



International Federation of Accountants

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Agenda Item **E.3**

Committee: IAASB Consultative Advisory Group

Meeting Location: New York

Meeting Date: April 2-3, 2007

IAASB Clarity Project:

Proposed Redrafted ISAs for Approval as Exposure Drafts at the April 2007 IAASB Meeting

Objective of Agenda Item

1. The objective of this Agenda Item are to obtain the views of Representatives on matters relating to:
 - Proposed ISA 210 (Redrafted), “Terms of Audit Engagements”;
 - Proposed ISA 220 (Redrafted), “Quality Control for Audits of Historical Financial Information” and Proposed ISQC 1, “Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements”
 - Proposed ISA 250 (Redrafted), “The Auditor’s Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements”; and
 - Proposed ISA 500 (Redrafted), “Audit Evidence”.
2. The approach adopted by the IAASB for purposes of implementing its Clarity project distinguishes revision and redrafting. Each of the above ISAs is subject to redrafting to reflect only the IAASB Clarity conventions and matters of clarity generally. Except for ISA 220 and ISQC 1 which have been revised in 2004, the above ISAs have not been recently revised but are generally considered acceptable.

Matters for CAG Consideration

A. PROPOSED ISA 210 (REDRAFTED), “TERMS OF AUDIT ENGAGEMENTS”

Proposed Elevations

3. The ISA 210 Redrafting Task Force proposes, amongst other matters, that material related to the following matters in extant ISA 210 be elevated as requirement in proposed ISA 210 (Redrafted):
 - The recording of the agreed terms of the audit engagement in an audit engagement letter or other suitable form of written contract; **Refer to paragraph 7 of April 2007 IAASB Agenda Item 9 and paragraph 5 of April 2007 IAASB Agenda Item 9-A.**

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- Specific matters that all audit engagement letters should include reference to; **Refer to paragraphs 8-9 of April 2007 IAASB Agenda Item 9 and paragraphs 6-7 of April 2007 IAASB Agenda Item 9-A**
- When applicable, discussion by the auditor with management about the nature of a conflict between requirements in financial reporting standards, as issued by an authorized standard setting organization, and supplementary requirements contained in law or regulation, and the action to be taken; and **Refer to paragraph 10 of April 2007 IAASB Agenda Item 9 and paragraph 11 of April 2007 IAASB Agenda Item 9-A**
- The auditor's responsibilities in circumstances where law or regulation prescribes the wording of the audit opinion in terms that are significantly different from the requirements of the ISAs. **Refer to paragraph 11 of April 2007 IAASB Agenda Item 9 and paragraph 12 of April 2007 IAASB Agenda Item 9-A**

Matters for Consideration by the IAASB CAG:

The Representatives are asked for their views on the above proposed elevations, the first two of which apply generally while the second two are in effect conditional requirements that may not often be encountered in practice.

The Representatives are also asked for their views on whether the present tense statements in extant ISA 210 have been appropriately dealt with. **Refer to April 2007 IAASB Agenda Item 9-C**

ISA 210 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3002>

ISA 210 (Redrafted) Issue Paper (April 2007
IAASB Agenda Item 9)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3003>

Proposed ISA 210 (Redrafted) (April 2007 IAASB
Agenda Item 9-A)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3005>

ISA 210 Proposed Dispositions of the Present
Tense (April 2007 IAASB Agenda Item 9-C)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3006>

Related ISA 210 (Redrafted) Mapping Documents

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B. PROPOSED ISA 250 (REDRAFTED), “THE AUDITOR’S RESPONSIBILITIES RELATING TO LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS”

Clarification of the Auditor’s Responsibilities in Relation to Different Categories of Laws and Regulations

4. During discussion of the preliminary redrafted ISA 250 at the February 2007 IAASB meeting, the main issue surrounding the clarification of the extant ISA 250 related to the articulation of the auditor’s responsibilities in relation to laws and regulations that form part of the applicable financial reporting framework, and other laws and regulations that may have a material effect on the financial statements.
5. ISA 250 is an older standard that has not been recently revised; occasionally it has been considered for substantive revision, but it has never been clear to the IAASB that this is necessary. It is, therefore, one of the few standards that adopt essentially a procedural approach by specifying what the auditor should do in relation to each category of law and regulation. It is important therefore that the categories should be clear. In considering this clarification, the IAASB observed that part of the category with which the auditor is most concerned – those laws and regulations that directly affect the contents of the financial statements – consisted of the law and regulation that constitute the financial reporting framework; in order to simplify the requirements of the ISA the auditor’s responsibilities to consider the choice and application of the framework have been excluded from ISA 250 as other more recent standards now deal appropriately and in more detail with these matters.
6. The ISA 250 Redrafting Task Force has amended the proposed redrafted ISA to better reflect the underlying substance of the extant ISA, including clarifying:
 - The scope of the ISA and the auditor’s responsibilities, including distinguishing between the auditor’s responsibility in relation to compliance with different categories of laws and regulations; **Refer to paragraphs 8-9 of April 2007 IAASB Agenda Item 8 and paragraphs 4-6 of April 2007 IAASB Agenda Item 8-A.**
 - The objective of the auditor (as discussed and agreed at the February IAASB meeting); **Refer to paragraph 8 of April 2007 IAASB Agenda Item 8-A.**
 - Requirements related to the auditor’s consideration of compliance with laws and regulations; **Refer to paragraph 10 of April 2007 IAASB Agenda Item 8 and paragraphs 10-15 of April 2007 IAASB Item 8-A.**
 - Requirements related to audit procedures to be performed when non-compliance is identified or suspected, and reporting of non-compliance. **Refer to paragraphs 11-12 of April 2007 IAASB Agenda Item 8 and paragraphs 16-27 of April 2007 IAASB Agenda Item 8-A.**

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The Representatives are asked for their views on the treatment of the above matters, including whether the proposed objectives, stated in the redrafted ISA, are appropriate.

The Representatives are also asked for their views on whether the present tense statements in extant ISA 250 have been appropriately dealt with. **Refer to February 2007 IAASB Agenda Item 10-C**

ISA 250 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2999	ISA 250 (Redrafted) Issue Paper (April 2007 IAASB Agenda Item 8)
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Available at http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3000	Proposed ISA 250 (Redrafted) (April 2007 IAASB Agenda Item 8-A)
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http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2844	ISA 250 Proposed Dispositions of the Present Tense (February 2007 IAASB Agenda Item 10-C)
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C. PROPOSED ISA 500 (REDRAFTED), “AUDIT EVIDENCE”

Scope and Objective

7. Extant ISA 500 contains the following bold lettered overarching requirement: “The auditor should obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the audit opinion.”
8. In formulating the objective of ISA 500 (Redrafted), the Redrafting Task Force recognized that the scope of the requirements of the ISA deal more with the auditor’s responsibility to obtain information that is capable of providing sufficient appropriate audit evidence, and the types of audit procedures that auditors use for obtaining that audit evidence. Extant ISA 500 does not provide the necessary assurance required for purposes of the audit opinion; many other ISAs also contain requirements that deal with the obtaining of sufficient appropriate audit evidence. Further, it was noted that the requirement “to obtain sufficient appropriate audit evidence” is too broad for ISA 500 and, rightly, belongs in proposed ISA 200 (Revised and Redrafted).
9. Accordingly, the proposed scope and objective of the auditor in ISA 500 (Redrafted) reflects the substance of the other requirements (included elevated requirements) of the ISA, and the overarching requirement to obtain sufficient appropriate audit evidence has been included in proposed ISA 200 (Revised and Redrafted) (*see Agenda Item E.1*). In addition, the

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Introduction section of the ISA has been expanded to include a discussion of the concept of sufficient appropriate audit evidence; though this repeats some of proposed ISA 200 (Revised and Redrafted), it provide essential context to a proper understanding of ISA 500 (Redrafted).

Refer to paragraphs 1-9 of April 2007 IAASB Agenda Item 11-A.

Requirements

10. In response to IAASB comments at its February meeting, proposed ISA 500 (Redrafted):

- Presents discussion of the need for the auditor to perform procedures in addition to inquiry, and to obtain evidence from sources other than the entity's accounting records, as part of the concept of sufficient appropriate audit evidence (rather than as requirements). **Refer to paragraphs 3-4 of April 2007 IAASB Agenda Item 11-A.**
- Includes a proposed requirement regarding relevance, together with appropriate supporting guidance, for example, on the direction of testing. **Refer to paragraph 11 of April 2007 IAASB Agenda Item 11-A.**
- Includes material moved into ISA 500 as a result of the redrafting of ISA 530, "Audit Sampling and Other Means of Testing." This material relates to testing generally and the transfer is intended to remove peripheral material from ISA 530 to make it a standard that is entirely concerned with sampling. **Refer to paragraph 13 of April 2007 IAASB Agenda Item 11-A.**

Matters for Consideration by the IAASB CAG:

The Representatives are asked for their views on proposed ISA 500 (Redrafted) in relation to the matters noted above.

The Representatives are also asked for their views on whether the present tense statements in extant ISA 500 have been dealt with appropriately. **Refer to April 2007 IAASB Agenda Item 11-E.**

ISA 500 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3014>

Proposed ISA 500 (Redrafted) (April 2007
IAASB Agenda Item 11-A)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3018>

ISA 500 Proposed Dispositions of the Present
Tense (April 2007 IAASB Agenda Item 11-E)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=3017>

Related ISA 500 Mapping Documents

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D. PROPOSED ISA 220, “QUALITY CONTROL FOR AUDITS OF HISTORICAL FINANCIAL INFORMATION” AND ISQC 1 (REDRAFTED), “QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS”

11. ISA 220 deals with the specific responsibilities of firm personnel regarding quality control procedures for audits of historical financial information, including audits of financial statements. ISA 220 differs from other ISAs in that it has a companion standard, ISQC 1, which deals with a firm’s responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements.
12. ISA 220 and ISQC 1 are closely related and in many cases deal with the same issues at the firm and engagement levels, respectively. Accordingly, the Redrafting Task Force has clarified the two standards at the same time as ISA 220 to ensure consistency between them. The IAASB will be asked in April to approve the redrafted ISA220 for exposure draft, and to review and decide upon action to take with respect to the proposed redrafted ISQC 1.

Present Tense Statements

13. The explanatory guidance of extant ISA 220 (and ISQC 1) contains a number of paragraphs that comprise lists of procedures set out in the present tense by reference to the auditor (firm). The Redrafting Task Force has not elevated material in most of these paragraphs to requirements because in almost all cases the material represents specific items which provide guidance as to how an auditor (firm) would satisfy the related extant requirement. Further, elevation of all the present tense items would significantly increase the number of requirements, thereby resulting in the redrafted standards having a much more rules-based feel than is presently the case. Accordingly, with some exceptions for specific elements, the Redrafting Task Force has not elevated lists of procedures as requirements. **Refer to paragraphs A1-A2 of April 2007 IAASB Agenda Item 7 for further discussion of this matter, and April 2007 IAASB Agenda Items 7-C and 7-G for mapping documents showing how present tense statements in the extant standards have been dealt with.**
14. Related to this matter, debate has been over whether the lists of matters included in a quality control review (extant ISA 220.39 – all audit engagements, and 220.40 – listed entities) should be elevated to requirements. At its December meeting, the IAASB recommended that the matters be elevated as requirements, on the basis that experience in some jurisdictions had indicated that more detailed requirements may be needed in this area than in others. The Redrafting Task Force, however, is of the view that only certain of the listed items require elevation, and that other items are in effect guidance to the application of the related extant requirements. **Refer to paragraphs D1-D2 of April 2007 IAASB Agenda Item 7 and paragraphs 19 and A19 of April 2007 IAASB Agenda Item 7-A.**

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Authority Attaching to ISQCs

15. Paragraph 23 of the amended *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* states that the authority of ISQCs is set out in the introduction to the ISQCs. Accordingly, the Redrafting Task Force has developed a proposed description of the authority of ISQCs, including the obligations on professional accountants that follow this standard. How the authority of ISQCs is described affects, amongst other matters, the objective to be stated in ISQC 1. **Refer to paragraphs A1-A6 of April 2007 IAASB Agenda Item 7-E for the proposed statement of authority, and paragraph 5 of April 2007 IAASB Agenda Item 7-E for the proposed objective to be stated in ISQC 1.**
16. In addition, the Redrafting Task Force has explored different options for the presentation of the authority of ISQCs and will be seeking the views of the IAASB thereon. **Refer to paragraphs E1-E2 of April 2007 IAASB Agenda Item 7.**

Matters for Consideration by the IAASB CAG:

The Representatives are asked for their views on whether the present tense statements in extant ISA 220 and ISQC 1 have been dealt with appropriately. **Refer to April 2007 IAASB Agenda Items 7-C and 7-G.**

The Representatives are also asked for their views on the above matters with respect to the objective stated in proposed ISQC 1 (Redrafted) and the proposed authority of ISQCs.

ISA 220 / ISQC 1 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2990>

ISA 220 / ISQC 1 (Redrafted) Issue Paper
(April 2007 IAASB Agenda Item 7)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2991>

Proposed ISA 220 (Redrafted) (April 2007
IAASB Agenda Item 7-A)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2993>

ISA 220 Proposed Dispositions of the Present
Tense (April 2007 IAASB Agenda Item 7-C)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2995>

Proposed ISQC 1 (Redrafted) (April 2007
IAASB Agenda Item 7-E)

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Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2997>

ISQC 1 Proposed Dispositions of the Present
Tense (April 2007 IAASB Agenda Item 7-G)

Available at
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2994> and
<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=2998>

ISA 220 (Redrafted) and ISQC 1 (Redrafted)
Mapping Documents