

## Disclosures—Summary of Exposure Draft Responses and Task Force Recommendations (ISAs 210 (Revised),<sup>1</sup> 240,<sup>2</sup> 260 (Revised),<sup>3</sup> 300<sup>4</sup> and Other)<sup>5</sup> **[Marked to Board Distribution]**

### A. Objective

1. At the December 2014 meeting, the IAASB discussed “key themes” 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\*](#). The key themes discussed were in relation to ISAs 315 (Revised),<sup>6</sup> 320,<sup>7</sup> 330,<sup>8</sup> 450<sup>9</sup> and ISA 700 (Revised).<sup>10</sup> A draft summary of the decisions from this discussion was presented to the Board in [Agenda Item 1-A](#) for the January 2015 Board teleconference, as well as further revisions to the proposed requirements in ISAs 315 (Revised), 330 and 700 (Revised). In December 2014, the Board also discussed respondents’ comments in relation to ISAs 570 (Revised)<sup>11</sup> and 600,<sup>12</sup> and the definition of financial statements in ISA 200,<sup>13</sup> and the decisions in relation to these standards are also included in the draft summary of decisions in Agenda Item 1-A of the January 2015 Board teleconference.
2. This paper considers respondents’ comments on other ISAs not discussed at the December 2014 or January 2015 IAASB meetings, including respondents’ comments on the proposed changes to ISAs presented in the ED (see sections B to E below), as well as respondents’ comments on ISAs not presented in the ED (see section F below).
3. A full list of respondents to the ED can be found in the Appendix to Agenda item 2. The methodology used by Staff in summarizing the views of respondents, as well as a description of the metrics used, can be found in paragraphs 8 and 9 of [Agenda Item 7](#) from the December 2014 IAASB meeting.
4. On a preliminary basis and in advance of the March 2015 discussion, the Board is asked to consider the proposed Task Force responses (including any proposed revisions) as set out in sections B to F below. If Board members identify any significant issues relating to these proposed responses, they

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<sup>1</sup> ISA 210 (Revised), *Agreeing the Terms of Audit Engagements*

<sup>2</sup> ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

<sup>3</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*

<sup>4</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>5</sup> This paper has been previously distributed to the IAASB and incorporates comments and changes to respond to comments received.

<sup>6</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>7</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>8</sup> ISA 330, *The Auditor’s Responses to Assessed Risks*

<sup>9</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>10</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>11</sup> ISA 570 (Revised), *Going Concern*

<sup>12</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>13</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

are asked to advise the Task Force so that it may have the opportunity to further address anything of significance before the March 2015 Board meeting. It is intended that the proposed responses presented in this paper, together with any other amendments considered necessary by the Task Force arising from the Board members' initial feedback, will be further discussed at the March 2015 Board meeting.<sup>14</sup>

5. In addition to the proposed revisions made to address comments from respondents to the ED in the ISAs presented in this paper, other conforming changes are also proposed to align with changes made to the ISAs that were discussed in December 2014, and for which revisions for consistency are required (for example, the phrase "systems or processes that are not part of the general ledger system" has been replaced by "accounting records that are outside the general and subsidiary ledgers" as discussed and agreed by the IAASB in December 2014; and the phrase "acquisition of a subsidiary" has been replaced by "business combination" as this is how it is used throughout the ISAs).

## **B. ISA 210 (Revised), *Agreeing the Terms of Audit Engagements***

6. The following sets out respondents' comments on ISA 210 (Revised) and the Task Force recommendations.<sup>5</sup>

<b>Comment</b>	<b>Task Force Recommendation</b>
(a) The only recurring theme in the comments, which impacts the proposed changes in ISA 210 (Revised), was the comments across the ISAs presented in the ED about the inconsistent use of the extensions to the phrase "financial statements" of "financial statements <i>including disclosures</i> ", <sup>15</sup> and "financial statements <i>including related disclosures</i> ," <sup>16</sup> in particular in light of the proposed changes that have been made to the definition of "financial statements" in ISA 200 relating to disclosures.	<p>The Task Force has reviewed the comments, which have also been raised in relation to other ISAs, in detail and it is evident that, in using the extension the proposed change to the definition of financial statements is undermined (as opposed to concern that too much emphasis is given to disclosures in the specific circumstances). The Task Force has therefore reviewed each occurrence of the extension and has identified alternative ways of giving appropriate emphasis to disclosures. Given there are a number of ISAs affected by this, the Task Force will bring its more detailed proposals for revisions to address this issue in the agenda papers for the March 2015 Board meeting.</p> <p>In this paper, the Task Force proposals can be observed in ISA 210 (Revised) paragraph A23, ISA 240 paragraph A11, and ISA 260 (Revised) paragraph A13.</p>

<sup>14</sup> All proposed changes to the ISAs included in the ED will be presented for approval at the March 2015 IAASB meeting.

<sup>15</sup> ISA 240, paragraph A11; ISA 260 (Revised), paragraph A12; ISA 300, Appendix; ISA 315 (Revised), paragraph A80; ISA 330, paragraphs 20, 30 and A59; ISA 700 (Revised), paragraph A3b

<sup>16</sup> ISA 210 (Revised), paragraph A23; ISA 315 (Revised), paragraph A1

Comment	Task Force Recommendation
(b) One respondent suggested clarification in the requirements and application material in ISA 210 (Revised) that the auditor's request for access to the information relevant to the preparation of the financial statements also includes access to the information relevant to the preparation of related disclosures. <sup>17</sup>	No change proposed to the requirement because the relevance of disclosures to the financial statements has been described in the revised definition of financial statements in ISA 200, paragraph 13(f). However, the Task Force has proposed an amendment to the application material in paragraph A23 below.
(c) Concern was expressed by two respondents that including the phrase "of which management is aware" in the sentence "expectation that management will provide access to all information (of which management is aware)", may reduce management's responsibility for the information included in the financial statements <sup>18</sup> or restrict auditors' access to related information for the purposes of their audit. <sup>19</sup>	No change proposed. This guidance is already included in extant ISA 210 (Revised) (paragraph 6(b)(iii)b and Appendix 1 and paragraph A23 respectively).
(d) It was noted that, while it is helpful to emphasize to management their responsibility to provide information according to a proposed timetable, it should be acknowledged that it is not always possible for management to provide the information to be disclosed at an early stage. <sup>20</sup>	No change proposed. This guidance was added to encourage auditors to consider disclosures earlier in the audit process. While the Task Force acknowledges that there may be practical difficulties in obtaining information early in the audit process in some cases, this is a more general point and not related to the purpose of the proposed change. Consideration will be given to acknowledging this issue and how the auditor may respond in accordance with the ISAs in the Staff Publication— <i>Addressing Disclosures in the Audit of Financial Statements</i> (Staff Publication).
(e) Concern was expressed by a respondent regarding the inconsistent use of words that describe internal control as it relates to the auditors activities. In particular, "understanding internal control" is " <i>necessary for the audit</i> ", is " <i>relevant to the preparation of</i>	No change proposed. Each of the quoted examples of inconsistent text is in extant ISAs. In addition, the description of internal control, while inconsistent, is context-appropriate as it reflects different responsibilities: management's responsibility for internal control and the auditor's responsibility in relation to the entity's internal

<sup>17</sup> NSS: CNCC<sup>18</sup> Public Sector: AGA<sup>19</sup> Member Bodies: CAI<sup>20</sup> Member Bodies: FEE

Comment	Task Force Recommendation
<i>the financial statements</i> ”, and “ <i>relevant to the audit</i> ”. <sup>21</sup>	control. (Management’s responsibilities are included in extant ISA 210 (Revised), paragraphs A16–A19, and the auditor’s responsibilities relating to internal control relevant to the audit is set out in the example engagement letter in Appendix 1).
(f) Concern was expressed by a respondent that the term “general ledger” may not be well understood and that it should be defined in ISA 315 (Revised). <sup>22</sup>	No definition proposed. ISA 315 (Revised), paragraph A89a, provides examples of accounting records that can be found outside the general and subsidiary ledgers and the phrase is used in ISA 500 <sup>23</sup> without the need for a definition.
(g) Concern was expressed by a Monitoring Group (MG) respondent that 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, might limit auditors’ focus to the general ledger alone in those other relevant areas. <sup>24</sup>	<p>No change proposed. The IAASB has previously agreed proposed changes to the ISAs to emphasize such sources of information included in financial statements. The objective of these revisions was to change auditor behavior in relation to their focus on such information.</p> <p>The Task Force deliberated further the need for emphasis, within selected places in the ISAs, of the auditor’s responsibility to take into account information obtained from outside the general and subsidiary ledgers, and whether the selective emphasis would have unintended consequences of limited work effort. The Task Force continues to believe that the emphasis in the selected places in the ISAs is important as the emphasis is linked directly to the auditor’s responsibilities in relation to the audit of disclosures.</p> <p>The Task Force also believes that it has identified those areas in the ISAs where, in its view, emphasis is relevant and appropriate (including in the proposed revisions to the requirements in ISA 315 (Revised), paragraph 18). Auditors should not presume that, in cases where such emphasis is not made, information from such sources may be ignored. Further to Board discussions on the matter, the Task Force will consider the need to</p>

<sup>21</sup> Member Bodies: WPK

<sup>22</sup> Firms: EYG

<sup>23</sup> ISA 500, *Audit Evidence*

<sup>24</sup> Monitoring Group: IFIAR

Comment	Task Force Recommendation
	clarify this in the Staff Publication. (Relevant matters relating to the use of this phrase are also discussed further in <b>Agenda Item 2-A</b> , paragraphs 12–20.)
Board Comments	
(h) Changes made to paragraph A23, about matters the auditor may make reference to in the engagement letter relating to management making available the draft financial statements in a timely manner, in the Exposure Draft are not consistent with ISA 720 (Revised), <sup>25</sup> paragraph A15 (with related footnote back to this paragraph in ISA 210).	A change has been proposed to conform paragraph A23 of ISA 210 to paragraph A15 of ISA 720 (Revised) by including the phrase “and the other information.”

7. The Task Force recommendations set out above, as well as to address other minor editorial comments, have been presented in mark-up below.

### **Proposed Changes to ISA 210 (Revised)**

*(Marked from ED and incorporating further changes from the Auditor Reporting standards issued in January 2015)*

## **Requirements**

### **Preconditions for an Audit**

6. In order to establish whether the preconditions for an audit are present, the auditor shall:
- (a) Determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable; and (Ref: Para. A2–A10)
  - (b) Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para. A11–A14, A20)
    - (i) For the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant their fair presentation; (Ref: Para. A15)
    - (ii) For such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A16–A19)
    - (iii) To provide the auditor with:

<sup>25</sup> ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

- a. Access to all information of which management is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. Additional information that the auditor may request from management for the purpose of the audit; and
- c. Unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.

...

### **Agreement on Audit Engagement Terms**

...

10. Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A22–A25)
- (a) The objective and scope of the audit of the financial statements;
  - (b) The responsibilities of the auditor;
  - (c) The responsibilities of management;
  - (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
  - (e) Reference to the expected form and content of any reports to be issued by the auditor; and (Ref: Para. A23a)
  - (f) A statement that there may be circumstances in which a report may differ from its expected form and content.

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### **Application and Other Explanatory Material**

...

#### **Preconditions for an Audit**

...

##### *Agreement of the Responsibilities of Management* (Ref: Para. 6(b))

A11. An audit in accordance with ISAs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b).<sup>26</sup> In certain jurisdictions, such responsibilities may be specified in law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. ISAs do not override law or regulation in such matters. However, the concept of an independent audit requires that the auditor's role does not involve taking responsibility for the preparation of the financial statements or for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit (including information obtained from ~~systems or~~

<sup>26</sup> ISA 200, paragraph A2

~~processes that are not part of the general ledger system outside the general and subsidiary ledgers~~) in so far as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the audit engagement in paragraphs 9–12.

- A12. The way in which the responsibilities for financial reporting are divided between management and those charged with governance will vary according to the resources and structure of the entity and any relevant law or regulation, and the respective roles of management and those charged with governance within the entity. In most cases, management is responsible for execution while those charged with governance have oversight of management. In some cases, those charged with governance will have, or will assume, responsibility for approving the financial statements or monitoring the entity's internal control related to financial reporting. In larger or public entities, a subgroup of those charged with governance, such as an audit committee, may be charged with certain oversight responsibilities.
- A13. ISA 580 requires the auditor to request management to provide written representations that it has fulfilled certain of its responsibilities.<sup>27</sup> It may therefore be appropriate to make management aware that receipt of such written representations will be expected, together with written representations required by other ISAs and, where necessary, written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements.
- A14. Where management will not acknowledge its responsibilities, or agree to provide the written representations, the auditor will be unable to obtain sufficient appropriate audit evidence.<sup>28</sup> In such circumstances, it would not be appropriate for the auditor to accept the audit engagement, unless law or regulation requires the auditor to do so. In cases where the auditor is required to accept the audit engagement, the auditor may need to explain to management the importance of these matters, and the implications for the auditor's report.

...

## **Agreement on Audit Engagement Terms**

...

*Audit Engagement Letter or Other Form of Written Agreement*<sup>29</sup> (Ref: Para. 10–11)

- A22. It is in the interests of both the entity and the auditor that the auditor sends an audit engagement letter before the commencement of the audit to help avoid misunderstandings with respect to the audit. In some countries, however, the objective and scope of an audit and the responsibilities of management and of the auditor may be sufficiently established by law, that is, they prescribe the matters described in paragraph 10. Although in these circumstances paragraph 11 permits the auditor to include in the engagement letter only reference to the fact that relevant law or regulation applies and that management acknowledges and understands its responsibilities as set out in

<sup>27</sup> ISA 580, *Written Representations*, paragraphs 10–11

<sup>28</sup> ISA 580, paragraph A26

<sup>29</sup> In the paragraphs that follow, any reference to an audit engagement letter is to be taken as a reference to an audit engagement letter or other suitable form of written agreement.



paragraph 6(b), the auditor may nevertheless consider it appropriate to include the matters described in paragraph 10 in an engagement letter for the information of management.

#### Form and Content of the Audit Engagement Letter

A23. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on ISA 200.<sup>30</sup> Paragraphs 6(b) and 12 of this ISA deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, ISAs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with ISA 701.<sup>31</sup>
- The fact that because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- The expectation that management will provide written representations (see also paragraph A13).
- The expectation that management, ~~will-in~~ providinge access to all information ~~(of which management is aware)~~ that is relevant to the preparation of the financial statements, also includes an expectation that management will provide access to information relevant to disclosures, recognizing that this includes information from systems or processes that are not part of the general ledger system.
- The agreement of management to make available to the auditor draft financial statements, including ~~related disclosures, and~~ all information ~~that is~~ relevant to the preparation (including all information relevant to the preparation of disclosures, whether obtained from within or outside the general and subsidiary ledgers), and the other information, -of the financial statements- in time to allow the auditor to complete the audit in accordance with the proposed timetable.
- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.

<sup>30</sup> ISA 200, paragraphs 3–9

<sup>31</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*



- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

...

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## Appendix 1

(Ref: Para. A23–A24)

### Example of an Audit Engagement Letter

The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with International Financial Reporting Standards. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this ISA. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13 of this ISA). It may be appropriate to seek legal advice that any proposed letter is suitable.

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To the appropriate representative of management or those charged with governance of ABC Company:<sup>32</sup>

#### *[The objective and scope of the audit]*

You<sup>33</sup> have requested that we audit the financial statements of ABC 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 a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

#### *[The responsibilities of the auditor]*

We will conduct our audit in accordance with ISAs. Those standards require that we comply with ethical requirements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

<sup>32</sup> The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A21.

<sup>33</sup> Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>34</sup> However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with ISAs.

*[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this ISA are therefore used).]*

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]<sup>35</sup> acknowledge and understand that they have responsibility:

- (a) For the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards;<sup>36</sup>

<sup>34</sup> This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements

<sup>35</sup> Use terminology as appropriate in the circumstances.

<sup>36</sup> Or, if appropriate, "For the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards"

- (b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- (c) To provide us with:<sup>37</sup>
  - (i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - (ii) Additional information that we may request from [management] for the purpose of the audit; and
  - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

*[Other relevant information]*

*[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]*

*[Reporting]*

*[Insert appropriate reference to the expected form and content of the auditor's report, including, if applicable, the reporting on other information in accordance with ISA 720 (Revised).<sup>38</sup>]*

The form and content of our report may need to be amended in the light of our audit findings.

*Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.*

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....

Name and Title

Date

<sup>37</sup> See paragraph A23 for examples of other matters relating to management's responsibilities that may be included.

<sup>38</sup> Conforming amendment to ISA 210 (Revised) as a result of ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, approved by the IAASB in December 2014 subject to PIOB consideration of due process followed.

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

8. The following sets out respondents' comments on ISA 240 and the Task Force recommendations:<sup>5</sup>

Comment	Task Force Recommendation
(a) A respondent requested further attention be given to the relevance of disclosures, noting that there is not only a risk that relevant information may be obscured, but that it is also possible that too much information is presented, which may result in "cluttered" information that is intended to obscure a proper understanding of the matters disclosed. <sup>39</sup>	Change proposed. The Task Force agreed this would be consistent with the approach taken in paragraph 13(d) of ISA 700 (Revised). Additional application material has therefore been presented in paragraph A11 in mark-up below.
(b) A respondent requested more guidance regarding the response and procedures that the auditor should perform if the auditor has identified a risk that management may attempt to obscure information in disclosures. <sup>40</sup>	No change proposed. The ISA already includes guidance on the auditor's response to address the risk of material misstatement due to fraud at both the overall level <sup>41</sup> and at the assertion level. <sup>42</sup> The ISA also includes examples (including in relation to disclosures) of possible audit procedures to address risks of material misstatement due to fraud resulting from both fraudulent financial reporting and misappropriation of assets in Appendix 2.
(c) Two respondents requested more guidance on the auditor's considerations regarding management override of controls over the preparation of financial statement disclosures. <sup>43</sup>	Change proposed. Additional application material has been proposed in paragraph A4 below.
<b>Board Comments</b>	
(d) A Board member suggested the addition of examples of possible disclosures where the risk of material misstatement due to fraud was increased (possibly in Appendix 2 of ISA 240).	No change proposed. The Task Force did not have the view that additions to Appendix 2 would be the appropriate place, but did agree that paragraph A11 of ISA 240 provides guidance on matters that may be discussed by the engagement team, including the susceptibility of the entity's financial statements to material misstatements due to

<sup>39</sup> NSS: NBA

<sup>40</sup> NSS: NBA

<sup>41</sup> Overall responses to address the assessed risks of material misstatement due to fraud at the financial statement level

<sup>42</sup> Responses to the assessed risks of material misstatement due to fraud at the assertion level

<sup>43</sup> Firms: DTTL; Member Bodies: NASBA

	<p>fraud. The Task Force considered the addition of specific examples to the exchange of ideas relating to the engagement team's discussion about how and where the financial statements may be susceptible to material misstatement, but agreed that the other matters in paragraph A11 were not at such a granular level and therefore that no further change would be proposed.</p>
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9. The Task Force recommendations set out above, as well as to address other minor editorial comments, have been presented in mark-up below.

## **Proposed Changes to ISA 240**

(Marked from ED)

### **Requirements**

#### **Discussion among the Engagement Team**

15. ISA 315 (Revised) requires a discussion among the engagement team members and a determination by the engagement partner of which matters are to be communicated to those team members not involved in the discussion.<sup>44</sup> This discussion shall place particular emphasis on how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. The discussion shall occur setting aside beliefs that the engagement team members may have that management and those charged with governance are honest and have integrity. (Ref: Para. A10–A11)

...

#### **Responses to the Assessed Risks of Material Misstatement Due to Fraud**

...

#### *Audit Procedures Responsive to Risks Related to Management Override of Controls*

31. Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.

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<sup>44</sup> ISA 315 (Revised), paragraph 10

## Application and Other Explanatory Material

**Characteristics of Fraud** (Ref: Para. 3) [These paragraphs (A3 and A4) are new from the Exposure Draft]

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A3. Fraudulent financial reporting may be accomplished by the following:

- Manipulation, falsification (including forgery), or alteration of accounting records or supporting documentation from which the financial statements are prepared.
- Misrepresentation in, or intentional omission from, the financial statements of events, transactions or other significant information.
- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

A4. Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as:

- Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.
- Inappropriately adjusting assumptions and changing judgments used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.
- Omitting, obscuring or otherwise misstating disclosures required by the applicable financial reporting framework or disclosures that are necessary to achieve fair presentation.
- ~~Concealing, or not disclosing,~~ facts that could affect the amounts recorded in the financial statements.
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- Altering records and terms related to significant and unusual transactions.

...

**Discussion among the Engagement Team** (Ref: Para. 15)

A10. Discussing the susceptibility of the entity's financial statements to material misstatement due to fraud with the engagement team:

- Provides an opportunity for more experienced engagement team members to share their insights about how and where the financial statements may be susceptible to material misstatement due to fraud.
- Enables the auditor to consider an appropriate response to such susceptibility and to determine which members of the engagement team will conduct certain audit procedures.

- Permits the auditor to determine how the results of audit procedures will be shared among the engagement team and how to deal with any allegations of fraud that may come to the auditor's attention.

A11. The discussion may include such matters as:

- An exchange of ideas among engagement team members about how and where they believe the entity's financial statements ~~including the individual statements and the disclosures~~ ~~including disclosures~~ may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting and how assets of the entity could be misappropriated.
- A consideration of circumstances that might be indicative of earnings management and the practices that might be followed by management to manage earnings that could lead to fraudulent financial reporting.
- A consideration of the risk that management may attempt to ~~obscure information by presenting disclosures that are not clear and understandable in a manner that may obscure a proper understanding of the matters disclosed (for example, by including too much immaterial information or by using unclear or ambiguous language)~~.
- A consideration of the known external and internal factors affecting the entity that may create an incentive or pressure for management or others to commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables management or others to rationalize committing fraud.
- A consideration of management's involvement in overseeing employees with access to cash or other assets susceptible to misappropriation.
- A consideration of any unusual or unexplained changes in behavior or lifestyle of management or employees which have come to the attention of the engagement team.
- An emphasis on the importance of maintaining a proper state of mind throughout the audit regarding the potential for material misstatement due to fraud.
- A consideration of the types of circumstances that, if encountered, might indicate the possibility of fraud.
- A consideration of how an element of unpredictability will be incorporated into the nature, timing and extent of the audit procedures to be performed.
- A consideration of the audit procedures that might be selected to respond to the susceptibility of the entity's financial statements, ~~including disclosures~~, to material misstatement due to fraud and whether certain types of audit procedures are more effective than others.
- A consideration of any allegations of fraud that have come to the auditor's attention.
- A consideration of the risk of management override of controls.

...



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

10. The following sets out respondents' comments on ISA 260 (Revised) and the Task Force recommendations:<sup>5</sup>

Comment	Task Force Recommendation
<p>(a) A respondent requested more guidance on:</p> <ul style="list-style-type: none"> <li>(i) Communicating with management and those charged with governance about the quality of disclosures in the financial statements.</li> <li>(ii) The auditor's views about significant qualitative aspects of financial statement disclosures, which are required to be communicated in paragraph 16(a).</li> <li>(iii) Consideration of the potential risk of management bias, in respect of disclosures, throughout the audit.<sup>45</sup></li> </ul>	<p>Task Force views include:</p> <ul style="list-style-type: none"> <li>(i) Change proposed. Additional application material has been added to paragraph A20 below.</li> <li>(ii) No change proposed. The Task Force is of the view that there is already sufficient guidance listing qualitative aspects of accounting practices, including relating to disclosures, in Appendix 2.</li> <li>(iii) No change proposed. The Task Force is of the view that this is adequately covered by the concept of neutrality, which is included in Appendix 2.</li> </ul>
<p>(b) Concern was expressed by a respondent that certain proposed application material relates to matters that do not fall within the responsibilities of those charged with governance (for example, how developments in accounting standards may affect the overall presentation, structure and content of the financial statements).<sup>46</sup></p>	<p>No change proposed. While those charged with governance do not have a direct responsibility for the preparation of the financial statements, they do have a responsibility for overseeing the financial reporting process. In addition, in developing the changes, the IAASB agreed that the changes should be made in order to enhance the communications relating to disclosures between the auditor and those charged with governance.</p>
<b>Board Comments</b>	
<p>(c) A Board member suggested linking disclosures to matters relating to internal control relevant to the audit in the matters that could be considered when communicating to those charged with governance at the planning stage.<sup>47</sup></p>	<p>The Task Force has agreed that this would form part of the considerations about the matters as described in <b>Agenda Item 2-A, paragraphs 12–20</b> about information from accounting records that are outside the general and subsidiary ledgers, and therefore no further changes for ISA 260 are proposed.</p>

11. The Task Force recommendations set out above, as well as to address other minor editorial comments, have been presented in mark-up below.

<sup>45</sup> Firms: KPMG

<sup>46</sup> Member Bodies: NASBA

<sup>47</sup> ISA 260, paragraph A13

## **Proposed Changes to ISA 260 (Revised)**

(Marked from ED and incorporating further changes from the Auditor Reporting standards issued in January 2015)

### **Requirements**

...

#### **Matters to Be Communicated**

##### *The Auditor's Responsibilities in Relation to the Financial Statement Audit*

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:
- (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
  - (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10)

##### *Planned Scope and Timing of the Audit*

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16)

...

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### **Application and Other Explanatory Material**

...

##### *Planned Scope and Timing of the Audit* (Ref: Para. 15)

A11. Communication regarding the planned scope and timing of the audit may:

- (a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and
- (b) Assist the auditor to understand better the entity and its environment.

A12. Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

A13. Matters communicated may include:

- How the auditor proposes to address the significant risks of material misstatement, whether due to fraud or error.
- How the auditor plans to address areas of higher assessed risks of material misstatement.
- The auditor's approach to internal control relevant to the audit.
- The application of the concept of materiality in the context of an audit.<sup>48</sup>
- The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.<sup>49</sup>
- When ISA 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- How the auditor plans to address the effect on the audit (including the individual statements and the disclosures), of significant changes to within the applicable financial reporting framework or in the entity's environment, financial condition or activities, on the audit and financial statements, including disclosures.
- How the auditor will consider whether all relevant information that should have been included has been included, and that the overall presentation of the financial statements has not been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.

A14. Other planning matters that it may be appropriate to discuss with those charged with governance include:

- Where the entity has an internal audit function, how the external auditor and internal auditors can work in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.<sup>50</sup>
- The views of those charged with governance about:
  - The appropriate person(s) in the entity's governance structure with whom to communicate.
  - The allocation of responsibilities between those charged with governance and management.
  - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
  - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.
  - Significant communications between the entity and regulators.
  - Other matters those charged with governance consider may influence the audit of the financial statements.
- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with

governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.

- The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters, and ~~how they affect~~ the effect of such developments on, for example, the overall presentation, structure and content of the financial statements, including the relevance, reliability, comparability and understandability of the information presented in the financial statements.
- The responses of those charged with governance to previous communications with the auditor.
- The documents comprising the other information (as defined in ISA 720 (Revised)) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.<sup>51</sup>

A15. While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

A16. Care is necessary when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

#### *Significant Findings from the Audit (Ref: Para. 16)*

A17. The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.

A18. When ISA 701 applies, the communications with those charged with governance required by paragraph 16, as well as the communication about the significant risks identified by the auditor required by paragraph 15, are particularly relevant to the auditor's determination of matters that required significant auditor attention and which therefore may be key audit matters.<sup>52</sup>

<sup>48</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>49</sup> See ISA 620, *Using the Work of an Auditor's Expert*

<sup>50</sup> ISA 610 (Revised), paragraph 18

<sup>51</sup> Conforming amendment to ISA 260 (Revised) as a result of ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, approved by the IAASB in December 2014 subject to PIOB consideration of due process followed.

<sup>52</sup> ISA 701, paragraphs 9–10

Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))

A19. Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to “critical accounting estimates” or “critical accounting policies and practices” to identify and provide additional information to users about the most difficult, subjective or complex judgments made by management in preparing the financial statements.

A20. As a result, the auditor’s views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor’s evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks. Open and constructive communication about significant qualitative aspects of the entity’s accounting practices also may include comment on the acceptability of significant accounting practices and the quality of the disclosures. Appendix 2 identifies matters that may be included in this communication.

...

**E. ISA 300, Planning an Audit of Financial Statements**

12. The following sets out respondents' comments on ISA 300 and the Task Force recommendations.

Comment	Task Force Recommendation
(a) A respondent requested that consideration be given to elevating to a requirement part of the new application material in paragraph A12a regarding the determination of the nature, timing and extent of planned risk assessment procedures as they relate to disclosures. <sup>53</sup>	No change proposed. The Task Force recommends that this guidance be retained in the application material. The IAASB had previously discussed whether additional requirements relating specifically to disclosures should be developed, <sup>54</sup> but agreed that the requirements in ISA 300 were intended to be at a high level, and it would therefore not be appropriate to specifically emphasize disclosures when the rest of the requirements were more general in nature. However, the IAASB did agree that the emphasis on disclosures would be appropriate as part of the application material. The Task Force continues to believe this strikes the right balance in this ISA.
(b) Concern was expressed by two respondents <sup>55</sup> that there is an over-emphasis on disclosures in ISA 300 with the addition of application material paragraphs A12a–A12b.	No change proposed. One of the objectives of making the changes in ISA 300 was to focus auditors on the planning considerations related to disclosures earlier in the audit process.  In addition, the IAASB discussed the “over-emphasis of disclosures” at the December 2014 IAASB meeting and had the view that the proposed changes did not outweigh the emphasis on disclosures as compared with other aspects of the auditor’s efforts in respect of disclosures.

13. The Task Force recommendations regarding other minor editorial comments have been presented in mark-up below:<sup>5</sup>

<sup>53</sup> NSS: MAASB

<sup>54</sup> See discussion of Task Force considerations about additional requirements in ISA 300 in [Agenda Item 3-A](#) and [Agenda Item 3-B](#) from the December 2012 IAASB meeting. See also the [minutes](#) from that meeting for Board discussions and agreement with the Task Force's views.

<sup>55</sup> Firms: KPMG; Member Bodies: FSR

## **Proposed Changes to ISA 300**

(Marked from ED)

### **Requirements**

#### **Planning Activities**

...

9. The auditor shall develop an audit plan that shall include a description of:
- (a) The nature, timing and extent of planned risk assessment procedures, as determined under ISA 315 (Revised).<sup>56</sup>
  - (b) The nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330.<sup>57</sup>
  - (c) Other planned audit procedures that are required to be carried out so that the engagement complies with ISAs. (Ref: Para. A12–A12b)

...

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### **Application and Other Explanatory Material**

#### **Planning Activities**

...

*The Audit Plan* (Ref: Para. 9)

A12. The audit plan is more detailed than the overall audit strategy in that it includes the nature, timing and extent of audit procedures to be performed by engagement team members. Planning for these audit procedures takes place over the course of the audit as the audit plan for the engagement develops. For example, planning of the auditor's risk assessment procedures occurs early in the audit process. However, planning the nature, timing and extent of specific further audit procedures depends on the outcome of those risk assessment procedures. In addition, the auditor may begin the execution of further audit procedures for some classes of transactions, account balances and disclosures before planning all remaining further audit procedures.

A12a. Determining the nature, timing and extent of planned risk assessment procedures, and the further audit procedures, as they relate to disclosures is important in light of both the wide range of information and the level of detail that may be encompassed in those disclosures. Further, certain disclosures may contain information from ~~systems or processes that are not part of the general ledger system~~ accounting records that are outside the general and subsidiary ledgers, which may also affect the assessed risks and the nature, timing and extent of audit procedures to address them.\*

A12b. Consideration of disclosures early in the audit assists the auditor in giving appropriate attention to, and planning adequate time for, addressing disclosures in the same way as classes of transactions, events and account balances. Early consideration may also help the auditor to determine the effects on the audit of:



- Significant new or revised disclosures required as a result of changes in the entity's environment, financial condition or activities (for example, a change in the required identification of segments and reporting of segment information arising from ~~the acquisition of~~ a significant ~~new subsidiary~~business combination);
- Significant new or revised disclosures arising from changes in the applicable financial reporting framework;
- The need for the involvement of an auditor's expert to assist with audit procedures related to particular disclosures (for example, disclosures related to pension or other retirement benefit obligations).
- Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.<sup>58</sup>

...

\*\*\*

## Appendix

(Ref: Para. 7–8, A8–A11)

### Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor's detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other ISAs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

#### Characteristics of the Engagement

- (a) The financial reporting framework on which the financial information to be audited has been prepared, including any need for reconciliations to another financial reporting framework.
  - Industry-specific reporting requirements such as reports mandated by industry regulators.
  - The expected audit coverage, including the number and locations of components to be included.
  - The nature of the control relationships between a parent and its components that determine how the group is to be consolidated.
  - The extent to which components are audited by other auditors.
  - The nature of the business segments to be audited, including the need for specialized knowledge.

<sup>56</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>57</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

\* When the final standard is issued, this paragraph will become paragraph A13 and all subsequent paragraphs will be renumbered accordingly.

<sup>58</sup> ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph A12

- The reporting currency to be used, including any need for currency translation for the financial information audited.
- The need for a statutory audit of standalone financial statements in addition to an audit for consolidation purposes.
- Whether the entity has an internal audit function and, if so, whether, in which areas and to what extent, the work of the function can be used, or internal auditors can be used to provide direct assistance, for purposes of the audit.
- The entity's use of service organizations and how the auditor may obtain evidence concerning the design or operation of controls performed by them.
- The expected use of audit evidence obtained in previous audits, for example, audit evidence related to risk assessment procedures and tests of controls.
- The effect of information technology on the audit procedures, including the availability of data and the expected use of computer-assisted audit techniques.
- The coordination of the expected coverage and timing of the audit work with any reviews of interim financial information and the effect on the audit of the information obtained during such reviews.
- The availability of client personnel and data.

#### **Reporting Objectives, Timing of the Audit, and Nature of Communications**

- The entity's timetable for reporting, such as at interim and final stages.
- The organization of meetings with management and those charged with governance to discuss the nature, timing and extent of the audit work.
- The discussion with management and those charged with governance regarding the expected type and timing of reports to be issued and other communications, both written and oral, including the auditor's report, management letters and communications to those charged with governance.
- The discussion with management regarding the expected communications on the status of audit work throughout the engagement.
- Communication with auditors of components regarding the expected types and timing of reports to be issued and other communications in connection with the audit of components.
- The expected nature and timing of communications among engagement team members, including the nature and timing of team meetings and timing of the review of work performed.
- Whether there are any other expected communications with third parties, including any statutory or contractual reporting responsibilities arising from the audit.

#### **Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements**

- The determination of materiality in accordance with ISA 320<sup>59</sup> and, where applicable:

<sup>59</sup> ISA 320, *Materiality in Planning and Performing an Audit*

- The determination of materiality for components and communication thereof to component auditors in accordance with ISA 600.<sup>60</sup>
- The preliminary identification of significant components and material classes of transactions, account balances and disclosures.
- Preliminary identification of areas where there may be a higher risk of material misstatement.
- The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.
- The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.
- Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.
- The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.
- Evidence of management's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control.
- Changes ~~to~~ within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures.
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal control.
- Importance attached to internal control throughout the entity to the successful operation of the business.
- The process(es) management uses to identify and prepare the disclosures required by the applicable financial reporting framework, including disclosures containing information from ~~systems or processes that are not part of the general ledger system~~ accounting records that are outside the general and subsidiary ledgers.
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.
- Significant industry developments such as changes in industry regulations and new reporting requirements.
- Other significant relevant developments, such as changes in the legal environment affecting the entity.

<sup>60</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs 21–23 and 40(c)

### **Nature, Timing and Extent of Resources**

- The selection of the engagement team (including, where necessary, the engagement quality control reviewer) and the assignment of audit work to the team members, including the assignment of appropriately experienced team members to areas where there may be higher risks of material misstatement.
- Engagement budgeting, including considering the appropriate amount of time to set aside for areas where there may be higher risks of material misstatement.

**F. Other ISAs**

14. The following sets out respondents' comments on other ISAs that had not been included in the ED, (in addition to ISA 600 and ISA 570 (Revised) that were discussed at the December 2014 IAASB meeting), and Task Force recommendations.

	<b>Comment</b>	<b>Task Force Recommendation</b>
ISA 220 <sup>61</sup>	A MG respondent noted that, given the importance of disclosures, this should be an area of focus for the engagement quality control reviewer (EQCR). In this respondent's view, the EQCR should also be required to confirm that the financial statements comply with the accounting financial reporting framework. <sup>62</sup>	The Task Force recommends that this comment is passed to the Quality Control Working Group, as part of its deliberations on any changes to ISA 220 relating to the EQCR.
ISA 230 <sup>63</sup>	A respondent suggested that consideration be given to incorporating additional guidance in ISA 230 related to the auditor's documentation of their considerations of qualitative financial statement disclosures, including materiality of the disclosures, the evaluations of misstatements in such disclosures and their conclusions thereon. <sup>64</sup>	<p>No change proposed. This is a very specific point relating to qualitative disclosures, and as this standard is relatively high level in nature, it is not considered appropriate to draw specific attention to qualitative disclosures.</p> <p>The Task Force did, however, reflect on whether it would be beneficial to include specific requirements and guidance relating to the auditor's documentation of their considerations of qualitative financial statement disclosures in standards such as ISA 315 (Revised),<sup>65</sup> ISA 330<sup>66</sup> and ISA 450,<sup>67</sup> but on reflection concluded that the current documentation requirements in each of those standards is sufficient for this purpose.</p>
ISA 265 <sup>68</sup>	A respondent suggested expanding the application material addressing matters that the auditor may consider in determining whether a deficiency or combination of	No change proposed to ISA 265, as additional application material has been proposed in ISA 450 for the auditor to consider whether misstatements in disclosures are indicative of

<sup>61</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>62</sup> *Monitoring Group: BCBS*

<sup>63</sup> ISA 230, *Audit Documentation*

<sup>64</sup> *NSS: AUASB*

<sup>65</sup> See ISA 315 (Revised), paragraphs A128a and A128b.

<sup>66</sup> See ISA 330, paragraph 30

<sup>67</sup> See ISA 450, paragraph A13b

<sup>68</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

	<b>Comment</b>	<b>Task Force Recommendation</b>
	deficiencies in internal control to include disclosure examples. <sup>69</sup>	a significant deficiency(ies) in internal controls. This will be included in the Agenda Papers for the March 2015 IAASB meeting. <sup>70</sup>
ISA 560 <sup>71</sup>	A respondent suggested expanding the application material to emphasize disclosures when considering events occurring between the date of the financial statements and the date of the auditor's report. <sup>72</sup>	No change proposed. In the Task Force's view ISA 560 is relatively high level in nature and already makes specific reference to disclosures in paragraph 6.
ISA 580 <sup>73</sup>	<p>Comments from respondents relating to ISA 580 included:</p> <p>(a) Conforming changes to be made arising from changes proposed to ISA 210 (Revised).<sup>74</sup></p> <p>(b) Consideration about whether specific management representations are required regarding disclosures.<sup>75</sup></p>	<p>(a) The Task Force will consider recommending conforming changes to ISA 580 regarding the auditor's considerations about whether additional matters should be included in the written representation (see ISA 210 (Revised), paragraph A23. and Appendix 1 Example Audit Engagement Letter, for examples of such additional matters). This will be included in the Agenda Papers for the March 2015 IAASB meeting.</p> <p>(b) As above. Conforming changes will be made to ISA 580 regarding the auditor's considerations in relation to written representations required regarding disclosures. In addition, ISA 580 paragraph A10, already makes reference to additional written representations that the auditor might request in relation to financial statement disclosures.</p>

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<sup>69</sup> NSS: MAASB

<sup>70</sup> See ISA 450, paragraph A7a.

<sup>71</sup> ISA 560, *Subsequent Events*

<sup>72</sup> NSS: MIA

<sup>73</sup> ISA 580, *Written Representations*

<sup>74</sup> NSS: MIA

<sup>75</sup> *Public Sector*: AGA

	Comment	Task Force Recommendation
ISA 705 (Revised) <sup>76</sup>	One respondent suggested more guidance would be helpful to address omitted disclosures and the circumstances in which they should be considered material to users' understanding of the financial statements. <sup>77</sup>	No change proposed. As this matter would be judged in the individual circumstances of an audited entity, the Task Force is of the view that this matter would be more appropriately addressed in ISA 320, which addresses the concept of materiality. However, the Board agreed not to proceed with the development of changes to the requirements in ISA 320 until such time as the International Accounting Standards Board has progressed its work, at which point the Board will consider whether a more holistic review of ISA 320 is necessary.

<sup>76</sup> ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

<sup>77</sup> NSS: HKICPA