The Clear-Cut: Audit

# Disclosures in the New Auditing Standards

Auditors are well aware that the Canadian Auditing Standards (CAS) are changing with respect to the new audit report that is required for all financial statements with periods ending on or after December 15, 2018. There has been significantly less emphasis on other equally important changes to the CAS, the changes to the auditing standards for disclosures when planning, performing and completing audits.

Auditors can become closely involved in assisting clients with required financial statement disclosures (presuming independence is maintained) that the work performed to audit these disclosures can be insufficiently documented. The updated auditing standards are requiring auditors to appropriately document the procedures performed on disclosures throughout the entire audit process.

The fact of the matter is, disclosures are becoming increasingly complex and the reliance on these disclosures by the users is increasing. Even in a set of straightforward ASPE (accounting standards for private enterprises) financial statements, there is more to the disclosures than providing breakdowns of line items or reconciliations. Among others, currently, there are disclosures about judgments management have made relating to exposures to financial risks or material uncertainties relating to an entity's ability to continue as a going concern.

Changes to the following CAS resulted from a need to more appropriately focus work to be performed on disclosures:

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| **Planning the audit, and identifying, assessing and responding to risks of material misstatement** | CAS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with CAS* |
| | CAS 210, *Agreeing the Terms of Audit Engagements* |
| | CAS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* |
| | CAS 260, *Communication with Those Charged with Governance* |
| | CAS 300, *Planning an Audit of Financial Statements* |
| | CAS 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* |
| | CAS 320, *Materiality in Planning and Performing an Audit* |
| | CAS 330, *The Auditor's Responses to Assessed Risks* |

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| **Obtaining Sufficient Appropriate Audit Evidence** | CAS 500, *Audit Evidence* |
| | CAS 501, *Audit Evidence – Specific Considerations for Selected Items* |
| | CAS 540, *Audit Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* |
| | CAS 550, *Related Parties* |
| | CAS 560, *Subsequent Events* |
| | CAS 570, *Going Concern* |
| | CAS 580, *Written Representations* |
| **Completing the Audit** | CAS 450, *Evaluation of Misstatements Identified during the Audit* |
| | CAS 700, *Forming an Opinion and Reporting on Financial Statements* |

Users of the Professional Engagement Guide (PEG) should expect a number of changes to a variety of programs and checklists. The changes to each program or checklist will likely be subtle as there may only be one or two additional questions or considerations required; however, the impact to your audit may be significant if these additional questions are overlooked. Throughout a PEG audit file there will be a new assertion for presentation and disclosures. The new assertions are prevalent in the risk assessment section as well as in the programs responding to the assessed risk.

## Problematic Situations Addressing Disclosures

There are three situations where audit documentation relating to included or excluded disclosures can become problematic.

**File support for disclosures in the financial statements**
The first is ensuring that disclosures in the financial statements are appropriately supported in your file. For example, you have included a disclosure for financial instruments where you have discussed various financial instrument risks. Does the audit file have appropriate documentation to support the various risks included. Obtaining sufficient appropriate audit evidence related to this disclosure could be accomplished by writing a memo to the file addressing the adequacy of the risks disclosed, or if you are a PEG user, preparing the worksheet related to financial instruments under general audit procedures would be appropriate.

**No file support for disclosures excluded from the financial statements**
The second situation where addressing disclosures in an audit file can become problematic is ensuring that the excluded disclosures are appropriately excluded, and that an experienced auditor would similarly concluded that the disclosures can be excluded from the financial statements, even without the audit file addressing these exclusions.

**File support for disclosures excluded from the financial statements**
The third situation where addressing a disclosure in an audit file can be problematic, is properly documenting the exclusion of disclosures from the financial statements where an experienced auditor may deem the disclosures necessary. The audit documentation that concludes on why a note disclosure is not included in the financial statements are often the most problematic. For example, an experienced auditor reviewing a set of financial statements could conclude that there could be a contingent liability due to a significant increase in legal fees and the summary of legal matters included in the meeting minutes. In this case, the practitioner would need audit documentation to support the conclusion that no disclosure was required or necessary. There could be professional judgment required in this matter. The strategy for the practitioner should be to err on the side of caution and include audit documentation supporting their position on the excluded disclosures that could be brought into question.