

# IAASB CAG PAPER

## IAASB CAG Agenda (April 2007)

### Agenda Item E.1.2

#### Clarity – Draft ISA Objectives – April 2007 IAASB Agenda Item 4-B

### [Draft] ISA Objectives (as of March 1, 2007)

For purposes of the following, the general form of objectives is:

*“The objective of the auditor is to [achieve outcome] [through some path, if specifying the means to achieving the outcome is considered necessary]”*

The status of each of the [draft] ISA objectives is as indicated in parenthesis and highlighted.

#### **Objective of an Audit (As per approved Preface and April 07 draft revised 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 Independent Auditor (As per April 07 draft revised ISA 200)**

In conducting the audit so as to achieve its objective, the overall objective of the independent auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor's findings.



#### **Objectives for ISA that deal with general responsibilities of the auditor in conducting an audit in accordance with ISAs:**

##### **Acceptance and Terms of Audit Engagements (ISA 210): (Draft, as per Apr 07 IAASB Meeting Material)**

The objective of the auditor is to accept an engagement only when the basis upon which it is to be performed has been agreed, through:

- (a) Establishing whether necessary preconditions for an audit are present; and
- (b) Confirming that there is a common understanding between the auditor and the entity of the terms of the audit engagement and of the respective responsibilities of the auditor, management and those charged with governance.

##### **Quality Control (ISA 220): (Draft, as per Dec 06 IAASB Meeting Material – See April 07 IAASB Meeting Material for Current Version)**

The objective of the auditor is to obtain reasonable assurance that the audit complies with professional standards and regulatory and legal requirements, through the application of the firm's quality control policies and procedures at the engagement level.

# IAASB CAG PAPER

## IAASB CAG Agenda (April 2007)

### Agenda Item E.1.2

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##### **Documentation (ISA 230) (As per Dec 06 ED)**

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.

##### **Planning (ISA 300): (As approved)**

The objective of the auditor is to plan the audit so that it will be performed in an effective manner.

##### **Materiality (ISA 320) (As per Oct 06 ED)**

The objective of the auditor is to determine, and reconsider as the audit progresses, an appropriate materiality level or levels to enable the auditor to plan and perform the audit.

##### **Identifying and Assessing the Risks of Material Misstatement (ISA 315) (As approved)**

The objective of the auditor is to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, through understanding the entity and its environment, including the entity's internal control, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.

##### **Auditor's Responses to Assessed Risks (ISA 330): (As approved)**

The objective of the auditor is to obtain sufficient appropriate audit evidence about the assessed risks of material misstatement, through designing and implementing appropriate responses to those risks.

##### **Fraud (ISA 240): (As approved)**

The objectives of the auditor are:

- (a) To identify and assess the risks of material misstatement of the financial statements due to fraud;
- (b) To obtain sufficient appropriate audit evidence about the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those risks; and
- (c) To respond appropriately to identified or suspected fraud.

##### **Evaluation of Misstatements Identified During an Audit (ISA 450): (As per Oct 06 ED)**

The objective of the auditor is to evaluate:

- (a) The effect of identified misstatements on the audit; and
- (b) The effect of uncorrected misstatements on the financial statements and whether the financial statements as a whole are free from material misstatement.

## IAASB CAG PAPER

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#### Agenda Item E.1.2

#### Clarity – Draft ISA Objectives – April 2007 IAASB Agenda Item 4-B

##### **Communication with Those Charged with Governance (ISA 260): (As per Oct 06 ED)**

The objectives of the auditor are to:

- (a) Communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and the scope and timing of the audit;
- (b) Obtain from those charged with governance, information relevant to the audit; and
- (c) Provide those charged with governance with timely observations arising from the audit that are relevant to their responsibility to oversee the financial reporting process.

##### **Auditor's Report (ISA 700) (Draft, as per Feb 07 IAASB Meeting Material)**

The objectives of the auditor are to:

- (a) Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- (b) Express clearly that opinion through a written report that explains the basis of the opinion.

##### **Auditor's Report – Modified Opinions (ISA 705): (Draft, as per Feb 07 IAASB Meeting Material)**

The objective of the auditor is to express clearly the modified opinion on the financial statements that is necessary:

- (a) When the auditor concludes that the financial statements are not free from material misstatement; or
- (b) When the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements are free from material misstatement.

##### **Auditor's Report – EOM and Other Matters Paragraph(s) (ISA 706): (Draft, as per Feb 07 IAASB Meeting Material)**

The objective of the auditor is to determine whether additional communication in the auditor's report is appropriate to draw users' attention to a matter disclosed in the financial statements or to any other matter which may be of relevance to their understanding of the report.



**Objective for ISAs that deal with further considerations relevant to the application of the auditor's general responsibilities to specific topics:**

##### **Audit Evidence (ISA 500): (Draft, as per Feb 07 IAASB Meeting Material – See April 07 IAASB Meeting Material for Current Version)**

The objective of the auditor is to obtain information that is capable of providing sufficient appropriate audit evidence for the purposes of drawing conclusions.

## IAASB CAG PAPER

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#### Agenda Item E.1.2

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##### **Audit Sampling and Other Means of Testing (ISA 530): (Draft, as per Feb 07 IAASB Meeting Material)**

The objective of the auditor is to use appropriate bases for selecting items for testing in order to obtain sufficient appropriate audit evidence.

##### **Confirmations (ISA 505) (Draft, as per Feb 07 IAASB Meeting Material)**

The objectives of the auditor are:

- (a) To determine whether and to what extent, in the circumstances of the audit, to request external confirmation of information as a means of obtaining sufficient appropriate audit evidence in response to an assessed risk of financial statement misstatement; and, if so
- (b) To design and perform effective external confirmation procedures.

##### **Analytical Procedures (ISA 520): (Clarity Task Force initial draft (Sept 06), for further consideration by the relevant Redrafting Task Force)**

The objective of the auditor is, when using analytical procedures as substantive procedures, to obtain appropriate audit evidence through their effective use.

##### **Experts (ISA 620): (Draft, as per Apr 07 IAASB Meeting Materials)**

The objectives of the auditor are:

- (a) To determine when it is necessary to use the work of a party possessing expertise in a field other than accounting or auditing to obtain sufficient appropriate audit evidence; and
- (b) When it is necessary to use such work:
  - (i) To select and direct a party with appropriate capabilities, competence and objectivity; and
  - (ii) To evaluate whether evidence provided by that party is adequate for the purposes of the audit.

##### **Using the Work of Internal Auditing (ISA 610): (As per Dec 06 ED)**

The objective of the external auditor is to obtain an understanding of the internal audit function and determine whether the activities of the internal audit function are relevant to planning and performing the audit and, if relevant, the effect, on the procedures performed by the external auditor.

##### **Written Representations (ISA 580): (as per Dec 06 ED)**

The objective of the auditor is to corroborate, by means of written representations:

- (a) The validity of the premises, relating to management's responsibilities, on which an audit is conducted; and
- (b) Other audit evidence obtained with regard to specific assertions in the financial statements.

## IAASB CAG PAPER

### IAASB CAG Agenda (April 2007)

#### Agenda Item E.1.2

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##### **Laws and Regulations (ISA 250): (Draft, as per Feb 07 IAASB Meeting Material– See April 07 IAASB Meeting Material for Current Version)**

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence about whether the entity is in compliance with laws and regulations that may have a material effect on the financial statements; and
- (b) To respond appropriately to identified or suspected non-compliance with laws and regulations.

##### **Service Organizations (ISA 402) (Draft, as per Apr 07 IAASB Meeting Material)**

The objective of the auditor is to obtain sufficient appropriate audit evidence when an entity uses a service organization that performs services that are part of the entity's information system relevant to financial reporting in order to identify and assess the risks of material misstatement and design and perform further audit procedures to address the assessed risks.

##### **Subsequent Events (ISA 560): (As per Dec 06 ED)**

The objectives of the auditor are to:

- (a) Obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that materially affect the financial statements are appropriately reflected in those financial statements; and
- (b) Respond appropriately to facts that become known to the auditor after the date of the auditor's report that materially affect the financial statements.

##### **Going Concern (ISA 570): (As per Feb 07 ED)**

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence about whether management's use of the going concern assumption in the preparation and presentation of the financial statements is appropriate in the circumstances; and
- (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, if such material uncertainty exists, to consider the implications for the auditor's report.

##### **Estimates (ISA 540/545): (As per Dec 06 ED)**

The objective of the auditor is to obtain sufficient appropriate audit evidence about whether the accounting estimates, including fair value accounting estimates, and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework.

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### IAASB CAG Agenda (April 2007)

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##### **Related Parties (ISA 550): (As per Feb 07 ED)**

The objectives of the auditor are:

- (a) To obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the applicable financial reporting framework; and
- (b) Irrespective of whether the applicable financial reporting framework establishes related party requirements:
  - (i) To obtain an understanding of related party relationships and transactions sufficient to be able to conclude whether the financial statements, insofar as they are affected by those relationships and transactions:
    - a. Achieve fair presentation (for fair presentation frameworks); or
    - b. Are not misleading (for compliance frameworks); and
  - (ii) To identify fraud risk factors arising from related party relationships and transactions that are relevant to the identification and assessment of the risks of material misstatement due to fraud.

##### **Group Audits (ISA 600): (Draft, as per Apr 07 IAASB Meeting Materials)**

The objectives of the auditor are:

- (a) To determine whether to act as the auditor of the group financial statements;
- (b) To effectively communicate with component auditors; and
- (c) To obtain sufficient appropriate audit evidence about the financial information of the components and the consolidation process to express an opinion whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

##### **Initial Engagements – Opening Balances (ISA 510): (Clarity Task Force initial draft (Sept 06), for further consideration by the relevant Redrafting Task Force)**

The objective of the auditor conducting an initial engagement is to obtain sufficient appropriate audit evidence about whether:

- (a) The opening balances and the prior period's closing balances contain misstatements that materially affect the current period's financial statements; and
- (b) The application of the entity's accounting policies is consistent with that of the prior period.

##### **Comparatives (ISA 710): (Clarity Task Force initial draft (Sept 06), for further consideration by the relevant Redrafting Task Force)**

The objective of the auditor is to obtain sufficient appropriate audit evidence about the comparatives.

## IAASB CAG PAPER

### IAASB CAG Agenda (April 2007)

#### Agenda Item E.1.2

#### Clarity – Draft ISA Objectives – April 2007 IAASB Agenda Item 4-B

##### **Other Information in Documents Containing Audited Financial Statements (ISA 720): (As per Dec 06 ED)**

The objective of the auditor is to avoid being associated with other information that may undermine the credibility of the audited financial statements, through:

- (a) Reading the other information and responding appropriately to identified material inconsistencies with the audited financial statements; and
- (b) Responding appropriately to misstatements of fact in the other information that are unrelated to matters appearing in the audited financial statements and of which the auditor becomes aware when reading the other information for the purpose of identifying material inconsistencies.

##### **Specific Items (ISA 501): (Clarity Task Force initial draft (Sept 06), for further consideration by the relevant Redrafting Task Force)**

The objective of the auditor is to obtain sufficient appropriate audit evidence about:

- (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.