

IAASB CLARITY PROJECT UPDATE

The International Auditing and Assurance Standards Board's (IAASB) Clarity Project is nearing completion, drawing to a close IAASB's 18-month program to comprehensively review all of its International Standards on Auditing (ISAs) and International Standards on Quality Control (ISQCs) to improve their clarity and, thereby, their consistent application.

December 2008 Completion

To date, the IAASB has approved 33 clarified ISAs together with clarified ISQC 1¹. Of these, 22 have been approved for release by the Public Interest Oversight Board (PIOB) and 12 are to be submitted to the PIOB for its approval in December 2008. Only three ISAs, including a new ISA on communicating deficiencies in internal control, remain for approval by the IAASB in December for submission to the PIOB in February 2009. At the completion of the Clarity Project, all of the ISAs will be drafted in accordance with the IAASB's Clarity conventions subject to a single statement of authority.

The completion of the Clarity Project will result in many improvements to the ISAs. These improvements go beyond the enhancement of the understandability of the ISAs through the application of the new Clarity conventions – they also include substantive changes to approximately half of the ISAs introduced through their revision. These revisions were in progress or nearly complete when the Clarity Project began. The IAASB deferred their finalization, however, so that the revised ISAs could be redrafted in accordance with the new Clarity conventions and thereby allow all clarified ISAs to come into effect at one time subject to a single statement of authority. This approach reflects the fact that the ISAs are very much interrelated, and therefore need to be considered in their entirety in order to obtain the full benefits of the improvements arising from the Clarity Project.

All 36 clarified ISAs come into effect for audits of financial statements for periods beginning on or after December 15,

2009.² A significant number of the clarified ISAs include, as a result of their revision, substantive new requirements that aim to improve practice in a variety of respects.

The IAASB has agreed, subject to any unforeseen circumstances, not to issue any additional standards that would become effective in the next two years. This responds to requests the IAASB has received from stakeholders for a period of stability in the standards as jurisdictions focus on the important task of implementing the clarified ISAs and ISQC 1.

Implementation Considerations

Many national standards setters, legislators, regulators and oversight bodies, IFAC member bodies, and accounting firms have been following closely the development of the ISAs, contributing to the process by commenting on exposure drafts and preparing for the new clarified ISAs. Many have begun their review of the changes arising from the revision of some of the ISAs (made available by the IAASB as they were finalized), and have made substantial progress in updating their national material. They will, therefore, be well placed to consider adoption or convergence plans that maximize the implementation period for those responsible for training and for auditors. Nevertheless, all those with responsibilities relating to audits of financial statements need to consider implementation issues as soon as practicable, and to set in motion plans to ensure that audits are effectively carried out under the clarified ISAs for financial statements for periods beginning on or after December 15, 2009, which in many cases will be financial statements for calendar year 2010.

The importance of successful implementation cannot be overstated, and the level of effort for successful implementation should not be underestimated.

While specific implementation considerations will vary by jurisdiction and depend on which ISAs are currently in

1 ISQC 1 (Redrafted), "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

2 The effective date for the clarified ISAs was announced in October 2007.

force, there are some general considerations that may be relevant to all those responsible for successful implementation of the ISAs. These include:

National Standards Setters, Legislators and Others Involved in Setting Standards

- Finalization of adoption and convergence plans, including process and timetable considerations, such that the implementation period for auditors is maximized
- Finalization of translation activities and related timetables
- Development of implementation guidance relevant to the particular jurisdiction, where considered necessary
- Communication of national processes and timetables so that auditors may plan implementation with certainty

Regulators and Oversight Bodies

- Finalization of applicable regulatory statements or announcements
- Development, or updating, of inspection or oversight policies, and related internal training programs

IFAC Member Bodies

- Development, or updating, of continuing professional development courses
- Development of other relevant training materials
- Updating of relevant prequalification programs

Accounting Firms and Audit Practitioners

- Review of firms' system of quality control, audit methodologies, manuals and software
- Development, or updating, of training programs
- Updating of audit programs and procedures

The IAASB strongly urges immediate consideration of implementation issues. It reminds users that compliance with ISAs may only be claimed when the auditor has complied with all currently effective ISAs relevant to the audit.

Availability of the Clarified ISAs

The final set of clarified ISAs will comprise 36 ISAs, including:

- One new ISA, addressing communication of deficiencies in internal control;
- 16 ISAs containing new and revised requirements (these are referred to as “revised and redrafted ISAs”); and
- 19 ISAs that have been redrafted only to apply the Clarity conventions and reflect matters of general clarity only (these are referred to as “redrafted ISAs”).

An overview of some of the main changes to the ISAs arising from the Clarity Project appears at the end of this Update.

Recognizing that the processes of translation, adoption and implementation require access to the approved text of the clarified ISAs as early as possible, the IAASB has made the clarified ISAs available on its website as soon as practicable, as follows:

- All clarified ISAs approved by the IAASB and the PIOB (“Final ISAs”)³ are available on the IAASB website.⁴ These are accompanied by staff-prepared documents explaining the basis for IAASB’s conclusions on matters raised on exposure.
- Clarified ISAs, and clarified ISQC 1, approved at the September 2008 IAASB meeting are also available on the IAASB website.⁵ These documents are subject to approval by PIOB of due process applied, which is required before an ISA can be regarded as final, and are made available for information purposes only. Clarified ISAs approved at the December 2008 IAASB meeting will also be made available on the IAASB website approximately two weeks after that meeting.

³ A final ISA may give rise to conforming amendments to other finalized ISAs. Any such conforming amendments are indicated in the ISA which gives rise to them. The ISAs affected by the conforming amendments have not yet been updated to reflect those amendments. The IAASB will update the ISAs for these conforming amendments after its December 2008 meeting.

⁴ See <http://www.ifac.org/IAASB/Resources.php>

⁵ See <http://www.ifac.org/IAASB/Meetings/Resources/143/Updated+Agenda>

In December 2008, the IAASB will review all the clarified ISAs for necessary conforming amendments and matters of general consistency. Any such changes are not expected to change the substance of the ISAs already approved, although they may have a small effect on their content. To assist those that have already begun the process of adopting or translating the finalized ISAs, all changes will be shown in marked text and made available on the IAASB website.

The IAASB plans on publishing the set of clarified ISAs in IFAC's 2009 *Handbook of International Standards on Auditing and Assurance*, expected to be released in April 2009. The Handbook will include an updated Glossary of Terms for the ISAs bringing together the definitions included in individual ISAs.

The IAASB is confident that the clarification of the ISAs will contribute significantly to enhancing the quality and uniformity of practice worldwide, and that it will assist in the adoption of the ISAs around the world and facilitate international convergence. The IAASB is very grateful to all those who have contributed to the process.

Looking Forward

The IAASB must now look to projects on other important topics that have been postponed due to the Clarity Project. These and other important initiatives are set out in IAASB's 2009-2011 Strategy and Work Program.⁶ Nevertheless, the IAASB appreciates the challenges that will be faced as jurisdictions implement the clarified ISAs. It will, therefore,

also consider what might be done to further awareness about the new clarified ISAs, and to educate auditors and others about the new standards and the effects they will have on practice.

About the IAASB

The objective of the IAASB, an independent standard-setting board within the International Federation of Accountants, is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The PIOB oversees the activities of the IAASB and, as one element of that oversight, establishes the criteria for its due process and working procedures.

For more information about the IAASB, visit its home page at www.iaasb.org.

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⁶ The IAASB's *Strategy and Work Program, 2009-2011* is available on the IAASB website under Resources.

MAIN CHANGES FROM IAASB'S CLARITY PROJECT

All ISAs contain certain improvements arising from IAASB's Clarity Project. Broadly, these include:

- Identifying the overall objectives of the auditor when conducting an audit in accordance with ISAs, setting an objective in each ISA, and establishing an obligation on the auditor in relation to those objectives;
- Clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements; and
- Eliminating ambiguity about the requirements an auditor needs to fulfill.

The ISAs also have a new structure whereby Introductory material, Objectives, Definitions (as applicable), Requirements, and Application and Other Explanatory Material are presented in separate sections in an ISA, which together form the complete ISA.

ISA 200 (Revised and Redrafted)⁷ set out the conventions followed in the standards and the obligations of the auditors who follow them. Among other matters, it clarifies that the auditor is required to have an understanding of the entire text of an ISA to understand its objectives and to apply its requirements properly. It also explains that, in addition to objectives and requirements, ISAs contain guidance for carrying out their requirements. Such guidance may explain more precisely what a requirement means or is intended to cover, or include examples of procedures that may be appropriate in the circumstances. While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA. ISA 200 (Revised and Redrafted) also introduces new guidance in relation to professional skepticism, professional judgment, the implications of the inherent limitations of an audit, and other matters relevant to the application of the ISAs.

All clarified ISAs follow the new clarity structure and have been drafted in light of the obligations and conventions set out in ISA 200 (Revised and Redrafted). The changes to the ISAs, however, depend on whether an ISA has been revised or newly developed, or redrafted only to apply the Clarity conventions.

New, and Revised and Redrafted, ISAs

ISAs that have been revised as well as drafted in accordance with IAASB's Clarity conventions are referred to as "revised and redrafted ISAs." During the Clarity Project, the IAASB also commenced the development of a new ISA addressing the communication of deficiencies in internal control.

The new, and revised and redrafted, ISAs include requirements and guidance that aim to strengthen practice in the following areas:

- Materiality in planning and performing an audit, and its use in evaluating misstatements.
- Risk assessment, and the gathering and evaluation of audit evidence, in relation to:
 - ✓ Accounting estimates (including fair value accounting estimates) and related disclosures
 - ✓ Related party relationships and transactions
 - ✓ An entity's use of a third party service organization.
- Audit evidence considerations in relation to:
 - ✓ External confirmations
 - ✓ Written representations (including implications for engagement acceptance considerations).
- Using the work of others, in relation to:
 - ✓ Audits of group financial statements, including the work of component auditors.
 - ✓ Work of an auditor's expert.
- Communication with those charged with governance.
- Communicating deficiencies in internal control.
- Auditor reporting, in relation to:
 - ✓ Modifications to the auditor's opinion.
 - ✓ Emphasis of Matter paragraphs in the auditor's report.
- Audit and reporting consideration in the context of special engagements.

⁷ ISA 200 (Revised and Redrafted), "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

Redrafted ISAs

For certain ISAs, the IAASB has redrafted them only to apply the Clarity conventions and for matters of general clarity. These are referred to as “redrafted ISAs.” In addition to specifying objectives and definitions within these ISAs and other drafting and structural changes, these clarified ISAs introduce requirements arising from IAASB’s consid-

eration of the present tense in the current ISAs. The elimination of the present tense improves consistency of practice to the extent there were differences in views as to whether such statements imposed an obligation on the auditor.

The following table indicates the status of the clarified ISAs and clarified ISQC 1 as of October 2008.

Standard	New, Revised and Redrafted, or Redrafted ¹	Document Available on IAASB Website
ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements	Redrafted	Final IAASB-Approved Draft ²
ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing	Revised and Redrafted	Final ³
ISA 210, Agreeing the Terms of Audit Engagements	Redrafted	N/a – Document in progress ⁴
ISA 220, Quality Control for an Audit of Financial Statements	Redrafted	Final IAASB-Approved Draft
ISA 230, Audit Documentation	Redrafted	Final
ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements	Redrafted	Final
ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements	Redrafted	Final
ISA 260, Communication with Those Charged with Governance	Revised and Redrafted	Final
ISA 265, Communicating Deficiencies in Internal Control	New	N/a – Document in progress

1 The labeling convention “Revised and Redrafted” and “Redrafted” will be removed from the title and text of the clarified ISAs at the completion of the Clarity Project.

2 “Final IAASB-Approved Draft” documents are available at the IAASB website at <http://www.ifac.org/IAASB/Meetings/Resources/143/Updated+Agenda>, together with conforming amendments, if any, affecting other ISAs. These documents show the text of the standard approved by the IAASB and submitted to the PIOB for approval of due process applied. They are for information purposes only.

3 “Final” ISAs are available on the IAASB website at <http://www.ifac.org/IAASB/Resources.php>. A final ISA may give rise to conforming amendments to other finalized ISAs. Any such conforming amendments are indicated in the ISA which gives rise to them. The ISAs affected by the conforming amendments have not yet been updated to reflect those amendments. The IAASB will update the ISAs for these conforming amendments after its December 2008 meeting.

4 The IAASB has not yet approved the final drafts of ISA 210 (Redrafted), ISA 265 (New) and ISA 402 (Revised and Redrafted). The IAASB is scheduled to approve these ISAs at its December 2008 meeting.

Standard	New, Revised and Redrafted, or Redrafted ¹	Document Available on IAASB Website
ISA 300, Planning an Audit of Financial Statements	Redrafted	Final
ISA 315, Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment	Redrafted	Final
ISA 320, Materiality in Planning and Performing an Audit	Revised and Redrafted	Final
ISA 330, The Auditor's Responses to Assessed Risks	Redrafted	Final
ISA 402, Audit Considerations Relating to an Entity Using a Third-Party Service Organization	Revised and Redrafted	N/a – Document in progress
ISA 450, Evaluation of Misstatements Identified during the Audit	Revised and Redrafted	Final
ISA 500, Audit Evidence	Redrafted	Final IAASB-Approved Draft
ISA 501, Audit Evidence — Specific Considerations for Selected Items	Redrafted	Final IAASB-Approved Draft
ISA 505, External Confirmations	Revised and Redrafted	Final IAASB-Approved Draft
ISA 510, Initial Audit Engagements — Opening Balances	Redrafted	Final
ISA 520, Analytical Procedures	Redrafted	Final IAASB-Approved Draft
ISA 530, Audit Sampling	Redrafted	Final
ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures	Revised and Redrafted	Final
ISA 550, Related Parties	Revised and Redrafted	Final
ISA 560, Subsequent Events	Redrafted	Final
ISA 570, Going Concern	Redrafted	Final
ISA 580, Written Representations	Revised and Redrafted	Final
ISA 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)	Revised and Redrafted	Final
ISA 610, Using the Work of Internal Auditors	Redrafted	Final
ISA 620, Using the Work of an Auditor's Expert	Revised and Redrafted	Final IAASB-Approved Draft
ISA 700, Forming an Opinion and Reporting on Financial Statements	Redrafted	Final IAASB-Approved Draft

Standard	New, Revised and Redrafted, or Redrafted ¹	Document Available on IAASB Website
ISA 705, Modifications to the Opinion in the Independent Auditor's Report	Revised and Redrafted	Final
ISA 706, Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report	Revised and Redrafted	Final
ISA 710, Comparative Information — Corresponding Figures and Comparative Financial Statements	Redrafted	Final IAASB-Approved Draft
ISA 720, The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements	Redrafted	Final
ISA 800, Special Considerations — Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	Revised and Redrafted	Final IAASB-Approved Draft
ISA 805, Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	Revised and Redrafted	Final IAASB-Approved Draft
ISA 810, Engagements to Report on Summary Financial Statements	Revised and Redrafted	Final IAASB-Approved Draft

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