

STATUS OF THE IAASB'S WORK TO IMPROVE THE CLARITY OF ITS STANDARDS

Clarity and High Quality International Standards

In serving the public interest, the International Auditing and Assurance Standards Board (IAASB) sets high quality international auditing and assurance standards. The IAASB recognizes that standards need to be understandable, clear and capable of consistent application. These aspects of clarity serve to enhance the quality and uniformity of practice worldwide.

In seeking to improve its standards, in 2003 the IAASB reviewed the drafting conventions used in its International Standards. The objective of the review was to identify ways to improve the clarity, and thereby the consistent application, of International Standards issued by the IAASB.

Foundation for Improving Clarity

The IAASB has issued amendments to the *Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (Preface). This document establishes the conventions to be used by the IAASB in drafting future International Standards on Auditing (ISAs) and the obligations of auditors who follow those Standards.

The conventions and related obligations set out in the amended Preface are consistent with, though refined from, those exposed by the IAASB in October 2005, reflecting the broad support received from respondents. Improvements arising from the amended Preface broadly comprise:

- Identifying the auditor's overall objective 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;
- Eliminating any possible ambiguity about the requirements an auditor needs to fulfill; such possible ambiguity arose from the use of the present tense in the current ISAs; and

- Improving the overall readability and understandability of the ISAs through structural and drafting improvements, including presenting the requirements and application and other explanatory material in separate sections within the ISAs.

The amended Preface contains important statements about the authority of the IAASB's Standards. The IAASB understands that the Preface may not be reproduced or adopted in certain jurisdictions. Accordingly, in order to embed relevant provisions of the amended Preface within the ISAs themselves, the IAASB intends to revise ISA 200, *Objective and General Principles Governing an Audit of Financial Statements* to incorporate the relevant provisions. When ISA 200 is revised and exposed for public comment in 2007, respondents will be invited to comment on the material derived from the amended Preface in that new context.

The IAASB has also approved the application of those conventions to the following four re-titled ISAs exposed in October 2005:

- ISA 240 (Redrafted), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
- ISA 300 (Redrafted), *Planning an Audit of Financial Statements*;
- ISA 315 (Redrafted), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*; and
- ISA 330 (Redrafted), *The Auditor's Responses to Assessed Risks*.

The IAASB improved the consistency with which the conventions have been applied to these four ISAs and has considered, in particular, the need for the ISAs to be applicable to audits of entities of all sizes. Further improvements have also been made in specific areas where responses indicated ambiguity, or the need for additional guidance, in the extant ISAs.

The IAASB is satisfied that, as a result, the ISAs are clearer and the expectation of consistent application has been strengthened. It also believes that applying the new conventions will assist in their adoption around the world and facilitate international convergence. This project has provided a means to respond in a timely manner to many of the findings of the 2004 IFAC report, *Challenges and Successes in Implementing International Standards: Achieving Convergence to IFRSs and ISAs* (available on the IFAC website at <http://www.ifac.org>).

The IAASB's agreement on these documents sets the principles for the IAASB's overall efforts to improve the clarity of its Standards. The remaining ISAs can now be clarified in an efficient and effective manner.

The Preface and four ISAs are available on the IAASB website at <http://www.iaasb.org>. The IAASB is grateful to all those who commented on the exposed documents, and for the effort and thought that went into their comments. The IAASB staff-prepared document, *Basis for Conclusions: Clarity* (also available on the IAASB website), summarizes the more significant issues raised by respondents to the proposed amended Preface and the four redrafted ISAs exposed in October 2005 and how the IAASB addressed them.

Implementation Approach

The IAASB outlined an initial implementation plan that envisioned completion of the application of the new conventions to the entire set of ISAs by 2011. In response to strong demand by stakeholders for the IAASB to accelerate that timetable, the IAASB has taken a number of steps to enable it to complete both the revision of certain ISAs, and the redrafting of all ISAs, by 2008. The IAASB believes that this timetable is feasible and can be accomplished without compromising due process.

The implementation approach distinguishes revision and redrafting. The IAASB currently has 32 ISAs in issue. Of these:

- 11 are under full revision and will be issued in the clarity form;
- Nine have been revised in the last few years and are

in no need of further revision but will be redrafted in the clarity form; and

- The other 12 have not been recently revised but are considered acceptable, and they will be redrafted in the clarity form without revision for any other matters.

This approach responds to the desire for all ISAs to be consistently drafted, and subject to a single statement of their authority and effect, while completing the clarity project within a reasonable time. It also minimizes the time the IAASB will spend on the clarification of the older ISAs and ensures that the IAASB can turn its attention to other projects as soon as practicable. These other projects may include the full revision of some of the older ISAs if the clarity redrafting exercise or the IAASB's consultation on its future work program highlights a need for this.

Progress to Date

The IAASB is moving forward rapidly in implementing its clarity conventions. As of December 2006, the IAASB has exposed six of its 11 ISAs currently under full revision drafted in accordance with its clarity conventions. It has also issued exposure drafts of the following redrafted ISAs:

- Proposed ISA 230 (Redrafted), *Audit Documentation*;
- Proposed ISA 560 (Redrafted), *Subsequent Events*;
- Proposed ISA 610 (Redrafted), *The Auditor's Consideration of the Internal Audit Function*; and
- Proposed ISA 720 (Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statement*.

These exposure drafts are available on the IAASB website. The deadline for comments on these exposure drafts vary depending on when the individual exposure draft was issued and the complexity of changes proposed.

Timetable to 2008

The IAASB's tentative timetable to 2008 is available on the IAASB website. This timetable anticipates the issue of exposure drafts of the remaining ISAs by September 2007 and the completion of final ISAs by September 2008. This

work program is being supported by a number of national auditing standards setters that have agreed to assist in some of the necessary redrafting work, for which the IAASB is especially grateful. Subject to any unforeseen difficulties that may arise in the redrafting or revision of individual ISAs, the IAASB is confident that it will meet its timetable.

Effective Date

The IAASB intends to make all redrafted ISAs effective from a single date. Provisionally, this is expected to be for audits of financial statements for periods beginning on or after December 15, 2008. The final effective date will be confirmed as the IAASB progresses its agenda to issue a complete set of redrafted ISAs. The effective date will, however, not be earlier than this provisional date.

Availability of the Redrafted ISAs

The IAASB is making the approved redrafted ISAs available as early as possible to assist in their translation, adoption and implementation. IFAC member bodies and accounting firms will also want to consider what continuing professional development courses or other training materials need to be developed. Accordingly, redrafted ISAs will be released as they are approved. The IAASB accepts that there is a possibility of further conforming changes being necessary to released ISAs as other ISAs are redrafted. Any such changes are not expected to change the substance of the

ISAs already approved, though they may have a small effect on their content. The IAASB considers that any disadvantage in this approach is strongly outweighed by the public benefit in making the ISAs available as early as possible.

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 Public Interest Oversight Board oversees the activities of the IAASB and, as one element of that oversight, establishes the criteria for its due process and working procedures.

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