

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

C.1.1

Committee: IAASB Consultative Advisory Group

Meeting Location: Basel

Meeting Date: March 3-4, 2008

IAASB Clarity Project—Report Back

Objectives of Agenda Item

1. The objective of this Agenda Item is to provide a brief report back on the proposals of Representatives on the IAASB Clarity projects discussed at the September 20-21 2007 CAG meeting.

Report Back – September 20-31, 2007 CAG Proposals

2. Below are extracts from the minutes of the September 20-21, 2007 CAG meeting¹ related to the discussions on IAASB's Clarity projects, and an indication of how the IAASB Task Forces or the IAASB responded to the Representatives' comments.

Representatives' comments	IAASB Task Force/IAASB response
<i>Proposed ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance"</i>	
<p>The Representative commented as follows:</p> <ul style="list-style-type: none">•consider whether the requirements in paragraph 8 (which deals with communication with a subgroup of those charged with governance) and paragraph 9 (which deals with circumstances when all of those charged with governance are involved in managing the entity) should be application material.	<p>The IAASB decided to retain paragraphs 8 and 9 as requirements, both of which had the "shall consider" terminology amended (to "shall determine" and "shall be satisfied" respectively) in response to comments received on exposure. Paragraph 8 and the final sentence of paragraph 9 were considered necessary to ensure that information the auditor communicates to certain of those charged with governance is communicated to all of those charged with governance who should have knowledge of it. The remainder of paragraph 9 was considered structurally desirable to allow for "overriding" the general application of requirements in paragraph 12(c) and in some other ISAs when all of those charged with governance are involved in managing the entity.</p>

¹ The minutes will be approved at the March 2008 IAASB CAG meeting.

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Representatives' comments	IAASB Task Force/IAASB response
<ul style="list-style-type: none">the reference to the IFAC Code of Ethics for Professional Accountants in footnote 4 (ISA 260.13(a)) should be included in the application material...and that “relevant ethical requirements” should be explained by way of cross reference to proposed ISA 200 (Revised and Redrafted), where the phrase is discussed. Referring to ISA 260.13(b)(ii), which requires the auditor to communicate with those charged with governance of a listed entity, the safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level, Mr. Rabine noted that in some jurisdictions auditor independence is guarded by law or regulation. It is therefore not a matter of safeguards, but a matter of law or regulation. 	<p><i>Refer to paragraphs 8, 9 and 12(c) of ISA 260 (Revised and Redrafted)</i></p> <p>The Task Force and IAASB agreed with these comments and amended the ISA accordingly. <i>Refer to paragraph A25 of ISA 260 (Revised and Redrafted)</i></p> <p>The Task Force and IAASB agreed that law or regulation often safeguard an auditor’s independence and have noted this in the application material. <i>Refer to paragraph A26(b) of ISA 260 (Revised and Redrafted)</i></p>

<i>Proposed ISA 720 (Redrafted), “The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements”</i>	
<p>Regarding the proposed objective, the Representatives commented as follows:</p> <ul style="list-style-type: none"> ...it is not clear what “respond appropriately” in the objective means. 	<p>The Task Force and IAASB were of the view that the objective should be read together with the requirements and application material of the ISA. This expectation is established in the draft revised version of proposed ISA 200 (Revised and Redrafted)² which requires that the auditor read and understand the entire text of an ISA to understand the objective and apply its requirements properly. Further, it is not possible to include in the objective all the responses that may be appropriate, and the Task Force and IAASB felt that the phrase is appropriate in light of concerns by several</p>

² March 2008 IAASB Agenda Item 7-B, Proposed Revised ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.” Available on the IAASB website at <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0906>.

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<p>Regarding the proposed requirements, the Representatives commented as follows:</p> <ul style="list-style-type: none">.... ISA 720.11 refers to “relevant requirements in [proposed] ISA 560 (Redrafted) ...” and ISA 720.13 refers to “further appropriate action.” As a result, they are not self-standing requirements. It was asked whether they meet the clarity drafting conventions.	<p>respondents to the exposure draft that the draft objective is too procedural and lengthy, and duplicative of the requirements of the ISA. Accordingly, no change was made.</p> <p>Proposed ISA 200 (Revised and Redrafted) explains that the ISAs are interrelated. Accordingly, the Task Force and IAASB were of the view that reference to other ISAs in the requirements of ISA 720 (Redrafted) is acceptable and appropriate. Further, this is not inconsistent with the treatment in other clarified ISAs where reference to another ISA is considered necessary.</p> <p>Regarding reference to “further appropriate action,” the Task Force and IAASB noted that some respondents to ED-ISA 720 were also concerned about the use of imprecise or unclear phrases in specific requirements such as “further appropriate actions” (which is also contained in the extant ISA). The IAASB agreed with these concerns and concluded, in the interest of eliminating any ambiguity about what is expected of the auditor, that where there are procedures or actions that should be taken in all cases or where there are only a limited number of possible actions that could be taken, these should be specified accordingly in the requirements. Accordingly, the IAASB agreed that ISA 720 (Redrafted) should include a requirement for the auditor to communicate with those charged with governance in each of relevant paragraphs³.</p> <p>In addition, in response to comments received, the IAASB amended the requirement at paragraph 10 of ED-ISA 720 (and ISA 720 (Redrafted)) to include all the possible appropriate actions, as identified in the related application material at paragraph A8 of ED-ISA 720 (specifically, for the auditor to withhold the</p>
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³ Specifically, paragraphs 10 and 13 (which address material inconsistencies identified in other information where revision of that information is necessary and management refuses to do so) and paragraph 16 (which addresses material misstatements of fact in other information which management refuses to correct) of ISA 720 (Redrafted).

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	<p>auditor's report or to withdraw from the engagement).</p> <p>The IAASB did not believe, however, that it is appropriate to eliminate the requirement that the auditor 'take further appropriate action.' This imperative signals that further steps may be necessary to achieve the objective, though it is impossible for the IAASB to prescribe a specific course of action because of the likely variation in circumstances.</p> <p><i>Refer to the relevant paragraph in ISA 720 (Redrafted)</i></p>
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Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Available from

<http://www.ifac.org/Store/Details.tmpl?SID=1198172523721230>

ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance"

Available from

<http://www.ifac.org/Store/Details.tmpl?SID=1198173316721464>

ISA 720 (Redrafted), "The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements"