



Agenda Item 2B

Convergence — Disclosures

Convergence with IAASB Disclosures Project

Background

In July 2015, the IAASB issued an ISA, *Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments* aimed at focusing auditors on disclosures throughout the financial statement audit. The changes include strengthened requirements in ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, ISA 330, *The Auditor’s Responses to Assessed Risks*, and ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, as well as enhanced application material in these and several other ISAs to more explicitly address disclosures.

Issue – *Incorporated by reference*

The Disclosures ISA amends ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With the ISAs*, to add the following application paragraph: (See paragraph A1a on page 3 of the Disclosures ISA)

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 cross-referenced from the financial statements to the other document, but not from the other document to the financial statements. 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.

“Incorporate by *cross-reference*” does not appear to be a term commonly used in the United States. Note that “cross-reference” is defined in Webster’s dictionary as “a notation or direction at one place (as in a book or filing system) to pertinent information at another place”.

The Convergence Considerations Task Force believes that U.S. GAAP does not permit financial statements disclosures to be incorporated by reference. However, the question of whether, and how, to define “incorporated by reference” for purposes of GAAS was raised at the January 2017 ASB meeting. The following is a suggested definition of “incorporated by reference”:

Incorporated by reference. Included within a document by being mentioned or referred to, thus becoming as much a part of the document as if being completely set out therein.

If GAAS is amended to include a definition of “incorporated by reference”, the definition would be placed in the first AU-C section (by AU-C section number) that uses the term, which is AU-C section 920, *Letters for Underwriters and Certain Other Requesting Parties*

Questions for the ASB

1. Does the ASB recommend that a definition of “incorporated by reference” be included in a proposed Omnibus SAS?
2. Does the ASB agree with how “incorporated by reference” is defined?

Convergence Approach

Differences exist between the ISA and AU-C paragraphs amended. The Task Force addressed only the amendments arising from the IAASB Disclosures project. Some differences existed in SAS 122, *Statements on Auditing Standards: Clarification and Recodification* and were not revisited. Other differences are due to amendments to the ISAs from other IAASB projects; to the extent identified, these were tracked and will be referred to the task forces dealing with those projects (such as Auditor Reporting and Other Information).

The Task Force’s approach was to assume that the amendments made by IAASB were appropriate given the ASB’s stated strategic goal of convergence with the ISAs but to consider whether changes responsive to the US environment were necessary. The following is a list of changes proposed to the amendments (page references are to the matrix provided as agenda materials):

- Page 2, ISA 200, par. A1: The Task Force does not believe that this application material is relevant in the US. See Issue “Incorporated by reference” above.

- Pages 2 and 3, ISA 200, , par. 13 and A1a, and page 115, ISA 805: The Task Force did not accept the wording “incorporated therein by reference” in par. 13 nor did it accept new paragraph A1a in its entirety. The Task Force believes that in the United States disclosures cannot be incorporated by reference. However, see Issue above.
- Page 9, ISA 210, *Terms of Engagement*: Retained the word “accompanying” to describe other information, to make the sentence more clear.
- Pages 8 and 9, ISA 210, and 62, ISA 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*: Added “and fair presentation” to be consistent with GAAS terminology.
- Pages 32, ISA 300, *Planning an Audit*, and page 84, ISA 320, *Materiality in Planning and Performing an Audit*: New application material uses “segment information” and “segments” in examples. The Task Force is asking if a more relevant (to nonissuer entities) example can be used instead, and if so, for that more relevant example, or if the example should be deleted.
- Pages 44 and 58, ISA 315: Regarding going concern, the words “management’s assessment” and “significant doubt” were changed to “management’s evaluation” and “substantial doubt” to be consistent with AU-C section 570 wording (as amended for SAS 132).
- Page 89, ISA 330, *Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained*: deleted “presentation” because the appropriate presentation is based on all the other factors listed and it seems odd include “presentation” as a factor in determining if the presentation is appropriate.
- Pages 91, ISA 330, 105, ISA 450, *Evaluation of Misstatements* and 133, conforming amendments: References to “the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows” were changed to “the financial statements” because of the different names that can be used for the statements that comprise the financial statements.
- Pages 97 and 118, ISA 450: Footnotes that refer to IFRS were not included because 1) GAAS tries to be framework-neutral and avoid examples from a specific financial reporting framework, and 2) this is inconsistent with clarity drafting guidelines for footnotes (which are supposed to include only cross-references and not narrative information).
- Pages 87 and 88, ISA 450: Editorial revisions for clarity to the bullet points in paragraph 13a.
- Pages 105 and 106: Revisions to more clearly reflect the clarity drafting conventions.

Questions for the ASB

3. Does the ASB agree with the proposed amendments to converge with the IAASB's Disclosures ISA?

Materials Presented

- 2B1** Disclosures matrix with proposed amendments
- 2B2** ISA, *Addressing Disclosures in the Audit of Financial Statements—Revised ISAs and Related Conforming Amendments* (for reference only)