Clarity of IAASB Standards—Issues Paper

Scope and Structure of Paper

1. This Paper is structured in four main sections:
   - Section I: Objectives
   - Section II: Requirements
   - Section III: Structural and Drafting Matters
   - Section IV: Update on Implementation Plans

Section I: Objectives

2. The overall message from responses to the October 2005 Clarity Exposure Drafts (EDs) is one of strong support for objectives-based standards.

3. However, respondents raised four main issues in relation to the draft objectives:
   (A) The overall approach to their determination and whether as a set they will be complete;
   (B) Whether each ISA needs an objective, or just some of them;
   (C) The proposed obligation attaching thereto; and
   (D) Their form and content, in particular whether they should be written in terms of desired outcomes and the extent of detail in an objective.

The issues are closely interrelated, and therefore need to be considered together.

A. Overall Approach

RESPONDENTS’ COMMENTS

4. In terms of process, respondents (APB, BDO, CEBS, CIPFA, EY, HKICPA, ICAEW, ICAS, IOSCO, JICPA, LSCA, NIVRA, PwC, UNICE) raised concern over the determination of objectives on a case-by-case basis, as individual ISAs are redrafted. It was noted that this ‘piecemeal’ approach:
   • Creates the potential for inconsistent and over-detailed objectives, or the existence of a set of objectives that are incomplete in some areas, while too detailed in others.
   • Limits the ability of the IAASB to evaluate whether these risks have been avoided.

5. It was recommended that the objectives be reviewed in totality, at an early stage, to ensure that they are: (i) complete and coherent; (ii) consistent across the ISAs; and (iii) clear and fully congruent, in all situations, to the objective of an audit as a whole. 1

6. For this purpose, some respondents (APB, EFAA, EC, GT, HKICPA, ICAEW, IOSCO, IRE, KPMG, PwC) cited the need for the IAASB to take a top-down approach to the development of the objectives, based on the identification of a single overarching objective of the auditor derived from the general objective of an audit as set out in ISA 200.

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1 Notwithstanding the need to consider objectives in total and from a top-down perspective, some respondents opposed the overall approach of having objectives specified in each and all of the individual ISA. This issue is addressed in the following subsection B, “Extent of Objectives.”
STATUS OF TASK FORCE CONSIDERATIONS

7. The Task Force accepts that these points need to be considered, and has prepared a first draft of objectives for all of the ISAs in order to obtain a total picture of the possible objectives. This list is attached as Appendix I; while the draft objectives for the four ISAs that were exposed in October 2005 are in final form (subject to discussion by the IAASB – see D, “Form of Objectives”, below), it is accepted that the specific objectives will be subject to refinement as individual ISAs are revised during the course of this project. (The list is also subject to the matter discussed in B, “Extent of Objectives,” below.)

8. The Task Force considers that there may be an expectation that a ‘top down’ approach would entail much more than the specification of a single overarching objective of the auditor derived from the general objective of an audit, including possibly the use of some form of framework against which the objectives can be developed, and more specifically, tested for completeness\(^2\) and coherence. The IAASB has previously agreed, however, that this project should not encompass reconsideration of an auditing framework.

9. The approach being considered by the Task Force comprises:

(i) A ‘top-down’ approach, whereby:

- The objective of an audit in ISA 200 is used as the basis for an overall objective for the auditor that is more operational in nature;

- Using the Task Force’s collective experience, together with the Assurance Framework, identify those fundamental matters that one would, in considering the public interest, ordinarily expect the auditor to aim to achieve; and

- Develop a set of ‘outcomes’ which one might consider it necessary to achieve in fulfilling the preceding elements. The purpose of identifying such outcomes is not to identify the set of objectives to be included in the ISAs. Rather, it is to explore where there may possibly be other objectives.

(ii) Consideration of the content of the extant ISAs to identify the implicit objectives (as done for those that were exposed). This is the list attached as appendix I and should serve to help develop objectives that are consistent with the aims of the extant ISAs, while also ensuring that they can be shown to act as a foundation to the requirements. Further, as observed by one respondent, the starting point for the development of objectives should in all relevant cases be the existing bold type overarching requirements which have already had the benefit of due process.

(iii) Comparison of the above to identify missing objectives and see if there are any issues of coherence.

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\(^2\) One respondent observed that, because the objectives lack theoretical underpinning, to say that they are the complete list of high level objectives against which ISAs are to be drawn up is problematic; the best one can do is to see if they are relatively complete, having benefit of ISAs (bottom up) and understanding of objectives (top-down).

\(^3\) It should be noted that although a number of respondents referred to the issue of the completeness of the objectives, completeness is equally an issue for rules-based or requirements-based standards, and the point has not, it would appear, ever been raised in that context. It may therefore be an unexpected benefit of the approach that it has brought this point to notice. Further, it can be expected that determining the completeness of objectives is likely to be a simpler task that doing the same for requirements, in the absence of objectives.
10. Overall, the Task Force believes that the above approach is pragmatic and should serve to achieve the intended purpose of taking a ‘top-down’ approach and of testing the completeness of the objectives if a reasonable degree of agreement on the elements can be reached.

11. The Task Force has not completed its work in regard to the above. However, to date, the Task Force has not identified any area where there is a significant gap in the possible objectives based on the extant ISAs. There are some areas where specific consideration will be needed in order to ensure that the set of objectives are coherent. Further consideration by the Task Force is required before recommendations can be made for IAASB consideration. The Task Force has sought some guidance from National Standard Setters, and will also consult the IAASB CAG. It is not anticipated that there will be a separate consultation on the issue of completeness.

**Action Requested**

The IAASB is asked to review the list of draft objectives in Appendix I and to indicate whether there appear to be any obvious gaps that might suggest that objectives based on this list would be incomplete.

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**B. Extent of Objectives**

**RESPONDENTS’ COMMENTS**

12. Most respondents were strongly in favor of the inclusion of objectives at the beginning of each of the clarified standards. It was noted, variously, that:

- It is a key strength of the clarity proposals.
- It would help act as a beacon for the auditor, and as a basis for the IAASB in considering what requirements are necessary.
- Although the overall objective of the audit remains paramount, it is insufficient to result in appropriate and consistent performance by auditors in all cases; therefore, it is appropriate to create specific objectives that are related and relevant to each standard in order to drive behavior effectively.

13. Some respondents (EY, GT, ICAEW, KPMG, PwC, REA), however, opposed the overall approach of having objectives specified in each and every individual ISAs, particularly when taken together with the proposed obligation on the auditor to achieve those objectives. It was argued that the approach:

- Fails to recognize:
  - That ISAs are an integrated body of standards, and that most audit objectives are supported by more than one ISA.
  - The fundamentally different natures of individual ISAs.
- Risks undermining the quality of audits by distracting attraction away from the achievement of the overall objective of an audit towards the achievement of narrow objectives.

14. Several alternative approaches were suggested by these respondents, the general thrust of each being the establishment of a relatively few, much higher-level objectives that serve as
the foundation for the body of ISAs and which relate directly to the overall objective of an audit, and the identification of a single overarching objective of the auditor derived from the general objective of an audit as set out in ISA 200.

DISCUSSION AND PRELIMINARY RECOMMENDATIONS

15. The Task Force accepts that the total population of objectives needs to be explored first in order for the Task Force and IAASB to be in a position to conclude on the issue of whether each ISA needs one. However, in light of respondents’ comments, the Task Force has considered on a preliminary basis three options, described broadly below:

Option A – To establish relatively few, high-level objectives that serve as the foundation for the body of ISAs and which relate directly to the overall objective of an audit. These objectives could be specified in ISA 200 (or another ISA created for this purpose), but would not ‘attach’ to any particular ISA.

Option B – To specify objectives for those ISAs that serve directly to assist in achieving the overall objective of the auditor and would appear to have a clear objective of their own. Objectives would not be specified for those other ISAs that support those objectives but do not create a need for additional new objectives; rather, the scope of these ISAs would be defined such that it is clear that they are intended to specify further how the objectives or requirements of other ISAs are to be achieved or applied, respectively, in the context of the specific topic.

Option C – To specify objectives for each individual ISA, as originally envisioned. Because of the nature of some ISAs, however, it will be necessary to establish a consistent (or possibly generic) form in which they refer to elements that exist in the objectives of other ISAs.

Following any of these options, an overall objective of the auditor (derived from the objective of an audit, as described in ISA 200) would be specified, to which all other objectives are subordinate.

16. While the Task Force sees advantages in each of the options, it believes that the option B may be a reasonable and appropriate way forward, and has agreed to explore it further as a possible alternative to option C, on the following basis.

17. First, it is consistent with the preliminary findings from the work of the Task Force in developing objectives for each ISA and in considering them against the Task Force’s preliminary ‘top-down’ approach and test for completeness and coherence. Specifically, that work suggests that when objectives are taken to a certain level:

- There exist certain unique objectives that need to be achieved;
- There is core group of ISAs that serve to assist in achieving those objectives; and
- There are other ISAs that support those objectives but do not require additional new objectives. (For example, arguably, ISA 540 establishes requirements that deal with the auditor’s understanding of, and risk assessment and response for, assertions that relate to estimates, rather than setting a new and unique objective for estimates.)

Accordingly, if an ISA that deals with a specific subject matter sets further requirements in relation to that subject matter for the purpose of meeting the objective specified in another ISA (or amplify the requirements therein), and thereby does not establish either a unique or incremental ‘outcome’, then is it necessary for an objective to be specified in it?
18. Second, the issue is not dissimilar to the question of repetition of requirements within the ISAs. By maintaining a ‘rule’ that every ISA requires an objective to be specified, there is the potential for unnecessary proliferation. Unnecessary repetition exacerbates the complexity of dealing with compliance with the proposed obligation for the auditor to achieve the objectives stated in the ISAs.

19. Third, although establishing relatively few, high-level objectives not linked directly to individual ISAs (option A) would emphasize the fact that ISAs are interrelated and together assist the auditor in forming an opinion, this approach may not result in appropriate and consistent performance by auditors in all cases, if the objectives are too remote from the requirements or if the objectives are set at too high a level in relation to the requirements.

20. Fourth, in comparison to the option of specifying objectives for each individual ISA (option C), the exclusion of objectives from certain ISAs that support the ISAs which contain objectives would result in a relatively complete and stable platform of objectives. This would be because completely new ISAs are likely to be topic-specific, supporting ISAs, except for those few that introduce a new or incremental objective, which is likely to be rare and required only in cases where there is some development in the understanding of what constitutes an audit.4

21. Finally, it limits the issue of whether an objective is ‘relevant in the circumstance’, a problem anticipated by some respondents that may arise if objectives were to be specified in each and all of the individual ISAs.

22. Against these arguments, it should be noted that the idea of an objective in each ISA, with a corresponding obligation, received strong regulatory support. Some may argue that for some ISAs not to contain objectives may send a message (incorrect though it may be) that these are secondary ISAs that are somehow less important than those that do contain an objective. This in turn may be seen as a weakening of the revised set of standards. It would not be wrong for each ISA to contain an objective, and it may be desirable to avoid distinctions arising between different ISAs. The Task Force will seek the advice of the IAASB CAG on this issue.

**Action Requested**

The IAASB is asked for its views on option B described above. What further advantages or potential concerns or problems, if any, might arise if this approach were adopted?

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C. Obligation

**RESPONDENTS’ COMMENTS**

23. Although objectives and the related obligation were seen as key strengths of the approach, about one third of respondents (ACCA, APB, CNCC, EY, FEE, GT, Hermes, HKICPA, ICAEW, IdW, IRE, KPMG, LSCA, PwC, REA, UNICE) took issue, variously, with the obligation in paragraph 19 of the proposed amended Preface.

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4 For example, if for some (unforeseen) reason the IAASB decided to draft an ISA on the audit of investments, it is unlikely to create a new objective for the auditor; on the other hand, if it became accepted that a separate opinion on internal control is required, the objectives of the auditor would need to be changed.
24. Nearly all of these respondents objected to the absolute nature of the obligation; specifically, the proposed wording does not allow for the inherent limitations of an audit, or for the fact that achievement of the objectives will not always be possible.

25. Concern was also expressed over the appropriateness of establishing an obligation to achieve each of the objectives specified in each of the ISAs. It is argued that requiring auditors to consider each of the objectives separately, and to conclude whether each of them has been met, will not increase the quality of the audit as it may lead to a checklist mentality as to whether the objectives of each ISA is met. It is an unnecessarily prescriptive approach. The focus, in the view of these respondents, should be on whether the overall objective of the audit has been achieved.

26. It was also noted (EY, LSCA) that the process of adding objectives to existing ISAs (as an afterthought) creates the risk that objectives go broader than the sum of the requirement and thereby increasing the possibility of more frequent need for “other procedures” (as envisioned in the proposed obligation) than intended or desirable. Two respondents (GT, IRE) noted further that it should be presumed that if the auditor fulfils the requirements, then the auditor should be able to presume that the objectives have been met.

27. On the other hand, the remaining respondents either expressed support or did not object to the proposed obligation. There was, in particular, strong support from certain regulators including encouragement to strengthen it further:

- By giving consideration to how objectives can be used as a basis for determining documentation needs, so that regulators can obtain insights into how auditors have applied judgments (i.e., how can objectives offer necessary support to regulators through documentation) (EC);
- By re-emphasizing the obligation in the individual ISAs, and by using the word ‘must’ in the form of the objectives (IOSCO).

**DISCUSSION AND RECOMMENDATION**

28. The Task Force accepts the points that the proposed wording of the obligation does not recognize the inherent limitations of an audit and the fact that compliance with the objectives may not always be possible.

29. In terms of the nature and extent of the obligation, the options appear to be:

- Limit the obligation to only a single, overall objective to be achieved by the auditor (i.e., derived from the overall objective of an audit).
- Retain the obligation, modified to reflect the fact that there are limitations inherent in an audit.
- Remove any form of obligation.

30. The original intention of the IAASB in proposing objectives was to strengthen the ISAs without their becoming over-burdened, and thereby effectively weakened, by detailed requirements. For this purpose to be met, it is necessary that the objectives should be set at a level where they effectively guide the auditor. It is unlikely that an obligation simply to achieve the overall objective could have that effect.

31. The objectives themselves are not the ends, but rather a means of providing the basis for the auditor to judge whether further action is necessary in the circumstances where the
requirements are not sufficient. A change to emphasize this aspect should help to alleviate some of the concern, while retaining the desired outcome.

32. To remove the obligation would be a radical change to the proposals, not supported by the comments overall, and very unwelcome to the principal regulatory respondents.

**Recommendation**

The IAASB should continue with its proposal to place an obligation on the auditor in relation to the objectives. However, the wording of the obligation specified in paragraph 19 of the proposed amended Preface should be revised as follows (on the assumption that each ISA contains an objective; appropriate amendments would be necessary if this approach is not eventually followed):

“The professional accountant shall achieve the objectives stated at the beginning of each Standard that is relevant to the circumstances of the engagement. The professional accountant achieves the objective by complying with the requirements of the Standard, and by performing other procedures that, in the professional accountant’s professional judgment, are necessary in the circumstances. If, having complied with the requirements of the standards, the professional accountant concludes that the objectives have not been achieved in the circumstances of the engagement, the professional accountant shall perform such other procedures as the professional accountant deems necessary in order to do so. When an objective is not met, the professional accountant shall consider the implications for the auditor’s report. These obligations are subject to, and are to be understood in the context of, the inherent limitations of an assurance engagement and the level of assurance appropriate to the engagement.”

**Action Requested**

The IAASB is asked whether it believes the proposed rewording of the obligation achieves an appropriate balance in retaining the benefits of objectives while responding to the concerns raised by respondents.

The IAASB is also asked for its views on the issue of documentation (as raised by the EC (above)). Specifically:

- Would it be appropriate to attach a specific documentation requirement (either in the Preface or (more appropriately) in ISA 230) in connection with the auditor’s consideration of the objectives (as part of the record of the basis of the auditor’s opinion)?
- Would doing so change your view on the appropriateness of the revised wording of the obligation, or the level at which the objectives should be set?

* * *
D. Form of Objectives

RESPONDENTS’ COMMENTS

33. Approximately one quarter of respondents (ACAG, AuASB, CPA Aus, DTT\(^5\), FAR, FICPA, ICAI, KICPA, NAO, NIVRA, NZICA) considered the objectives stated at the beginning of the ISA EDs to be appropriate.

34. However, most other respondents were of view that the draft objectives take the form more of a summary of ‘high-level [mandatory] requirements’ (or a mixture of high-level outcomes and ‘high-level requirements’) than true objectives, and often appear to be ‘process’ driven. The prevailing view was that the objectives:

- Should be free of such elements.
- Need to ‘outcome-based’ or ‘outcome-oriented’.

35. Suggestions for what may be defined as ‘true objectives’ or ‘outcome-oriented objectives’, included, variously, objectives that state or describe:

- The conclusion(s) that an auditor is expected to reach under a certain ISA.
- The overall outcome that the auditor needs to achieve for that ISA.
- The underlying purpose of the ISA.
- What must be achieved and why.
- What is expected to be ascertained by the auditor for that ISA.
- The desired outcome of the auditor behavior.

36. It was apparent from re-wording suggestions offered by many respondents, however, that there are different expectations as to the precise form that objectives should take in order to reflect ‘high-level, outcome-oriented objectives.’

37. The respondents also noted that the objectives need to be much more general, and set at a higher-level, particularly if they are to be distinguishable from requirements. Further, the objectives should link to the overarching objective of the audit, if the purpose of objectives is to require the auditor to stand back and consider the procedures performed.

38. In addition, two respondents (Basel, CEBS) believed that the objectives should go ‘over and above’ what is stated in the requirements.

DISCUSSION AND RECOMMENDATIONS

39. The Task Force accepts the view that objectives should endeavor to reflect the outcome that the ISA is directing the auditor to achieve. It also accepts that objectives that are procedural in form may diminish the benefits of specifying objectives and blur the distinction between them and the requirements.

40. However, assuming that there is an obligation attaching, the Task Force is of the view that it is necessary for the objectives to be specific enough to be useful in assisting the auditor in understanding how the requirements and objectives relate, evaluating whether they have been met and deciding what more, if anything, needs to be done. If they are in effect a

\(^5\) Subject to minor editorial changes.
mandatory obligation, then objectives that are set at too high a level may make them ineffective and therefore not particularly useful.

41. With respect to the suggestion that objectives should go ‘over and above’ what is stated in the requirements, the Task Force accepts that objectives should not be constrained by existing requirements, but does not believe that this consideration should drive how the objectives are formulated; intentionally creating a gap between the objectives and requirements would not be a valid objective of this project.

**Recommendation**

The objective specified in an ISA should articulate the outcome to be achieved by the auditor in relation to the ISA, and should meet the following guidelines.

For purpose of internal guidance on the drafting of specific objectives, an objective should be:

- Achievable within the inherent limitations of an audit consistent with the concept of reasonable assurance;
- Stated at a sufficiently high level such that it is applicable to all audits and to the varying circumstances that the auditor may encounter within the subject matter of the ISA;
- Sufficiently specific such that the auditor can determine what is to be accomplished; however, it should not reflect matters of procedure or process, except in rare cases where that is necessary; and
- Consistent with the overall objective of an audit.

42. The Task Force has revised the proposed objectives of the four ISA EDs to reflect the above. These are shown in Appendix II. If the right balance has been achieved, these would be used as models of the form in which the objectives for other ISAs would be drafted.

**Action Requested**

The IAASB is asked to:

- Consider and advise on whether the proposed guidelines above, in principle, appear appropriate.
- Review the revised draft objectives for the four ISA EDs presented in Appendix II of this Paper, and advise on whether their form and level as set appear appropriate.

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**Section II: Requirements**

**A. Application of Guidelines for Specifying Requirements**

43. Nearly all respondents cited support for the general guidelines specified by the IAASB for specifying requirements. A split view, however, existed over whether the guidelines were applied consistently and appropriately in determining whether to elevate a matter to a requirement or to retain as application material, and over the resulting number of requirements.
44. The views of respondents\textsuperscript{6} were as follows:

<table>
<thead>
<tr>
<th>View</th>
<th>Regulators</th>
<th>MB / NSS</th>
<th>Firms</th>
<th>Other</th>
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</thead>
<tbody>
<tr>
<td>Requirements are appropriate</td>
<td>2</td>
<td>10</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Some ‘inappropriate’ elevations, or concern that overall result of requirements is onerous</td>
<td>3</td>
<td>13</td>
<td>2</td>
<td>5</td>
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<tr>
<td>Some missed elevations (note: these respondents also noted some ‘inappropriate’ elevations; accordingly, they are also included in the tabulation in the preceding row)</td>
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45. Broader concerns about cost/benefit and impact assessments, and documentation and communication requirements were also raised. These issues are not covered in this Paper.

\textit{`Inappropriate’ Elevations to Requirements}

46. Respondents were generally not convinced that, for a number of the proposed new requirements, the criterion of ‘…in virtually all cases’ (and in some few cases, the two other criteria of ‘important to achieving the objective’ and ‘not otherwise met by other requirements’) had been met or applied consistently, particularly in the small- and medium-sized entity context. Accordingly, there was concern about over-prescription, a disproportionate increase in the number of requirements, and the resultant impact on the extent of documentation.

47. Although several respondents expressed serious concern over the way that the IAASB had applied its criteria, in fact in many cases only a relatively few number of ‘inappropriate’ elevations were cited. Nevertheless, respondents called for a full review of all new requirements as to whether in fact the IAASB guidelines have been met.

48. Several respondents also noted that the basis for deciding whether a present tense should be a requirement was unclear. It was pointed out by some that as the mapping documents issued with the consultation drafts explained why a present tense was not being treated as a requirement, but did not explain why a present tense was being so treated, the IAASB seemed to be working on the presumption that a present tense should become a requirement.

49. In addition, several respondents observed that there is no evidence that either element of the proportionality test\textsuperscript{7} referred to in the explanatory memorandum had, in fact, been applied. But it was often cited by respondents as an important aspect of the criteria by reference to which requirements were to be judged.

\textit{Missed ‘Elevations’}

50. Three respondents (EC, ICAEW, IOSCO) were of the view that there remains a small amount of material in the application material that should be considered requirements. In

\textsuperscript{6} Includes those that responded to the question in the explanatory memorandum on the application of the guidelines for specifying requirements, or that provided detailed comments relevant to the matter of elevation/non-elevation of material to requirements in ISAs 240 and 315 (Redrafted).

\textsuperscript{7} The explanatory memorandum stated: “…In determining the requirements of a Standard, the IAASB will consider whether the requirements are proportionate to the importance of the subject matter of the Standard in relation to the overall objective of the engagement.”
general, though, two of these respondents seemed content as they also suggested a few deletions, or had commentary that was directed towards the need to reduce the requirements.

**DISCUSSION AND GENERAL RECOMMENDATIONS**

51. The Task Force has not yet completed its discussion on the specifics of respondents’ comments on the proposed requirements in the four ISA EDs; recommendations in response will be presented to the IAASB at its July meeting. However, based on respondents’ comments, the Task Force is generally satisfied that the IAASB has not missed substantive requirements in its process of reviewing sentences containing the present tense, and that the end result is appropriate.

52. However, in relation to the specification of new requirements, it sees three areas of principle where general improvement could be made, as follows:

**Requirements that specify a list of matters for consideration**

53. Those requirements that specify in detail the types of matters that should be considered by the auditor in undertaking an action or procedure or in making a judgment have generated the majority of the concern over the extent to which requirements are specified. Respondents were of the view that such material deals with application and, in some cases, the level of detail of such requirements suggests that the requirements are not relevant in virtually all circumstances.

54. The Task Force proposes to look closely at such requirements; it has also identified that there may be a need for further guidance on documentation of such consideration to avoid the impression that some form of checklist approach is being called for.

**Applicability of a requirement in the SME context, and conditional requirements**

55. Based on the respondents’ detailed comments, the Task Force believes that some of the concern about whether the requirements of a Standard are applicable in virtually all circumstances (particularly for auditors of smaller enterprises) stems in part from:

(a) The specific wording used in some requirements, which may give the impression that they deal with circumstances or processes that may exist only in audits of larger entities (e.g., the requirements in ISAs 315 and 240 (Redrafted) for discussion amongst the engagement team; and the requirement in ISA 315 (Redrafted) that refers to ‘the entity’s risk assessment process’); and

(b) Specifying requirements that are conditional on the existence of a specific function within an entity (e.g., internal audit) or circumstance of the audit.

The Task Force believes that improved drafting will help alleviate these concerns.

**The need for a requirement**

56. The basic reason for elevating a present tense to a requirement was that the matter was considered to be “necessary to achieve the objective of the Standard.”

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8 Paragraph 22 in ED ISA 315 (Redrafted) is an example of this type of requirement, which states: “In determining which risks are significant risks, the auditor shall consider at least the following: • Whether the risk is a risk of fraud; • Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention; • The complexity of transactions...”
57. However, it may be that the thought process (and mapping documentation) related to the application of this guideline needs to focus on why the requirement is necessary’, including consideration of:

- What it is intended to achieve; and
- The possible consequence of not having it, and whether that consequence is likely and significant?

Although this thought process is evident when the IAASB considers a new or revised ISA, it may have been less so in terms of the redrafted ISAs because of the fact that many (but not all) of the elevations primarily clarify, or add specificity to, an existing requirement, rather than introduce a new substantive requirement.

**Revisiting the “proportionality test”**

58. Although the general guidelines identified by the IAASB for specifying requirements included the notion that the requirements would be considered in relation to whether they are ‘proportionate’, defining how proportionality is to be judged, and how the ‘test’ is to be applied present some challenges.

59. Rather than describing the test in this way, the Task force believes a similar result could be achieved if the IAASB were to consider a ‘stand back’ test (as suggested by one respondent (ICAEW)). In this regard, it is suggested that the IAASB and task forces should be asked to consider the following for an ISA as a whole and for each requirement:

- Does the requirement lead auditors to do something in a specific way, thereby focusing too much on the ‘how to’ instead of the question of whether a matter has been considered and appropriately addressed?
- How in particular is the requirement intended to further assist the auditor in achieving the objective of the ISA?
- Is the totality and specificity of the requirements such that, for the topic at hand, it may result in an instinctive reaction to ‘comply’ rather than apply judgment in light of the varying circumstances of the audit?

**Action Requested**

The IAASB is asked for its views on the general observations and recommendations above, specifically whether they would in principle assist in the appropriate specification of requirements and help to enhance the rigor in which the guidelines for specifying requirements are applied? Are there other principles that should be considered?

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**B. Shall Consider**

**RESPONDENTS’ COMMENTS**

60. Several respondents (ACCA9, Basel, BDO, CEBS, EC, FEE, HKIPCA, ICAEW, IOSCO, KPMG, PwC) raised concern over the use and intended meaning of the phrase ‘shall consider.’

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9 Implied by virtue of the respondent’s recommendation for the IAASB to define the various actions included in the wording of the ISAs requirements.
61. It was noted that the IAASB uses the phrase for different purposes, such as:
   • The consideration of whether or not to carry out an action or a procedure (in actual fact, this form is used infrequently).
   • To signal a decision (i.e., ‘to consider whether to do [something]’).
   • As a procedure itself, where the auditor considers facets of the circumstances around the audit or particular aspects of the audited entity or relevant information in order to make a decision.

62. It was also observed (PwC) that, in some cases, it is difficult to understand the context of the consideration when the related guidance is placed in the application material, rather than in connection with the requirement to consider [something], and that translation difficulties will arise without a clear meaning attaching to its varied use (Basel, FEE).

63. In general, the respondents recommended that the IAASB:
   • Avoid the phraseology ‘shall consider’ whenever requirements can be written another way to explain exactly what the auditor is expected to do – e.g., shall determine or shall evaluate.
   • Limit its use to when it is very clear what consideration is needed and the decision that the auditor needs to make based on the consideration.
   • Review all areas of use in both new and extant requirements.
   • Make clear in the Preface how the IAASB uses ‘shall consider,’ what is involved and the documentation10 (if any) of what has been done as a result of the choice of judgment.

DISCUSSION AND RECOMMENDATIONS

64. The Task Force agrees, in principle, with the concerns expressed. It believes the use of ‘shall consider’ needs to be reviewed to determine whether in fact it is the clearest way of expressing the desired action.

65. However, it does not accept that the use of ‘shall consider’ should be stopped altogether. It does reflect a reasonable action, based on its common meaning of ‘to take account of’; meaning, in the context of the ISAs, that the auditor is expected to review the matter(s) and evaluate whether it is applicable in the circumstances. Further, in some cases, an alternative phrase that communicates the same intent in a clear and unambiguous manner is not possible, particularly in relation to its use in specifying certain risk assessment procedures (where the purpose of such procedures is to gather and take account of information, and using terms such as ‘evaluate’ or ‘determine’ may introduce a greater obligation that originally intended).

66. In addition, the Task Force notes that the circumstance described in paragraph 2011 of the proposed amended Preface is used in very few cases, if at all, particularly in relation to a

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10 This Paper does not address the issue of documentation of compliance with ‘shall consider’ requirements. This matter will be addressed as part of the review of the documentation provisions of the Preface at the July IAASB meeting.
procedure or action. If the use of ‘shall consider’ is reviewed as suggested, there should be no need for further explanation of this kind.

**Recommendations**

It is recommended that:

- The phraseology ‘shall consider’ be avoided whenever requirements can be written another way to explain exactly what the auditor is expected to do.
- Paragraph 20 of the Preface should be deleted.

**Action Requested**

The IAASB is also asked to comment on the recommendations noted above.

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**Section III: Structural and Drafting Matters**

**A. Separation of Requirements and Application Material**

67. A substantial majority of respondents expressed support for the separation of requirements and application material. A minority of respondents (AASB, AICPA, CPA Aus, EY, GT (split views noted by DTT and IOSCO)) expressed concern over the separation and considered that the two sections should be integrated, or at a minimum, that the requirements should be repeated in the application material for context. The nature and balance of views and arguments raised for and against the separation were consistent with those considered by the IAASB in October 2005.

**Recommendation**

Based on the responses, the Task Force recommends that the IAASB proceed with the separation, on the basis included in the drafts that were exposed.

**B. Definitions**

68. Various views were expressed on the inclusion of the ‘Definitions’ section, and on the definitions therein. On balance, two general recommendations emerged:

- Include all definitions in the Glossary of Terms, rather than including a ‘definitions’ section in the ISAs.
- If there is to be a ‘Definitions’ section, ensure it is complete.

69. The original purpose of the use of a ‘Definitions’ section was to highlight those new key terms being introduced by the ISA (to draw attention thereto, and to assist in translations), and to define certain terms to avoid disturbing the flow of the requirements. It also served to embed the definitions within the ISAs, given that the status of the adoption of the Glossary may be unclear in some jurisdictions.

70. An issue faced when including a ‘Definitions’ section in the redrafted ISAs was determining which ISAs should contain what definitions – that is, when in fact is a term first being

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11 Paragraph 20 of the Preface states: “If a Standard provides that a procedure or action is one that the professional accountant “shall consider,” the consideration of the procedure or action is required, while carrying out the procedure or action is not.”
introduced in the ISAs? This issue became more pronounced when respondents suggested that further terms be defined in a particular ISA, where one may view equally that it should be ‘introduced’ by another ISA. It also became evident that a more complete list of definitions would overwhelm the rest of the content of many of the overarching ISAs.

71. It was also suggested that the status of the Glossary might be resolved by including it as an appendix to one of the ISAs (eg, ISA 200). The Task Force does not favour this approach which would add an unwieldy appendix to an ISA. As long as it is clear that the definitions in the Glossary are to be applied in the interpretation of the ISAs, the status of the Glossary will be clear.

**Recommendation**
The Task Force recommends the follows:

- Remove the ‘Definitions’ section from the proposed new structure of the ISAs.
- Explain in the Preface (and each ISA) that certain terms in the ISAs (identified as suggested below) have the meaning attributed to them in the Glossary.
- For the redrafted ISA (as these are not ‘new’ ISAs), ensure all definitions are in the glossary.
- On an ongoing basis (for new or revised ISAs), include an appendix that sets out those new definitions placed in the Glossary (with footnote reference to the appendix and/or Glossary for new terms introduced). The appendix can then be dropped in due course.
- Identify in each ISA by means of footnote or other convention those terms for which there is a definition in the Glossary at the first instance in which the term appears in an ISA.

C. Essential Explanatory Material within ‘Requirements’ Sections

72. Respondents noted that the inclusion of ‘essential explanatory material’ within the ‘Requirements’ section creates a degree of confusion (i.e., is it a requirement, or does it impose some form of obligation; if not, then what is its status?). The majority of respondents that provided detailed comments on the redraft ISAs variously mistook such material as requirements, or were of the view that much of it should be treated as application material. Several respondents also observed inconsistencies between the ISAs in terms of the extent to which such material is included.

73. Responses, on balance, suggest that the inclusion of essential explanatory material should be kept to the bare minimum.

**Recommendation**
It is recommended that unless it is absolutely essential, the requirements section of redrafted ISAs should not contain material other than requirements.

D. Linkage of Objectives and Requirements

74. If the approach of including outcomes-based objectives in some but not all ISAs is followed, the linkage between the objectives and some of the detailed requirements will become less obvious. The need for the objectives to be sufficiently specific to enable them to link to the requirements was a point of importance expressed by participants at the July 2005 Clarity Forum, and this will continue to be the case where objectives are specified in an ISA (see above about the detail in an objective).
75. Two respondent (FEE, ICAI), however, suggested that the linkage could be better achieved if in each redrafted ISA the objectives are supplemented by a separate but very brief overview, or “executive” summary, of the Standard’s requirements. Logically, this would be placed within the ISA between the ‘objective’ and ‘requirements’ sections. Alternatively, it could (similar to the style followed in some International Financial Reporting Standards (IFRSs)) be placed as a separate introductory section explaining the main features of the ISA, published with, but prior to, the text of the Standard itself, having no particular status.

76. The IAASB needs to be satisfied with the linkage of objectives and requirements before issuing a Standard. How clear it is to the reader may depend upon the finally agreed form of those objectives. However, the relatively short length of the ‘Requirements section’ of the redrafted ISAs, together with the increased use of descriptive headings and subheadings, should provide a reasonably well articulated description of the requirements, the linkage of which to the objectives can be ascertained relatively easily.

77. In addition, the introduction of an “overview” or “executive” summary section needs to be considered in light of the objective of seeking to reduce the overall length of, and repetition within, the ISAs, and the perceived complexity of the structure of the ISAs when attempting to define the status of such a summary.

78. Having regard to the above, the introduction of a separate summary, within or associated with an ISA, which provides an overview of a Standard’s requirements is not generally recommended. However, as a matter for future consideration, it will be important to evaluate whether the headings and subheadings within an ISA, together with the form of the objective itself, provide an adequate link of the requirements to the objectives.

**Action Requested**

The IAASB is asked to consider the above structural and drafting matters, and to advise on the Task Force’s recommendations.

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**Section IV: Update on Implementation Plans**

79. In anticipation of requests by respondents for the Clarity project to be completed earlier than originally anticipated, the IAASB Chairman suggested at the December 2005 IAASB executive session that the 14 ISAs identified in Schedule IV of Appendix I (Clarity Implementation Timetable) in the October Exposure Draft only be redrafted using the new drafting conventions, rather than revised (as originally proposed).

80. This strategy would enable the IAASB to complete the Clarity project during 2008, provide a complete and consistent set of standards and allow the IAASB to move more quickly to tackle other projects based on identified priorities.

81. The IAASB supported the proposed strategy, and respondents’ comments confirm that there is strong demand for the IAASB to consider ways of accelerating the original timetable, including the consideration of redrafting the remaining ISAs, without revision (subject to specific ISAs, as noted below).

82. In planning for an accelerated timetable, IAASB staff have completed the following activities in relation to work on redrafting the remaining ISAs:

- Confirmed the support of five NSSs (Australia, Germany, South Africa, UK, US) for staff resources to assist in the redrafting.

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• Confirmed the support of individual IAASB members to lead, or participate in, small redrafting task forces.
• Identified preliminary staff assignments, and as needed secured an additional resource from outside IFAC.

Because of the number of different drafting teams to be involved in the process, the Task Force has also begun consideration of the mechanisms needed to ensure that the redrafting of the ISAs is consistent.

83. Staff have also developed a preliminary IAASB meeting timetable for all projects, assuming redrafting of the remaining ISAs, working back from a completion date of 2008. It indicates that targeting a 2008 completion is feasible (albeit ambitious) if agreement can be quickly reached on how to deal with issues arising from the responses to the October Clarity EDs, subject to any difficulties that may arise in redrafting individual ISAs. This timetable will be refined over the next few months and presented to the IAASB for consideration at its July meeting.

84. Respondents’ comments also indicated general support for a single effective date for the complete set of redrafted ISAs, with such a date to take account of the need for translation, implementation and training at the national level. The effective date and options for approving and issuing redrafted ISAs (as a set, in an annual batch, or as and when they can each be approved) are yet to be considered by the Task Force.

85. A few respondents noted the following ISAs as those where revision may be warranted; these are at present being revised by the IAASB:
• ISA 260, Communications (EC)
• ISA 320, Materiality (EC)
• ISA 402, Service Organizations (IOSCO)
• ISA 545, Fair Values (Basel, CEBS, EC, FEE, IOSCO, UNICE)
• ISA 505, External Confirmations (EC, IOSCO)

86. Respondents also noted the following ISAs as those where revision may be warranted:
• ISA 250, Laws and Regulations (Basel, FEE, IOSCO)
• ISA 570, Going Concern (AuASB, Basel, EC, FEE)
• ISA 720, Other Information (EC, FEE, IOSCO)
• ISA 560, Subsequent Events (AuASB, FEE)

87. Respondents did not provide the reasons why they felt these ISAs require revision. Staff plans to contact these respondents to obtain more information on the nature of their concerns.
Appendix I

Preliminary Draft of Objectives for All of the ISAs

The IAASB is asked to note the following in regards to the following draft objectives:

- They are presented for information purposes only, and do not represent a recommendation of the Task Force in relation to their final form, or the extent to which objectives are to be specified.

- They represent a first attempt by staff supporting the Clarity Task Force to identify the ‘high-level’ objective (or outcome) that might feature in each ISA objective. The Task Force has refined the objectives of ISAs 240, 300, 315 and 330 to a level it believes appropriate, subject to IAASB discussion (see section D, “Form of Objectives”, paragraphs 39-42). The remaining objectives need to be refined and conformed.

- They have not been reviewed or considered by the various task forces responsible for individual projects. Accordingly, the specific objectives will be subject to refinement as individual ISAs are revised or redrafted during the course of this project.

- They do not reflect potential changes that may be needed to enhance further the coherence of the set of objectives. However, as noted in recent IAASB discussions, there are several places in the ISAs where the matters of evaluation of audit evidence and forming an opinion are dealt with. On a preliminary basis, Staff has drafted a separate objective to address these matters, rather than in connection with the ISAs where they are at present covered. This possible draft objective (ISA XXX) is shown in highlight in the section “Evaluation and Forming an Opinion Objectives” below.

Overall Objective of an Audit (as per ISA 200)

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.

Overall Objective of the Auditor

The overall objective of the auditor is to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level, and thereby obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, and to report in accordance with the requirements of the engagement and the auditor’s findings.
### Engagement Acceptance, Quality Control and Documentation Objectives

#### Terms of Audit Engagements (ISA 210):\(^\text{12}\)
The objective of the auditor is to establish an understanding with the entity of the terms of the audit engagement and the auditor’s responsibilities, and that the applicable financial reporting framework is acceptable, and to accept a request for a change in the engagement only when it is appropriate to do so.

#### Quality Control (ISA 220):
The objective of the auditor is to obtain reasonable assurance, within the context of the firm’s quality control policies and procedures, about the quality of the audit and compliance with professional standards and regulatory and legal requirements.

#### Documentation (ISA 230):
The objective of the auditor is to have a sufficient and appropriate record of the basis for the auditor’s report, and evidence that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.

### Audit Process - Planning, Risk Assessment and Responses Objectives

#### Planning (ISA 300):
The objective of the auditor is to plan the audit so that it will be performed in a manner that is effective in obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

#### Materiality (ISA 320):
The objective of the auditor is to determine an appropriate materiality level or levels to enable the auditor to plan and perform the audit to reduce audit risk to an acceptably low level.

#### Understanding the Entity and Assessing Risks of Misstatement (ISA 315):
The objective of the auditor is to obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and sufficient to provide a basis for designing and implementing responses to the assessed risks of material misstatements to reduce audit risk to an acceptably low level; and to make the risk assessment at the financial statement and assertion levels.

#### Auditor’s Procedures in Response to Assessed Risks (ISA 330):
The objective of the auditor is to design and implement responses to the assessed risks of material misstatements in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

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\(^{12}\) It is under consideration whether the focus of the objective of this ISA should feature engagement acceptance, in addition to, or instead of, agreement on the terms of the engagement.
Fraud (ISA 240):
The objective of the auditor is to consider the possibility of fraud when identifying and assessing the risks of material misstatement of the financial statements, design and implement responses to the assessed risks of material misstatement due to fraud in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level, and respond appropriately to identified or suspected fraud.

Audit Process – Specific Planning, Risk Assessment and Responses Objectives

Laws and Regulations (ISA 250):
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the entity is in compliance with those laws and regulations identified by the auditor that may have an effect on the financial statements, and to respond appropriately to identified or suspected non-compliance.

Subsequent Events (ISA 560):
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether events up to the date of the auditor’s report that may require adjustment of, or disclosure in, the financial statements have been identified and properly reflected in the financial statements.

Going Concern (ISA 570):
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether management’s use and disclosure of the going concern assumption in the preparation of the financial statements is appropriate.

Experts (ISA 620) (based on the extant ISA):
The objective of the auditor is to determine when the work of an expert is needed for the purposes of obtaining sufficient appropriate audit evidence and to evaluate whether the work done by the expert is adequate for the purposes of the audit.

Audit Process – Audit Evidence Consideration Objectives

Audit Evidence (ISA 500) (based on the extant ISA):\textsuperscript{13}
The objective of the auditor is to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.

\textsuperscript{13} It is under consideration whether ISA 200, instead, should deal with the general concepts of obtaining sufficient appropriate audit evidence, and for ISA 500 to feature the auditor’s consideration of matters relevant to the appropriateness of audit evidence when designing and performing audit procedures.
Audit Sampling (ISA 530):
The objective of the auditor is to use appropriate means for selecting items for testing to obtain sufficient appropriate audit evidence.

Representations (ISA 580):
The objective of the auditor is to obtain appropriate evidence about whether those charged with governance or management understand their responsibility for the financial statements and confirm that they accept that responsibility, and to obtain appropriate corroborating evidence in relation to other general representations made to the auditor and assertions in the financial statements, where that is necessary to obtain sufficient appropriate audit evidence.

Audit Process – Evaluation and Forming an Opinion Objectives

Evaluation of Misstatements Identified During an Audit (ISA 450):
The objective of the auditor is to evaluate the effect of uncorrected misstatements on the financial statements and whether the financial statements as a whole are free of material misstatement.

Evaluation of Audit Evidence and Forming an Opinion (Possible New ISA XXX)\(^\text{14}\)
The objective of the auditor is to evaluate the sufficiency and appropriateness of audit evidence in reducing audit risk to an acceptably low level, and the conclusions to be drawn from it; and to form an opinion on whether the financial statements as a whole are free of material misstatement.

Audit Process – Communication and Reporting Objectives

Communications with Those Charged with Governance (ISA 260):
The objective of the auditor is to establish a mutual understanding of (i) the respective responsibilities of the auditor, those charged with governance and management in relation to the financial statement audit, and (ii) the scope and timing of the audit; to provide those charged with governance with timely observations arising from the audit that are relevant to their responsibility to oversee the financial reporting process; and to obtain from those charged with governance information relevant to the audit.

Auditor’s Report – General Purpose (ISA 700):\(^\text{15}\)
The objective of the auditor is to issue a report that contains appropriate information about the audit and the auditor’s responsibilities, and a clear expression of the auditor’s unmodified opinion on the financial statements and on other matters for which the auditor has additional reporting responsibilities.

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\(^{14}\) It is under consideration whether the objectives of ISA 450 and the possible new ISA XXX could be combined.

\(^{15}\) It is under consideration how best to present the objectives for ISAs 700, 705 and 706 in a coherent manner, and whether it is possible for them to be combined.
### Auditor’s Report – Other Historical Financial Information (ISA 701):

The objective of the auditor is to issue a report that contains appropriate information about the audit and the auditor’s responsibilities, and a clear expression of the auditor’s unmodified opinion on the other historical financial information.

### Auditor’s Report – Modified Opinion (ISA 705):

[When the auditor has concluded that a modified opinion is appropriate,]^{16} the objective of the auditor is to issue a report that contains a clear expression of the auditor’s modified opinion on the financial statements and sufficient explanation of the reasons for it.

### Auditor’s Report – EOM and Other Paragraphs (ISA 706):

[When the auditor has concluded that additional communication in the auditor’s report is appropriate,]^{5} the objective of the auditor is to issue a report that draws users’ attention to a matter of particular significance that has been presented and disclosed in the financial statements, and that communicates information relating to a matter that is not presented and disclosed in the financial statements but which may be of relevance to the users’ understanding of the report.

### Other Information in Documents Containing Audited Financial Statements (ISA 720):

The objective of the auditor is to consider whether other information in documents containing audit financial statements is consistent with those statements; and to respond appropriately to identified material inconsistencies with the audited financial statements or material misstatements of fact in the other information of which the auditor becomes aware.

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### Topic-Specific Objectives

#### Audit Evidence Considerations

**Confirmations (ISA 505) (based on the extant ISA):**

The objective of the auditor is to use external confirmations in an effective manner when such use is necessary to obtain sufficient appropriate audit evidence.

**Analytical Procedures (ISA 520):^{17}**

The objective of the auditor is to use analytical procedures in an effective manner when such use is necessary to obtain sufficient appropriate audit evidence.

#### Subject Specific Considerations

**Service Organizations (ISA 402) (based on the extant ISA):**

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^{16} This conditionality may be unnecessary if one accepts that the objectives are to be read in conjunction with the scope paragraph of the ISA.

^{17} This objective assumes that the scope of ISA 520 could be revised to focus on the auditor’s considerations relevant to the effective use of analytical procedures; the requirements to use analytical procedures are already in ISA 315, and it may be that the requirement to use analytical procedures at the end of the audit should be repositioned as part of the auditor’s overall evaluation of audit evidence.]
The objective of the auditor is to obtain sufficient appropriate audit evidence regarding activities of a service organization that are of significance to the entity and of relevance to the audit.

**Estimates (ISA 540):**
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the accounting estimates and related disclosures in the financial statements are reasonable, in the context of the entity’s applicable financial reporting framework.

**Fair Values (ISA 545) (assuming a stand-alone ISA):**
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the fair value accounting estimates and related disclosures in the financial statements are reasonable, in the context of the entity’s applicable financial reporting framework.

**Related Parties (ISA 550):**
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been properly accounted for and disclosed in the financial statements, in the context of the financial reporting framework.

**Group Audits (ISA 600):**
The objective of the auditor is to determine whether the auditor is able to act as the group auditor and to obtain sufficient appropriate audit evidence for the group financial statements.

**Using the Work of Internal Auditing (ISA 610):**
The objective of the auditor is to determine the relevance of the activities of internal auditing and their effect, if any, on external audit procedures.

**Specific Items (ISA 501).**
The objective of the auditor is to obtain sufficient appropriate audit evidence regarding:

(a) The existence and condition of inventory comprising the account balances included in the financial statements;

(b) Litigation and claims involving the entity which may result in a material misstatement of the financial statements;

(c) The valuation and disclosure of long term investments included in the financial statements; and

(d) The presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

**Initial Engagements – Opening Balances (ISA 510):**

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18 There is very little in the ISA on (c) and (d); they are also very framework specific. This raises the question of whether these items should continue to feature in the ISA. If not, it may make sense to withdraw this ISA, and reposition the material on (a) to ISA 500, and (b) to ISA 250 or ISA 505.
The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the opening balances and the prior period’s closing balances contain misstatements that materially affect the current period’s financial statements, and the consistent application of the entity’s accounting policies from the prior period.

**Comparatives (ISA 710):**

The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the comparatives comply in all material respects with the applicable financial reporting framework.
Appendix II

Proposed Revised Objectives for the Four Clarity EDs

The following set out the Task Force’s preliminary proposed revised wording for the Objectives of the four Clarity EDs. For reference, changes from the wording in the EDs are shown in mark-up in the following appendix.

ISA 300

The objective of the auditor is to plan the audit so that it will be performed in a manner that is effective in obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

ISA 315

The objective of the auditor is to obtain an understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and sufficient to provide a basis for designing and implementing responses to the assessed risks of material misstatements to reduce audit risk to an acceptably low level; and to make the risk assessment at the financial statement and assertion levels.

ISA 330

The objective of the auditor is to design and implement responses to the assessed risks of material misstatements in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

ISA 240

The objective of the auditor is to consider the possibility of fraud when identifying and assessing the risks of material misstatement of the financial statements, design and implement responses to the assessed risks of material misstatement due to fraud in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level, and respond appropriately to identified or suspected fraud.
Appendix III

Proposed Revised Objectives for the Four Clarity EDs (Mark-up from EDs)

ISA 300
In relation to this ISA, the objective of the auditor is to plan the audit so that it will be performed in a manner that is effective in obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

ISA 315
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, including its internal control, 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 provide a basis for designing and implementing responses to the assessed risks of material misstatements to reduce audit risk to an acceptably low level; and to make the risk assessment at the financial statement and assertion levels.

ISA 330
In relation to this ISA, the objective of the auditor is to design and implement responses to the assessed risks of material misstatements in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.

(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
In relation to this ISA, the objective of the auditor is to consider the possibility of fraud when identifying and assessing the risks of material misstatement of the financial statements, design and implement responses to the assessed risks of material misstatement due to fraud in order to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level, and respond appropriately to identified or suspected fraud.

(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.