



**International Federation of Accountants**

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## Agenda Item **C.3.1**

**Committee:** IAASB Consultative Advisory Group

**Meeting Location:** Basel

**Meeting Date:** March 3-4, 2008

### **IAASB Clarity Project—Proposed ISA 200 (Revised and Redrafted)**

#### **Objective of Agenda Item**

The objective of this Agenda Item is to obtain the views of Representatives on the proposed resolution of key issues arising on the exposure of proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing” to be considered by the IAASB at its March 2008 meeting.

Approval of the final ISA is planned for the June IAASB meeting.

#### **IAASB Task Force**

The IAASB Task Force members are: John Kellas (Chairman); Denise Esdon; John Fogarty; Jon Grant; Gérard Trémolière; and Jim Sylph.

#### **Background**

The IAASB issued ED-ISA 200 in April 2007. The comment period closed September 15, 2007. A total of 53 comment letters were received. Respondent’s letters can be accessed on the IAASB website at [www.ifac.org/Guidance/EXD-Comments.php?EDID=0079&Group=All+Responses](http://www.ifac.org/Guidance/EXD-Comments.php?EDID=0079&Group=All+Responses).

Significant proposals were discussed with the IAASB Consultative Advisory Group at all stages of developing the proposed ISA.

#### **Significant Comments**

Respondents generally supported proposed ISA 200 (Revised and Redrafted), with a significant majority supporting the incorporation of provisions of the amended Preface<sup>1</sup> in the ISA. Respondents also supported the IAASB’s basis for changing from the ‘aim to achieve’ wording with respect to the obligation attaching to individual objectives, and many noted that the proposed obligation is an improvement on the Preface.

Significant matters identified for the Representatives’ consideration are highlighted below.

<sup>1</sup> Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

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##### A. Overall Objectives of the Auditor

1. ED-ISA 200 included a section headed “Overall Objective of the Independent Auditor.” The section consisted of paragraphs 4-6 on the objective of an auditor and of the audit; 7-8 on the responsibility of management for the financial statements; 9-13 describing an audit and listing related concepts; and 14-15 on auditor independence.
2. Respondents raised a number of concerns with respect to this section of the ISA. In particular, concerns were expressed regarding:
  - The clarity and general structure of the section. *Refer to paragraphs 4-11 of Agenda Item C.3.1.1 for further discussion and the Task Force’s proposal, and paragraphs 3-13 of Agenda Item C.3.1.2*
  - The appropriateness of the elements of the overall objective of the auditor. *Refer to paragraphs 12-15 of Agenda Item C.3.1.1 for further discussion and the Task Force’s proposal, and paragraphs 9-10 and 12 of Agenda Item C.3.1.2*
  - Whether the paragraph immediately following the overall objective which explained that a failure to achieve that objective would in all cases lead to a modified opinion or withdrawal from the engagement (the ‘consequence paragraph’ – ED paragraph 6) is logical and consistent with the overall objective. *Refer to paragraphs 18-20 of Agenda Item C.3.1.1 for further discussion and the Task Force’s proposal, and paragraph 13 of Agenda Item C.3.1.2*

##### Matters for Consideration by the IAASB CAG

The Representatives are asked for their views on the following:

- (a) Does the Task Force’s proposed redrafting of the ‘Introduction’ and ‘Overall Objective’ sections of ED-ISA 200 make a coherent explanation of the audit that provides an appropriate context for the overall objectives of the auditor<sup>2</sup>?; and
- (b) Are the overall objectives of the auditor and the explanation of the consequence of failure to achieve those objectives clear?

##### B. The Auditor’s Obligation in respect of Objectives Stated in ISAs

3. ED-ISA 200 paragraph 24 stated:

“To achieve the overall objective of the auditor, the auditor shall use the objectives stated in relevant ISAs to judge whether, having regard to the interrelationships amongst the ISAs and having complied with the requirements of the ISAs:

- (a) Sufficient appropriate audit evidence has been obtained in the context of the overall objective of the auditor; and

<sup>2</sup> The matter of the content and placement of the discussion of the inherent limitations of an audit is addressed in Issue C below.

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- (b) Other audit procedures need to be performed in pursuance of the objectives. (Ref: Para. A53-A56)

The assessment of whether sufficient appropriate audit evidence has been obtained and the other audit procedures, if any, that may be necessary in the circumstances are matters of professional judgment. The proper application of the requirements of the ISAs will ordinarily provide a sufficient basis for the auditor's achievement of the objectives. However, the ISAs cannot anticipate all circumstances that may arise."

4. ED-ISA 200 paragraph 25 included the following statements: "In most cases, the failure to achieve an objective will prevent the achievement of the overall objective of the auditor. Failure to achieve an objective represents a significant matter requiring documentation in accordance with [proposed] ISA 230 (Redrafted), *Audit Documentation*."
5. Respondents raised a number of concerns with the above paragraphs, in particular regarding:
- The clarity of the relationship of the objectives and requirements of ISAs. **Refer to paragraphs 23-25 of Agenda Item C.3.1.1 for further discussion and the Task Force's proposal, and paragraphs 22 and A66 of Agenda Item C.3.1.2**
  - ISAs that do not relate to obtaining sufficient appropriate audit evidence and the need to perform other audit procedures in pursuance of the objectives in such ISAs. **Refer to paragraphs 27-29 of Agenda Item C.3.1.1 for further discussion and the Task Force's proposal, and paragraphs 22(a) and (b) and A69 of Agenda Item C.3.1.2**
  - The auditor's obligation when there is a failure to achieve an objective, including the documentation of the achievement or not of the objectives. **Refer to paragraphs 31-36 of Agenda Item C.3.1.1 for further discussion and the Task Force's proposal, and paragraphs 25 and A74-A75 of Agenda Item C.3.1.2**

#### Matter for Consideration by the IAASB CAG

The Representatives are asked for their views on the following:

- (a) Is the obligation relating to the auditor's use of objectives in individual ISAs clear and appropriate?; and
- (b) Having regard to the comments received on ED-ISA 200, do the Representatives believe the Task Force's proposal regarding documentation of objectives, in particular in the case where there is a failure to achieve an objective, is appropriate?

#### C. Inherent Limitations of an Audit

6. Several respondents questioned the balance and tone of the discussion on the inherent limitations of an audit in ED-ISA 200, the placement of the material, and its completeness and accuracy. **Refer to paragraphs 38-43 of Agenda Item C.3.1.1 for further discussion and the Task Force's proposal, and paragraphs A39-A47 of Agenda Item C.3.1.2**

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##### **Matter for Consideration by the IAASB CAG**

The Representatives are asked whether they believe the Task Force's proposals achieve, in the context of the overall ISA, a more balanced presentation of the responsibilities of the auditor and matters that influence or further define the limit of those responsibilities.

#### **D. Professional Judgment**

7. Several respondents expressed concern that the tone and content of the material in ED-ISA 200 paragraphs A24-A25 that discusses professional judgment do not appear to promote sound and consistent judgments and could possibly leave room for the exercise of professional judgment to be used as an excuse for deficient auditing. **Refer to paragraphs 52-54 of Agenda Item C.3.1.1 for further discussion and the Task Force's proposal, and paragraphs 18 and A48-A51 of Agenda Item C.3.1.2**

##### **Matter for Consideration by the IAASB CAG**

The Representatives are asked for their views on the following:

- (a) The Task Force's proposal to establish a requirement for the auditor to exercise professional judgment in an audit; and
- (b) Does the application material relating to professional judgment give appropriate guidance that clarifies what constitutes appropriate judgment?

#### **E. ISAs' Application and Other Explanatory Material**

8. A few respondents urged the IAASB to be as clear as possible about the status, and to set the right tone for the authority, of the application and other material in the ISAs, including the auditor's responsibilities regarding consideration of the procedures described therein. **Refer to paragraphs 59-61 of Agenda Item C.3.1.1 for further discussion and the Task Force's proposal, and paragraphs 20 and A57-A58 of Agenda Item C.3.1.2**

##### **Matter for Consideration by the IAASB CAG**

The Representatives are asked whether they believe the authority of the application and other explanatory material in the ISAs, and the auditor's responsibilities in relation to such material, are now clear.

#### **Other Matters for Consideration**

##### **Matters for Consideration by the IAASB CAG**

While the above are the issues that the Task Force believe may most usefully be discussed at the CAG meeting, the Representatives are welcome to express their views on any other aspect of proposed ISA 200 for which further consideration may be needed by the IAASB.

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### **IAASB CAG Agenda (March 2008)**

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#### **Material Presented**

- |                     |                                                                                                                               |
|---------------------|-------------------------------------------------------------------------------------------------------------------------------|
| Agenda Item C.3.1.1 | Issues Paper - Proposed ISA 200 (Revised and Redrafted) (March 2008 IAASB Agenda Item 7-A) – <b>IAASB CAG REFERENCE PAPER</b> |
| Agenda Item C.3.1.2 | Proposed ISA 200 (Revised and Redrafted) (Marked from ED) (March 2008 IAASB Agenda Item 7-C) – <b>IAASB CAG PAPER</b>         |
| Agenda Item C.3.1.3 | Proposed ISA 200 (Revised and Redrafted) (Clean) (March 2008 IAASB Agenda Item 7-B) – <b>IAASB CAG REFERENCE PAPER</b>        |

**In the case of this project, the IAASB CAG Chairman has indicated that Agenda Item C.3.1.2 is a CAG Paper.**