

# **IAASB CAG PAPER**

## **IAASB CAG Agenda (September 2006)**

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#### **Clarity—Issues Paper – September 2006 IAASB Agenda Item 2-A**

## **Clarity—Issues Paper**

### **Introduction**

1. This Paper is structured in the following sections:

Section A: Issues Pertaining to the Exposure Draft of Proposed Amendments to the Preface

Section B: Documentation – Proposed Amendments to ISA 230

Section C: Form of Objectives

Section D: ISA 200

### **Section A: Issues Pertaining to the Exposure Draft of Proposed Amendments to the Preface**

#### **I. Obligation Attaching to Objectives**

2. At the May 2006 IAASB meeting, the Clarity Task Force presented an analysis of respondents' comments on the exposed Preface paragraph 19 dealing with the obligation attaching to objectives, together with a proposed revised obligation and preliminary draft objectives for all of the ISAs. The proposed revised obligation reflected the general approval of the respondents for the notion that each ISA should have an objective, and that the auditor should have an obligation in relation to the objectives. The primary concerns of respondents were the form of the objectives (dealt with below in Section C), and the fact that the draft obligation in the consultation document did not adequately reflect the limitations of an audit.
3. The proposed revised obligation was as follows:

“The professional accountant shall achieve the objectives stated at the beginning of each Standard relevant to the engagement. 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. ”
4. Comments made during the IAASB discussion included the following:
  - The obligation appears to imply the need to document how the auditor has achieved the objective of the individual ISA. Such an additional documentation would seem unduly burdensome without adding value, particularly if some objectives are not dissimilar to the requirements of the ISA.
  - The obligation, if interpreted as requiring a conclusion on each objective, would appear to superimpose the structure of the ISAs into the audit process. This may not be consistent with the way in which audits are conducted, with specific methodologies or the way in which evidence is obtained and evaluated. Further, this may inadvertently

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emphasize considerations in relation to the form of the ISAs, rather than their substance. This concern would be reinforced by an obligation to document the achievement of individual objectives.

- It is unclear how the auditor's consideration of the objectives and the related documentation, if any, would be put into operation, particularly if the achievement of the objective in one ISA serves to fulfill, or is dependent on fulfillment of, the objective in another ISA.

It was also noted that some legislation uses objectives as a basis for interpreting the specific provisions within the legislation, and that this may be a useful construct for consideration by the Task Force.

5. The IAASB directed the Task Force to find a solution whereby the obligation:
  - (a) Is appropriate having regard to the tentative decision that an objective(s) should be specified in each ISA.
  - (b) Takes account of the interrelationships among the ISAs, and the fact that it may be impossible to conclude on each objective independently as some cut across all aspects of the audit (e.g., sampling or other means of selecting items for testing).
  - (c) Makes clear whether there is a related documentation requirement and if so, the nature of that requirement. Any such requirement should serve to help enhance audit quality.

#### DISCUSSION AND RECOMMENDATION

6. The Task Force believes the solution lies in clarifying the intended role of the objectives to be included in the ISAs and how they relate to the objective of an audit. Accordingly, the following is recommended:
  - The overall objective of the auditor<sup>1</sup> should be specified, and the auditor should be required to achieve that objective, or to modify the report or withdraw from the engagement if this cannot be done.
  - The auditor should be required to aim to achieve the objectives specified in the individual ISAs, having regard to the interrelationships amongst the ISAs. For this purpose, the auditor should use the objectives to judge whether there is a need to do more in the context of the overall objective of the auditor. Where an individual objective has not been or cannot be achieved, the auditor shall consider whether the circumstances prevent the auditor from achieving the auditor's overall objective.
7. The above has several advantages. First, it distinguishes the overall objective from other objectives and places a firm obligation on the auditor to achieve that overall objective, or

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<sup>1</sup> For reference, the proposed auditor's overall objective (as per the proposed amended Preface and revised ISA 200) is as follows: "...To obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to report in accordance with the auditor's findings and the requirements of the engagement."

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modify the report or withdraw from the engagement. This provides a primary focus on the end result, rather than the individual components, of the audit process. Further, it acknowledges the point that some methodologies do not reflect the structure of the ISAs, and therefore does not require the individual objectives in the ISAs to be considered as specific building blocks to the overall objective; although they may do so.

8. To mandate only the achievement of the auditor's overall objective would be consistent with the recommendations of a number, albeit a minority, of respondents to the Clarity Exposure Drafts (EDs). However, the proposal also includes a requirement for the auditor to aim to achieve the individual objectives through the same consideration and for the same purpose as that proposed in the ED – to judge whether more needs to be done. This is necessary because the overall objective alone is at too high a level to drive behavior. However, the obligation in respect of the individual objectives recognizes the context of the overall objective and the relationship amongst the individual objectives. In particular, it recognizes that failure to achieve an individual objective gives rise to a need for consideration of the effect on the achievement of the overall objective. It is considered that the proposal retains the strength of the original proposal while not superimposing the structure of the ISAs into the audit process.
9. Third, it retains the role of objectives as 'beacons' (as one respondent called them) to which the auditor is aiming in following the requirements of an ISA, in particular in understanding the outcome to which the requirements are directed. (This also acknowledges implicitly the notion that the objectives may be used as a basis for interpreting the requirements of an ISA; the Task Force is of the view, however, that any requirement that requires interpretation should be clarified.)
10. The Task Force is satisfied that the recommendation responds to the main points made by some respondents while retaining the strengths observed by many respondents. Documentation issues, though not arising in the response letters, were raised at the last IAASB meeting; those members with concerns over documentation should also consider the related recommendation on documentation (Section B below). Related recommendations on the interrelationship of the objectives in the ISAs are discussed in Section C below.
11. In addition to the above, it is recommended that the Preface and ISA 200 explain more fully the objective of an audit and the overall objectives of the auditor and how the two relate, to help place the obligation in the appropriate context.

#### ***Action Requested***

The IAASB is asked to consider the recommendation of the Task Force above, and to agree the proposed revised wording relating to the obligation attaching to objectives shown in paragraphs 16-18 and 20-21 of the revised Preface in Exhibit I in Agenda Item 2-B.

#### **II. 'Relevant in the Circumstance'**

12. Approximately one quarter of respondents (ACCA, APB, Basel, CEBS, EC, FEE, ICAEW, ICAS, IOSCO, PAAB, SAA, SMP Committee, UNICE) raised concerns about the use of the phrase '...relevant in the circumstances' in the Preface. It was questioned whether it refers to

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the ISA, the objective stated in the ISA, or the requirements of an ISA, or all three. The Appendix to this Paper summarizes the references to ‘relevance’ in the Preface, ISA 230 (Revised) and ISA 200.

13. Some respondents were of the view that relevance needs to be applied at the ISA or objective level only. This would be logical since the requirements of an ISA will have been determined by the IAASB as being applicable in virtually all audit engagements (as per the guidelines for determining requirements specified in the explanatory memorandum). Others believed that relevance needs to be applied at the requirement level to allow for some judgment in determining whether to apply a requirement, particularly in the SME context.
14. Respondents also recommended that:
  - Additional guidance be included explaining the factors that make something relevant or not, in particular whether the consideration of relevance is strictly factual-based (i.e., a circumstances either exists or it does not) or whether there is some room for subjective judgment. A related point was raised by a member of CAG at the May 2006 CAG meeting, specifically whether a requirement needs to be followed if there is no related risk.
  - The IAASB clarify the issue of relevance in connection with the departure from a requirement, with the general recommendation that the notion of departure should not apply to requirements that are not relevant.

#### DISCUSSION AND RECOMMENDATION

15. The Task Force is of the view that the question of relevance applies at both the Standard-level and at the level of the individual requirements therein, and has revised the Preface to make this clear. Although some wording might be thought to state the obvious and introduces some redundancy, this would seem necessary in light of respondents’ comments.
16. The Task Force does not believe it appropriate to specify that a requirement applying to a matter that has no associated risk of misstatement is not relevant in the circumstances. The application of a proper risk assessment would lead the auditor to an appropriate conclusion about the nature and extent of work required in complying with the requirements of the ISAs.

#### ***Action Requested***

The IAASB is asked to agree the proposed wording in paragraphs 19 and 24 of the Preface in Exhibit I of Agenda Item 2-B. In doing so, the IAASB is asked to consider:

- Whether the references to relevance are clear; and
- Whether the proposed guidance for determining whether something is relevant is sufficient and appropriate.

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### III. Inclusion of a Documentation Requirement in the Preface

17. A few respondents (ACCA, EY) questioned whether it is necessary and appropriate to include a documentation requirement in the Preface (ED paragraph 21), particularly when it is covered by ISA 230, “Audit Documentation.”
18. The Task Force accepts the point made by respondents. Accordingly, the reference to the related documentation requirement in the Preface has been removed.
19. The Task Force has retained, however, the departure/documentation requirement in the Preface in relation to the other (‘unclarified’) International Standards issued by the IAASB. This has been done because the Preface is the only document at present that sets out this obligation for other International Standards (i.e., ISAs 200 and 230 deal only with audits of historical financial information).
20. One respondent (IdW) also expressed the view that the restriction on departure to circumstances where a procedure would be ineffective in the circumstance does not lead to an enhancement of audit quality, nor is it in the public interest, since it will restrict the auditor in applying professional judgment and, in addition, not permit improved methodology being applied without also applying the required procedure, even if the alternative procedure proves more effective than the specific procedure required.
21. This point was debated by the IAASB in finalizing the October 2005 Clarity EDs. It was noted that whether a procedure is as effective or more effective than that specified in the ISA is highly subjective, and such a test may encourage departures from requirements in more instances than intended. The Task Force is not convinced that new or persuasive arguments have been raised that require the IAASB to reconsider its conclusion. Accordingly, no change is recommended.

#### ***Action Requested***

The IAASB is asked to indicate whether it agrees with the recommendation to remove the documentation requirement relating to departures from ISA requirements from paragraph 23 of the Preface, and to retain it in ISA 230 only.

### IV. Other Points

22. Several respondents noted that although the Preface makes clear the status of objectives, requirements and application and other explanatory material, it does not do so for the ‘introductory’ and ‘definitions’ sections that some redrafted ISAs have. This is a point that was raised also at the July IAASB meeting.
23. The Task Force agrees that this is necessary, and has proposed related wording.
24. Five respondents (AASB, ACCA, FEE, KPMG, PwC) were also concerned over the extension of the new drafting conventions to the other International Standards. It was noted that the general scope of the Clarity project has been limited to ISAs and accordingly, it may be inappropriate to presume that the clarity conventions can be applied to the other Engagement

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Standards (such as those on Assurance Engagements) without further consultation. Further, as it will be some time before IAASB will be able to clarify the remaining International Standards, superimposing the new regime to other International Standards in an attempt to make them equivalent is confusing and unnecessary.

25. The Task Force agrees with these points and, accordingly, has split the applicability of the Preface by series of International Standard, depending on whether they have been clarified (it is presumed that ISQC 1 will require clarification at the same time as ISA 220 is redrafted). As other series are considered for clarity, they can easily be subsumed with minor editorial amendment to the Preface, assuming that in fact the Clarity conventions can be applied without amendment.

#### ***Action Requested***

The IAASB is asked to agree the following:

- The proposed wording in paragraph 20 (last two sentences) and paragraphs 27-28 of the Preface in relation to the description of introductory material and definitions included in the ISAs.
- The Task Force's recommendation to separate the applicability of the new Preface provision by series of International Standards, depending on whether they have been clarified, as shown in the paragraphs 29-32 of the proposed revised Preface.

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#### **Section B: Documentation – Proposed Amendments to ISA 230**

26. As noted at the May IAASB meeting, some stakeholders (particularly those from the regulatory community) find it important for there to be a link between objectives and documentation. It was also noted that there may be benefit in focusing on the documentation of the judgments made in relation to the achievement of the objectives, rather than on the performance of individual requirements. Counter to this view, some Board members expressed concern about overburdening auditors with documentation that does not serve to enhance audit quality. In any case, because a need for documentation may be implied or perceived in the proposed obligation attaching to objectives, the IAASB needs to be clear whether there is a related documentation requirement and if so, the nature of that requirement.
27. The Task Force is of the view that audit documentation in connection with objectives can add value to the audit process only if it focuses the auditor on the consideration of how judgment was applied in significant areas of the audit. Absent this context, the Task Force considers that a specific requirement for documentation about conclusions in relation to objectives may lead to 'boilerplate' that contributes little to the quality of the audit. However, it is recommended that ISA 230 be amended<sup>2</sup> to:

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<sup>2</sup> The Task Force proposes that the documentation guidance be provided through amendments to ISA 230, rather than as part of the obligation in the Preface. This is consistent with the recommendation of some respondents to the Preface ED that it is inappropriate to include documentation requirements in the Preface (see discussion in paragraphs 17-19 above).

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- Clarify, at the outset of the ISA, that audit documentation that meets the requirements of ISA 230 will demonstrate the auditor's reasons for conclusions about the achievement of the overall objective of the auditor.
  - Amplify the extant requirement for the auditor to document significant matters arising from the audit to include the reasons for the professional judgments made in reaching conclusions thereon.
  - Expand the related application material to highlight why such documentation is important, and the matters and circumstances that may warrant documentation by the auditor. The latter is to include, amongst other things, the documentation that may be needed in relation to the auditor's consideration of requirements expressed in the form of 'shall consider', and of the objectives specified in individual ISAs.
  - Clarify that the summary (completion memorandum) that may be prepared by the auditor in connection with significant matters identified during the audit may assist the auditor's consideration of the achievement of the objectives specified in relevant ISAs and the auditor's overall objective in light of the entirety of the audit documentation for the engagement.
28. Together, these changes should serve to enhance the auditor's judgment on significant matters and thereby the quality of the audit, while also providing documentation that may assist others when reviewing audit files. These amendments should not be subject to concern about over-documentation – the documentation suggested focuses on those areas where significant judgment is applied and ought to feature already in good audit files.
29. The Task Force is aware that differing interpretations exist about the intent of ISA 230 regarding whether the auditor is expected to document compliance with every requirement of the ISAs. Wording to clarify the ISA in this respect is therefore also proposed.
30. Related to the issue of documentation, a few respondents (CPA Aus, EY, IOSCO) to the Clarity EDs expressed concern with the phrase 'unless otherwise clear' in the penultimate sentence of paragraph 21 in the Preface ED (the equivalent of paragraph 16 in extant ISA 230 (Revised)). It was argued that the phrase is subjective, and that documentation of the reason for a departure should be required in all circumstances, particularly since departure is expected to be rare.
31. This issue was debated by the IAASB in finalizing ISA 230. It was noted that documentation contemporaneous to that which already exists in the audit file or for matters that are self-evident would not be in the public interest in light of concern over unnecessary or over-burdensome documentation requirements. The Task Force is not convinced that new or persuasive arguments have been raised that require the IAASB to reconsider its conclusion. Accordingly, no change is recommended.

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Further, it should be noted that the proposed amendments relate to matters arising from the consideration of comments received on the October 2005 Clarity EDs. There is no intention to revise ISA 230 for other any other matters or issues.

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***Action Requested***

The IAASB is asked to consider the recommendations of the Task Force above, and to agree the proposed amendments to ISA 230 as shown in Exhibit II of Agenda Item 2-B.

**Section C: Form of Objectives**

32. At its May meeting, the IAASB agreed in principle (subject to the obligation that would attach) that each ISA should specify an objective or objectives. This was subject to further consideration of how best to reflect the fact that the objectives in a specific ISA may be related to the objectives other ISAs. Further, it was agreed that the form of the objectives could vary depending on the nature of the ISA, and that consistency in presentation is not necessary if it impairs the clarity of the objective (although consistency would be desirable).
33. The IAASB questioned the appropriateness of the use within the objectives of the phrase “to reduce audit risk to an acceptably low level.” It was suggested that it may be preferable to explain more fully this concept within ISA 200 as a link between the objective of an audit and the overall objectives of the auditor, rather than as an element in the objectives in individual ISAs.
34. In July, in its review of the proposed revised redrafted ISAs exposed in October 2005, the IAASB reiterated its view that the objectives should feature prominently the outcomes expected of the auditor, and take a less procedural form than that proposed by the Task Force.

**DISCUSSION AND RECOMMENDATION**

35. The Task Force considers the following three elements of the objectives as matters requiring resolution:
  - The linkage between, and coherence of, the overall objective of the auditor and the objectives specified in the individual ISAs;
  - The general form to be used for the objectives specified in individual ISAs; and
  - The interrelationship and differing natures of the ISAs.

***Linkage with the Auditor’s Overall Objective***

36. The following is recommended for purposes of creating a set of coherent objectives that relate to the overall objective of the auditor:
  - The overall objective of the auditor should be to *obtain reasonable assurance*, rather than *to obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level* (as suggested in the original draft overall objectives).
  - The explanation of the link between obtaining reasonable assurance, sufficient appropriate audit evidence and the reduction of audit risk should feature prominently in ISA 200.
  - The objectives specified in the ISAs, as appropriate, should refer only to the obtaining of sufficient appropriate audit evidence.



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37. The above has the following benefits:

- Reference to reasonable assurance in the auditor's overall objective acknowledges the inherent limitations of an audit. This should avoid the need for the obligation attaching to the objectives to include such a caveat.
- It avoids the need to make reference in the objectives to reducing audit risk to 'an acceptably low level', and instead allows a focus on obtaining sufficient appropriate audit evidence.

#### *General Form of Objectives*

38. With respect to the general form of objectives, the Task Force is of the view that the following construct is appropriate:

*"The objective(s) of the auditor is to [achieve outcome] [through some means, if necessary]"*

That is, the objective is always the end, but it may sometimes be helpful to specify the means, especially if it is thought to be needed to give the objective some bite. This is consistent with the principles expressed in respondents' comments.

#### *Interrelationship*

39. As noted earlier in this Paper, some respondents and Board members expressed concern over the proposed obligation attaching to the objectives in light of the view that ISAs are interrelated and are of differing natures. The Task Force believes that a possible solution is to recognize a distinction between:

- Those ISAs that deal with the general responsibilities of the auditor (e.g., ISAs 200, 220, 260, 300, 315, 330, etc.); and
- Those that deal with the auditor's further considerations relevant to the application of those responsibilities to specific topics (it is these that pose the greatest challenge in determining an appropriate form of objective).

40. It is proposed that this general distinction be recognized by way of the following:

- Explanation in the Preface (see proposed wording in paragraph 20 of the proposed revised Preface (Exhibit I, Agenda Item 2-B) and in ISA 200 (see Section D)).
- Explanation in the ISAs' 'scope' or 'purpose' paragraphs (that is, a statement establishing whether the ISA deals with general responsibilities, or the application of the general responsibilities in other relevant ISAs, to a specific topic (e.g., audit of accounting estimates))<sup>3</sup>.

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<sup>3</sup> For example, a statement in the scope paragraph of ISA 540 (Redrafted) could take the following form: "This ISA expands on how the responsibilities of the auditor under ISA 315 and ISA 330, and other relevant ISAs, are to be applied in relation to auditing accounting estimates."

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41. In part, this would serve to set out the context in which the objectives of an ISA are set, and highlight the interrelationship of the ISAs. See Exhibit III in Agenda Item 2-B for a possible classification of the ISAs based on the general categories noted above.
42. An alternative might have been to vary the form of the objectives themselves, for example by explaining in an objective itself how it relates to other objectives<sup>4</sup>. This alternative, or variations thereof, results in objectives that are less clear, and more repetitive and procedural focused (particularly for those ISAs that amplify the requirements in other ISAs), and is therefore not recommended.

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<sup>4</sup> For example, the objective of ISA 550 could take the following form” “The objective of the auditor is to, having regard to the objectives set out in ISAs 315, 330 and 240, obtain sufficient appropriate audit evidence about the accounting for, and disclosure of, related party relationships and transactions in the financial statements.”

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##### ***Action Requested***

Exhibit III of Agenda Item 2-B contains revised draft ISA objectives based on the above recommendations. Subject to the general comments of the IAASB, the Task Force is satisfied that they represent a set of objectives that can be passed to the relevant IAASB task forces working on the redrafting or revision of individual ISAs, for their further consideration.

The IAASB is asked for its views on, and to agree, the wording of each of the objectives. In doing so, the IAASB is asked to consider what further matters, if any, should feature therein.

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##### **Section D: ISA 200**

43. Several respondents emphasized the importance of including the provisions of the Preface directly in the ISAs (e.g., into ISA 200) given that some jurisdiction may not adopt the Preface as part of adoption of the ISAs. The IAASB has indicated its intention to do this.
44. It has also been noted during the course of recent IAASB meetings that in the light of the responses to the ED consideration should be given to the following when redrafting / revising ISA 200:
  - Explaining the relationship between the objective of an audit and the overall objective of the auditor.
  - Elaborating on the concept of reasonable assurance, including the inherent limitations of an audit.
  - Explaining the relationship between reasonable assurance, sufficient appropriate audit evidence and the reduction of audit risk to an acceptably low level.
  - Introducing the basic concepts relating to audit evidence, which may then provide a hook for redrafting ISA 500 to focus on specific considerations relating to the appropriateness of audit evidence.
  - Clarifying the status / authority of references within ISAs to the responsibilities of management and those charged with governance.
45. To give the IAASB an understanding of how the above might be dealt with in a revised ISA 200, a preliminary draft of the proposed redrafted/revised ISA 200 is included in the agenda material for the IAASB's consideration.
46. The preliminary draft incorporates the elements of the proposed revised Preface, and proposes material in connection with each of the areas noted above. In redrafting, the Task Force was of the view that the following aspects were of particular importance, to which the attention of the IAASB is drawn:
  - The Task Force debated the appropriate positioning of the objective, requirements and conceptual material. The possibility of treating the conceptual material first, while theoretically attractive, had the effect of pushing the requirements rather far back into the

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- document. The Task Force believes that the structure proposed achieves a suitable balance, while establishing at an early stage the necessary hooks to avoid the potential for the important conceptual material to be overlooked.
- The need to highlight the concept of independence and professional judgment (not only as an inherent limitation, but as an inherent strength of an audit) as essential concepts to the conduct of an audit in accordance with ISAs.
47. With respect to the question of how the ISAs refer to the responsibilities of management and those charged with governance, the draft includes some proposed wording in ISA 200 (see paragraph A30). This clarifies that although the ISAs do not impose responsibilities on management and those charged with governance, the concept underlying an independent audit is that the financial statements subject to audit are those of the entity, with the auditor engaged for purposes of forming and expressing an opinion on them. Accordingly, the ISAs are written on the basis that the responsibility for the preparation and presentation of the financial statements in accordance with the applicable financial reporting framework is that of the management of the entity, with oversight from those charged with governance. The Task Force is of the view that where such responsibilities are not established by law or regulation, or not accepted by management and those charged with governance absent such law or regulation, the auditor may be unable to conduct an audit in accordance with ISAs.
48. The Task Force understands that the IAASB task force addressing the revision of ISA 580, “Management Representations,” will be considering this point further, and may have further revision to the proposed wording included in ISA 200. Accordingly, the IAASB should not regard the wording as a recommendation at this stage. However, if appropriate wording can be agreed in ISA 200 (and/or ISA 580 or ISA 210, “Terms of Audit Engagements” if the matter of responsibilities is more fully addressed therein), the Task Force does not anticipate a need to modify significantly the way in which ISAs refer to the responsibilities of management and those charged with governance.
49. The draft also removes certain material that is more appropriately placed elsewhere. The Task Force has proposed conforming amendments to ISA 315 to incorporate relevant material.

#### ***Action Requested***

The IAASB is asked for its views of the preliminary draft of revised ISA 200 shown in Exhibit IV of Agenda Item 2-B. A revised version will then be prepared for the December IAASB meeting.

In considering the draft, the IAASB is asked in particular for its views on:

- Whether the overall structure is appropriate, in particular in relation to the placement of the discussion of the general concepts relevant to an audit.
- The discussion on reasonable assurance, in particular the inherent limitation of an audit.
- The proposed requirements and related application material, in particular those relating to the provisions of the Preface.

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**Appendix**

**References to Relevance**

| Preface ED  | Proposed revised Preface   |
|---|--|
|   | New paragraph 19: The auditor shall consider the entire text of each of the ISAs <u>relevant</u> to the audit. An ISA is <u>relevant</u> when the ISA is in force and the circumstances addressed by the ISA exist.  |
| ED paragraph 19: The professional accountant must achieve the objective stated at the beginning of each Standard that is <u>relevant</u> in the circumstances of the engagement.  | New paragraph 21: Each ISA contains an objective or objectives, which provide the context in which the requirements of the ISA are set. The auditor shall aim to achieve these objectives ...  |
| ED paragraph 21: The requirements of a Standard are to be applied in all cases where they are <u>relevant</u> in the circumstances of the engagement. In exceptional circumstances, however, the professional accountant may judge it necessary to depart from a requirement in order to achieve the purpose of that requirement. When such a situation arises, the professional accountant is required to document how the alternative procedure(s) performed achieves the purpose of the requirement, and, unless otherwise clear, the reasons for the departure. The need for the professional accountant to depart from a requirement is expected to arise...               | New paragraph 23: The auditor shall comply with the requirements of an ISA in all cases where they are <u>relevant</u> in the circumstances of the audit. In exceptional circumstances, however, the auditor may judge it necessary to depart from a <u>relevant</u> requirement by performing alternative audit procedures in order to achieve the aim of that requirement. The need for the auditor to depart from a <u>relevant</u> requirement is expected to arise....  |
|   | New paragraph 24. A requirement is not <u>relevant</u> only in the cases where: the ISA is not <u>relevant</u> ; or the circumstances envisioned do not apply because the requirement is conditional and the condition does not exist. The auditor is not required to comply with a requirement that is not <u>relevant</u> in the circumstances of the audit; this does not constitute a departure from the requirement.  |
| ED paragraph 17: The basic principles and essential procedures of a Standard are to be applied in all cases where they are <u>relevant</u> in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant may judge it necessary to depart from a basic principle or essential procedure in order to achieve the purpose of that basic principle or essential procedure. When such a situation arises, the professional accountant is required to document how the alternative procedure(s) performed achieves the purpose of the basic principle or essential procedure, and, unless otherwise clear, the reasons for the departure. | New paragraph 31: The basic principles and essential procedures of a Standard are to be applied in all cases where they are <u>relevant</u> in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant may judge it necessary to depart from a <u>relevant</u> essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the professional accountant is required to document how the alternative procedures performed achieves the purpose of the procedure, and, unless otherwise clear, the reasons for the departure. The need for the professional accountant to depart from a <u>relevant</u> essential procedure is expected to arise only where, in the specific circumstances of the engagement, that procedure would be ineffective. |

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| <b>ISA 230 (Revised)</b>   | <b>Proposed amended ISA 230 (Revised)</b>  |
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| Extant paragraph 4. Compliance with the requirements of this ISA together with the specific documentation requirements of other <u>relevant</u> ISAs is ordinarily sufficient to achieve the objectives in paragraph 2.  | New paragraph 11. For purposes of audit documentation, compliance with the requirements of this ISA together with the specific documentation requirements of other <u>relevant</u> ISAs is ordinarily sufficient in the circumstances. The specific documentation requirements of other <u>relevant</u> ISAs do not limit the application of this ISA.         |
| Extant paragraph 20: ...Accordingly, other than in exception circumstances, the auditor complies with each basic principle and essential procedure that is <u>relevant</u> in the circumstance of the audit.   | New paragraph 13: ....Accordingly, other than in exceptional circumstances, the auditor complies with each requirement that is <u>relevant</u> in the circumstances of the audit.  |
| Extant paragraph 21: Where, in exception circumstances, the auditor judges it necessary to depart from a basic principle or essential procedure that is <u>relevant</u> in the circumstance of the audit, the auditor shall document...  | New paragraph 14: Where, in exceptional circumstances, the auditor judges it necessary to depart from a <u>relevant</u> requirement, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and, unless otherwise clear, the reasons for the departure....   |
| Extant paragraph 22: The documentation requirement does not apply to basic principles and essential procedures that are not <u>relevant</u> in the circumstances, i.e., where the circumstances envisioned in the specified basic principles or essential procedure do not apply. For example, in a continuing engagement, nothing in ISA 510....is relevant. Similarly, if an ISA includes conditional requirements, they are not <u>relevant</u> if the specified conditions do not exist. | New paragraph 15: The documentation requirement applies only to requirements that are <u>relevant</u> in the circumstances. ISA 200 provides guidance in determining whether a requirement is relevant in the circumstances.   |
|  | New paragraph 21: .... Further, the preparation of such a summary may assist the auditor's consideration of the significant matters, as well as the auditor's consideration of the achievement of the objectives specified in <u>relevant</u> ISAs and the auditor's overall objective in light of the entirety of the audit documentation for the engagement. |

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| ISA 200   | Proposed revised ISA 200   |
|---|--|
| Extant paragraph 11: In determining the audit procedures to be performed...the auditor should comply with each of the [ISAs] <u>relevant</u> to the audit.  | New paragraph 12: The ISAs are together designed to support the achievement of the auditor's overall objective and accordingly, the auditor shall comply with all ISAs <u>relevant</u> to the audit. An ISA is <u>relevant</u> when the ISA is in force and the circumstances addressed by the ISA exist. The auditor shall consider the entire text of each such ISA.   |
| Extant paragraph 21: The requirements of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement.  | New paragraph 14 (b):...the auditor shall....comply with the requirements of an ISA in all cases where they are <u>relevant</u> in the circumstances of the audit, unless, in exceptional circumstances, the auditor judges it necessary to depart from a <u>relevant</u> requirement by performing alternative audit procedures to achieve the aim of that requirement.   |
| Extant paragraph 14: The auditor should not represent compliance with [ISAs] unless the auditor has complied fully with all of the [ISAs] relevant to the audit. The auditor may, in exceptional circumstances, judge it necessary to depart from a basic principle or an essential procedure that is <u>relevant</u> in the circumstances of the audit, in order to achieve the objective of the audit.... | See new paragraph 12 (immediately above) and new paragraph 14 in proposed amended ISA 230 (above).   |
| Extant paragraph 13: When the auditor conducts the audit in accordance with ISAs and auditing standards of a specific jurisdiction or country, in addition to complying with each of the ISAs relevant to the audit....   | See new paragraph A45 – reference to relevant unchanged.   |
|   | <p>New paragraphs A51 and A52: The auditor is required to apply the requirements of an ISA in all cases where they are <u>relevant</u> in the circumstances of the audit. In exceptional circumstances, however, the auditor may judge it necessary to depart from a <u>relevant</u> requirement in order to achieve the aim of that requirement. The need for the auditor to depart from a <u>relevant</u> requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective. In such circumstances...ISA 230, "Audit Documentation," establishes documentation requirements in those circumstances where the auditor departs from a requirement.</p> <p>A requirement is not <u>relevant</u> only in the cases where: the ISA is not <u>relevant</u> (e.g., in a continuing engagement, nothing in ISA 510, "Initial Engagements—Opening Balances," is <i>relevant</i>); or the circumstances envisioned do not apply because the requirement is conditional and the specified condition does not exist (e.g., the requirement to modify the auditor's report where there is a limitation of scope). The auditor is not required to apply a requirement that is not <u>relevant</u> in the circumstances of the audit; this does not constitute a departure from the requirement.</p> |

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