

Disclosures – Conforming Amendments

Objective

1. To discuss and agree conforming amendments arising from the proposed changes to the ISAs relating to disclosures in standards other than those addressed in **Agenda Items 2-B and 2-C**.
2. The International Ethics Standards Board for Accountants' (IESBA) *Code of Ethics for Professional Accountants* (the Code) also includes the definition of financial statements (per ISA 200).¹ Staff will liaise with IESBA Staff to update the relevant definition within the Code.

A. **ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures**

3. A conforming change has been proposed to conform to proposed amendments made to ISA 260, paragraph A13 and ISA 300, Appendix, to clarify that it is the changes 'within' the applicable financial reporting framework that are relevant. (see paragraph A19)

Application and Other Explanatory Material

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A19. Inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes ~~to within~~ the requirements of the applicable financial reporting framework or otherwise.
- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

B. **ISA 580, Written Representations**

4. A conforming change has been proposed to the illustrative representation letter to conform to the footnote added to ISA 210² illustrative engagement letter for additional matters relating to management's responsibilities that may be considered for inclusion.

¹ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph 13(f)

² ISA 210, *Agreeing the Terms of Audit Engagements*

Appendix 2

(Ref: Para. A21)

Illustrative Representation Letter

The following illustrative letter includes written representations that are required by this and other ISAs. It is assumed in this illustration that the applicable financial reporting framework is International Financial Reporting Standards; the requirement of ISA 570 (Revised)³ to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.

(Entity Letterhead)

(To Auditor)

(Date)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX⁴ for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with International Financial Reporting Standards.

We confirm that (, *to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*):

Financial Statements

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with International Financial Reporting Standards; in particular the financial statements are fairly presented (or *give a true and fair view*) in accordance therewith.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (ISA 540)
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards. (ISA 550)
- All events subsequent to the date of the financial statements and for which International Financial Reporting Standards require adjustment or disclosure have been adjusted or disclosed. (ISA 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (ISA 450)
- [Any other matters that the auditor may consider appropriate (see paragraph A10 of this ISA).]

³ ISA 570 (Revised), *Going Concern*

⁴ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

Information Provided

- We have provided you with:⁵
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (ISA 240)
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements. (ISA 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (ISA 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (ISA 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (ISA 550)
- [Any other matters that the auditor may consider necessary (see paragraph A11 of this ISA).]

Management

Management

⁵ If the auditor has included other matters relating to management's responsibilities in the audit engagement letter in accordance with ISA 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from management or those charged with governance.

C. ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

5. Conforming changes have been proposed to:

- (a) Change 'narrative' to 'qualitative' to be consistent with the way this term is used throughout the rest of the proposed changes to the ISAs (see paragraph 22 of ISA 705 (Revised)).
- (b) Conform a reference to the definition of a misstatement in ISA 450⁶ to changes made in ISA 450, paragraph 4(a). (see paragraph A3 of ISA 705 (Revised))
- (c) No changes have been proposed to paragraph A3(c), which presents matters that may be considered when a modification to the auditor's opinion is required, specifically that a material misstatement may arise in relation to the appropriateness or adequacy of disclosures in the financial statements. The Task Force considered the effect of changes that have been made to paragraph A1 of ISA 450 to provide guidance on misstatements in disclosures. The Task Force is of the view that within ISA 705 (Revised) "appropriateness or adequacy" sufficiently covers the omission (including inadequate or incomplete qualitative disclosures) of those disclosures required to meet disclosure objectives required by certain financial reporting frameworks, as applicable;⁷ inappropriate classification, aggregation or disaggregation of information;⁸ and the omission of a disclosure necessary for the financial statements to achieve fair presentation beyond disclosures specifically required by the framework.⁹ Therefore, no further conforming amendments to incorporate these changes that have been made.
- (d) In the application material on the appropriateness of the selected accounting policies (paragraph A4 of ISA 705 (Revised)), the Task Force has proposed a conforming change to include the new example from ISA 450, paragraph A13a relating to when misstatements in accounting policies may be material.
- (e) A conforming change for the extension "including the related notes" attaching to "financial statements" has made to paragraph A4(c), consistent with the way that this has been changed in both **Agenda Item 2-B** (see explanation in Agenda Item 2-A. paragraphs 22–23) and **Agenda Item 2-C** (see paragraph 6(a)).
- (f) A conforming change has been proposed to paragraph A7(c) to conform to the change made in ISA 450 paragraph 1(f). In addition, a reference has been added to ISA 450, paragraph A13a, to provide a link to the further examples of where a material misstatement may arise in disclosures.

⁶ ISA 450, *Evaluation of Misstatements Identified during the Audit*

⁷ ISA 450, paragraph A1(b)

⁸ ISA 450, paragraph A1(e)

⁹ ISA 450, paragraph 1(f)

Requirements

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Basis for Opinion

20. When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by ISA 700 (Revised): (Ref: Para. A21)
- (a) Amend the heading “Basis for Opinion” required by paragraph 28 of ISA 700 (Revised) to “Basis for Qualified Opinion,” “Basis for Adverse Opinion,” or “Basis for Disclaimer of Opinion,” as appropriate; and
 - (b) Within this section, include a description of the matter giving rise to the modification.
21. If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures in the notes to the financial statements), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)
22. If there is a material misstatement of the financial statements that relates to ~~narrative-qualitative~~ disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

Application and Other Explanatory Material

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Circumstances When a Modification to the Auditor’s Opinion Is Required

Nature of Material Misstatements (Ref: Para. 6(a))

- A2. ISA 700 (Revised) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.¹⁰ This conclusion takes into account the auditor’s evaluation of uncorrected misstatements, if any, on the financial statements in accordance with ISA 450.¹¹
- A3. ISA 450 defines a misstatement as a difference between the reported amount, classification, presentation, or disclosure of a ~~reported~~ financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:
- (a) The appropriateness of the selected accounting policies;
 - (b) The application of the selected accounting policies; or
 - (c) The appropriateness or adequacy of disclosures in the financial statements.

¹⁰ ISA 700 (Revised), paragraph 11

¹¹ ISA 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

Appropriateness of the Selected Accounting Policies

A4. In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise, for example, -when:

(a) The selected accounting policies are not consistent with the applicable financial reporting framework;

(a)(b) The financial statements do not correctly describe an accounting policy relating to a significant item in the statement of financial position, statement of comprehensive income, statement changes in equity or the statement of cash flows; or

(b)(c) The financial statements, ~~including the related notes~~, do not represent or disclose the underlying transactions and events in a manner that achieves fair presentation.

A5. Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements.

Application of the Selected Accounting Policies

A6. In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

(a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or

(b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness or Adequacy of Disclosures in the Financial Statements

A7. In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:

(a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;

(b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or

(c) The financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Paragraph A13a of ISA 450 provides further examples of material misstatements in disclosures that may arise.

D. ISA 800, Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks

6. A conforming change has been proposed to align paragraph 7 of ISA 800 to the changes that have been made to the definition of ‘financial statements’ in ISA 200, paragraph 13(f). A footnote has been added to emphasize that disclosures are part of special purpose financial statements.
7. The phrase “form and content” has also been changed to “presentation, structure and content” of the financial statements to conform with changes made in ISA 330, paragraph 24,¹² and ISA 700 (Revised),¹³ paragraph 8.
8. These changes will be incorporated into the final ISA 800 (Revised), the Exposure Draft of which is currently out for public comment

(Marked to ISA 800 (Revised) Exposure Draft)

Definitions

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7. Reference to “financial statements” in this ISA means “a complete set of special purpose financial statements, ~~including the related notes.~~”¹⁴~~The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.~~ The requirements of the applicable financial reporting framework determine the presentation, structure, form and content of the financial statements, and what constitutes a complete set of financial statements.

E. ISA 805, Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement

9. Changes to conform with the revised definition of “financial statements” in ISA 200, paragraph 13(f), have been proposed to paragraphs 6(c) and A2.
10. The Task Force also considered making a conforming change for the extension “including related notes” in paragraph 15 (similar to that described in paragraph 4(e) in Section B above). However, as this also relates to an “element”, the same conforming change has not been proposed.
11. These changes will be incorporated into the final ISA 805 (Revised), the Exposure Draft of which is currently out for public comment.

(Marked to ISA 805 (Revised) Exposure Draft)

Definitions

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¹² ISA 330, *The Auditor’s Responses to Assessed Risks*

¹³ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

¹⁴ See also paragraph 13(f) of ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*.

6. For purposes of this ISA, reference to:
- (a) “Element of a financial statement” or “element” means an “element, account or item of a financial statement;”
 - (b) “International Financial Reporting Standards” means the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board; and
 - (c) A single financial statement or to a specific element of a financial statement includes the related notesdisclosures. The related notesdisclosures ordinarily comprise a summary of significant accounting policies and other explanatory or other descriptive information relevant to the financial statement or to the element.

Application and Other Explanatory Material

Scope of this ISA (Ref: Para. 1)

- A1. ISA 200 defines the term “historical financial information” as information expressed in financial terms in relation to a particular entity, derived primarily from that entity’s accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.¹⁵
- A2. ISA 200 defines the term “financial statements” as a structured representation of historical financial information, including related notesdisclosures, intended to communicate an entity’s economic resourcesassets, or obligations liabilities or equity at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term “financial statements” ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or other descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the related notes, or incorporated therein by cross-reference.¹⁶ Incorporated therein by cross-reference means from the financial statements to some other statement, such as management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.
- A3. ISAs are written in the context of an audit of financial statements;¹⁷ they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement. This ISA assists in this regard. (Appendix 1 lists examples of such other historical financial information.)
- A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised).¹⁸

¹⁵ ISA 200, paragraph 13(g)

¹⁶ ISA 200, paragraph 13(f)

¹⁷ ISA 200, paragraph 2

¹⁸ ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

Forming an Opinion and Reporting Considerations (Ref: Para. 11)

A15. ISA 700 (Revised) requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.¹⁹ In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, including the related notes, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

Matters for IAASB Consideration

1. The IAASB is asked whether it agrees with the proposed conforming amendments, in particular whether:
 - (a) The Board agrees that no change should be made as described in paragraph 4(c) (in Section B) above; and
 - (b) There are other conforming amendments that should be considered.

¹⁹ ISA 700 (Revised), paragraph 13(e)