



**International Federation of Accountants**

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## Agenda Item

# 4

**Committee:** IAASB

**Meeting Location:** New York

**Meeting Date:** October 19-21, 2005

### Clarity of IAASB Standards

#### Objectives of Agenda Item

1. To approve for issue as Exposure Drafts (EDs):
  - Proposed amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services (Preface)
  - Five International Standards on Auditing (ISAs) redrafted in accordance with the new drafting conventions.
2. To agree the Explanatory Memorandum that will accompany the EDs.

#### Clarity Task Force Members

John Kellas (Chairman)

Jon Grant

Paul Chan (IFAC SMP Permanent Task Force)

Bodo Richardt

Denise Esdon

Jim Sylph (ex-officio)

John Fogarty

Gérard Trémolière

#### Summary of Significant Decisions Made by the IAASB

The decisions of the IAASB made at its June and September 2005 meetings in response to the comments received on its September 2004 Clarity ED and Consultation Paper and to the feedback received at the July Clarity Forum are summarized in the proposed Explanatory Memorandum in Agenda Item 4-A.

#### Task Force Activities Since the September IAASB Meeting

The Clarity Task Force met immediately after the September IAASB meeting to discuss and respond to the issues raised, and decisions and suggestions made, at that meeting.

One of the concerns raised at the September meeting pertained to the proposed objectives in the ISAs. It was noted that there was some overlap of objectives, specifically in relation to the evaluation of audit evidence.

The Task Force reconsidered the proposed objectives both in relation to the ISAs to which they relate and together as a whole, and has made certain amendments to try and deal with

this point, particularly in relation to redrafted ISA 500 and redrafted ISA 330. The proposed objectives are reproduced in the Appendix to this paper.

For the purposes of exposure, the Task Force considers the position to be satisfactory. However, it believes that the final solution may involve some transfer of material dealing with ‘evaluation’ from some ISAs to another, possibly new, ISA in which ‘evaluation’ could be comprehensively dealt with. This possibility is highlighted in the proposed Explanatory Memorandum – See top of page 9.

### **Material Presented**

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| Agenda Item 4-A<br>(Pages 2053 – 2076) | Proposed Explanatory Memorandum   |
| Agenda Item 4-B<br>(Pages 2077 - 2080) | Draft Exposure Draft (ED), Proposed Amendments to the Preface (Amendments shown in mark-up) |
| Agenda Item 4-C<br>(Pages 2081 – 2092) | Draft ED, Proposed ISA 500 (Redrafted) (Mark-up showing changes from September)             |
| Agenda Item 4-D<br>(Pages 2093 – 2134) | Draft ED, Proposed ISA 240 (Redrafted) (Mark-up showing changes from September)             |
| Agenda Item 4-E<br>(Pages 2135 – 2182) | Draft ED, Proposed ISA 315 (Redrafted) (Mark-up showing changes from September)             |
| Agenda Item 4-F<br>(Pages 2183 – 2200) | Draft ED, Proposed ISA 330 (Redrafted) (Mark-up showing changes from September)             |
| Agenda Item 4-G<br>(Pages 2201 – 2216) | Draft ED, Proposed ISA 300 (Redrafted) (Mark-up showing changes from September)             |

### **Action Requested**

The IAASB is asked to approve the material indicated above (Agenda Items 4-A through 4-G) for issue.

## Appendix

### Proposed Objectives

The objectives stated in the redrafted ISAs have been formulated with reference to the following statements in ISA 200, “Objective and General Principles Governing an Audit of Financial Statements”:

“The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework.”

“The auditor should plan and perform the audit to reduce audit risk to an acceptably low level that is consistent with the objective of an audit.”

### Objectives to be Achieved – Extracts from the Proposed Redrafted ISAs

#### *ISA 500 (Redrafted)*

In relation to this ISA, the objective of the auditor is to consider both sufficiency and appropriateness when obtaining and evaluating audit evidence to draw reasonable conclusions on which to base the audit opinion on the financial statements.

#### *ISA 300 (Redrafted)*

In relation to this ISA, the objective of the auditor is to plan the audit so that it will be performed in an effective manner.

#### *ISA 315 (Redrafted)*

In relation to this ISA, the objective of the auditor is to obtain an understanding of the entity, including its internal control, and its environment sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and sufficient to design and perform further audit procedures.

#### *ISA 330 (Redrafted)*

In relation to this ISA, the objective of the auditor is to:

- (a) Determine and implement overall responses to assessed risks at the financial statement level;
- (b) Design and perform further audit procedures to respond to assessed risks at the assertion level; and
- (c) Evaluate whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level.

#### *ISA 240 (Redrafted)*

In relation to this ISA, the objective of the auditor is to:

- (a) Consider fraud when identifying and assessing the risks of material misstatement of the financial statements, by maintaining an attitude of professional skepticism and recognizing the possibility that a material misstatement due to fraud could exist;

- (b) Respond to the assessed risks of material misstatement of the financial statements due to fraud, including the risks of management override of controls, by designing and performing procedures to detect material misstatement due to fraud; and
- (c) Respond appropriately to identified or suspected fraud.