

**Proposed ISA XXX, “Forming an Opinion on the Financial Statements”—
Issues Paper****A. Background**

- A1. The possibility of creating a new ISA on Forming an Opinion on the Financial Statements was discussed by the IAASB at the September and October 2005 meetings and a draft outline of the possible content for such an ISA was presented by the Materiality Task Force at the December 2005 IAASB meeting. The vision was to put together in one place all of the requirements and guidance in the ISAs relevant to forming the opinion on the financial statements. At that time, the IAASB directed the Materiality Task Force to continue with the proposed structure for ISAs 320 and 450 for the purposes of approving their close-off versions, but agreed that a new ISA on Forming an Opinion on the Financial Statements should be considered as part of the Clarity project.
- A2. At its meeting in July 2006, the Clarity Task Force considered an outline of a possible new ISA, prepared by staff based on the December 2005 paper of the Materiality Task Force, and agreed that there are sufficient requirements and guidance in other ISAs that could be moved to a new ISA. Thus, the Steering Committee approved the creation of a task force to develop the new ISA further as part of the Clarity project. The Task Force had its first meeting in August 2006.
- A3. The primary purpose of the discussion at the September 2006 IAASB meeting is to agree on the scope and structure of the new ISA so that a “first read” draft can be prepared for discussion at the December 2006 IAASB meeting, and the Clarity versions of the other ISAs affected by this project can progress.

B. Scope of the ISA

- B1. As a Clarity project, the intent is not to develop new requirements and guidance, but rather to reposition requirements and guidance that already exist in other ISAs into a new ISA in a coherent and logical way. The most difficult issue for the IAASB will be to decide which requirements and guidance to move to the new ISA, and which to remain in the ISAs in which they are currently placed. The Task Force has identified a number of areas in which choices need to be made. These are discussed in paragraphs B5-10 below.
- B2. A draft outline has been provided in **Agenda Item 5-B** to give the IAASB a sense of what the new ISA could look like. However, the Task Force has not yet debated the wording nor discussed the application of the Clarity drafting conventions to the new ISA. In addition, a number of the ISAs from which text has been transferred to the new ISA are currently under discussion. To the extent possible, the Task Force has drawn from the most recent drafts of the various ISAs, but it is important to keep in mind that, in some cases, the wording has yet to be discussed and agreed by the Task Forces responsible for those ISAs. Thus, the draft is intended to provide a preliminary view of what the possible structure and content of the ISA might look like only.

- B3. The draft outline in **Agenda Item 5-B** currently incorporates text relating to performing final analytical procedures, evaluating audit evidence, evaluating whether the financial statements as a whole are free from material misstatement, and forming an opinion on the financial statements from ISAs 330, 450, 500, 520, 700 and 705. There are recommendations and guidance included in some of the other ISAs that relate to matters the auditor needs to consider in forming the opinion that have not been included in the new ISA, as discussed further in paragraph B10.
- B5. The following table summarizes the possible content of the new ISA, the resulting scopes of the ISAs from which requirements and guidance will be transferred, and their relationship with the new ISA. Areas highlighted indicate those for which IAASB needs to decide whether to move or retain the requirements or guidance. Cross references to where the related issues are discussed are indicated.

Reference	Revised scope following repositioning of text	Requirements transferred to new ISA
ISA 700	Form and content of the auditor's report alone (see discussion in paragraph B5).	<ul style="list-style-type: none"> Forming an opinion on the financial statements (Ref: ISA 700.11-14), including: <ul style="list-style-type: none"> Evaluating whether the financial statements have been prepared and presented in accordance with the financial reporting framework Evaluating the fair presentation of the financial statements as a whole (when relevant). (Ref: possible elevations from ISA 700.13&14) Circumstances when the auditor should express an unmodified opinion (Ref: ISA 700.39) Extremely rare circumstances when applying the financial reporting framework results in misleading financial statements (Ref: ISA 700.15)
ISA 705	<p>Determining the type of modification to the auditor's opinion.</p> <p>Form and content of the auditor's report when the opinion is modified (see discussion in paragraph B5).</p>	<ul style="list-style-type: none"> Circumstances when the auditor should express a modified opinion (Ref: ISA 705.6 (July 2006 Close Off Document)) Communications with those charged with governance (Ref. ISA 705.38 (July 2006 Close Off Document))
ISA 450	Definition of misstatements and	<ul style="list-style-type: none"> Evaluating whether the financial

Reference	Revised scope following repositioning of text	Requirements transferred to new ISA
	<p>accumulation of them and other considerations as the audit progresses.</p> <p>Communication and correction of misstatements.</p> <p>Reassessment of materiality level(s) prior to evaluating the effect of uncorrected misstatements.</p> <p>Evaluating the effect of uncorrected misstatements identified at the assertion level.</p> <p>(see discussion in paragraph B6)</p>	<p>statements as a whole are free from material misstatement (Ref. Latest Task Force Draft of Redrafted ISA 450.17-18)</p>
ISA 330	<p>Determining overall responses and designing and performing further audit procedures to respond to the assessed risks of material misstatement of the financial statements.</p> <p>Evaluating, before the conclusion of the audit, whether the assessments of the risks of material misstatement at the assertion level remain appropriate.</p> <p>Evaluating whether sufficient appropriate audit evidence has been obtained in relation to the assessed risks of material misstatement at the assertion level and attempting to obtain further audit evidence if not. (possible new distinction)</p> <p>(see discussion immediately below in B7)</p>	<ul style="list-style-type: none"> • Concluding whether sufficient appropriate audit evidence in relation to the financial statements as a whole has been obtained. (Ref: Redrafted ISA 330.28 (September 2006)) • Emphasising the need to consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements. (Ref: Redrafted ISA 330.28 (September 2006) and Staff Draft of Redrafted ISA 500.13) • Requiring that the auditor attempt to obtain further audit evidence if the auditor has not obtained sufficient appropriate audit evidence to reduce audit risk to an acceptably low level (in the context of the financial statements as a whole). (Ref: possible extension of Redrafted ISA 330.29 (September 2006))
ISA 520	<p>Nature and purpose of analytical procedures.</p> <p>Application of analytical procedures as risk assessment procedures.</p>	<ul style="list-style-type: none"> • Application of analytical procedures at or near the end of an audit when forming an overall conclusion. (ISA 520.13)

Reference	Revised scope following repositioning of text	Requirements transferred to new ISA
	Analytical procedures as substantive procedures. Investigating unusual items. (see discussion in paragraph B8)	
ISA 500	Includes matters pertaining to the <i>appropriateness</i> of audit evidence (see discussion in paragraph B9)	<ul style="list-style-type: none"> Includes matters pertaining to the <i>sufficiency</i> of audit evidence, including using professional judgment, and applying professional skepticism. (Ref: Staff Draft of Redrafted ISA 500.13)

As indicated, there are certain decisions to be made by the IAASB regarding whether or not to move certain requirements and guidance to the new ISA, as discussed below.

ISA 700 and ISA 705

- B5. (a) **Extent of guidance on the type of opinion.** The new ISA will address the *process* of forming an opinion on the financial statements and *the matters the auditor needs to consider* when forming the opinion. But there is a choice to be made in how far the ISA should go in including requirements and guidance on the *determination of the type of opinion* that is appropriate in the circumstances. The choice made will have an impact on the extent of the requirements and guidance that are currently in ISA 700 and ISA 705 that should be transferred to the new ISA. The Task Force has identified three options, as follows:

Option 1

The new ISA could focus on the process of forming an opinion alone (i.e., the matters the auditor needs to consider in forming the opinion). The requirements and guidance on whether the opinion given should be unmodified or modified in the circumstances could remain in ISAs 700 and 705. Thus, the ISA would take the auditor as far as the requirement to “consider the effect on the opinion” if the auditor concludes, or is unable to conclude whether the financial statements as a whole are materially misstated. This option would require less change to existing ISAs, but is unlikely to be sufficient because the auditor would need to look elsewhere for guidance on what “effect” actually means, (i.e., the auditor would need to refer to two different ISAs (ISAs 700 and 705).

Option 2

The new ISA could include the determination of whether the auditor should express an unmodified opinion or modified opinion in the circumstances, but not go into further detail on the type of modification that is necessary (i.e., go no further than ***paragraphs 18-19 of Agenda Item 5-B***). The requirements and guidance on whether the modification should be a qualification, adverse opinion, or disclaimer of opinion would remain in ISA 705. This is the option preferred by the Task Force.

Option 3

The new ISA could include not only the determination of whether the opinion should be unmodified or modified, but also the requirements and guidance on the “type” of opinion that is appropriate in the circumstances (i.e., a qualified opinion, adverse opinion, or disclaimer of opinion, depending on the auditor’s judgment about the pervasiveness of the effects or possible effects on the financial statements).

If this option were adopted, the scopes of ISA 700 and ISA 705 would be limited to the form and content of the auditor’s report. If so, it would be possible to recombine them into one ISA. However, the Task Force is cognisant that the Reporting ISAs are still being discussed as part of the Special Reports project and recombination of ISAs 700 and 705 needs to be considered in the context of those discussions.

The draft outline of the new ISA shows what it would look like if all of the requirements and guidance in ISA 705 regarding the type of opinion were transferred to the new ISA (Option 3), but those requirements and guidance that could remain in ISA 700 and ISA 705 rather than being moved to the new ISA are shaded to illustrate what would be removed if the other options (Options 1 and 2) were chosen. (*See shaded paragraphs 19-24 and related application and other explanatory material of Agenda Item 5-B.*)

- (b) **Positioning of the responsibility to communicate with those charged with governance.** Moving the requirements and guidance for determining the type of opinion from ISA 705 to the new ISA makes it less obvious where the requirement in ISA 705 to communicate with those charged with governance when the auditor expects to modify the opinion (ISA 705.38 Close-off) should be positioned. Currently it is proposed that it should be included in the new ISA, but it might be equally appropriate to include it in ISA 260. (*See shaded paragraph 25 and related application and other explanatory material of Agenda Item 5-B.*)

The Task Force seeks the IAASB view on the repositioning of text in ISA 700 and ISA 705. In particular:

- (a) Does the IAASB prefer that the new ISA contains requirements and guidance explained in Option 1, Option 2, or Option 3?
- (b) If the scope of ISA 700 and ISA 705 are limited to the form and content of auditor’s report (Option 3), should they be recombined into a single ISA?
- (c) Should the responsibility to communicate with those charged with governance when the auditor expects to modify the opinion be placed in the new ISA or in ISA 260?

ISA 450

- B6. It is not clear at which point the requirements and guidance in ISA 450 on the evaluation of misstatements should be divided. The Task Force has identified two options:

Option 1

The current guidance on forming an opinion in ISA 700.12 states that, when forming an opinion on the financial statements, the auditor evaluates whether, based on the audit evidence obtained, there is reasonable assurance about whether the financial statements taken as a whole are free from material misstatement. Drawing on that guidance, one option would be to draw a line between requirements and guidance for evaluating uncorrected *misstatements* identified during the audit, and requirements and guidance for evaluating whether the *financial statements as a whole* are free from material misstatement. This split would reinforce the view that, in addition to evaluating the impact of uncorrected misstatements on individual account balances, transactions and disclosures, it is important that the auditor also evaluates whether the financial statements as a whole makes sense when forming the opinion on the financial statements.

Option 2

ISA 450 could be limited to the definition of misstatements, the accumulation of the misstatements, considerations as the audit progresses, communication with management and correction of misstatements, and confirmation of the appropriateness of the materiality level prior to evaluating misstatements. The evaluation of uncorrected misstatements and the evaluation of the financial statements as a whole could be kept together in the new ISA. Arguments supporting this alternative include the fact that, even when evaluating individual uncorrected misstatements, the auditor is directed to consider them both individually and *in the aggregate*. Also, some of the qualitative factors that the auditor takes into account when evaluating uncorrected misstatements involve considering their effect on the financial statements as a whole (e.g., changes in estimates/trends).

The requirements and guidance on the auditor's responsibility to communicate with those charged with governance uncorrected misstatements, the implications of the failure to correct them and the possible effect of uncorrected misstatements, logically belong in the ISA that ultimately includes the requirements and guidance on the evaluation of individual uncorrected misstatements. Similarly, it is suggested that the evaluation of the effect of uncorrected misstatements related to prior periods stay with the requirements and guidance on the evaluation of individual uncorrected misstatements, whether in ISA 450 or the new ISA.

The outline of the new ISA shows what it would look like if all of the requirements and guidance in ISA 450 were transferred to the new ISA (Option 2), but those requirements and guidance that could remain in ISA 450 rather than being moved to the new ISA are shaded to illustrate what would be removed if the other option (Option 1) was chosen. (*See shaded paragraphs 11-12 and 15-17 and related application and other explanatory material of Agenda Item 5-B.*)

The Task Force seeks IAASB view on the repositioning of text in ISA 450.

(a) Do you prefer:

Option 1. Evaluation of individual uncorrected misstatements in ISA 450 and evaluation whether the financial statements as a whole are free from material misstatement in the new ISA?

Option 2. Evaluation of individual uncorrected misstatements and whether the financial statements as a whole are free from material misstatement in the new ISA?

(b) Does the IAASB agree that the requirements and guidance in ISA 450 on the auditor's responsibility to communicate with those charged with governance should remain in the ISA dealing with the evaluation of individual uncorrected misstatements?

(c) Does the IAASB agree that the requirements and guidance on the evaluation of the effect of uncorrected misstatements related to prior periods should remain in the ISA dealing with the evaluation of individual uncorrected misstatements?

ISA 330

B7. The requirements and guidance in ISA 330 that are relevant to forming an opinion on the financial statements are in the section on evaluating the sufficiency and appropriateness of audit evidence. That section in ISA 330 includes requirements on evaluating whether the auditor's risk assessments remain appropriate, concluding whether sufficient appropriate audit evidence has been obtained, and seeking further evidence if not.

As ISA 330 deals with the auditor's response to assessed risks of material misstatements, it makes sense for the requirement to evaluate whether the assessments of the risks of material misstatement at the assertion level remain appropriate to remain in ISA 330.

A decision needs to be made, however, on how much of the text relating to the evaluation of whether sufficient appropriate audit evidence has been obtained logically belongs in the new ISA. Considerations include the following:

- Evaluation of the sufficiency and appropriateness of audit evidence occurs throughout the audit process as the auditor gathers evidence. In moving the requirements and guidance from ISA 330 to the new ISA, the emphasis in ISA 330 on the iterative nature of the evaluation process would be lost. One option is simply to repeat some of the requirements or guidance in both ISA 330 and the new ISA. However, doing so would be inconsistent with the Clarity drafting conventions. But, as the concept of gathering audit evidence and reassessing the sufficiency and appropriateness of that audit evidence can be both iterative and conclusive, this may be one area where repetition is justified.
- Alternatively, a split could be made between evaluating whether sufficient appropriate audit evidence has been obtained at the assertion level and evaluating whether sufficient appropriate audit evidence has been obtained at the financial statement level. One of the options discussed in B6, in the discussion of ISA 450, is to make a distinction between evaluating uncorrected misstatements at the assertion level (i.e., evaluating the effect of uncorrected misstatements on individual account balances, transactions and disclosures in ISA 450) and evaluating whether the financial statements as a whole are free from material

misstatement (in the new ISA). Although separate evaluations of the sufficiency of evidence at the assertion level and at the financial statements level are not articulated in the ISAs at present, a similar distinction could be made in ISA 330 and the new ISA:

- ISA 330 could retain a requirement and guidance for evaluating whether sufficient appropriate audit evidence has been obtained to reduce identified risks of material misstatement at the assertion level to an acceptably low level. If not, the auditor should seek further audit evidence.
- The new ISA could include the requirement and guidance for evaluating whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level to enable the auditor to form an opinion on the financial statements as a whole. If not, and further evidence cannot be obtained, the auditor would modify the opinion.

The Task Force seeks the view of the IAASB on whether a split between evaluating the sufficiency of evidence at the assertion level and evaluating the sufficiency of evidence at the financial statement level makes sense and whether that would be a good way to split the guidance between ISA 330 and the new ISA.

ISA 520

- B8. It is proposed that the requirement to perform analytical procedures in the overall review at the end of the audit be moved to the new ISA, as it is one of the steps undertaken when forming a conclusion on the financial statements as a whole. However, the application of analytical procedures in the overall review at the end of audit is a key principle of ISA 520 and deleting it from ISA 520 may negatively affect the coherent and logical structure of that ISA.

A possible option is to repeat in the new ISA the guidance relating to the specific requirement in ISA 520.

Another option, which avoids unnecessary duplication of guidance, would be to change the scope of ISA 520 to focus on the specific techniques or procedures involved in performing analytical procedures. The requirements and guidance to perform specific analytical procedures could be moved and included in the ISAs to which they relate. Specifically, the requirement and guidance for applying analytical procedures as risk assessment procedures could be added to ISA 315, and the requirement and guidance for applying analytical procedures in the overall review at the end of the audit could be included in the new ISA. As the techniques and guidance related to substantive analytics are not a requirement, they are suitably placed in ISA 520.

The Task Force seeks IAASB view on its preferred option regarding the repositioning of text in ISA 520.

ISA 500

B9. The draft outline of the new ISA that was considered by the Clarity Task Force at its July 2006 meeting included paragraphs 13 and A36 from a Staff Draft of Redrafted ISA 500 (*see paragraphs 8 and A6 of Agenda Item 5-B*). That requirement and guidance focus on whether sufficient appropriate audit evidence has been obtained, with greater emphasis on sufficiency. Until the redraft of ISA 500 has been reviewed by the IAASB, it is difficult to see how the two ISAs should interrelate and determine if the material transferred thus far is adequate for the purpose of the new ISA (note that this and other timing issues are further discussed in issue F). However, the Task Force has made a few observations for consideration:

- ISA 500 currently includes the requirement, “*to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion*” (extant ISA 500.2). This is one of the few places in the ISAs that refers to drawing conclusions in the course of performing the audit. This requirement is the foundation for the requirement currently included in the new ISA (from extant ISA 700.11) to “*evaluate the conclusions drawn from the audit evidence obtained as a basis for forming an opinion on the financial statements.*” The positioning of that particular requirement in ISA 500 is currently being debated by the Clarity Task Force. From the perspective of the new ISA, however, it is important that the concept of “drawing conclusions” as audit work is performed is reflected somewhere in the ISAs to provide context for the starting point in the new ISA.
- The emphasis when forming an opinion on the financial statements as a whole is whether *sufficient* appropriate audit evidence has been obtained. At present, the requirements and guidance on sufficiency are proposed to be included in the new ISA, whilst requirements and guidance on appropriateness would remain in ISA 500. However, as the IAASB has discussed in previous meetings, sufficiency and appropriateness are interrelated. The auditor needs to be mindful of the sufficiency of the evidence both when obtaining evidence and in forming the opinion at the completion of the audit. Separating the requirements related to the auditor’s consideration of appropriateness of evidence from those related to its sufficiency has the potential to lose this important message. Thus, the interrelationship between the two ISAs needs to be carefully considered.

Extent of Guidance Regarding Matters the Auditor Considers when Forming the Opinion

B10. In forming the opinion, the auditor considers a number of matters, such as forming a view on whether there is a material uncertainty regarding the entity’s ability to continue as a going concern (ISA 570). There are requirements and guidance in a number of other ISAs that refer to considerations and judgments that need to be made when forming the opinion, including but not limited to:

- ISA 240, “The Auditors Responsibility to Consider Fraud in the Context of the Financial Statements”
- ISA 250, “Consideration of Laws and Regulations in an Audit of Financial Statements”
- ISA 550, “Related Parties”

- ISA 620, “Using the Work of an Expert”

Whilst such requirements and guidance logically belong in the ISAs to which they relate, there may be merit in providing a link to those ISAs in the new ISA, perhaps by summarizing them in an appendix.

This would be similar to the approach taken in ISA 230 and ISA 260. However, the structure and layout of the appendices of each of those ISAs is slightly different, offering two options to consider as follows:

Option 1

ISA 260 includes requirements of ISQC 1 and other ISAs that refer to communications with those charged with governance in an appendix. The appendix repeats the paragraphs that contain specific requirements to communicate with “those charged with governance” (exactly as they are set out in ISQC 1 and other ISAs), noting that those paragraphs are to be understood and applied in the context of the accompanying material in the ISAs from which they come.

Option 2

ISA 230 also includes specific audit documentation requirements and guidance that are set out in other ISAs, but only lists the main paragraphs that contain specific documentation requirements and guidance in other ISAs and does not repeat the paragraphs in full.

The Task Force seeks the view of the IAASB on:

- (a) Whether there is merit in highlighting the requirements and guidance included in other ISAs regarding decisions that need to be made when forming an opinion on the financial statements?
- (b) If so, whether IAASB prefers Option 1 or Option 2?

Other aspects

Is there text in other ISAs that IAASB believes should be transferred to the new ISA?

Are there any other issues related to the repositioning of text that the Task Force should be taking into account?

C. True and Fair/Fairly Presents Opinion vs. Compliance Opinions

- C1. The Special Reports Task Force will be presenting revised wording on forming the opinion to the IAASB at the September 2006 meeting. Pending resolution of those discussions, the Clarity Task Force had recommended to this Task Force that, for now, the requirements and guidance on forming an opinion that are currently in ISA 700 be used as a starting point.
- C2. At the May 2006 IAASB meeting, the IAASB agreed to deal with auditors’ reports on special purpose financial statements in a separate ISA. The IAASB did not, however, challenge the Special Reports Task Force’s proposal that the scope of ISA 700 include auditors’ reports on all general purpose financial statements, whether prepared in accordance with a fair presentation

framework or a compliance framework. The requirements and guidance in the existing ISA 700 are limited to circumstances when the financial reporting framework is designed to achieve fair presentation. ISA 700 does not provide guidance on the judgments the auditor makes when forming an opinion on financial statements prepared in accordance with a compliance framework. Therefore, it is necessary to decide how to incorporate the guidance for forming a compliance opinion.

Option 1

One of the IAASB's considerations regarding the placement of requirements and guidance for auditors' reports on special purpose financial statements at the May 2006 meeting was the need for the ISAs to provide clear direction for "statutory audits," as they represent a large majority of the audits conducted. It was pointed out that an advantage of limiting the requirements and guidance in the ISAs to such audits is that it would facilitate adoption of the ISAs in some jurisdictions and by some regulators (for example, EU adoption of the ISAs). Thus, it could be argued that the new ISA should focus first on the requirements and guidance for forming an opinion in the context of fair presentation frameworks, and then indicate how the requirements and guidance should be applied in forming an opinion in the context of compliance frameworks.

Option 2

It may, however, be easier to draft the requirements and guidance, in the first instance, for compliance opinions and then to describe the additional considerations for fair presentation opinions. Whilst having a drafting advantage, those looking for guidance directed to fair presentation opinions may find this approach less useful.

Option 3

A third option would be to completely separate the requirements and guidance for forming compliance opinions and for forming fair presentation opinions. This option would facilitate the adoption of the ISAs in different jurisdictions and by different regulators as it would be possible to adopt those sections of the ISA relevant in the jurisdiction or to the regulator (i.e., if compliance opinions are not relevant in a jurisdiction, that guidance could be omitted). However, this option would result in substantial repetition.

- C3. The IAASB has also been debating where the guidance on the form of the opinion should be placed. As the new ISA will need to provide guidance on the considerations when forming fair presentation and compliance opinions, the outcome of that debate may influence whether there is a need to include in the new ISA guidance on the different opinions that can be given to set the stage for the requirements and guidance (and decisions) that follow.

The Task Force seeks the IAASB's view as to the preferred approach to drafting the requirements and guidance on forming an opinion, depending on whether the financial statements are prepared in accordance with a fair presentation framework or a compliance framework.

D. Extension of Guidance

- D1. The Task Force is cognisant that the scope of the project is to reposition existing requirements and guidance pertaining to forming an opinion of the financial statements.
- D2. However, in bringing the requirements and guidance together, the Task Force has observed some gaps in the application guidance to support the requirements. For example, there is no guidance in the current ISAs to explain the requirement to evaluate conclusions drawn from audit evidence obtained. Therefore, the project may be an opportunity to consider including limited further guidance on certain subject matters.
- D3. In addition, there may be requirements and guidance in national standards relevant to forming an opinion on the financial statements that could build on and improve the requirements and guidance in the ISAs today. For example, UK Statement of Auditing Standards 470, “Overall Review of the Financial Statements” requires the auditor to consider “whether the financial statements as a whole and the assertions contained therein are consistent with their knowledge of the entity’s business and with the results of other audit procedures, and the manner of disclosure is fair.” Whilst such guidance is implicit in the ISAs, there may be some merit in describing the judgments made in forming an opinion explicitly in the new ISA as a requirement, or including such guidance in the application material.

The Task Force seeks feedback from the IAASB on the extent to which any *limited* further guidance should be considered, including whether the Task Force should review requirements and guidance in existing national standards or guidance as a basis for identifying additional requirements or guidance that could be included.

E. Placement and Numbering

- E1. The Task Force is conscious of the need to ensure that the placement of the new ISA in the handbook is consistent with the placement and numbering of the other ISAs. Currently, the ISAs are set out in bundles of 100 (apart from Risk Assessment) as follows:
- 100-199 Introductory Matters
 - 200-299 General Principles and Responsibilities
 - 300-499 Risk Assessment and Response to Assessed Risks
 - 500-599 Audit Evidence
 - 600-699 Using the Work of Others
 - 700-799 Audit Conclusions and Reporting
 - 800-899 Specialized Matters
- E2. Potential approaches to placement and number are as follows:
- (a) Option 1. The ISA on Forming an Opinion on the Financial Statements could be placed at the start of the Audit Conclusions and Reporting bundle. However, that would mean renumbering all the “Audit Reporting” ISAs. Given the extent of renumbering and repositioning that has already occurred as a result of the revision of ISA 700 and ISA 800, some may argue that further restructuring is not a preferred option.

- (b) Option 2. If the IAASB would prefer not to renumber the reporting ISAs – which would be entirely understandable – another option would be to split the 600 bundle, “Using the Work of Others,” into two bundles of 50, so that 600-649 deal with “Using the Work of Others,” and 650-699 deal with “Audit Conclusions.” If this option were adopted, IAASB might also want to consider whether this would be a better place for ISA 450.
- (c) Option 3. A final alternative would be to expand the 500 bundle, “Audit Evidence,” to cover “Audit Evidence and Audit Conclusions,” so that requirements and guidance on forming the opinion follows the evaluation of audit evidence. A disadvantage of this option is, however, that the 600-699 bundle, i.e., “Using the Work of Others,” would be placed illogically after audit conclusions.

The Task Force seeks feedback about the placement and numbering of the new ISA.

F. Timing

- F1. Because the primary intent of this project is to reposition requirements and guidance that already exist in other ISAs into a new ISA, a difficulty facing the Task Force is that the ISAs from which requirements and guidance will be drawn, such as ISA 500, ISA 200, ISA 800 and ISA 330, are still being debated. Thus, the Task Force is working with a number of moving targets.
- F2. In order to make certain decisions on the new ISA, it will be necessary to be able to see how the various connected ISAs all fit together. Yet some of those Clarity redrafting projects are operating on different timetables. This may influence how quickly progress can be made on the new ISA, whether requirements and guidance now in other ISAs should be exposed in the redrafted versions of those ISAs (e.g., ISA 450) before transferring them to the new ISA or transferred now and exposed as part of the new ISA, and when the new ISA itself should be exposed for comment.

The Task Force would welcome feedback on the timing of the project and the timing of exposure of the new ISA.

G. Conclusion

The Task Force seeks the IAASB’s view as to whether, based on a preliminary outline of what the new ISA could look like and the discussion of the issues raised in this paper, the IAASB still believes the development of an ISA on Forming an Opinion on the Financial Statements is appropriate?

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