STAFF PUBLICATION

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ADDRESSING DISCLOSURES IN THE AUDIT OF FINANCIAL STATEMENTS

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1. This document highlights matters that may be of relevance for auditors when addressing disclosures as part of an audit of financial statements. In particular, it describes financial reporting disclosure trends and their possible implications from an audit perspective and highlights how the ISAs guide the auditor in addressing disclosures. It is intended to help the consistent, effective and proper application of the ISAs.

2. This document refers to requirements and application material of the ISAs, including those amendments made by the International Auditing and Assurance Standards Board® (IAASB) in its July 2015 release, *Addressing Disclosures in the Audit of Financial Statements – Revised ISAs and Related Conforming Amendments*. This material has been written in the context of an audit of general purpose financial statements prepared in accordance with a fair presentation framework, but may also be useful for audits of financial statements prepared in accordance with other financial reporting frameworks.

Disclosures comprise explanatory or 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 notes, or incorporated therein by cross-reference.[1]

Explanatory or descriptive information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference to information in another document, such as a management report or a risk report. “Incorporated therein by cross-reference” means from the financial statements to some other statement, such as a management report or risk report. Incorporated therein by cross-reference” means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements.

[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)

Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial statements.[2, 3]

Financial statements are becoming progressively more complex, and therefore appropriate, relevant and high-quality disclosures have become increasingly important to users of financial statements. Financial statements are now more likely to include a variety of disclosures, ranging from the more traditional disclosure items to more subjective or explanatory qualitative disclosures. Different financial reporting frameworks may establish diverse disclosure requirements, and preparers may find it necessary to supplement these requirements with additional disclosures in order for the financial statements to achieve fair presentation.

The Importance of the Role of the Auditor in Financial Statement Disclosures

3. The financial crisis highlighted that immediate action was needed to address the quality of financial statement disclosures. Users rely on information in financial statements to make economic decisions, and rely on the audit to enhance the degree of confidence they may place on the financial information contained therein. The auditor's role in enhancing the credibility of the financial statements can contribute, through the audit process itself, to an improvement in the quality of financial statement disclosures.

4. Addressing disclosures is an integral part of the audit. It is therefore important that during all stages of the audit the auditor gives appropriate consideration to, and includes work effort on, disclosures. The ISAs recognize the importance of disclosures when obtaining an understanding of the entity and its environment, including the entity's internal control; performing risk assessments and developing responses to assessed risks; gathering and evaluating audit evidence; and forming an opinion on the financial statements, including evaluating the fair presentation of the financial statements. In addition, the ISAs often refer to "classes of transactions, account balances and disclosures" when describing the auditor's responsibilities in many areas, indicating that disclosures are treated in the same way as classes of transactions and account balances in the application of these requirements.

5. Addressing disclosures has become more complex as the disclosures themselves have evolved. As the focus has shifted to providing more qualitative information in the disclosures (for example, disclosures about risks affecting the entity, disclosure of estimation uncertainty, or other narrative disclosures), applying the requirements in the ISAs to disclosures when planning the audit, identifying and assessing the risks of material misstatement, obtaining sufficient appropriate audit evidence, and forming an opinion, has become more challenging. Notwithstanding that there may be challenges in auditing certain disclosures, attention to disclosures in applying the requirements of the ISAs throughout the audit process enhances the quality of the audit and is important to achieve compliance with the ISAs.

[2] ISA 200, paragraph A1a

[3] For example, International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures,* states that "the disclosures required … shall either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement …"

6. The following table illustrates some of the relevant ISAs when addressing disclosures:

Planning the Audit, and Identifying, Assessing and Responding to Risks of Material Misstatement	Obtaining Sufficient Appropriate Audit Evidence	Completing the Audit
ISA 200 *Overall Objectives of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*	**ISA 500** *Audit Evidence*	**ISA 450** *Evaluation of Misstatements Identified during the Audit*
ISA 210 *Agreeing the Terms of Audit Engagements*	**ISA 501** *Audit Evidence—Specific Considerations for Selected Items*	**ISA 700 (Revised)** *Forming an Opinion and Reporting on Financial Statements*
ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*	**ISA 540** *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*	
ISA 260 (Revised) *Communication with Those Charged with Governance*	**ISA 550** *Related Parties*	
ISA 300 *Planning an Audit of Financial Statements*	**ISA 560** *Subsequent Events*	
ISA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*	**ISA 570 (Revised)** *Going Concern*	
ISA 320 *Materiality in Planning and Performing an Audit*	**ISA 580** *Written Representations*	
ISA 330 *The Auditor's Responses to Assessed Risks*		

7. In light of the complexity and importance of disclosures, the quality of an audit is likely to be enhanced if the auditor:

- Gives appropriate attention to disclosures early in the audit process;[4]
- Appropriately takes into account how management prepares the information in disclosures, which means understanding the information system and related business processes, including relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers, and the related control activities relevant to the audit;[5]
- Recognizes the unique challenges by considering disclosures, including qualitative disclosures, when identifying and assessing the risks of material misstatements and when evaluating misstatements identified;[6] and
- Considers disclosures in light of the facts and circumstances of the entity based on the auditor's knowledge of the entity and the audit evidence obtained during the audit when evaluating the overall presentation of the financial statements.[7]

8. Disclosures are likely to be more challenging to prepare and audit when the business model and transactions of the entity are complex. As such, the challenges relating to addressing disclosures may be more significant for these types of entities. Notwithstanding that some financial reporting frameworks for small- and medium-sized entities (SMEs) may have less complex disclosure requirements, auditors of SMEs may also encounter auditing challenges, and the guidance that follows may also assist auditors of SMEs.

Financial Reporting Disclosure Trends

9. Financial reporting has evolved to provide greater transparency about an entity's financial and operational risks. Business and capital markets have also become more challenging, and there is now greater complexity in business models, and more diversity in sources of risk and uncertainty, as well as greater sophistication in how risk is managed.

10. This evolution has led to a need for entities to provide new types of information that may be more subjective but also more relevant to users. Financial reporting standards, and in particular their disclosure requirements, and practices have responded to these changes by shifting from simply providing breakdowns of line items on the face of the financial statements to providing a broad variety of disclosures, some of which are more explanatory or narrative in nature.

4 See paragraph A12b of ISA 300, paragraph A21a of ISA 315 (Revised), paragraph A11 of ISA 240, paragraph A23 of ISA 210 and paragraph A13 of ISA 260.

5 See paragraphs 18, 20 and A99a of ISA 315 (Revised)

6 See paragraphs A127–A128b of ISA 315 (Revised), paragraphs 6 and A1a of ISA 320, and A2–A3 of ISA 450

7 See paragraphs 13(a) and (d), and A3a–A4c of ISA 700 (Revised) (In the 2015 IAASB Handbook, paragraphs A3a–A4c in ISA 700 (Revised) have been renumbered as A4–A9)

Today, disclosures in the financial statements may include:

- **Significant accounting policies**—Descriptions of the accounting policies adopted by the entity, relevant to understanding the line items on the face of the financial statements, including the basis of measurement used in preparing the financial statements.
- **Components of line items**—Such as breakdowns of line items into smaller categories or reconciliations.
- **Judgments and reasons**—Such as disclosures about the nature of judgments made in the process of applying accounting policies, or of management decisions and the rationale supporting them. An example includes how an entity distinguishes investment property from owner-occupied property and from property held for sale in the ordinary course of business. This category may also include disclosures about why an entity's ownership interest constitutes control in respect of an investee where less than half of its voting rights or potential voting rights are owned directly or indirectly.
- **Models, including assumptions and inputs**—May include disclosures of information relevant to the calculation of items in the financial statements, such as possible ranges of values. This may also include forward-looking information, to the extent that it is used to support amounts recognized in the statement of financial position, such as discount rates, effective interest rates and growth rates used in impairment testing.
- **Financial exposure to risks and uncertainties arising from recognized and unrecognized resources and obligations**—Disclosures to enable users to understand the underlying measurement variability or estimation uncertainty of an item in the financial statements, such as a sensitivity analysis. An example of a disclosure about exposure to risks is value-at-risk disclosures.
- **Material uncertainties in relation to the entity's ability to continue as a going concern**—Disclosures about material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.
- **Related party disclosures**—Descriptions of related party relationships and amounts of transactions, including key management compensation.
- **Unrecognized assets and unrecognized liabilities**—Disclosures about assets or liabilities that do not meet the criteria for recognition in the financial statements, but that are useful for users of the financial statements.
- **Pro forma financial information**—Disclosures may be required relating to business combinations that have occurred after the balance sheet date but before the financial statements are issued.
- **Descriptions of internal processes**—Disclosures such as risk management policies and practices of an entity. An example is the disclosure of the policies and procedures for managing financial instrument risks.
- **Disclosure of the fair value of an amount recorded using a different measurement basis**—Such as a requirement to disclose fair values for items measured using another

measurement basis than that which is presented on the face of the financial statements, for example, historical cost or amortized cost.

- **Disclosures required to meet disclosure objectives of certain financial reporting frameworks**[8]—Overarching requirements in some financial reporting frameworks set out the objectives of the disclosures to be provided rather than require specific disclosures. Under this regime, preparers are expected to provide additional disclosures when compliance with the specific disclosure requirements in a standard would be insufficient for users to be able to understand the impact of particular transactions, other events and conditions on the entity's financial position and performance.
- **Factual information about the entity**—Such as addresses, names of group entities, composition of share capital and dividend payments.

Other Financial Reporting Considerations

11. The requirements of the applicable financial reporting framework,[9] including those relating to disclosures, determine the form and content of the financial statements.[10] Although financial reporting frameworks do not specify how to disclose every transaction, event or account balance, broad principles underlying the preparation and presentation of financial statements may be embodied in an applicable conceptual framework,[11] and may be used by the auditor to help assess whether the financial statements comply with the financial reporting requirements. Whether information communicated in the financial statements is useful to users of the financial statements in making economic decisions is highly dependent on how an entity presents and discloses such information.

12. In representing that the financial statements have been prepared in accordance with the applicable financial reporting framework, management implicitly, or explicitly, is expected to make assertions regarding recognition, measurement and presentation of classes of transactions and events, account balances and disclosures.[12] Some conceptual frameworks call this the fundamental characteristics of useful information,[13] which, in contemporary accounting standards, often include

[8] That is, disclosure requirements that establish the objectives to be accomplished, while not expressly requiring specific disclosure items. For example, an entity is required to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (see International Accounting Standard (IAS) 1, *Presentation of Financial Statements,* paragraph 17(c)).

[9] Some financial reporting frameworks are "fair presentation" frameworks, which require compliance with the requirements of the framework and acknowledge explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework (ISA 200, paragraph 13(a)).

[10] ISA 200, paragraph A6

[11] For example, the International Accounting Standards Board's (IASB) *Conceptual Framework for Financial Reporting* (Framework 2010)

[12] ISA 315 (Revised), paragraph A123

[13] The IASB's Framework 2010 notes that the fundamental qualitative characteristics include the types of information that is most useful to users for making economic decisions.

"relevance" and "faithful representation",[14] or similar characteristics.

13. As accounting standards have continued to evolve, some accounting standard setters have found it necessary to make changes to their conceptual frameworks. For example, in some accounting frameworks, "reliability" was once a principal qualitative characteristic of financial information but has been superseded by other concepts, such as "faithful representation."

14. Given this new emphasis on faithful representation, it has been argued that, in some circumstances, the disclosures that provide further context to a financial statement line item may become at least as important, if not more useful and relevant, to users as the amount disclosed on the face of the financial statements. The supporting disclosures are necessary to inform users about judgments and assumptions made in the measurement of the line item, the reasons for these judgments, facts, and circumstances and the measurement uncertainty related to that line item. In effect, the disclosures in these cases are being used to achieve the principles of relevance or faithful representation, or both.

Audit Considerations Relating to Disclosures

15. The auditor addresses disclosures in the context of the auditor's overall objectives in conducting an audit in accordance with the ISAs, which 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 express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, and to report thereon.[15]

16. Throughout the ISAs, the use of the term "financial statements," by definition, includes disclosures.[16] Accordingly, where the requirements and guidance in the ISAs refer to "financial statements", this is intended to include considerations about disclosures as well as classes of transactions and account balances. However, although gathering sufficient appropriate audit evidence for disclosures is an integral part of the audit, it is not the auditor's objective to form a separate opinion on each individual disclosure in the financial statements.

17. As explained in ISA 320, the auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level. Audit risk is a function of the risks of material misstatement and detection risk. Materiality and audit risk are therefore considered when identifying and assessing the risks of material misstatement; determining the nature, timing and extent of further audit procedures; and evaluating the effect of uncorrected misstatements, if any, on the financial statements, and in forming an opinion in the auditor's report.[17]

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14 Relevance and faithful representation are the fundamental qualitative characteristics of the IASB's Framework 2010, and are used as examples to represent the characteristics of accounting information included in disclosures. Other accounting frameworks may use similar terms, which are to be considered in a similar way when assessing the accounting requirements of information to be included in disclosures.

15 ISA 200, paragraph 11

16 (New) Revisions to ISA 200, paragraph 13(f) (The definition has been revised to clarify that disclosures comprise explanatory or 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 notes, or incorporated therein by cross-reference.)

17 ISA 320, paragraph A1

18. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial reporting needs of users of the financial statements. The determination of materiality under the ISAs assumes that users have a reasonable knowledge of business and economic activities and accounting. It also assumes that they have a willingness to study the information in the financial statements with reasonable diligence; understand that the financial statements are prepared, presented and audited to levels of materiality; recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and make reasonable economic decisions on the basis of the information in the financial statements.[18]

19. The concepts of professional judgment[19] and professional skepticism[20] are fundamental to audits of financial statements and therefore apply to the audit work performed on disclosures. The need for professional skepticism is essential when considering disclosures, for example with regard to:

- Identifying and assessing the risks of material misstatement.[21] The auditor's consideration of disclosures in the financial statements when identifying and assessing risks includes quantitative and qualitative disclosures.
- Considering the implications of misstatements in both quantitative and qualitative disclosures.
- Evaluating management's judgments, and the potential for management bias, in applying the requirements of the applicable financial reporting framework. For example, management may present disclosures in a manner that obscures a proper understanding of the matters disclosed. Such disclosures may also be indicative of the risk of material misstatement due to fraud.[22]
- Evaluating whether sufficient appropriate evidence has been obtained, which can be particularly challenging for some disclosures, such as qualitative disclosures.
- Drawing conclusions based on the audit evidence obtained, for example, assessing whether the presentation and disclosures achieve fair presentation.[23]

A Focus on Disclosures throughout the Audit Process

20. Disclosures are an integral part of the financial statements. Accordingly, it is important for the auditor to give attention to disclosures throughout the audit. Various aspects of the ISAs are intended to help auditors focus on disclosures earlier in the audit process, and when relevant in performing audit procedures on classes of transactions, events, account balances, and disclosures, in particular in relation to:

18 ISA 320, paragraph 4

19 ISA 200, paragraph 16

20 ISA 200, paragraph 15

21 ISA 200, paragraph 7

22 (New) ISA 450, paragraph A17 (new examples about misstatements in disclosures that could be indicative of fraud)

23 (New) ISA 700 (Revised), paragraph A4b (highlights that the auditor's evaluation about whether the financial statements achieve fair presentation is a matter of professional judgment) (In the 2015 IAASB Handbook, paragraph A4b in ISA 700 (Revised) has been renumbered as paragraph A8)

- **Terms of the engagement**—Additional matters may be included in the audit engagement letter, for example:[24]
    - o A description of the responsibilities of management relating to disclosures, particularly relating to making the draft financial statements and all information relevant to their preparation available for the audit, whether the information is obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information,[25] to allow sufficient time to complete the audit; and
    - o The expectation that management will provide written representations.
- **Communication with those charged with governance**—When communicating about the planned timing and scope of the audit, the auditor may also consider communicating the planned approach to addressing the implications on the individual statements and the disclosures of any significant changes within the applicable financial reporting framework or in the entity's environment, financial condition or activities.[26]
- **Planning**—Consideration of disclosures earlier in the audit process will assist the auditor in giving appropriate attention to, and planning adequate time for, addressing some of the challenges related to disclosures.[27] Consideration about disclosures early in the audit process may also help the auditor to determine the impact on the audit from:
    - o 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 a significant business combination).
    - o Significant new or revised disclosures arising from changes to the applicable financial reporting framework.
    - o 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).

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24 (New) Revisions to ISA 210, paragraph A23 (new examples on management making information available for purposes of the audit including: information in the financial statements from outside of the general and subsidiary ledgers; and making the draft financial statements, including information relevant to disclosures, available in a timely manner) and Example Audit Engagement Letter in Appendix 1 (footnote added to highlight examples of additional items that may be added to the audit engagement letter)

25 As defined in ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

26 (New) Revisions to ISA 260, paragraph A13 (additional example added of disclosure-related matters that may be discussed with those charged with governance)[27] (New) Revisions to ISA 300, Para A12a (new guidance for auditors to consider the effect of disclosures on the nature, timing and extent of planned audit procedures)

27 (New) Revisions to ISA 300, Para A12a (new guidance for auditors to consider the effect of disclosures on the nature, timing and extent of planned audit procedures)

- o Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.[28]

Understanding the Entity and Its Environment, Including Its Internal Control, and the Auditor's Risk Assessment and Response in Relation to Disclosures

ISA 300 requires the auditor to develop an audit plan that includes, among other things, a description of the nature, timing and extent of planned risk assessment procedures as determined under ISA 315 (Revised)[29] and the nature, timing and extent of planned further audit procedures at the assertion level, as determined under ISA 330.[30]

21. 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. Therefore consideration of the nature, timing and extent of work to be performed on disclosures is integral to the process of developing an appropriate audit plan.

The auditor is required to obtain an understanding of the entity and its environment, including the entity's internal control.[31] As part of obtaining an understanding of the entity's internal controls, ISA 315 (Revised) requires the auditor to obtain an understanding of relevant aspects of the information system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers.[32]

22. The following areas may be particularly important in the context of disclosures when understanding the entity and its environment, including the entity's internal control:[33]

    - Regulatory factors, such as the required disclosures in a regulated industry or disclosure of environmental requirements affecting the industry and the entity's business;
    - Disclosures about investments and investment activities, such as investments in non-consolidated entities, including partnerships, joint ventures and special-purpose entities;
    - Disclosures about financing and financing activities such as debt structure and related terms, including off-balance-sheet financing arrangements and leasing arrangements; and
    - Financial reporting practices, such as industry-specific disclosures;[34]

    as well as understanding, where relevant, whether an entity's complex business structure has been

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28 (New) Revisions to ISA 300, paragraph A12b (new guidance to provide examples of matters that may be dealt with on a more timely basis in the audit if disclosures are considered earlier in the audit process)

29 ISA 300, paragraph 9(a)

30 ISA 300, paragraph 9(b)

31 ISA 315 (Revised), paragraphs 11–12

32 (New) ISA 315 (Revised), paragraph 18 (addition to paragraph 18 makes clear that the relevant understanding that is obtained includes those aspects that are relevant to the information that has been disclosed in the financial statements).

33 See ISA 315 (Revised), paragraphs 11 and A24–A48.

34 (New) Revisions to ISA 315 (Revised), paragraph A31 (revised to emphasize disclosure considerations in specific areas already included in this paragraph)

adequately disclosed, or whether related party disclosures properly describe, as required, the relationship and transactions between the owners of the entity and other related people or entities.[35]

23. Some of the required understanding may also come from the auditor's previous experience with the entity and audit procedures performed in previous audits. For example, particular types of disclosures where the auditor previously experienced difficulty in performing the necessary audit procedures may inform the auditor for the current year's audit (e.g., due to their complexity).[36]

24. Certain disclosures may contain information that is obtained from outside of the general and subsidiary ledgers. Accordingly, in understanding the information system, including related business processes, relevant to financial reporting, the auditor is required to understand relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers. Examples of this information may include:

- Information obtained from lease agreements disclosed in the financial statements, such as renewal options or future lease payments.
- Information disclosed in the financial statements that is produced by an entity's risk management system.
- Fair value information produced by management's experts and disclosed in the financial statements.
- Information disclosed in the financial statements that has been obtained from models, or from other calculations used to develop estimates recognized or disclosed in the financial statements, including information relating to the underlying data and assumptions used in those models, such as:
  - Assumptions developed internally that may affect an asset's useful life; or
  - Data such as interest rates that are affected by factors outside the control of the entity.
- Information disclosed in the financial statements about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.
- Information recognized or disclosed in the financial statements that has been obtained from an entity's tax returns and records.
- Information disclosed in the financial statements that has been obtained from analyses prepared to support management's assessment of the entity's ability to continue as a going concern, such as disclosures, if any, related to events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.[37]

25. Disclosures in the financial statements of smaller entities may be less detailed or less complex (e.g., some financial reporting frameworks allow smaller entities to provide fewer disclosures in the

[35] (New) Revisions to ISA 315 (Revised), paragraph A30 (revised guidance to emphasize disclosures)

[36] (New) Revisions to ISA 315 (Revised), paragraph A19 (example added about matters arising from previous audits where the auditor experienced difficulty in performing the necessary procedures)

[37] (New) ISA 315 (Revised), paragraph A89a (new guidance with examples of where this information may come from)

financial statements). However, this does not relieve the auditor of the responsibility to obtain an understanding of the entity and its environment, including internal control, as it relates to disclosures.[38]

ISA 315 (Revised) requires discussion by the engagement partner and other key engagement team members about the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances.[39]

26. Matters the audit engagement team may discuss relating to disclosures include:

- Changes in financial reporting requirements that may result in significant new or revised disclosures;
- Changes in the entity's environment, financial condition or activities that may result in significant new or revised disclosures, for example a significant business combination in the period under audit;
- Disclosures for which obtaining sufficient appropriate audit evidence may have been difficult in the past.; and
- Disclosures about complex matters, including those involving significant management judgment as to what information to disclose.[40]

27. ISA 240 (Revised) emphasizes that the discussion required by ISA 315 (Revised) includes how and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud might occur. This includes consideration of the risk that management may attempt to present disclosures 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).[41] Examples of areas where there may be an increased risk of misstatement resulting from fraudulent financial reporting include disclosure of related party relationships and transactions and areas of subjectivity or judgment (for example, maturity analysis tables, sensitivity disclosures, and disclosures required to achieve fair presentation).

The auditor is required by ISA 315 (Revised) to identify and assess the risks of material misstatement at the financial statement level; and at the assertion level for classes of transactions, account balances, and disclosures (including the quantitative and qualitative aspects of such disclosures).[42]

28. Risks of material misstatement at the financial statement level refer to risks that relate pervasively to the financial statements as a whole and potentially affect many assertions. Risks at the financial statement level may derive in particular from a deficient control environment. Deficiencies such as a

38 (New) ISA 315 (Revised), paragraph A128c (new paragraph to highlight that audits of smaller entities with less complex disclosures are still subject to the same procedures).

39 ISA 315 (Revised), paragraph 10

40 (New) Revisions to ISA 315 (Revised), paragraph A21a (new guidance for possible related matters that could be discussed)

41 (New) Revisions to ISA 240, paragraph A11 (revisions to provide further examples about where fraud could arise in disclosures)

42 ISA 315 (Revised), paragraph 25

lack of management competence or lack of oversight over the preparation of the information included in disclosures may have a more pervasive effect on the financial statements, and require an overall response by the auditor,[43] such as assigning reviews of the disclosures to more experienced staff or those with specialized skills in this area.

29. Since many disclosures are directly related to line items in the financial statements, consideration of the risk of material misstatement at the assertion level for disclosures may be done at the same time as, and in conjunction with, consideration of the risk of material misstatement of the related line item. For example, when assessing the risk of material misstatement for impairment amounts recognized (for example, relating to the valuation of goodwill), the auditor may also assess the risk of material misstatement about the related disclosures, such as the information about the impairment model (model used, growth rates, interest rates, etc.). For disclosures, the level at which the risk assessment is carried out is a matter of the auditor's professional judgment, and such assessment is performed using the knowledge that the auditor has gained about the entity and its activities such that the assessment is made at the appropriate level.[44]

30. Financial reporting frameworks may require disclosures that are not directly related to a recorded transaction, event or account balance (for example, disclosure of a contingent liability). The auditor's assessment of the risks of material misstatement also extends to these disclosures, and the same assertions described for classes of transactions and events and account balances, and related disclosures, may be used (adapted as appropriate).[45]

31. As explained in paragraph A1 of ISA 320, materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial reporting needs of users of the financial statements.[46]

32. The auditor's consideration of disclosures in the financial statements when identifying and assessing the risks of material misstatement includes consideration of both quantitative and qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole). Depending on the circumstances of the entity and the engagement, examples of disclosures that will have qualitative aspects and that may be relevant when assessing the risks of material misstatement include disclosures about:

- Liquidity and debt covenants of an entity in financial distress.
- Events or circumstances that have led to the recognition of an impairment loss.

[43] ISA 315 (Revised), paragraph A118 and (New) Revisions to ISA 315 (Revised), paragraph A119 (new example added to explain when a matter relating to disclosures is pervasive to the financial statements)

[44] (New) Revisions to ISA 315 (Revised), paragraphs A124(a)–(b) (assertions for classes of transactions and events, and account balances, revised to include assertions for related disclosures as well as presentation)

[45] (New) Revisions to ISA 315 (Revised), paragraph A124a (new guidance for those disclosures that are not necessarily covered by paragraphs A124(a)–(b))

[46] (New) Revisions to ISA 315 (Revised), paragraph A128a (guidance added for identifying and assessing the risks of material misstatements in disclosures)

- Key sources of estimation uncertainty, including assumptions about the future.
- The nature of a change in accounting policy, and other relevant disclosures required by the applicable financial reporting framework where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.
- Share-based payment arrangements, including information about how any amounts recognized were determined, and other relevant disclosures.
- Related parties, and related party transactions.
- Sensitivity analyses, including the effects of changes in assumptions used in the entity's valuation techniques intended to enable users to understand the underlying measurement uncertainty of a recorded or disclosed amount.[47]

33. Appendix 2 of ISA 315 (Revised) provides examples of conditions and events that may indicate the existence of risks of material misstatement in the financial statements. For example, incentives for management and employees to engage in fraudulent financial reporting, events or transactions that involve significant measurement uncertainty, and the possibility of omission of, or obscuring, useful and relevant information, may be particularly relevant in the context of the auditor's work on disclosures.[48]

The auditor is required by ISA 330 (Revised) to design and implement an overall response to address the assessed risks of material misstatement at the financial statement level. The auditor is also required to design and perform further audit procedures whose nature, timing and extent are based on and are responsive to assessed risks of material misstatement at the assertion level.[49]

34. When designing audit procedures in relation to disclosures, the auditor may also consider:
    - The controls over the preparation of the financial statements,[50] such as the adequate review of the preparation of the financial statements, including over information for those disclosures where the information is obtained from outside of the general and subsidiary ledgers. For example, those charged with governance have responsibility for overseeing the preparation of the financial statements but there may be other controls involving review of the disclosures that are directly related to the underlying amounts recognized..
    - Procedures performed on the related line items in the financial statements. For example, some parts of the required disclosures may already have been addressed by the audit procedures on the underlying amounts recognized in the financial statements.
    - The assessed risks for the disclosures, which may affect the disclosures selected for testing.

47 (New) Revisions to ISA 315 (Revised), paragraph A128b (new guidance providing examples of material qualitative disclosures)

48 (New) Revisions to ISA 315 (Revised), paragraph A128 and Appendix 2 (new examples added to emphasize disclosures)

49 ISA 330, paragraphs 5 and 6

50 (New) Revisions to ISA 315 (Revised), paragraph A99a (example of a control activity added relating to the preparation of the financial statements)

35. The audit procedures performed on disclosures are based on the auditor's assessment of risk and materiality for the financial statements as a whole or the materiality for particular financial statement items, when applicable. For example, the disclosure of the objectives, policies and processes for managing credit risk[51] may not be considered to give rise to a risk of material misstatement for some entities and therefore the auditor may consider it appropriate to refer to relevant risk manuals, minutes of meetings etc. in order to assess the accuracy with which the disclosure describes the entity's process. However, for entities with banking and insurance activities, the objectives, policies and processes for managing credit risk are more fundamental to the entity, and the work effort required would likely be more comprehensive. In this case, the auditor's focus may be more on whether the disclosure properly describes the process the entity has followed, and audit procedures could include detailed testing of the sources from which the disclosed information was derived or testing the operating effectiveness of controls over the information used in the preparation of the disclosure. The auditor's procedures may also involve using those with specialized skills and knowledge in this area.

36. The timing of the preparation of the financial statements, particularly for those disclosures that relate to a line item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows, may be a relevant consideration in the auditor's determination of when to perform audit procedures in accordance with ISA 330.[52] There may be various reasons why disclosures may be prepared late in the financial reporting process, including that: management's focus may initially be on the line items in the financial statements (i.e., the amounts recognized) as these may often be used for preliminary announcements; or the financial statements may be prepared through a separate process that is done after the information generated by the general ledger is completed. Nonetheless, as indicated in paragraph 21 above, emphasizing management's responsibilities relating to the preparation of the draft financial statements, including disclosures, when agreeing the terms of engagement is an important consideration for the auditor.

ISA 330 also requires the auditor to agree or reconcile information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.[53] ISA 330 also requires the auditor to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework.[54]

37. The auditor uses professional judgment, taking into account the risks of material misstatement, in determining the nature and extent to which the disclosures are agreed or reconciled.[55]

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51 For example, paragraph 33(b) of IFRS 7, *Financial Instruments: Disclosures,* requires qualitative disclosures for risks arising from financial instruments, such as credit risk, to be disclosed.

52 (New) Revisions to ISA 330, paragraph A14 (new example added relating to disclosures when considering the planned timing of audit procedures)

53 (New) Revisions to ISA 330, paragraph 20(a) (requirement revised to make clear that the reconciliation applies to information in the financial statements (including disclosures), regardless of where the information comes from)

54 ISA 330, paragraph 24

55 (New) Revisions to ISA 330, paragraph A52 (revised guidance to make clear that the auditor uses professional judgment when deciding the work effort in agreeing or reconciling the financial statements)

38. As noted, the auditor is also required to perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor also considers whether the financial statements are presented in a manner that reflects the appropriate:

- Classification and description of financial information and the underlying transactions, events and conditions; and
- Presentation, structure and content of the financial statements.[56]

39. This evaluation may include, for example, consideration of the terminology used as required by the applicable financial reporting framework, the level of detail provided, the aggregation and disaggregation of amounts, and the bases of amounts set forth.[57]

Sufficient Appropriate Audit Evidence for Disclosures

The auditor is required to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.[58]

40. Audit evidence is necessary to support the auditor's opinion and report. Whether sufficient appropriate audit evidence has been obtained to enable the auditor to form an opinion is a matter of professional judgment. The requirement for the auditor to obtain sufficient appropriate audit evidence for disclosures is the same as for obtaining audit evidence for classes of transactions and account balances, which in some cases will be done concurrently.

41. For example, procedures for obtaining audit evidence to support amounts recognized in the financial statements may also satisfy the auditor's consideration of whether the disclosure is an accurate portrayal of the basis for the calculation, recognizing that the disclosure is often an integral part of the presentation of the related financial statement amount (for example, the model used, the assumptions such as growth rates, discount rates, etc.).

42. Various ISAs, in particular ISA 500, ISA 501, ISA 540, ISA 550, ISA 560 and ISA 570 (Revised), establish requirements and provide guidance about obtaining audit evidence for the wide variety of disclosures in financial statements, for example:

- Requirements and guidance for obtaining sufficient appropriate audit evidence, including types of procedures, the relevance and reliability of audit evidence, and considerations where audit evidence is prepared by a management's expert.[59]
- Obtaining audit evidence for selected items, such as litigation and claims,[60] and segment information.[61]

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[56] (New) Revisions to ISA 330, paragraph 24 (revised to strengthen the requirement for this evaluation)

[57] (New) Revisions to ISA 330, paragraph A59 (revised guidance for the auditor when performing the overall evaluation of the presentation of the financial statements)

[58] ISA 500, paragraph 6

[59] See ISA 500.

[60] ISA 501, paragraphs 9–11

[61] ISA 501, paragraph 13

- Requirements and guidance for disclosures related to accounting estimates.[62]
- Requirements and guidance for auditing related party disclosures.[63]
- Requirements and guidance for obtaining evidence for events between the date of the financial statements and the date of the auditor's report, including adequate disclosures in the financial statements.[64]
- The auditor's responsibilities relating to disclosures about going concern required by a financial reporting framework.[65]

How Misstatements in Disclosures Are Evaluated

ISA 450 requires the accumulation of misstatements identified during the audit, other than those that are clearly trivial.[66]

43. Misstatements in disclosures can be as important to users as misstatements of line items in the financial statements. For example, in the financial crisis, users placed heavy emphasis on the maturity analysis of liabilities to ascertain the difficulty the entity may have in rolling over debt facilities. A misstatement in such a disclosure could affect users' decisions to buy, hold, or sell investments in that entity, extend finance or take another economic action.

44. ISA 450 applies equally to classes of transactions, account balances and disclosures. Misstatements in disclosures may result from:

    - An omission of a disclosure, including inadequate or incomplete disclosures, and those disclosures required to meet the disclosure objectives[67] of certain financial reporting frameworks as applicable.
    - An inappropriate classification, aggregation or disaggregation, of information.

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[62] ISA 540, paragraphs 19–20 and A120–A123. In addition, International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*, provides further guidance for obtaining sufficient appropriate audit evidence for accounting estimates, including fair value accounting estimates.

[63] See ISA 550.

[64] See ISA 560.

[65] Within ISA 570 (Revised), *Going Concern,* the IAASB has made changes to enhance the auditor's work effort relating to going concern disclosures by:

- Providing further guidance regarding the consideration of appropriate disclosures when a material uncertainty exists. Importantly, the auditor's consideration is in light of the definition of a material uncertainty and related disclosure considerations set out in the ISA, and is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate.
- Requiring the auditor to evaluate the adequacy of disclosures in "close call" situations in view of the requirements of the applicable financial reporting framework. ISA 570 (Revised) also provides guidance on the types of disclosures that may be required by the applicable financial reporting framework in a "close call" situation, incorporating concepts from the International Financial Reporting Interpretations Committee's (IFRIC) Agenda Decision, as well as the US Financial Accounting Standards Board's (FASB) work on going concern.

[66] ISA 450, paragraph 5

[67] For example, paragraph 42H of IFRS 7 states that "an entity shall disclose any additional information that it considers necessary to meet the disclosure objectives…"

- For financial statements prepared in accordance with a fair presentation framework, the omission of a disclosure necessary for the financial statements to achieve fair presentation beyond disclosures specifically required by the framework.[68]

45. Misstatements in disclosures, other than those that are clearly trivial, are accumulated, and aggregated where appropriate, to assist the auditor in evaluating their effect on the disclosures and the financial statements as a whole.[69] Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances.[70]

46. The auditor may designate an amount below which misstatements would be clearly trivial. Misstatements in disclosures may be clearly trivial whether taken individually or in aggregate, and whether judged by any criteria of size, nature or circumstances. Misstatements in disclosures that are not clearly trivial are also accumulated to assist the auditor in evaluating the effect of such misstatements on the relevant disclosures and the financial statements as a whole.[71]

47. In addition to assessing misstatements individually, professional judgment is used in accumulating misstatements in disclosures to determine whether they are material. Misstatements by nature or circumstance cannot be added together as is possible in the case of misstatements of amounts but are nevertheless evaluated individually and in aggregate (i.e., collectively with other misstatements) to determine whether they are material.[72]

48. Each individual misstatement of a qualitative disclosure is considered to evaluate its effect on the relevant disclosure(s), as well as its overall effect on the financial statements as a whole. The determination of whether a misstatement(s) in a qualitative disclosure is material, in the context of the applicable financial reporting framework and the specific circumstances of the entity, is a matter that involves the exercise of professional judgment. Examples where such misstatements may be material include:

    - Inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.
    - The omission of information about the events or circumstances that have led to an impairment loss (e.g., a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations.
    - The incorrect description of an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.

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68 (New) Revisions to ISA 450, paragraph A1 (additional examples added to illustrate possible misstatements in disclosures)

69 (New) Revisions to ISA 450, paragraphs A2b–A2c (new guidance to emphasize that misstatements in disclosures are also accumulated, and aggregated where appropriate, and assessed for material misstatements)

70 (New) Revisions to ISA 450, paragraph A2 (emphasizing that the concept of “clearly trivial” also applies to disclosures)

71 (New) ISA 450, paragraph A2b (emphasizing that misstatements in disclosures that are not clearly trivial are also accumulated)

72 (New) ISA 450, paragraph A2c (new paragraph to emphasize that misstatements in disclosures are also accumulated and assessed, notwithstanding that they cannot be aggregated in the same way as misstatements in amounts)

- The inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities. [73]

49. In determining whether uncorrected misstatements are material in accordance with paragraph 11(a) of ISA 450, the auditor considers uncorrected misstatements in amounts and disclosures. Misstatements in disclosures may be considered material either individually, or when taken in combination with other misstatements. For example, depending on the misstatements identified in qualitative disclosures, the auditor may consider whether:

    (a) Identified errors in narrative disclosures are persistent or pervasive; or

    (b) A number of identified misstatements are relevant to the same matter, and considered collectively may affect users' understanding of that matter.

    This consideration of accumulated misstatements, including misstatements in qualitative disclosures, is also helpful when evaluating the financial statements in accordance with paragraph 13(d) of ISA 700 (Revised), which requires the auditor to consider whether the overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed.[74]

50. As part of the auditor's considerations about misstatements in disclosures, in accordance with paragraph 35 of ISA 240, if the auditor identifies a misstatement, the auditor evaluates whether such a misstatement could be indicative[75] of fraud. For example, misstatements may arise from misleading disclosures that have resulted from bias in management's judgments or extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial statements. The auditor exercises professional skepticism when considering these matters.[76]

Forming an Opinion on the Financial Statements

In forming an opinion on the financial statements, the auditor is required to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements adequately disclose the significant accounting policies selected and applied, including the relevance of the accounting policies to the entity and whether they have been presented in an understandable manner; … the information presented in the financial statements is relevant, reliable, comparable and understandable, including whether all information that should have been included has been included, whether such information is appropriately classified, aggregated or disaggregated and characterized; and that the overall presentation of the financial statements has been undermined by including information that is not relevant or obscures a proper understanding of the matters disclosed; and 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…[77]

[73] (New) ISA 450, paragraph A13a (providing examples of misstatements that may be material in disclosures)

[74] (New) ISA 450, paragraph A13b (additional guidance for pervasive or persistent misstatements, or where a number of misstatements in qualitative disclosures could be relevant to the same matter)

[75] This is not to say that the misstatement will always be due to fraud, rather it is something to consider in such circumstances.

[76] (New) Revisions to ISA 450, paragraph A17 (new guidance added for indications of fraud)

[77] (New) Revisions to ISA 700, paragraphs 13 (a) and (d) and extant (e) (to strengthen the requirements relating to the auditor's evaluation of the overall presentation of the financial statements)

51. When evaluating the financial statements, the auditor exercises professional judgment in assessing whether disclosures are, in the auditor's view, insufficient or inappropriate, and consequently whether to challenge management. Therefore, in addition to considerations about the individual and aggregated effect of misstatements in disclosures in accordance with ISA 450, the auditor also considers:[78]

- In relation to the disclosure of the significant accounting policies selected and applied:
  - Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed,
  - Whether the information disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances and disclosures in the financial statements in the particular circumstances of the entity's operations and its environment;[79] and
  - The clarity with which the significant accounting policies have been presented.
- In relation to the relevance, reliability, comparability and understandability, whether:
  - The information in the financial statements is presented in a clear and concise manner; and
  - The placement of significant disclosures gives appropriate prominence to them (e.g., when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information.[80]

  In addition, the auditor may consider whether the financial statements are comparable to the entity's financial statements of previous periods.
- 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. This may include the extent to which the information in the financial statements is relevant and specific to the circumstances of the entity. In addition, the auditor may also consider whether the disclosures are adequate to assist the intended users to understand:

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78 (New) Revisions to ISA 700, paragraphs A3a–A4 (new and revised guidance on considerations relating to disclosures for the auditor when carrying out this evaluation) (In the 2015 IAASB Handbook, paragraphs A3a–A4 in ISA 700 (Revised) have been renumbered as paragraphs A4–A6)

79 (New) ISA 700 (Revised), paragraph A3a (new guidance to assist with the evaluation in accordance with the applicable financial reporting framework) (In the 2015 IAASB Handbook, paragraph A3a in ISA 700 (Revised) has been renumbered as paragraph A4)

80 (New) ISA 700 (Revised), paragraph A3b (new guidance to address the auditor's efforts in relation to the evaluation of the understandability of information presented in the financial statements) (In the 2015 IAASB Handbook, paragraph A3b in ISA 700 (Revised) has been renumbered as paragraph A5)

- The nature and extent of the entity's potential assets and liabilities arising from those transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework.
- The nature and extent of risks arising from transactions and events, for example, disclosure of the financial risks to which an entity may be exposed if it undertakes derivatives trading.
- The methods used and the assumptions and judgments made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analysis.[81]

Evaluating Whether the Financial Statements Achieve Fair Presentation

If the auditor is required to evaluate whether the financial statements are prepared in accordance with a fair presentation framework, the auditor also considers the overall presentation, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.[82]

52. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation takes into account matters such as the facts and circumstances of the entity, including changes thereto, based on the auditor's knowledge of the entity and the audit evidence obtained during the audit. The evaluation also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.[83]

53. In performing this evaluation, the auditor considers what is needed in order to achieve fair presentation of the financial statements. Some financial reporting frameworks explicitly address the concept of fair presentation. For example, IFRSs note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses. As noted in paragraph 7(b) of ISA 700 (Revised), fair presentation involves not only compliance with the requirements of the applicable financial reporting framework, but also the possibility that additional disclosures may be necessary, regardless of whether there is a specific requirement for that information in the framework.[84, 85]

81 (New) Revisions to ISA 700, paragraph A4 (revised to include examples of the matters to consider when evaluating whether financial statements are relevant and specific to the entity) (In the 2015 IAASB Handbook, paragraph A4 in ISA 700 (Revised) has been renumbered as paragraph A6)

82 ISA 700 (Revised), paragraph 14

83 (New) ISA 700 (Revised), paragraph A4b (new guidance added to emphasize that the evaluation of whether the financial statements achieve fair presentation is a matter of professional judgment) (In the 2015 IAASB Handbook, paragraph A4b in ISA 700 (Revised) has been renumbered as paragraph A8)

84 (New) ISA 700 (Revised), paragraph A4a (new guidance to emphasize that, when evaluating whether the financial statements achieve fair presentation, consideration is given to whether additional disclosures are required in addition to those required by

Communicating with Those Charged with Governance

54. Finally, those charged with governance have an important role to play in relation to the entity's disclosures.

55. When communicating about the planned time and scope of the audit, the auditor may also consider discussing the impact on the audit of significant changes within the applicable financial reporting framework, or the entity's environment, financial condition or activities, which may affect the required disclosures in the financial statements, to obtain the views of those charged with governance on these matters.[86]

56. In communicating identified misstatements accumulated during the audit to the appropriate level of management,[87] the auditor may also consider whether the misstatements are indicative of a significant deficiency or deficiencies in internal control to be communicated to those charged with governance as required by ISA 265.[88]

57. When evaluating whether the financial statements achieve fair presentation, the auditor may discuss with management and those charged with governance, as appropriate, their views on why a particular presentation was chosen, as well as alternatives that may have been considered, including:

    - The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
    - Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.[89]

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the applicable financial reporting framework.) (In the 2015 IAASB Handbook, paragraph A4a in ISA 700 (Revised) has been renumbered as paragraph A7)

85 See footnote 4 of this publication.

86 (New) Revisions to ISA 260 (Revised), paragraph A13 (additional example added of disclosure related matters that may be discussed with those charged with governance)

87 ISA 450, paragraph 8

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

89 (New) ISA 700 (Revised), paragraph A4c (new guidance about the types of matters that may be discussed with management or those charged with governance when evaluating whether fair presentation has been achieved) (In the 2015 IAASB Handbook, paragraph A4c in ISA 700 (Revised) has been renumbered as paragraph A9)

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