other aspects of the audit?¹¹²

¹¹⁰ ISA 500, *Audit Evidence*

¹¹¹ **Accounting Firms:** KPMG; **Member Bodies:** CAI, FSR, FEE

¹¹² The Task Force has presented, as supplementary documents, the full versions of ISA 315, ISA 330, ISA 450 and ISA 700 to help with this analysis (see **Agenda Item 7-D**).

Disclosures – Overview of the Way Forward

