



**International Federation of Accountants**

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# Agenda Item

# 2

**Committee:** IAASB  
**Meeting Location:** Montreal  
**Meeting Date:** September 18-22, 2006

## Clarity

### Objectives of the Meeting

1. To approve the following:
  - Proposed revised amendments to the Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (Preface);
  - Related proposed amendments to ISA 230, “Audit Documentation;” and
  - Revised redrafted ISAs 240, 300, 315 and 330.
2. To agree the proposed revised draft objectives for all ISAs as those to be passed to the relevant task forces working on the revision or redrafting of individual ISAs for their further consideration.
3. To undertake a first read of a proposed preliminary draft of certain revisions to ISA 200.

### Task Force Members

4. The members of the Clarity Task Force are as follows:

John Kellas (Chairman)	IAASB Chairman
Denise Esdon	IAASB Deputy Chair
John Fogarty	IAASB Member
Jon Grant	IAASB Technical Advisor
Bodo Richardt	IAASB Member
Jim Sylph (ex-officio)	IAASB Technical Director
G�rard Tr�moli�re	IAASB Member

### Background

5. In October 2005, the IAASB exposed four ISAs redrafted in accordance with the IAASB’s proposed new drafting conventions, and proposed amendments to the Preface. Forty-six comment letters were received in response.<sup>1</sup> Input was also received from the IFAC Small and Medium Practices (SMP) and Developing Nations Committees.

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<sup>1</sup> The October 2005 Clarity Exposure Drafts and respondents’ letters are located on the IAASB website at [www.ifac.org/IAASB/ExposureDrafts.php](http://www.ifac.org/IAASB/ExposureDrafts.php).

6. At its May IAASB meeting, the IAASB discussed significant issues of principle raised by respondents in relation to: objectives; the application of the guidelines for specifying requirements; and general structural and drafting matters. It was agreed that the Task Force should reconsider the objectives of the ISAs as a whole, together with the obligation, if any, that should attach, for purposes of discussion at the September IAASB meeting.
7. At its July meeting, the IAASB reviewed the four ISAs exposed in October, revised in light of respondents' comments. The IAASB agreed in principle the revised wording of the redrafted ISAs, with the exception of certain remaining points that it asked the Task Force to consider further.

#### **Activities Since the July 2006 IAASB Meeting**

8. The Clarity Task Force met in July and August to consider the significant issues raised by respondents to the exposed amendments to the Preface and those by the IAASB at its May meeting in relation to the proposed obligation attaching to objectives. The Task Force also discussed the draft objectives for all ISAs, and the remaining drafting points raised by the IAASB on the four ISA Exposure Drafts (EDs).
9. At its September meeting, the IAASB CAG will be discussing issues relating to objectives. Input received from the IAASB CAG will be reported to the IAASB in September.

#### **Matters for IAASB Consideration**

##### PREFACE, OBJECTIVES AND RELATED DOCUMENTATION

10. Issues relating to the proposed revised amended Preface, including the proposed obligation attaching to objectives, and the Task Force's recommendations in response are outline in the Issues Paper in Agenda Item 2-A.
11. As explained in the Issues Paper, the Task Force believes that amendment to ISA 230 is necessary as a result of issues raised on the exposure of the Preface and the consideration of the obligation that may attach to objectives. The proposed amendments do not include changes necessary to redraft ISA 230 in accordance with the Clarity drafting conventions; ISA 230 will therefore be subject to further consideration when it is clarified.
12. The Task Force has also revised the draft objectives for all ISAs to a point where it is satisfied that they can be passed to the relevant IAASB task forces working on the redrafting or revision of individual ISAs, for their further consideration. The objectives for the four ISAs EDs, however, are presented in their proposed final form.
13. Because an understanding of how the above might be dealt with in ISA 200 is also important at this stage, a preliminary draft of the proposed revised ISA 200 is included for first read by the IAASB.
14. Relevant material is included in Agenda Item 2-B.

##### REVISION OF THE FOUR REDRAFTED ISAS

15. The appendix to this Agenda Item summarizes the disposition of the main drafting points raised by the IAASB in July in relation to each of the four redrafted ISAs. It also identifies other changes proposed by the Task Force to further clarify the ISAs. There is a possibility of

further conforming changes to these ISAs (for example, from finalizing the approach to the responsibilities of others, or from settling the content of the ISA on forming an opinion). Such changes will not change the substance of the ISAs, though they may have a small effect on their content. It is proposed that the accompanying explanatory memorandum will draw attention to this possibility, but it is considered that there is a strong interest in making available agreed ISAs as soon as practicable to allow the maximum time for their implementation.

#### RE-EXPOSURE

16. Subject to IAASB discussion in September, the Task Force does not believe re-exposure of the proposed amendments to the Preface or any of the four redrafted ISAs is required. The changes made have been in response to issues and matters arising from exposure, and are principally a clarification of the material exposed. Changes to ISA 230 and ISA 200 will be exposed when these ISAs are clarified.

#### **Material Presented (Note: Agenda Items 2-A and 2-B, and 2-D through 2-G will be used for purposes of the discussions at the meeting.)**

Agenda Item 2-A (Pages 1775 – 1788)	Issues Paper
Agenda Item 2-B (Pages 1789 – 1820)	Exhibit I: Proposed Revised Preface (Mark-up from Exposure Draft) Exhibit II: Proposed Amendments to ISA 230 (Mark-up) Exhibit III: Draft ISA Objectives Exhibit IV: Draft Revised ISA 200 (Mark-up)
Agenda Item 2-C <b>(for reference only)</b> (Pages 1821 – 1838)	Agenda Item 2-B Exhibit I: Proposed Revised Preface (Clean) Agenda Item 2-B Exhibit IV: Draft Revised ISA 200 (Clean)
Agenda Item 2-D (Pages 1839 – 1882)	Revised ISA 315 (Redrafted) – Mark-up from July IAASB Meeting
Agenda Item 2-E (Pages 1883 – 1902)	Revised ISA 330 (Redrafted) – Mark-up from July IAASB Meeting
Agenda Item 2-F (Pages 1903 – 1942)	Revised ISA 240 (Redrafted) – Mark-up from July IAASB Meeting
Agenda Item 2-G (Pages 1943 – 1954)	Revised ISA 300 (Redrafted) – Mark-up from July IAASB Meeting

### **Action Requested**

The IAASB is asked to consider the accompanying material, and:

- To agree that re-exposure is unnecessary as described in paragraph 16 above, and to approve:
  - The proposed revised Preface and related proposed amendments to ISA 230 (Exhibits I and II in Agenda Item 2-B); and
  - The proposed revise Redrafted ISAs in Agenda Items 2-D through 2-G.
- To agree the proposed revised draft objectives for all ISAs as those to be passed to the relevant task forces working on the revision or redrafting of individual ISAs for their further consideration (Exhibit III in Agenda 2-B).
- To comment on the proposed preliminary draft of certain revisions to ISA 200 (Exhibit IV in Agenda 2-B).

## Appendix

### **Main Drafting Points Applicable to Each of the Redrafted ISAs<sup>2</sup>**

#### REFERENCE TO ‘REDUCING AUDIT RISK TO AN ACCEPTABLY LOW LEVEL’

1. Consistent with the approach taken to objectives, references in the ISAs to ‘reducing audit risk to an acceptably low level’ have been replaced by the phrase ‘obtaining sufficient appropriate audit evidence.’ The Task Force has found no instances where this change introduces a change in meaning, having regard to the explanation of the interrelationship of these items in proposed revised ISA 200.

#### TRANSLATION CONSIDERATIONS

2. It was noted that use of the terms ‘formal’ and ‘informal’ create translation difficulties. Use of the suggested alternatives of ‘documented/undocumented’ and ‘structured/unstructured’ in certain contexts were not without concern.
3. The Task Force has introduced different synonyms, where considered appropriate, in the four ISAs. If the IAASB believes that the changes are problematic or represent a less effective style for communicating the intended point, it is recommended that the ISAs revert to using ‘formal/informal.’
4. The Task Force has also reconsidered points made in respondents’ comment letters and other input obtained with respect to translation concerns. Changes are shown in mark-up.

#### OTHER CHANGES

5. The Task Force has made certain conforming changes considered necessary in light of changes to the proposed objectives, and other editorial changes to further improve the drafting of some long paragraphs. These are self-evident in the mark-up versions.

### **Main Drafting Points Specific to ISA 315 (Agenda Item 2-D)**

#### INTRODUCTORY MATERIAL

6. It was suggested that there may be merit in including further introductory material in this ISA, in light of its importance.
7. The Task Force is of the view that, unless absolutely necessary as is the case for ISA 240, introductory material should be kept to a minimum. Doing so will highlight the inclusion of such material in other ISAs where it is deemed necessary to elaborate on the scope or context of the particular ISA.

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<sup>2</sup> See paragraphs 47-48 of the Issues Paper (Agenda Item 2-A) for discussion and recommendations relating to the issue raised at the July IAASB meeting about the status and authority of references within ISAs to the responsibilities of management and those charged with governance.

8. The Task Force has reviewed the material in the extant and redrafted versions of ISA 315 and ISA 200, and has not identified any material that further defines the scope of ISA 315, or which is not considered to be appropriately treated as application material.

#### OTHER PROPOSED CHANGES

##### *Assessment of Risks of Material Misstatement*

9. Paragraphs 27 and 28 of extant ISA 200 contain guidance relating to the auditor's assessment of risks of material misstatement. The Task Force is of the view that that material is better presented as part of ISA 315 (which requires such an assessment but currently lacks related guidance) and accordingly, proposes that it be incorporated in paragraphs A98-A99 and A102 of redrafted ISA 315.

##### *Assertions*

10. The Task Force has moved material in extant ISA 500 pertaining to the use of assertions to paragraphs A103-A105 of ISA 315, for consideration by the IAASB. This is considered appropriate in light of the fact that ISA 315 sets up the auditor's use of assertions in respects of the auditor's risk assessment, yet (absent the proposed changes) provides no guidance thereon.

#### **Main Drafting Points Specific to ISA 330 (Agenda Item 2-E)**

##### AMBIGUOUS WORDING

11. The Task Force has made editorial changes to ISA 330 to improve its clarity in relation to concerns raised over the appropriateness of wording included in the previous draft such as 'seek' and 'more reliance.'

##### EVIDENCE FROM PRIOR PERIOD SUBSTANTIVE PROCEDURES

12. The Task Force has reconsidered, and agreed to remove, the proposed requirement for the auditor to establish the continuing relevance of substantive audit evidence obtained in previous audits (deleted paragraph 25). The Task Force concluded that treatment as a requirement does not appear appropriate in light of the rarity of such circumstances.

#### **Main Drafting Points Specific to ISA 240 (Agenda Item 2-F)**

13. The Task Force has introduced subheadings in the introductory section of the ISA to clarify further the nature and extent of the material included therein. The Task Force is satisfied that an appropriate balance has been achieved in the presentation of the material in the introductory and the related application material sections of the ISA.

#### **Main Drafting Points Specific to ISA 300 (Agenda Item 2-G)**

14. There were no matters requiring further consideration by the Task Force. Further editorial changes identified by the Task Force are shown in mark-up.