

By CPA R. Kamami

# Addressing Disclosures in Audit of Financial Statements

# Outline of Presentation



- Background
- Ongoing Global and Local initiatives
- ED on Addressing Disclosures in Audit of Financial Statements
- Standards Affected
- Implications on the work of an Auditor
- Ongoing and Future IFAC projects on Disclosures
- Way Forward

# BACKGROUND



- Various Financial Scandals- global and local

# Global scandals-Facts with fun

## **Waste Management Scandal (1998)**

- After the scandal, new CEO A. Maurice Meyers set up an anonymous company hotline where employees could report dishonest or improper behavior

## **Enron Scandal (2001)**

- Fortune Magazine named Enron "America's Most Innovative Company" 6 years in a row prior to the scandal.

## **WorldCom Scandal (2002)**

- Within weeks of the scandal, Congress passed the Sarbanes-Oxley Act, introducing the most sweeping set of new business regulations since the 1930s.



# Global Scandals-Facts with fun

## **Tyco Scandal (2002)**

- At the height of the scandal Kozlowski threw a \$2 million birthday party for his wife on a Mediterranean island, complete with a Jimmy Buffet performance.

## **HealthSouth Scandal (2003)**

- Scrushy now works as a motivational speaker and maintains his innocence.

## **Freddie Mac (2003)**

- 1 year later, the other federally backed mortgage financing company, Fannie Mae, was caught in an equally stunning accounting scandal.

## **American International Group (AIG) Scandal (2005)**

- After posting the largest quarterly corporate loss in history in 2008 (\$61.7 billion) and getting bailed out with taxpayer dollars, AIG execs rewarded themselves with over \$165 million in bonuses.

# Global scandals-Facts with fun

## **Lehman Brothers Scandal (2008)**

- In 2007 Lehman Brothers was ranked the #1 "Most Admired Securities Firm" by Fortune Magazine.

## **Bernie Madoff Scandal (2008)**

- Madoff's fraud was revealed just months after the 2008 U.S. financial collapse.

# Disclosure

- The submission of facts and details concerning a situation or business operation. In general, security exchanges and the regulators require firms to disclose to the investment community the facts concerning issues that will affect the firms' stock prices.
- Disclosure is also required when firms file for public offerings.
- Disclosure exists to prevent price manipulation and anything else that would disrupt the efficiency of trade.
- Link to loss in privacy and growth in capital markets

# Emerging trends on Disclosures

- Financial Reporting-Publication of financial statements and more frequent INTERIM financial statements.
- Operational Reporting-e.g Major contracts won, segment reports etc
- Reporting on Intangibles e.g. brand valuation, etc
- Governance reporting-e.g. committee structures
- Social and environmental Reporting
- Risk Reporting

# Ongoing Global and Local initiatives to address Gaps



- Local Initiatives
- Global Initiatives

# Global Initiatives-Audit Reports

- Revised Audit Report-Why? Seeks to achieve:-
- Enhanced communication between auditors and investors, as well as those charged with corporate governance
- Increased user confidence in audit reports and financial statements
- Increased transparency, audit quality, and enhanced information value
- Increased attention by management and financial statement preparers to disclosures referencing the auditor's report
- Renewed auditor focus on matters to be reported that could result in an increase in professional skepticism
- Enhanced financial reporting in the public interest

# Global Initiatives-Audit Reports- Cont'd

- This new and revised Auditor Reporting standards include new ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, and a number of revised ISAs, including ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, and ISA 570 (Revised), *Going Concern*.

# Global Initiatives-Audit Reports- Cont'd

- The proposals include a section for the auditor to comment on significant accounting issues in the financial statements, and
- another on the going concern status of the company.-
- Effective for f.s December 15<sup>th</sup> 2016



# Global Initiatives-Project 'Addressing Disclosures'



- IAASB discussion paper, dated 2011, titled Evolving Nature of Financial Reporting; Disclosure and Its Audit Implications
- Exposure Draft; released by IAASB-Comments closure-11September 2014
- Final Paper released-Published on 15<sup>th</sup> July 2015 Effective for f.s. for period ending 15<sup>th</sup> December 2016

# ISAs affected



- ISA 200/210-Agreeing Terms of Audit Engagement
- ISA 260 –Communication of Those charged with Governance
- ISA 300-Planning an Audit of Financial Statements
- ISA 240-Auditor's Responsibility to Fraud
- ISA 315-Identifying and Assessing the Risk of Material Misstatements through understanding the Entity and its Environment

# ISAs affected-Cont'd



- ISA 320 –Materiality IN Planning & Performing Audit
- ISA 330-The auditor's Responses in Assessed Risks
- ISA 700-Forming an Opinion and Reporting on FSs

# Changes in ISA 200



- IAS 200-Term 'financial statements' to include Any cross referencing to notes and any other Audit related disclosures.

# Changes in ISA 200



- Change to definition of “financial statements and enhancement to related application material

# Changes in ISA 210



- New application material encouraging management to provide information for disclosures earlier in the audit process

# Changes in ISA 240



- New Application material-Considering whether there is intentional misstatement of disclosures that may constitute fraud.
- Emphasis placed on the need for the auditor to consider disclosures when assessing the risk of material misstatement.

# Changes in ISA 260-Revised



- New Application Material: Auditors encouraged to discuss matters relating to disclosures early in the audit process



# Changes in ISA 300



- New Application Material: Auditors encouraged to focus on disclosures earlier at planning stage

# Changes in ISA 315/320/330

- Seeks to assist the Auditor effectively and consistently ID the risk of material misstatements related to disclosures/& design appropriate responses.

# Changes in ISA 450

- New Application Material-Emphasize that misstatements in disclosures need to be accumulated and evaluated.

# Changes in ISA 700

- Enhanced requirements and new application material. Strengthening the audit procedures auditors perform when evaluating the financial statements.

# Implication



- Enhanced communication between auditor and stakeholders.
- Increased attention on disclosure referred to in the financial statements by all stakeholders.

# Ongoing & Future IFAC related Projects



## Current /Future Projects

- Proposed International Standard on Auditing (ISA) 810 *Engagements to Report on Summary Financial Statements, (Revised)*  
Released: Aug 03, 2015  
Due: Nov 02, 2015
- Accounting for Sustainability. From Sustainability to Business Resilience  
Published: Jul 29, 2015

# Ongoing & Future IFAC related Projects

- [Recognition and Measurement of Social Benefits](#)

Released: Jul 29, 2015

Due: Jan 31, 2016

- [Exploring Assurance on Integrated Reporting and Other Emerging Developments in External Reporting](#)

Published: Jul 16, 2015

# Is this enough?



- What else needs to change?



# QUESTIONS



■ Muchas Gracias!