



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Agenda Item D.1

Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9 – 10, 2009

Report Back—IAASB Clarity Project Clarity Consistency Review (Including Laws and Regulations and Specialist Changes)

Objectives of Agenda Item

1. The objectives of this Agenda Item are to provide:
 - (i) A brief update on the status of the IAASB Clarity project; and
 - (ii) A brief report back on the proposals of Representatives on the IAASB's review of the clarified ISAs for consistency, and on other clarity matters agreed at the December 2008 IAASB meeting.

Clarity Project Status

2. At its December 2008 meeting, the IAASB approved the three remaining ISAs¹ that form part of its Clarity project. Subject to PIOB review of due process applied on these ISAs at its February 2009 meeting, the IAASB has now completed its Clarity project in accordance with its stated timetable. All of the ISAs are now drafted in accordance with the Clarity conventions and will come into effect for audits of financial statements for periods beginning on or after December 15, 2009.
3. The IAASB anticipates publishing the set of clarified ISAs in the 2009 Edition of its Handbook by April 2009. In the interim, the IAASB has made available all of the finalized ISAs on its website in the normal way, including those final ISAs subject to PIOB clearance.
4. The IAASB and its Staff thank the CAG Representatives for their insight and contribution over the course of the Clarity project and for their efforts in helping achieve its successful completion.

¹ These ISAs are ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements," ISA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management," and ISA 402 (Revised and Redrafted), "Audit Considerations Relating to an Entity Using a Service Organization."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item D.1

Report Back—Clarity – Clarity Consistency Review (Including Laws and Regulations and Specialist Changes)

Review of Clarified ISAs for Conforming Amendments and Consistency

5. At the September 4-5, 2008 CAG meeting, the CAG was advised that IAASB Staff has begun a review of all finalized ISAs for consistency in drafting, and that recommended changes arising from this review would be considered by the IAASB at its December meeting. The purpose of the review was to identify minor changes of wording and structure that improve the consistency of the approved clarified ISAs without changing their substance. The need for the review derived from perceived inconsistency in the use of language or style of drafting as a result of refinements over the course of the Clarity project.
6. At its December 2008 meeting, the IAASB reviewed Staff's recommended editorial changes to the clarified ISAs. The scope of the review included addressing matters such as consistency of objectives, the ISAs' Scope paragraphs, structure, specific words and phrases throughout the ISAs, references between standards, etc. **See Agenda Items 4 through 4-C of the December IAASB meeting material.**
7. Where any IAASB member was uncomfortable with a proposed change for any reason, or if there was any uncertainty about whether a proposed change affected the substance of an approved ISA, then the proposal was withdrawn and the wording of the relevant ISA retained as originally approved by the IAASB. With the exception of only a few drafting matters, the IAASB agreed the recommended changes and confirmed its view that the changes clarify the approved ISAs without affecting their substance.²

REPORT BACK – SEPTEMBER 4 - 5, 2008 CAG PROPOSALS

8. Below are extracts from the minutes of the September 4 - 5, 2008 CAG meeting³ related to the discussion on IAASB's Clarity consistency review, and an indication of how the IAASB Task Force or the IAASB responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
Ms. Koski-Grafer suggested that it would be helpful if the IAASB were to prepare and review a list of all the objectives of the clarified ISAs as part of its	Point accepted. All the objectives of the clarified ISAs were set out in the IAASB's agenda material and reviewed for

² Updated Agenda Item 4-D, which can be accessed on the IAASB's website at <http://www.ifac.org/IAASB/Meetings/Resources/0144/Updated+Agenda>, shows in marked text these minor drafting changes as well as all other conforming amendments made to final standards approved by the PIOB. These Updated Agenda Items will form the basis for the 2009 Handbook. Due to the volume of material (a separate Updated Agenda Item 4-D exists for each of the 36 ISAs and ISQC 1), this material has not been included as CAG Reference Papers.

³ The minutes will be approved at the March 9 – 10, 2009 CAG meeting.

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item D.1

Report Back—Clarity – Clarity Consistency Review (Including Laws and Regulations and Specialist Changes)

consistency review.	consistency. <i>See Section I of Agenda Item 4-A of the December IAASB meeting material.</i>
<p>Mr. Robberecht encouraged the IAASB to ensure as part of its review of the consistency of the ISAs that footnotes within the ISAs do not contain substantive text which otherwise could be included in the body of an ISA.</p> <p>He also noted that the EC does not support reference to ISQC 1 (Redrafted) or the IFAC Code of Ethics for Professional Accountants within the ISAs.</p>	<p>Point taken into account.</p> <p>IAASB Staff reviewed all footnotes and, having discussed those that contain text beyond mere reference to another ISAs with the IAASB Chairman, was satisfied that they do not contain substantive content that would be better included in the body of the relevant ISAs.</p> <p>Point not accepted.</p> <p>Reference to ISQC 1 (Redrafted) and the <i>IFAC Code of Ethics for Professional Accountants</i> form part of the ISAs approved by the IAASB. Removal of such references would be a substantive change beyond the scope of the clarity consistency review.</p> <p>IAASB's decision with respect to linkages to ISQC 1 is set forth in March 2009 IAASB CAG Paper Agenda Item D.2</p>

Material Presented – IAASB CAG REFERENCE PAPERS ONLY

Agenda Items 4 to 4-C of the December 2008
IAASB Meeting – Clarity Consistency Review

<http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0144&ViewCat=1012>

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item D.1

Report Back—Clarity – Clarity Consistency Review (Including Laws and Regulations and Specialist Changes)

Other Clarity Matters (Laws and Regulations and Specialist Changes)

9. Subsequent to the September 2008 CAG meeting two matters of clarity warranting IAASB's attention were identified. These matters, and an indication of how the IAASB responded to them at its December meeting, are described below.

AMENDMENT OF GUIDANCE MATERIAL IN ISA 250 (REDRAFTED)⁴

10. The U.S. Auditing Standards Board (ASB) drew to the attention of the IAASB its concern that there is a possible ambiguity in the requirement in paragraph 13 of ISA 250 (Redrafted). The issue was identified by the ASB as it progresses its own project to clarify its auditing standards.
11. The concern raised relates to the possibility that the requirement might be misinterpreted as requiring the auditor to obtain sufficient appropriate audit evidence regarding compliance with all provisions of a direct-effect law or regulation, even when some of those provisions do not in fact have a direct effect on the determination of material amounts and disclosures in the financial statements. The possibility of such an interpretation arises in jurisdictions where the term 'compliance' carries a particular connotation, especially where audits of compliance with laws and regulations are required and additional requirements in an audit of financial statements related to compliance with laws and regulations exist, such as for audits of private sector entities that receive government assistance and governmental entities. **See Agenda Item 11 of the December IAASB meeting material.**
12. The IAASB agreed that clarification of the guidance in ISA 250 (Redrafted) in support of the requirement in paragraph 13 would be helpful in the circumstances. It confirmed that it was not the intent of the IAASB at the time the ISA was approved to require the auditor to obtain sufficient appropriate audit evidence regarding compliance with all provisions of a direct-effect law or regulation but only with those that did have a direct effect on the determination of material amounts and disclosures in the financial statements. **See Updated Agenda Item 11 for text of the changes agreed by the IAASB.**

AMENDMENT OF GUIDANCE MATERIAL IN ISA 220 (REDRAFTED)⁵ AND ISA 620 (REVISED AND REDRAFTED)⁶

13. The IAASB CAG Chairman drew to the attention of the IAASB his concern that there is a possible ambiguity about whether an external specialist in accounting or auditing, who is engaged by the firm, is a member of the engagement team; and, whether it makes any difference whether that person is consulted or is more involved. The concern arose out of the

⁴ ISA 250 (Redrafted), "Consideration of Laws and Regulations in an Audit of Financial Statements."

⁵ ISA 220 (Redrafted), "Quality Control for an Audit of Financial Statements."

⁶ ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

IAASB CAG PAPER

IAASB CAG Agenda (March 2009)

Agenda Item D.1

Report Back—Clarity – Clarity Consistency Review (Including Laws and Regulations and Specialist Changes)

IAASB CAG Chairman's review for the purpose of confirming to the PIOB that due process, in so far as it concerns the CAG's advice to IAASB, had been followed in the development of these two ISAs. The CAG Chairman has confirmed to the PIOB that the point itself does not affect the correctness of the due process followed by IAASB. ***See Agenda Item 12 of the December IAASB meeting material.***

14. The IAASB agreed that clarification of the guidance in ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted) would be helpful in the circumstances, given the likely increase in the use of accounting or auditing specialist and in particular as regards consulted specialists. The IAASB confirmed that it was not the intent of the IAASB that a person using expertise in a specialized area of accounting or auditing be considered a member of the engagement team if that person's involvement with the engagement is only consultation. ***See Updated Agenda Item 12 for text of the changes agreed by the IAASB.***
15. In agreeing the amendments referred to in paragraphs 12 and 14 above, the IAASB confirmed its view that the amendments do not alter the original intent of the IAASB when it approved the respective ISAs, or change what is required under the ISAs.

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 11 of the December IAASB Meeting – Changes to ISA 250 (Redrafted)	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4422
---	---

Updated Agenda Item 11 – Amendments to ISA 250 as approved by the IAASB in December 2008	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4442
--	---

Agenda Item 12 of the December IAASB Meeting – Changes to ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted)	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4429
---	---

Updated Agenda Item 12 – Amendments to ISA 220 (Redrafted) and ISA 620 (Revised and Redrafted) as approved by the IAASB in December 2008	http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4447
--	---