



International Federation of Accountants

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Agenda

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Committee: IAASB

Meeting Location: New York

Meeting Date: September 12-16, 2005

Clarity of IAASB Standards

Objectives of Agenda Item

- To consider matters arising from the Clarity Forum held on July 11, 2005 in Brussels and to discuss and agree the remaining issues pertaining to the direction to be taken in redrafting ISAs under the Clarity project.
- To review and agree the redrafting of the ISAs presented in Agenda Items 4-B through 4-G.

Clarity Task Force Members

John Kellas (Chairman)

Paul Chan (IFAC SMP Permanent Task Force)

Denise Esdon

John Fogarty

Jon Grant

Bodo Richardt

Jim Sylph (ex-officio)

Gérard Trémolière

Summary of Significant Decisions Made by the IAASB at its June IAASB Meeting

At its June meeting, the IAASB agreed in principle to the proposal of the Clarity Task Force regarding the clarification of ISAs, with the primary exception that the further development of the fundamental principles of auditing should not proceed as part of the clarity project. Specifically:

- Redrafted ISAs should clearly identify, in a separate section of the ISAs, the objective(s) to be achieved by the auditor. The auditor should have an obligation to meet the stated objective(s).
- A single level of professional requirements introduced by the term “should,” as opposed to the two different levels proposed in the exposure draft (“shall” and “should”), should be maintained.
- A departure from a requirement should be permitted only in those exceptional circumstances where the auditor judges it necessary to do so in order to achieve the objective(s) of the requirement. An obligation should be established for the auditor to document how the alternative procedure(s) performed in the circumstances achieved the objective(s) of the requirement.

- Sentences containing the present tense relating to action on the auditor's part should be redrafted on a case-by-case basis to clarify whether the specific action is a requirement.
- ISAs should be restructured into three main sections: (i) objective(s); (ii) requirements, along with essential explanatory material; and (iii) application guidance that explains the proper application of the ISA.
- Redrafting improvements, such as greater use of bullet points, headings and sub-headings and improved sentence structure, should be introduced where practicable. Redrafting of ISAs should seek to reduce or eliminate duplication to the extent practicable; reducing duplication, however, should not take precedence over maintaining understandability.
- The implementation approach to be adopted should seek to achieve improvement in the clarity of as many ISAs as practicable in the shortest timeframe possible.

Task Force Activities Since the June IAASB Meeting

- On July 11, 2005, a forum was held to provide an opportunity for key stakeholders to consider the proposal of the IAASB on the clarity of IAASB standards, and to advise whether the proposed approach is appropriate and of sufficient benefit to be taken forward. The forum was attended by about 45 participants, representing regulators, national audit standard setters, oversight authorities, firms, small and medium practices (SMPs), professional organizations, and INTOSAI. The main findings from the forum are outlined in Agenda Item 4-A.
- The Clarity Task Force met twice during July and August.
- Input was received from a few IAASB members and technical advisors on the redrafted ISAs presented at the June IAASB meeting. Input was also received from the IFAC SMP Permanent Task Force regarding the placement of guidance for SMPs in redrafted ISAs.

Matters for Consideration

DISCUSSION PAPER

Agenda Item 4-A, Discussion Paper, highlights matters arising from the clarity forum and those from the June IAASB meeting which the Clarity Task Force was asked to consider further. The IAASB will be asked to discuss these matters first before detailed consideration of the redrafted ISAs.

REDRAFTED ISAS

Five ISAs have been redrafted following the proposed conventions. A full review of these redrafted ISAs is scheduled for the September IAASB meeting, with the intention of approving them for issue as exposure drafts at the October IAASB meeting. The Task Force will be working from the clean versions of the redrafted ISAs at the meeting. **The IAASB is asked to consider these ISAs in detail, and to reflect upon the following questions in determining the appropriateness of the proposed redrafting:**

- Q1. Have all existing basic principles and essential procedures (in bold type in current ISAs) been brought forward as requirements without a change in meaning?

- Q2. Are new requirements all necessary and is their meaning clear?
- Q3. Is the requirements section as a whole intelligible?
- Q4. Has material in the application guidance been edited in a way that makes it clearer and more relevant?
- Q5. Has all redundant material been removed?
- Q6. Have any requirements been missed – ie, have all present tenses in the current ISAs that ought to be treated as requirements been correctly identified as such?
- Q7. Bearing in mind that the proposed basis for departure is by reference to the objective of a requirement, is the objective of each requirement clear such that it does not need to be stated, in particular where the requirement is procedural in nature?

Supporting papers demonstrate how the material in the current ISAs has been reflected in the redrafted documents. A study of the supporting papers is recommended.

Material Presented (highlighted items are those that the task force will be working from)

Agenda Item 4-A (Pages 1665 - 1680)	Discussion Paper
Agenda Item 4-B (Pages 1681 - 1716)	Redrafted ISA 315
Agenda Item 4-B.1 (Pages 1717 - 1772)	Analysis of ISA 315 and Mapping Document
Agenda Item 4-C (Pages 1773 - 1810)	Redrafted ISA 240
Agenda Item 4-C.1 (Pages 1811 - 1852)	Analysis of ISA 240 and Mapping Document
Agenda Item 4-D (Pages 1853 - 1868)	Redrafted ISA 330
Agenda Item 4-D.1 (Pages 1869 - 1898)	Analysis of ISA 330 and Mapping Document
Agenda Item 4-E (Pages 1899 - 1910)	Redrafted ISA 500
Agenda Item 4-E.1 (Pages 1911 – 1924)	Analysis of ISA 500 and Mapping Document
Agenda Item 4-F (Pages 1925 - 1934)	Redrafted ISA 300
Agenda Item 4-F.1 (Pages 1935 - 1954)	Analysis of ISA 300 and Mapping Document
Agenda Item 4-G (Pages 1955 - 1964)	Preliminary Mark-up of ISA 200 ¹

¹ Item 4-G identifies proposed preliminary changes to ISA 200 as a result of the proposed change to the style in which ISAs are to be written, as well as changes arising from the redrafting of the ISAs listed above. As agreed by the IAASB in June, ISA 200 is to be maintained as a ‘moving draft’ throughout the clarity improvement process until towards the end of the project.

Action Requested

The IAASB is asked to consider and comment on the accompanying agenda material.