Board Meeting Summary Paper

AUASB AGENDA ITEM NO. 14(c)(iii)
Meeting Date: 18-19 April
2011

Subject: Roundtable Update – Discussion Paper: *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*

Date: 8 April 2011

☐ **Action Required**   ☒ **For Information Purposes Only**

Agenda Item Objectives

To inform the AUASB of the main issues raised at the 'roundtable' meeting held 29 March 2011.

Background

In January 2011, the IAASB issued the Discussion paper - *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications*, seeking comments by 1 June 2011.

The AUASB will respond to the Discussion Paper and its submission will comprise issues identified by the AUASB, the AUASB Technical Group and constituents. To obtain constituents' input, the AUASB organise a roundtable discussion on Tuesday 29 March 2011. Constituents comprise representatives from:

- Practitioners – small, medium and large-sized firms;
- The accounting professional bodies and APESB; and
- Treasury and ASIC.

In addition to issues raised on the day, attendees were asked to forward their comments to the AUASB by 2 May 2011. This request for written comments was also publicised on the AUASB website to reach the wider community of interested parties.

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Implications for the AUASB

Summary of Main Issues Raised at the Roundtable Discussion Sessions

a. Bigger issue than financial statement note disclosures is information outside the financial report e.g. disclosures in the Management Comment & Analysis documents and Director's Reports.

b. Documentation on the audit file should support only the final copy of the financial report (rather than the various versions that often occurs).

c. Note disclosures that are difficult to audit include those involving estimation uncertainty, going concern, remuneration report, equity-accounted investments and "qualitative" notes such as management assumptions, bank lending qualitative disclosures, , forward-looking management statements.

d. Management will ordinarily simply make changes to note disclosures that are suggested by the auditor because they are not as concerned with the notes as the "face" financial statements.

e. Auditors still assist management in what is required in note disclosures, as management don't keep up to speed with all required disclosures (seen as too hard given the volume of changes and not worth the time effort given limited audience of people who review the financial report in detail).

f. Auditors will not ordinarily qualify the opinion for an incorrect note disclosure (exceptions to this rule include "sensitive" notes such as remuneration, contingent liabilities, credit risk, estimation uncertainty, fair value, segment reporting, going concern related.) Management does not tend to argue on note disclosures – if auditor recommends, the management makes the required changes.

g. Focus is on the "financial statements as a whole" throughout the audit, and auditors do not ordinarily include note disclosure in the risk assessment process. ISA's need to talk about risk assessment specifically for note disclosures. Some guidance needed.

h. Areas requiring attention (not enough guidance):

    a. the nature and extent of work required on a particular note disclosures – varies from entity to entity depending on the industry, size etc..

    b. how to apply professional judgement – nature, materiality thresholds, what users will focus on, significant v non-significant notes/items within notes

i. Note disclosures are audited to differing levels of evidence, depending on the nature of the note disclosure. It is a very haphazard approach and heavily dependent on the auditor's professional judgement. Notes are classified as either "material" (obtain evidence to support) or "not material" (read for consistency only – for example if financial statement $ does not equal note disclosure $ and it should).

j. Assessing qualitative materiality for note disclosures is difficult e.g. giving assurance on accounting policy disclosures, forward-looking statements, and credit worthiness policies. There is no defined process for auditors to consistently follow. Some guidance needed.

k. There are different material levels applied to notes as opposed to the financial statements.

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l. Auditors tend to overdo work on the note disclosures – even if not material, auditors consider reputation if there are problems (e.g. Prepayments disclosed in the financial statements = $100, while the note disclosure = $102).

m. There are challenges with the financial reporting framework as many entities simply follow the bland disclosures in XYZ style example financial statements.

n. The evaluation of qualitative and quantitative misstatements in forming an opinion on the financial statements as a whole is difficult – use professional judgement needed. What to focus on is a problem. Guidance needed.

o. Auditors rely on management's acceptance of the engagement letter terms, management representation letter to obtain some evidence about difficult areas.

Material Presented

Agenda Item 14(c)(iii)	Board Meeting Summary Paper
Agenda Item 14(c)(iii).1	Discussion Paper: *The Evolving Nature of Financial Reporting: Disclosure and Its Audit Implications* [electronic only]

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