



International Federation of Accountants

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Agenda Item C.2

Committee: IAASB Consultative Advisory Group

Meeting Location: Basel

Meeting Date: March 3-4, 2008

IAASB Clarity Project—Proposed Final Redrafted ISAs for Approval at the March 2008 IAASB Meeting

Objective of Agenda Item

1. The objective of this Agenda Item is to obtain the views of Representatives on matters relating to the following ISAs scheduled for approval at the March 2008 IAASB meeting:
 - Proposed final ISA 250 (Redrafted), “Consideration of Laws and Regulations in an Audit of Financial Statements;”
 - Proposed final ISA 320 (Revised and Redrafted), “Materiality in Planning and Performing an Audit;”
 - Proposed final ISA 450 (Revised and Redrafted), “Evaluation of Misstatements Identified during the Audit;”
 - Proposed final ISA 510 (Redrafted), “Initial Audit Engagements – Opening Balances;”
 - Proposed final ISA 570 (Redrafted), “Going Concern;” and
 - Proposed final ISA 610 (Redrafted), “Using the Work of Internal Auditors.”
2. Each of the above ISAs is subject to redrafting to reflect only the IAASB Clarity conventions and matters of clarity generally.

Matters for CAG Consideration

A. PROPOSED FINAL ISA 250 (REDRAFTED), “CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS”

Risk-Based vs. Procedural Approach, and the Objectives of the Auditor

3. A few respondents questioned how the proposed redrafted ISA conforms with the audit model of identifying and assessing the risks of material misstatements and responding to assessed risks. It was suggested that the IAASB update the ISA to incorporate a risk based approach, for example, by making reference to considering the risk that noncompliance with all types of laws and regulations (including indirect effect laws and regulations) could have on the financial statements.
4. Related to these views, several respondents were concerned that the objective in ED paragraph 8(b) focused on audit procedures to be performed rather than on the desired outcomes of such

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procedures. In addition, a few respondents were concerned with the “open-ended” nature of the objective in ED paragraph 8(b), and urged the IAASB to eliminate any suggestion that specified procedures alone are sufficient to achieve the objective. Further, a few respondents considered that it would be better to restrict the objective noted in paragraph 8(c) to those laws and regulations scoped by paragraphs 8(a) and 8(b) rather than for it to include all identified or suspected instances of noncompliance.

5. In response, the Task Force proposes:

- To revise the objectives and requirements to be more outcome-oriented. However, to adopt a fully risk-based approach for the ISA would require a revision of the ISA, which is beyond the scope of the redrafting of the ISA; and **(Refer to paragraphs 8(b) and 12 of the March 2008 IAASB Agenda Item 5-B)**
- To modify the objective in paragraph 8(c) to make it clear that the auditor’s objective is to respond appropriately to identified or suspected noncompliance with laws and regulations that have come to the auditor’s attention during the course of the audit. **(Refer to paragraphs 8(c) of the March 2008 IAASB Agenda Item 5-B)**

Matters for Consideration by the IAASB CAG:

Q1. The Representatives are asked for their views on the following:

- (a) Are the changes proposed to better align ISA 250 (Redrafted) to a risk-based approach appropriate, recognizing that this is not a revision project; and
- (b) Are the objectives of the auditor in paragraphs 8(b) and 8(c) appropriate?

Q2. While the above are the issues that the Task Force believes may most usefully be discussed at the CAG meeting, Representatives are welcome to express their views on any matter discussed in the IAASB Issues Paper for which further consideration may be needed by the IAASB. **(Refer to the March 2008 IAASB Agenda Item 5-A)**

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

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0905>

Proposed final ISA 250 (Redrafted) – Issue Paper (i.e., summary of significant comments and Task Force recommendations) (March 2008 IAASB Agenda Item 5-A)

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0905>

Proposed final ISA 250 (Redrafted) (March 2008 IAASB Agenda Item 5-B)

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B. PROPOSED FINAL ISA 320 (REVISED AND REDRAFTED), “MATERIALITY IN PLANNING AND PERFORMING AN AUDIT”

Objective

6. Paragraph 8 of ED-ISA 320 (Revised and Redrafted)¹ contained the following objective:

“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.”
7. Many respondents were supportive of the objective; although some suggested amendments. In particular, they suggested that the objective be amended to indicate that it *may be necessary* to revise the materiality level or levels as the audit progresses; rather than stating that “the objective of the auditor is to ... *reconsider* as the audit progresses, an appropriate materiality level or levels ...”
8. A few respondents were of the view that the amount lower than the materiality level determined for purposes of assessing risks and designing further audit procedures to respond to those risks (see paragraph 11 of ED-ISA 320 (Revised and Redrafted)) should be reflected in the objective.
9. Some respondents were of the view that the objective should be outcomes oriented, and more clearly linked to the overall objective of the audit.
10. The Task Force is concerned that the proposals in paragraphs 7 and 8 above will make the objective more process oriented. However, the Task Force agrees that the objective could be more outcomes oriented, and therefore proposes that the objective read as follows:

“The objective of the auditor is to apply materiality appropriately in planning and performing the audit.” **(Refer to paragraph 8 of the March 2008 IAASB Agenda Item 11-B)**

Proposal that Does Not Relate to the Application of the Clarity Drafting Conventions – Qualitative Aspects of Materiality

11. A few respondents identified a need for more prominent guidance on the qualitative aspects of materiality. This matter was thoroughly debated by the IAASB in finalizing the close off document² of ISA 320 (Revised).³ Accordingly, no further action is intended to be taken.

¹ The exposure draft of proposed ISA 320 (Revised and Redrafted) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0062>.

² A close off document is a final version of a standard whose revision had commenced before the clarity drafting conventions had been finalized. Absent the Clarity project, a final standard would have been issued rather than a close off document and the project would have ended at that time. It was the IAASB’s intention that any close off document should be converted to a clarified version without further consideration of substantive issues.

³ Close Off Document: ISA 320 (Revised), “Materiality in Planning and Performing an Audit” (issued May 2006). The document can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0062>.

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Matters for Consideration by the IAASB CAG:

- Q3. The Representatives are asked for their views on the proposed revised objective.
- Q4. While the above is the issue that the Task Force believes may most usefully be discussed at the CAG meeting, the Representatives are welcome to express their views on any matter discussed in the IAASB Issue Paper for which further consideration may be needed by the IAASB.
(Refer to the March 2008 IAASB Agenda Items 11-A)

Proposed Final ISA 320 (Revised and Redrafted) Material Presented – IAASB CAG **REFERENCE PAPERS**

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0918>

Summary of Significant Comments and Task Force Recommendations—Exposure Draft of Proposed ISAs 320 (Revised and Redrafted) and 450 (Revised and Redrafted) (March 2008 IAASB Agenda Item 11-A)

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0918>

Proposed final ISA 320 (Revised and Redrafted) (March 2008 IAASB Agenda Item 11-B)

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C. PROPOSED FINAL ISA 450 (REVISED AND REDRAFTED), “EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT”

Objective

12. Paragraph 3 of ED-ISA 450 (Revised and Redrafted)⁴ contained the following objective:

“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.”

13. Many respondents were supportive of the objective. The European Commission noted that it would seem more logical to draft the objective in a way that will ensure that the auditor has obtained sufficient appropriate audit evidence that all uncorrected misstatements have been identified, and only then to perform the evaluation as stated in the proposed objective. The Task Force is of the view that the objective corresponds to the requirements in the ISA. The Task Force did not agree that the requirements in ISA 450 (Revised and Redrafted) alone will lead the auditor to meet an objective to obtain sufficient appropriate audit evidence that all uncorrected misstatements have been identified, as ISA 330 (Redrafted)⁵ includes requirements relevant to that evaluation.

14. The exposure draft of proposed ISA 700 (Redrafted)⁶ was issued subsequent to ED-ISA 450 (Revised and Redrafted). In finalizing ED-ISA 700 (Redrafted), the IAASB agreed that, in the absence of a separate ISA on forming an opinion on the financial statements, the requirements and guidance on forming an opinion on the financial statements in ED-ISA 450 (Revised and Redrafted) should be moved to ED-ISA 700 (Redrafted). **(Refer to paragraphs 17-20 of the March 2008 IAASB Agenda Item II-A)** As explained in **paragraph 18(a) of the March 2008 IAASB Agenda Item II-A**, this affected the objective in ED-ISA 450 (Revised and Redrafted).

15. The Task Force proposes that amendments to the objective be limited to those necessitated by the move of the requirements and guidance on forming an opinion on the financial statements to proposed ISA 700 (Redrafted). The Task Force proposes that the objective be as follows:

“The objective of the auditor is to evaluate: (a) the effect of identified misstatements on the audit; and (b) the effect of uncorrected misstatements, if any, on the financial statements.” **(Refer to paragraph 3 of the March 2008 IAASB Agenda Item II-C)**

⁴ The exposure draft of proposed ISA 450 (Revised and Redrafted) can be access at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0062>.

⁵ ISA 330 (Redrafted), “The Auditor’s Responses to Assessed Risks.”

⁶ The exposure draft of proposed ISA 700 (Redrafted), “The Independent Auditor’s Report on General Purpose Financial Statements” (issued August 2007) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0090>.

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Deletion of Requirement to Distinguish between Factual, Judgmental and Projected Misstatements

16. Paragraph 5 of ED-ISA 450 (Revised and Redrafted) required the auditor to accumulate misstatements identified during the audit, other than those that are clearly trivial, distinguishing between factual misstatements, judgmental misstatements and projected misstatements.
17. Many respondents did not support the requirement for the auditor to distinguish between factual misstatements, judgmental misstatements and projected misstatements. Some respondents were of the view that the text in the close off document of ISA 450 (Revised)⁷ clearly was guidance as it stated that such distinction is *useful* to assist the auditor in considering the effects of misstatements accumulated during the audit and in communicating them to management and those charged with governance. Some respondents were of the view that the requirement served no practical purpose, since the auditor is required to request management to correct all misstatements. Furthermore, the distinction was not used in the evaluation of the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.
18. In response, the Task Force proposes:
- (a) To delete the reference to the distinction between factual, judgmental and projected misstatements in the requirement for the auditor to accumulate misstatements identified during the audit **(Refer to paragraph 5 of the March 2008 IAASB Agenda Item II-C)**;
 - (b) To delete the reference to the distinction between factual, judgmental and projected misstatements in the requirement for the auditor to document all misstatements accumulated during the audit **(Refer to paragraph 15(b) of the March 2008 IAASB Agenda Item II-C)**;
 - (c) To explain in the application material that a distinction between factual, judgmental and projected misstatements may assist the auditor in evaluating the effects of misstatements accumulated during the audit, and in communicating misstatements to management and those charged with governance **(Refer to paragraph A3 of the March 2008 IAASB Agenda Item II-C)**; and
 - (d) To move the definitions of the terms “factual misstatement,” “judgmental misstatement,” and “projected misstatement” to the application material as the terms are no longer used in the Requirements section. **(Refer to paragraph A3 of the March 2008 IAASB Agenda Item II-C)**

Proposals that Do Not Relate to the Application of the Clarity Drafting Conventions – Uncorrected Misstatements Related to Prior Periods

19. Paragraph 14 of ED-ISA 450 (Revised and Redrafted) required the auditor to consider the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. A few respondents

⁷ Close Off Document: ISA 450 (Revised), “Evaluation of Misstatements Identified during the Audit” (issued May 2006). The document can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0062>.

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noted that, to avoid potential material misstatements, materiality thresholds should be determined based on both a balance sheet and an income statement approach or that paragraph 14 should be supported with appropriate guidance to ensure consistent application.

20. These matters do not relate to the application of the Clarity drafting conventions and, accordingly, no further action is intended to be taken.

Matters for Consideration by the IAASB CAG:

Q5. The Representatives are asked for their views on the following:

- (a) The revised objective; and
- (b) The proposal with regard to the distinction between factual misstatements, judgmental misstatements and projected misstatements set out in paragraph 18.

Q6. 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 matter discussed in the IAASB Issue Paper for which further consideration may be needed by the IAASB. **(Refer to the March 2008 IAASB Agenda Items 11-A)**

Proposed final ISA 450 (Revised and Redrafted) Material Presented – IAASB CAG **REFERENCE PAPERS**

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0918>

Summary of Significant Comments and Task Force Recommendations—Exposure Draft of Proposed ISAs 320 (Revised and Redrafted) and 450 (Revised and Redrafted) (March 2008 IAASB Agenda Item 11-A)

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0918>

Proposed final ISA 450 (Revised and Redrafted) (March 2008 IAASB Agenda Item 11-C)

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D. PROPOSED FINAL ISA 510 (REDRAFTED), “INITIAL AUDIT ENGAGEMENTS – OPENING BALANCES”

Objective

21. The proposed objective of the auditor in ED-ISA 510 (Redrafted) reflected two distinct responsibilities of the auditor with respect to opening balances of initial engagements, as follows:

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

- (a) Misstatements that materially affect the current period’s financial statements arising from the opening balances exist; and
- (b) Appropriate accounting policies have been consistently applied or changes thereto are accounted for properly.”

22. Whilst there was strong support from respondents for this approach to the objective, some concerns were expressed about the coverage and clarity of the objective. In particular, it was questioned:

- Whether sufficient emphasis is given to obtaining audit evidence regarding disclosure and presentation of opening balances or other matter relevant in the applicable financial reporting framework.
- The focus of the objective and whether it should be on opening balances instead of misstatements.
- The logical flow of the objective. **(Refer to paragraphs 11-13 of the March 2008 IAASB Agenda Item 4-A)**

23. The Task Force proposes to amend the objective for each of the above matters. The proposed revised objective is as follows:

“In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether:

- (a) Opening balances contain misstatements that materially affect the current period’s financial statements; and
- (b) Appropriate accounting policies have been consistently applied or changes thereto are properly accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.”

Matters for Consideration by the IAASB CAG:

Q7. The Representatives are asked for their views on the proposed revised objective of the auditor.

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Split Opinion

24. The Explanatory Memorandum to ED-ISA 510 (Redrafted) identified as a significant matter the proposal to remove the restriction on the ability to express a split opinion on the financial position and results of operations and cash flows of an entity to those circumstances when permitted.
25. Most respondents commented on the proposed change and the majority of them expressed support for the removal of the restriction. However, a few respondents suggested to clarify that split opinions are acceptable unless explicitly prohibited by the applicable financial reporting framework or law or regulation. It was also argued that the issue of “split opinions” should be addressed in ISA proposed 705 (Revised and Redrafted),⁸ not proposed ISA 510 (Redrafted), and suggested the removal of the paragraph and appendix in its entirety. It was also noted that some EU Member States do not allow such opinions.
26. A few other respondents, although supporting the removal of the restriction, noted that cash flows may not always need to be qualified even though there is insufficient audit evidence regarding financial performance. Further, there may need to be a scope limitation regarding the financial position in the comparative figures even if sufficient appropriate audit evidence can be obtained regarding the closing financial position.
27. The Task Force is of the view the ED-ISA 510 (Redrafted) is consistent with the principles established in proposed ISA 705 (Revised and Redrafted) and the amended Preface. Accordingly, it does not believe it appropriate to amend the ISA in regards to “split opinions” to narrow its applicability to circumstances when permitted, or when not prohibited. **(Refer to paragraph A6 and the Appendix of the March 2008 IAASB Agenda Item 4-B)**
28. The Task Force accepts, however, that it is possible to obtain sufficient appropriate audit evidence regarding cash flows even if sufficient evidence cannot be obtained regarding financial performance, and has therefore proposed changes to references to cash flows in the revised draft of the ISA. **(Refer to paragraph A6 and the Appendix of the March 2008 IAASB Agenda Item 4-B)**

Matters for Consideration by the IAASB CAG:

- Q8. The Representatives are asked for their views on the Task Force’s proposed treatment of the issues associated with the provision of ‘split opinions’ where permitted.

⁸ Proposed ISA 705 (Revised and Redrafted) “Modifications to the Opinion in the Independent Auditor’s Report.”

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Expansion of the Scope, Requirements and Guidance of ISA 510

29. Several respondents variously made suggestions to:

- Broaden the scope of the ISA (**Refer to paragraph 4 of the March 2008 IAASB Agenda Item 4-A**); and
- To include additional requirements and guidance, beyond that which is addressed in the extant ISA. (**Refer to paragraph 30 of the March 2008 IAASB Agenda Item 4-A**)

30. The Task Force is of the view that the suggestions for changes in the scope are substantive and beyond the scope of Clarity redrafting. Further, the Task Force believes that a number of the matters are already adequately addressed by other ISAs. Therefore, the Task Force believes that the scope of the ISA as stated currently is appropriate and is not recommending any changes to it. (**Refer to paragraphs 5-9 of the March 2008 IAASB Agenda Item 4-A, and paragraph 1 of the March 2008 IAASB Agenda Item 4-B**)

31. Similarly, the Task Force believes that, in each of the cases noted by respondents where additional requirements or guidance could be provided, doing so would go beyond a redraft of an ISA. Accordingly, the Task Force is not proposing introducing new additional guidance.

Matters for Consideration by the IAASB CAG:

Q9. The Representatives are asked for their views on the scope of the ISA, and on the Task Force's position to not amend the scope or introduce new requirements or guidance beyond that which is covered by extant ISA 510 in light of the scope of the Task Force's redrafting mandate.

Q10. While the above are the issues that the Task Force believes may most usefully be discussed at the CAG meeting, the Representatives are welcome to express their views on any matter discussed in the IAASB Issue Paper for which further consideration may be needed by the IAASB. (**Refer to March 2008 IAASB Agenda Item 4-A**)

Proposed final ISA 510 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0899>

Proposed final ISA 510 (Redrafted) – Issue Paper (i.e., summary of significant comments and Task Force recommendations) (March 2008 IAASB Agenda Item 4-A)

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0899>

Proposed final ISA 510 (Redrafted) (March 2008 IAASB Agenda Item 4-B)

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E. PROPOSED FINAL ISA 570 (REDRAFTED), “GOING CONCERN”

Objectives

32. Paragraph 9 of ED-ISA 570 (Redrafted)⁹ contained the following objectives:

“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 a material uncertainty exists, to consider the implications for the auditor’s report.”

33. The majority of respondents were of the opinion that the objectives are appropriate. Some respondents considered the objectives to be inappropriate or considered the changes to have led to substantive changes to the extant ISA. **(Refer to paragraph 2 of the March 2008 IAASB Agenda Item 12-A)**

34. The main issues raised by respondents with regards to the objectives are set out below.

Sufficient Appropriate Audit Evidence and Related Work Effort **(Refer to paragraphs 3-4 of the March 2008 IAASB Agenda Item 12-A)**

35. Some respondents were of the view that the objectives have changed or appear to have changed the substance or emphasis of extant ISA 570, or suggest a greater work effort, than extant ISA 570.

36. One respondent was of the view that the reference to “obtain sufficient appropriate audit evidence” in part (a) suggests that there is a need to obtain such evidence even if there is no uncertainty about the entity’s ability to continue as a going concern. Other respondents were concerned that the reference will increase the expectations gap about the work or work effort that auditors perform or can perform in relation to going concern, or that it may suggest that the auditor is providing “(positive) assurance” on the entity’s ability to continue as a going concern. As a result, one respondent noted that the requirements of ED-ISA 570 (Redrafted) will not meet the objectives. To mitigate any inappropriately raised expectations, three respondents suggested that the introductory material explains the inherent limitations of an audit with respect to the going concern assumption.

37. One respondent questioned whether, in the context of future events, it is practicable to obtain sufficient appropriate audit evidence on the going concern assumption. Two respondents suggested that, if the reference is retained, additional explanation be provided regarding the nature of sufficient appropriate audit evidence as it relates to the going concern assumption.

⁹ The exposure draft of proposed ISA 570 (Redrafted) can be accessed at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0078>.

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38. One respondent was of the view that the objective in (a) would be more neutral if it read along the following lines: “To obtain sufficient appropriate audit evidence about the appropriateness of whether management’s use of the going concern assumption in the preparation and presentation of the financial statements ~~is appropriate in the circumstances~~.”
39. Consistent with other ISAs, the objectives on subject matter specific ISAs are to obtain sufficient appropriate audit evidence about the subject matter of the ISA. The Task Force believes that the requirements in the proposed ISA establish reasonable expectations about the nature and extent of procedures that would meet the objectives. However, the Task Force agrees that the objective in (a) could be interpreted as changing the meaning of extant ISA 570. As a result, the Task Force has amended the objective in (a) as suggested in paragraph 38 above. The revised objective is more consistent with paragraph 2 of extant ISA 570. **(Refer to paragraph 9(a) of the March 2008 IAASB Agenda Item 12-B)**

Auditor’s Reporting Responsibilities **(Refer to paragraphs 3 and 5-6 of the March 2008 IAASB Agenda Item 12-A)**

40. Three respondents noted that the objectives cover only situations when the going concern assumption is appropriate or when a material uncertainty exists. They were of the view that they should also cover the auditor’s reporting responsibilities when the going concern assumption is not appropriate.
41. Two respondents were of the view that it would help readers if a clearer distinction were drawn in the objectives between the auditor’s reporting responsibilities and the assurance activities that support that reporting. They believed that the assurance objective of the auditor could be more usefully characterized in terms of whether the going concern assumption is consistent with management’s reasonable expectations, and whether those expectations are subject to material uncertainty. The reporting objective would be that the auditor should consider the need to report on inconsistencies and material uncertainties.
42. One respondent was concerned that the objective in (b) could be interpreted as meaning that the auditor is forming an opinion and providing some assurance on the going concern status of the entity, as opposed to auditing the assumptions that management have made about the ability of the entity to continue as a going concern. This respondent noted that the main focus of extant ISA 570 is on the evaluation by the auditor of the appropriateness of the assumptions made by management in connection with going concern, and that the objectives as currently drafted does not make this clear.
43. Some respondents was of the view that the objectives could be reduced to a single objective, either because the objective in (a) appears to duplicate the objective in (b); or because the objectives, while addressing the right subject matter, are stated in a way that seems indirect and wordy. Suggested wording includes:
- “The objective of the auditor is to determine whether management’s use of the going concern assumption in preparing and presenting the financial statements is appropriate, and to report accordingly.”

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“The auditor’s responsibility is to evaluate the appropriateness of management’s use of the going concern assumption in the preparation of the financial statements and conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern that needs to be disclosed in the financial statements.”

44. The Task Force is of the view that there are two separate elements in the standard: the need to obtain *audit evidence* about the appropriateness of using the going concern assumption, which is reflected in the objective in (a); and the need to *conclude*, when events or conditions arise, whether they represent a material uncertainty and to report accordingly, which was reflected in the objective in (b).
45. However, to respond to comments that the objectives did not address the situation when the use of the going concern assumption is not appropriate, the Task Force has amended the objective in (b) and added another objective (i.e., (c)) so that the objective cover both the situation when a material uncertainty exists related to events and conditions that may cast doubt on the entity’s ability to continue as a going concern, and also when the auditor concludes that management’s use of the going concern assumption is inappropriate. **(Refer to paragraphs 9(b) and (c) of the March 2008 IAASB Agenda Item 12-B)**

Matters for Consideration by the IAASB CAG:

Q11. The Representatives are asked for their views on the proposed revised objective of the auditor.

Conclusion on Appropriateness of Use of Going Concern Assumption (Refer to paragraphs 9-11 of the March 2008 IAASB Agenda Item 12-A)

46. A few respondents noted that the proposed standard does not provide any requirements or guidance with respect to the auditor’s conclusion as to whether the use of the going concern assumption is appropriate. One respondent suggested that reference be made in paragraph 17 of ED-ISA 570 (Redrafted) to the auditor’s need to evaluate whether the going concern assumption is appropriate. Another noted that the application material to paragraph 17 of ED-ISA 570 (Redrafted) does not include any guidance about how to determine and conclude whether the use of the going concern assumption is appropriate, and that additional guidance on making such a determination should be provided.
47. One respondent noted that both the description of the auditor’s responsibility in paragraph 6 of ED-ISA 570 (Redrafted) as well as the objective in paragraph 9(a) of ED-ISA 570 (Redrafted) refer to either the auditor’s evaluation, or obtaining of sufficient appropriate audit evidence in relation to, the appropriateness of management’s use of the going concern assumption in the preparation (and presentation) of the financial statements. There is, however, no corresponding requirement that fulfills the stated responsibility or objective of the auditor. However, paragraph 18 of ED-ISA 570 (Redrafted) (“When the use of the going concern assumption is appropriate...”) and paragraph 21 of ED-ISA 570 (Redrafted) (If, in the auditor’s judgment, the entity will not be able to continue as a going concern...) are predicated on this conclusion having been made by the auditor.

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48. The Task Force believes that, consistent with extant ISA 570, the auditor's focus is on whether a material uncertainty about the entity's ability to continue as a going concern exists. Paragraphs 19-21 of proposed ISA 570 (Redrafted) deal with the situation where the use of the going concern assumption is appropriate but a material uncertainty exists and paragraph 22 of proposed ISA 570 (Redrafted) deals with the situation where the going concern assumption is inappropriate. The requirements respond to the objective in paragraph 9(a) of proposed ISA 570 (Redrafted). On this basis, the Task Force is of the view that the proposed standard has addressed this point. **(Refer to the March 2008 IAASB Agenda Item 12-B)**

Matters for Consideration by the IAASB CAG:

Q12. The Representatives are asked for their views with regard to the Task Force's conclusion in paragraph 48 above.

Q13. While the above are the issues that the Task Force believes may most usefully be discussed at the CAG meeting, the Representatives are welcome to express their views on any matter discussed in the IAASB Issue Paper for which further consideration may be needed by the IAASB. **(Refer to the March 2008 IAASB Agenda Item 12-A)**

Proposed final ISA 570 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0919>

Proposed final ISA 570 (Redrafted) – Issue Paper (i.e., summary of significant comments and Task Force recommendations) (March 2008 IAASB Agenda Item 12-A)

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0919>

Proposed final ISA 570 (Redrafted) (March 2008 IAASB Agenda Item 12-B)

IAASB CAG PAPER

IAASB CAG Agenda (March 2008)

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Clarity—Proposed Final Redrafted ISAs for Approval at the March 2008 IAASB Meeting

F. PROPOSED FINAL ISA 610 (REDRAFTED), “USING THE WORK OF INTERNAL AUDITORS”

Obtaining an Understanding of the Internal Audit Function and Determining Whether and How Its Work of Might be Relevant to the Audit

49. Several respondents raised concerns about the focus and logic of the proposed redrafted ISA. It was questioned whether the external auditor’s understanding of the internal audit function was a necessary component of the objective of the auditor and the requirements of ED-ISA 610, and if so, how the objective and requirements are to be understood in relation to the requirements of ISA 315 (Redrafted).
50. In addition, concern was expressed that the requirements of the ISA do not set out a logical flow to the external auditor’s consideration of the internal audit function. In particular, several respondents found it unclear what is expected in terms of the external auditor’s determination of the relevance of the internal audit function and the extent to which the external auditor can use the work of internal auditors as audit evidence.
51. In response, the Task Force proposes:
- To revise the scope of the ISA and the objective of the auditor to make clear when ISA 610 (Redrafted) is applicable and the focus of the ISA (*Refer to paragraphs 7-14 of the March 2008 IAASB Agenda Item 10-A, and paragraphs 1 and 5 of the March 2008 IAASB Agenda Item 10-B*);
 - To clarify what is expected of the external auditor in relation to obtaining an understanding of the internal audit function and at what point that understanding is required, by amending paragraphs 22 and A95 of ISA 315 (Redrafted) (*Refer to paragraphs 26-38 of the March 2008 IAASB Agenda Item 10-A, and paragraph 7 and the proposed conforming amendments to ISA 315 (Redrafted) (page 9) of the March 2008 IAASB Agenda Item 10-B*); and
 - To improve the linkages between the external auditor’s understanding of the internal audit function, the external auditor’s assessment of the internal audit function, and the external auditor’s determination of the effect of the work of internal auditors on the procedures performed by the external auditor. (*Refer to paragraphs 39-46 of the March 2008 IAASB Agenda Item 10-A, and paragraphs 7-8 of the March 2008 IAASB Agenda Item 10-B*)

IAASB CAG PAPER

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Matters for Consideration by the IAASB CAG:

Q14. The Representatives are asked for their views on the following:

- (a) Is the Task Force's proposal to amend ISA 315 (Redrafted) appropriate, and does it make clear the linkage between ISA 315 (Redrafted) and ISA 610 (Redrafted); and
- (b) Is the ISA clear in terms of what is expected in regard to the external auditor's determination of the relevance of the internal audit function and the extent to which the external auditor can use the work of internal auditors as audit evidence?

Q15. While the above are the issue that the Task Force believes may most usefully be discussed at the CAG meeting, the Representatives are welcome to express their views on any matter discussed in the IAASB Issue Paper for which further consideration may be needed by the IAASB. **(Refer to March 2008 IAASB Agenda Item 10-A)**

Proposed final ISA 610 (Redrafted) Material Presented – IAASB CAG REFERENCE PAPERS

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0917>

Proposed final ISA 610 (Redrafted) – Issue Paper (i.e., summary of significant comments and Task Force recommendations) (March 2008 IAASB Agenda Item 10-A)

Available at
<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0141&ViewCat=0917>

Proposed final ISA 610 (Redrafted) (March 2008 IAASB Agenda Item 10-B)