The IAASB believes that the omission of material disclosures should be considered as a risk of fraud in ISA 315. "The Auditor’s Responsibilities Regarding Fraud in an Audit of Financial Statements".

Sufficient appropriate audit evidence for disclosures

Basel supports further deliberations and considerations by the IAASB (and other relevant bodies) in relation to the concept of "materiality" to note disclosures. In an audit ISA 320, "Materiality in Planning and Performing an Audit", should include a specific requirement for the auditor to undertake an initial determination of what is material for note disclosures. For instance, Basel encourages the IAASB to elevate the relevant application material to ISA requirements to enhance the quality of audits of disclosures.

Engagement Quality Control Reviewer

Basel supports further deliberations and considerations by the IAASB (and other relevant bodies) in relation to the concept of "materiality" to note disclosures. In an audit ISA 320, "Materiality in Planning and Performing an Audit", should include a specific requirement for the auditor to undertake an initial determination of what is material for note disclosures. For instance, Basel encourages the IAASB to elevate the relevant application material to ISA requirements to enhance the quality of audits of disclosures.

Internal control over disclosures

Basel supports further deliberations and considerations by the IAASB (and other relevant bodies) in relation to the concept of "materiality" to note disclosures. In an audit ISA 320, "Materiality in Planning and Performing an Audit", should include a specific requirement for the auditor to undertake an initial determination of what is material for note disclosures. For instance, Basel encourages the IAASB to elevate the relevant application material to ISA requirements to enhance the quality of audits of disclosures.

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IAASB

Part of the application material supporting the requirement for the auditor to evaluate whether the information presented in the financial statements is relevant, reliable, comparable and understandable ISA 320 should be elevated to a requirement. Basel believes that it is important for the auditor to rigorously challenge whether the financial statement disclosures are adequate and useful. More guidance should be provided regarding the procedures that should be performed to meet this requirement, covering for instance the auditor's approach to whether there are additional disclosures that should be included in the financial statements.

Basel supported the IAASB in its efforts to elevate the relevant application material to ISA requirements to enhance the quality of audits of disclosures. The IAASB agreed not to introduce new requirements or application material in relation to obtaining sufficient appropriate evidence for disclosures (e.g., ISA 500 series). Before changes were introduced into the financial reporting standards (e.g., the IFRS), and decided to continue working alongside the IAASB as it progresses its disclosures initiative, until it is sufficiently progressed to consider amendments to the ISAs.

Sufficient appropriate audit evidence for disclosures

Basel believes it is important for the IAASB to incorporate more robust requirements for auditors in this area, to enhance the consistency and quality of audits of disclosures, particularly in relation to the disclosures such as management judgments and assumptions, information derived through processes other than accounting processes, and risk management disclosures.

The IAASB agreed not to introduce new requirements or application material in relation to obtaining sufficient appropriate evidence for disclosures (e.g., ISA 500 series). Before changes were introduced into the financial reporting standards (e.g., the IFRS), and decided to continue working alongside the IAASB as it progresses its disclosures initiative, until it is sufficiently progressed to consider amendments to the ISAs.

Engagement Quality Control Reviewer

Given the importance of disclosures, the audit of disclosures should be an area of focus for the engagement quality control reviewer. The reviewer should confirm that the financial statements comply with the applicable financial reporting framework and any statutory disclosure requirement. The auditor's working papers should adequately document the work performed on disclosures.
Auditors with adequate experience and seniority when auditing disclosures

ISA 500, “Performing an Audit of Financial Statements”, should better emphasize that the application of a suitable professional judgment to the overall presentation, structure and content of the financial statements (including assessing the contribution of disclosures to the relevance, reliability, comparability and understandability of the financial statements) should involve members of the audit team with an adequate level of experience and seniority. The ISA would stress the need for expertise to audit disclosures where there are complexities, such as fair values, impairment of intangibles and sensitivity analysis.

Solvency capital requirement

The information relative to the solvency capital requirement should be added to ISA 315 in the list of disclosures that may be relevant when assessing the risk of material misstatement affecting information that may influence the economic decisions of users. The ISAASB was of the view that this type of industry-specific guidance may be better considered in the context of current project on special considerations in auditing financial institutions, which would address disclosure issues for insurance companies.

ISA 315 & Coordination with the IFRS

Disclosures related to solvency capital and risk sensitivity analysis should be considered in ISA 315, “Materially in Planning and Performing an Audit”, when determining the materiality threshold for the audit of financial reporting disclosures. Coordination with the IASB, engaged in a project on financial reporting disclosures, with respect to considering the definition of materiality within the context of disclosures would be useful for the IASBASB.

Sufficient appropriate audit evidence for disclosures

The standards should provide more guidance to auditors about audit procedures that should be carried out to gather sufficient, appropriate audit evidence that supports the accuracy of disclosures. E.g. enhancing ISA 500 by providing more information on how the auditor should deal with management judgments and assumptions; qualitative disclosures; information derived through processes other than accounting processes.

ISA 700 - Documenting Judgments

The ISAASB agreed not to introduce new requirements or application material in relation to obtaining sufficient appropriate audit evidence for disclosures (e.g., ISA 500 varies), before changes are introduced to the financial reporting standards (e.g., further work on IFRS), and agreed to continue work alongside the IASB as it progresses its disclosures initiative, until it is sufficiently progressed to consider amendments to the IFRS.

Information on Going Concern

The information to be provided by preparers on going concern issues should be of particular interest to the auditor. The provisions in paragraph A10B and Appendix 2 of ISA 315 should be elevated to requirements.

Evaluating materiality of disclosures

Auditors seem to have difficulty in establishing materiality for disclosures, including qualitative disclosures, and the associated work effort. The ISAASB’s proposed changes do not address how to apply the concept of materiality when assessing disclosures. The ISAASB should include clear requirements in the ISA to assist auditors assessing materiality in the context of disclosures. In particular, the ISAASB should include clear provisions on how auditors assess how a company provides relevant and understandable material disclosure, and encourages auditors to be mindful of companies providing irrelevant or technical disclosures that may negatively affect the understandability of the auditor’s report.

For the term “non-quantitative disclosures” in ISA 700, the Board agreed not to change the term “non-qualitative” or “qualitative” disclosures, which is not sufficiently addressed by the Board.

Coping with the ISQC

The Board is committed to the continued improvement of its work and progress made by the ISQC in its initiatives, in order to consider what further work may be necessary.

Definition of Financial Statements

Some of the terms “financial statements” in ISA 700, such as the term “financial statements including disclosures”, while others “financial statements” only. This may lead auditors assume that in the latter case disclosures are excluded from consideration.

Board dialogue language

ISA 315 could benefit the notes that auditors should be able to manage their use of board dialogue language and encourage management to enhance the disclosures where necessary to reflect facts and circumstances.

Disclosures in inspections findings

The adequacy of financial statements and disclosures is one of the 9 inspection themes reported to have the highest number of findings in IIA’s 2013 Survey of inspections findings. A behaviors, including ISAASB, related to the need for auditors to address and focus on more disclosures as part of the financial statement audit. The Board is of the view that some of the changes will enhance auditor’s behavior towards disclosures. Finally, the Board has agreed to further work on materiality, misstatements in qualitative disclosures and professional judgment with respect to disclosures, once the ISAASB makes progress with its Materiality and Disclosures projects.
The limited changes proposed by the IAASB, primarily in application material, are unlikely to have a significant impact on changing behavior. IFIAR encourages the IAASB to consider what further action it can and should take to promote the necessary behavioral change by auditors.

The Board has agreed to further work on materiality, misstatements in qualitative disclosures and audit evidence, once the IAASB makes progress on its Materiality and Disclosures projects.

The board will continue to liaise with the IAASB and to monitor the work and progress made by the IAASB in its initiatives, in order to consider what further work may be necessary.

The limit of changes proposed by the IAASB, primarily in application material, are unlikely to have a significant impact on changing behavior. IFIAR encourages the IAASB to consider what further action it can and should take to promote the necessary behavioral change by auditors.

Integration with the IAASB’s Disclosures Initiative

The Council strongly supports the proposed changes to the ISAs, conditional on the provision that changes to ISA 315 (paragraph 128b) referring to that consideration is unlikely to be effective in helping ensure that auditors will give more focus to this important area in the future.

The proposed changes to the ISAs do not include references to GC disclosures both in ISA 315 and 570. The Board agreed not to revise the requirements on materiality in ISA 320 until such time as a more holistic review of the SA is undertaken, likely in light of the outcome of the IASB’s current work on materiality. Notwithstanding this, the IAASB agreed to introduce specific references to qualitative disclosures in ISA 315, and to emphasize that misstatements could arise in amounts or in narrative disclosures, and added new application material in ISA 320 with examples of factors the auditor can consider to determine when misstatements in disclosures could be material in the case of qualitative disclosures. The guidance for auditors for evaluating disclosures was further enhanced.

Defining Materiality & Evaluating Misstatements

Any changes to the definition of materiality that are intended to enhance the quality of the information provided to the users of financial statements can contribute, in the scope of the respective standards, to enhance the quality of the information provided to users. The IAASB debated the use of these terms and agreed to revert to the original term “obligations”, and drop the term “claims against the entity”. The Board agreed that the extension “including disclosures” was not needed, as the revised definition of financial statements clearly included disclosures.

Definition of financial statements

The Board agreed that any changes proposed by the IAASB would not sufficiently change in the behavior of the auditor vis-à-vis disclosures, and a negligible gain in audit quality since the requirements are not enhanced. The Board agreed not to revise the requirements on materiality in ISA 320 until such time as a more holistic review of the SA is undertaken, likely in light of the outcome of the IASB’s current work on materiality. Notwithstanding this, the IAASB agreed to introduce specific references to qualitative disclosures in ISA 315, and to emphasize that misstatements could arise in amounts or in narrative disclosures, and added new application material in ISA 320 with examples of factors the auditor can consider to determine when misstatements in disclosures could be material in the case of qualitative disclosures. The guidance for auditors for evaluating disclosures was further enhanced.

The limit of changes proposed by the IAASB, primarily in application material, are unlikely to have a significant impact on changing behavior. IFIAR encourages the IAASB to consider what further action it can and should take to promote the necessary behavioral change by auditors.

The Board agreed to further work on materiality, misstatements in qualitative disclosures and audit evidence, once the IAASB makes progress on its Materiality and Disclosures projects.
The IAASB should work closely with financial reporting standard setting bodies, and would support the idea of a separate standard on going concern disclosures, rather than a separate ISA. The Board has noted that the requirements in ISA 320 until such time when a more holistic review of this ISA is undertaken, likely in light of the outcome of the IAASB's current work on materiality.

A separate ISA on disclosures is not needed. The IFAC does not agree with those who believe that a separate ISA on disclosures is needed. A separate standard would result in repetition of requirements within the ISAs, and would risk implying that auditing disclosures are a separate exercise, rather than one that is integral to the audit.

The Taskforce reported to the Board the support for the changes.

Requirement on Materiality: A new requirement should be added to ISA 320, under which the auditor would be required to make a preliminary determination of materiality for non-quantitative disclosures, such as misstatements in respect of disclosures, which are not necessarily measured in financial terms. The Board agreed not to introduce new requirements of application material in relation to obtaining sufficient appropriate evidence for disclosures (e.g., ISA 315), before changes are introduced to the financial reporting standards (e.g., the IFRS), and agreed to continue along the ISAs as it progresses its disclosures initiatives, until it is sufficiently progressed to consider amendments to the ISAs.

Materiality: Encourages the IAASB to continue their close collaboration with the IASB in respect of the IASB's proposals to address materiality requirements as part of their disclosures initiative and the forthcoming revision of their Conceptual Framework, and to consider changes to the ISAs in due course.

Does not support a separate ISA on Disclosures: The Board will continue to liaise with the IASB and to monitor the work and progress made by the IASB in its Disclosures and Materiality initiatives, in order to consider what further work may be necessary.

Linking with the IASB: The IASB would work closely with financial reporting standard setting bodies, for example, the IFRS, to monitor the audit implications of changes to financial reporting standards, including guidance on going concern disclosures and to ensure that changes made to the financial reporting framework are sufficient to enhance the auditor's attention on these disclosures. The Board will continue to liaise with the IASB and to monitor the work and progress made by the IASB in its Disclosures and Materiality initiatives, in order to consider what further work may be necessary.

Effect of Financial Statements: The terms “financial statements” should be used consistently throughout the proposed changes to the ISAs. IFRS 17 is, in some cases, reference made to “financial statements (including related disclosures)”.

Disclosures that are not part of the general ledger: The IASB supports the IASB's decision to restate the information in the financial statements of entities, and to consider whether additional guidance is needed on this topic in the future. Application material in ISA 315, e.g., paragraphs A1 and A66, and Appendix 2, refer to disclosures relevant to GC.

Materiality and Collaboration with the IASB: The IASB emphasized in ISA 315 that the information in the financial statements is a matter of materiality, and that the auditor would need to consider this when performing planning, and to require additional guidance on the materiality of disclosures.

Mismatches in Qualitative Disclosures: Additional guidance is needed relating to the evaluation of mismatches in qualitative disclosures, to determine what constitutes a mismatch in this context. The IAASB agreed to continue to liaise with the IASB and to monitor the work and progress made by the IASB in its Disclosures and Materiality initiatives, in order to consider what further work may be necessary.

The IAASB noted that the proposed ISA 315 to support a preliminary determination of a material mismatch for non-quantitative disclosures should be introduced to ISA 320 to provide examples of factors that the auditor may consider in relation to qualitative disclosures to determine whether mismatches in this type of disclosures are material. Additional practical guidance was added to ISA 450 about whether a mismatch in a qualitative disclosure may be material, taking into account the nature of the mismatch and the circumstances of the entity. The IASB agreed not to revise the requirements in ISA 320 until such time when a more holistic review of this ISA is undertaken, likely in light of the outcome of the IAASB's current work on materiality.

The Board agreed to further work on materiality, to address and focus more on disclosures as part of a financial statement audit. The Board is of the view that some of the requirements in ISA 320 until such time when a more holistic review of this ISA is undertaken, likely in light of the outcome of the IAASB's current work on materiality.

The IAASB emphasized in ISA 315 that the information in the financial statements is a matter of materiality, and that the auditor would need to consider this when performing planning, and to require additional guidance on the materiality of disclosures. The Board agreed that further considerations relating to GC disclosures in ISA 315 would be considered when the Board further its work efforts on this topic in the future. Application material in ISA 315, e.g., paragraphs A1, and Appendix 2, refer to disclosures relevant to GC.
Audit evidence

IRBA's inspections of audit engagements show a growing trend of high risk findings directly related to inadequate supporting audit evidence for, and / or a general lack of consideration of the completeness, accuracy and appropriateness of financial statement disclosures by the auditor.

The IAASB agreed not to introduce new requirements or application material in relation to obtaining sufficient appropriate evidence for disclosures (e.g.: ISA 500-series), before changes are introduced to the financial reporting standards (e.g.: by the IASB), and agreed to continue work alongside the IASB as it progresses its disclosure initiative, until it is sufficiently progressed to consider amendments to the ISAs.

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While the proposed changes clarified auditors’ expectations and increased the emphasis with regard to the audit of disclosures, it is vital to also emphasize the importance of ensuring that auditors provide sufficient documentation on these additional auditing considerations and work performed, so as to ensure continued compliance with the requirements in paragraph 8 of ISA 230, Audit Documentation.

The IAASB believed that the documentation of significant judgments made by the auditor in making the required evaluations is adequately covered by ISA 230.

Monitoring the audit work

The Board strongly recommends that the IAASB continues to closely monitor and prioritize its involvement in the IASB Disclosures Initiative’s Materiality and to consider further enhancements to the ISAs accordingly.

The Board will continue to liaise with the IASB and to monitor the work and progress made by the IASB in its Disclosures and Materiality Initiatives, in order to consider what further work may be necessary.