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**Basis for Conclusions:
ISA 200 (Revised and Redrafted),
Overall Objectives of the
Independent Auditor and the
Conduct of an Audit in
Accordance with International
Standards on Auditing**

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Assurance Standards Board*



**International Federation
of Accountants**

BASIS FOR CONCLUSIONS:

ISA 200 (REVISED AND REDRAFTED), OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH INTERNATIONAL STANDARDS ON AUDITING

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing,” which was approved by the IAASB in June 2008.¹

Background

1. In 2006, the IAASB approved the amended “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” (Preface).² The Preface contains statements about the authority attaching to ISAs, the conventions used by the IAASB in drafting ISAs, and the obligations of auditors who follow those Standards. Because the Preface may not be reproduced or adopted in certain jurisdictions, the IAASB agreed to revise extant ISA 200³ to incorporate provisions of the Preface relevant to ISAs, having regard to the context of an ISA and the clarity drafting conventions adopted by the IAASB. When completed, the Preface would be amended to refer readers to the revised ISA 200 for the authority attaching to ISAs.
2. The IAASB considered it equally important that the revision of extant ISA 200 include further development, as appropriate, of material explaining important concepts related to an audit of financial statements. These include the premise on which an audit is conducted, professional judgment, and the inherent limitations of an audit, an understanding of which is necessary for a proper understanding of the conduct of an audit.
3. In revising extant ISA 200, the IAASB consulted widely on its proposals. Significant proposals were discussed with the IAASB Consultative Advisory Group (CAG) and with national auditing standard setters at various stages of developing the proposed ISA. The IFAC Small and Medium Practices Committee also commented on various drafts of the proposed ISA.
4. In April 2007, the IAASB issued an exposure draft of proposed ISA 200 (Revised and Redrafted)⁴ (ED-ISA 200). The comment period for ED-ISA 200 closed on September 15, 2007. The IAASB received fifty-three comment letters from various respondents, including regulators and oversight authorities, IFAC member bodies, national auditing standard setters, audit firms, preparers and users of financial statements, and professional and public sector organizations. Respondents to ED-ISA 200 generally supported the proposed ISA. A

¹ See minutes of the June 16-20, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4272>.

² The amended Preface is available on the IAASB website at https://web.ifac.org/download/IAASB_Preface.pdf.

³ ISA 200, “Objective and General Principles Governing an Audit of Financial Statements.”

⁴ 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.”

significant majority supported how the provisions of the Preface were incorporated in the ISA, including the improvements made to the auditor's obligation in respect of objectives in individual ISAs, the fuller discussion of concepts related to an audit, and the proposed fundamental requirement (previously included in ISA 500⁵) for the auditor to obtain sufficient appropriate audit evidence.

5. The IAASB revised the proposed ISA as a result of the comments received.⁶ In addition, the IAASB discussed significant issues in the finalization of ISA 200 (Revised and Redrafted) with its CAG, which generally supported the IAASB's proposed treatment of these issues. This Basis for Conclusions explains the more significant issues raised by respondents to ED-ISA 200, and how the IAASB has addressed them.

Structure of the ISA

6. 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 audit and the overall objective of the auditor; paragraphs 7-8 on the responsibility of management for the financial statements; paragraphs 9-13 describing an audit and listing related concepts (which were elaborated upon later in the ISA); and paragraphs 14-15 on auditor independence.
7. A number of aspects of the structure and contents of this section caused concern. Nearly half of all respondents were dissatisfied with paragraphs 4-6 of ED-ISA 200. They noted significant confusion arises from having two objectives stated (i.e., one for the *audit* and another for the *auditor*) and were not convinced of the need for discussion of both in this section of the ISA. The majority of these respondents were of the view that the ISA should focus only on the overall objective of the auditor.
8. Further, most respondents found it unclear how to interpret the various sub-sections (e.g., auditor independence, preparation of the financial statements) in relation to the overall objective. In addition, the general inconsistency in how material was treated created a lack of clarity (e.g., some matters were discussed partially in each of the objective, concepts, requirements and application material sections of the ISA). Respondents also questioned the logic of the introduction and flow of the concepts listed in paragraphs 7-8 and 13-15 of ED-ISA 200 as well as the placement and completeness of the discussion of the audit risk model in paragraph 11.

⁵ ISA 500, "Audit Evidence," paragraph 2.

⁶ Respondents also commented on the material in ED-ISA 200 pertaining to the premise on which an audit is conducted. That material represented conforming amendments to proposed ISA 200 arising from proposed ISA 580 (Revised and Redrafted), "Written Representations" (ED-ISA 580). The comments received paralleled those on ED-ISA 580 and were addressed by the IAASB in finalizing that ISA. The IAASB staff-prepared document, "Basis for Conclusions: ISA 580 (Revised and Redrafted)," available on the IAASB website at http://web.ifac.org/download/Basis_for_Conclusions_-_ISA_580_Revised_and_Redrafted.pdf, summarizes the more significant issues raised by respondents, and how the IAASB addressed them. Accordingly, discussion of the issues raised in connection with the premise on which an audit is conducted is not repeated in this document. ISA 200 (Revised and Redrafted) incorporates the agreed conforming amendments arising from the approval of final ISA 580 (Revised and Redrafted).

IAASB Decision

9. The IAASB concluded these concerns could be resolved, and the overall clarity of the ISA improved, by restructuring the “Introduction” and “Overall Objective of the Independent Auditor” sections of ED-ISA 200. The IAASB made the following principal changes:
 - The “Introduction” section was expanded to include a description of the nature and purpose of an audit of financial statements. The section now includes, among other matters, an overview of the process, and brings together the discussion of a number of related concepts. See paragraphs 3-9 of ISA 200 (Revised and Redrafted).
 - The “Overall Objective of the Independent Auditor” section was simplified to focus solely on the overall objectives of the auditor. See paragraphs 11-12 of ISA 200 (Revised and Redrafted).
 - The various sub-sections in ED-ISA 200, for example those dealing with auditor independence and concepts related to an audit of financial statements, were eliminated, with the related application material built into the discussion of the related requirements or elsewhere in the ISA as appropriate. See paragraphs 4, A14, A16, A18, and A23-A52 of ISA 200 (Revised and Redrafted).
10. The IAASB believes this restructuring has several benefits. Firstly, the overview of the nature and purpose of an audit provides necessary context for the overall objectives of the auditor. It gives greater prominence to matters such as the public interest purpose of an audit, certain essential concepts (e.g., reasonable assurance), and the general audit process, which a number of respondents felt should be included in the introduction of the ISA.
11. Secondly, it avoids presenting two objectives – one for the audit and another for the auditor. This reinforces the notion that an audit is the means by which the auditor achieves his or her overall objectives, and provides greater focus on the overall objectives of the auditor. The restructuring also allows paragraph A1 of ED-ISA 200, which sought to reconcile the two objectives but was found to be confusing by respondents, to be deleted.
12. Finally, it avoids discussion of similar matters in different places, and brings the structure of the ISA in line with that used in other clarified ISAs.

Overall Objectives of the Independent Auditor

13. Paragraph 5 of ED-ISA 200 stated:

In conducting the audit so as to achieve its objective, the overall objective of the independent auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor’s findings.
14. ED-ISA 200 also contained material explaining the consequence of a failure to achieve the overall objective. Paragraph 6 of ED-ISA 200 stated:

The objective of an audit cannot be fulfilled unless the auditor achieves the overall objective of the auditor. In all cases when the overall objective of the

auditor cannot be achieved, the ISAs require that the auditor modifies the auditor's opinion accordingly or withdraws from the engagement.

15. Several respondents questioned whether it is necessary to include both elements of "obtaining reasonable assurance" and "reporting on the financial statements" in the overall objective of the auditor (paragraph 5 of ED-ISA 200). Various drafting suggestions were also made, such as to change the overall objective to focus solely on the expression of an opinion, to incorporate the definition of reasonable assurance, or to make reference to the public interest. In addition, a respondent suggested that the ISA should present separate overall objectives covering audits relating to both fair presentation frameworks and compliance frameworks.
16. A few respondents were of the view that paragraph 6 of ED-ISA 200 is not logical and consistent with the overall objective in paragraph 5, and also questioned whether it is appropriate to suggest that withdrawal from the engagement is possible in all cases.

IAASB Decision

17. The IAASB concluded that both the elements of (a) obtaining reasonable assurance and (b) reporting are needed and should be appropriately identified in the overall objectives of the auditor. Combining them, or excluding one or the other, would not be appropriate; for example, to delete the "reporting" element from the objectives would create a gap with the ISAs dealing with reporting and communication.
18. The IAASB agreed, however, that the overall objective of obtaining reasonable assurance should also be described in relation to its intended outcome, thereby confirming the role of obtaining reasonable assurance as the basis for the auditor's opinion on the financial statements. See paragraph 11(a) of ISA 200 (Revised and Redrafted).
19. The IAASB also agreed that the wording in paragraph 5 of ED-ISA 200 "... to report on the financial statements in accordance with the auditor's findings" may have been too contracted to adequately convey its intent. Accordingly, the IAASB amended it to make clear that it encompasses reporting on the financial statements as well as other communication responsibilities covered by the ISAs. Further, the IAASB has introduced explanation of the general reporting and communication responsibilities of the auditor, in relation to matters arising from the audit, to convey what that element of the overall objectives is meant to cover. See paragraphs 9 and 11(b) of ISA 200 (Revised and Redrafted).
20. The IAASB did not adopt the suggestion to present separate overall objectives covering audits relating to both fair presentation frameworks and compliance frameworks. To do so would complicate significantly the structure to the ISA. Nevertheless, the IAASB accepted the need to clarify the applicability of the ISAs to such frameworks. Further, the IAASB is of the view that further explanation of how the phrase "prepared, in all material respects," in the overall objectives of the auditor relates to the different forms of the auditor's opinion as envisioned in the ISAs (e.g., "presented fairly, in all material respects," or "give a true and fair view") would assist to ensure no misunderstanding about whether an opinion on the *preparation* of the financial statement, in jurisdictions where the applicable financial

reporting framework is a fair presentation framework, includes *presentation* of the financial statements. Accordingly, the IAASB agreed drafting changes to emphasize in the “Introduction” and “Application and Other Explanatory Material” sections of the ISA the applicability of the ISAs to both frameworks. See paragraphs 3, 8 and A12-A13 of ISA 200 (Revised and Redrafted).

21. The IAASB also agreed that greater precision in the wording of paragraph 6 of ED-ISA 200 was needed to avoid any potential misunderstanding about the consequence of a failure to achieve the overall objectives. It also concurred that the paragraph did in fact have some logic issues. The IAASB therefore concluded that the paragraph should focus on those circumstances where reasonable assurance cannot be obtained and a qualified opinion is insufficient to convey the gravity of the circumstances. In such cases a disclaimer or withdrawal is necessary. This addresses better the circumstances where there is a failure to achieve both overall objectives, and is consistent with the requirements of the ISAs. The IAASB also limited the option of withdrawal from an audit engagement to circumstances where withdrawal is legally permitted. See paragraph 12 of ISA 200 (Revised and Redrafted).

The Auditor’s Obligation in Respect of Objectives Stated in ISAs

22. Paragraph 24 of ED-ISA 200 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
- (b) Other audit procedures need to be performed in pursuance of the objectives.

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.

Using Objectives and the Need to Perform Other Procedures

23. A few respondents were of the view that the word connecting paragraphs 24(a) and 24(b) of ED-ISA 200 should be “or,” or that paragraph 24(b) should be deleted. It was argued that there are only a few ISAs that do not relate directly to obtaining audit evidence and it is unlikely that the auditor would determine that complying with requirements in those ISAs can fail to achieve the individual objective therein. Further, it is only when sufficient appropriate audit evidence has not been obtained that other audit procedures need to be performed.

24. In addition, a respondent questioned the timing of when the auditor should use the objectives, and found the proposed requirement unclear in this regard.

IAASB Decision

25. The IAASB did not agree with the view that it would be appropriate to limit the auditor's use of the objectives solely to evaluating whether sufficient appropriate audit evidence has been obtained in the context of the overall objectives of the auditor. Paragraph 24(b) of ED-ISA 200 draws the auditor's consideration to whether more needs to be done in the context of the subject of a particular ISA irrespective of whether that ISA is directly linked to the obtaining of sufficient appropriate audit evidence. This reinforces the strength of the obligation attaching to the objectives which are intended to be effective in all ISAs.
26. Nevertheless, the IAASB concluded that the logical flow of the requirement, and the guidance supporting it, could be enhanced to make clear the intended use of objectives. Accordingly, in addition to refining the wording and cross-referencing of the requirement, the IAASB has reversed the order of paragraphs 24(a) and 24(b) of ED-ISA 200, and has introduced new application material that clarifies that in the circumstances of an engagement, there may be particular matters that require the auditor to perform audit procedures in addition to those required by the ISAs to meet the objectives specified in the ISAs. See paragraphs 21 and A70 of ISA 200 (Revised and Redrafted).
27. The IAASB also concluded that the auditor should use the objectives in planning and performing an audit, and therefore amended paragraph 24 of ED-ISA 200 accordingly. The IAASB believes that the auditor may find the use of objectives helpful in all stages of the audit; it is therefore not appropriate to restrict when the auditor may use the objectives, or to suggest that the auditor need complete the requirements set out in the ISAs before considering whether further procedures need to be performed in pursuance of the objectives, which may have been inferred from the wording in ED-ISA 200. See paragraph 21 of ISA 200 (Revised and Redrafted).

Relationship of Objectives and Requirements

28. Some respondents were concerned about the statement in paragraph 24 of ED-ISA 200 that "The proper application of the requirements of the ISAs will ordinarily provide a sufficient basis for the auditor's achievement of the objectives." They were of the view that if ISAs only include those requirements that are applicable on virtually all audits, they will not include requirements relevant to specific circumstances that do not exist in virtually all audits; it is important that auditors consider such circumstances. Further, it was suggested that the statement could be read as implying that the auditor's responsibility is limited to satisfying the requirements of the ISAs.

IAASB Decision

29. The IAASB agreed, in principle, with these observations. It believes that it is not in the public interest to lead the auditor to believe that mere compliance with the requirements of the ISAs is expected, nor to give the auditor a false sense of security that the ISAs address all the audit procedures necessary in all circumstances.

30. The IAASB deliberated removing the statement from the ISA altogether. However, it found that doing so would result in the loss of important context to the requirement in paragraph 21 of ISA 200 (Revised and Redrafted). The requirements of the ISAs are designed to enable the auditor to achieve the objectives specified in the ISA, and the objectives provide a link between the requirements and the overall objectives of the auditor. The proper application of the requirements of the ISAs by the auditor is therefore expected to provide a sufficient basis for the auditor's achievement of the objectives. Nevertheless, in light of respondents' comments, the IAASB viewed the presentation of the statement as part of paragraph 24 of ED-ISA 200 as too stark.
31. The IAASB concluded that the statement needs to be expressed in the appropriate context so as to adequately convey the intent of the IAASB. Accordingly, the IAASB has redrafted the subparagraph in paragraph 24 of ED-ISA 200, as well as paragraphs 23 and 25 of ED-ISA 200, and repositioned their content to the "Application and Other Explanatory Material" section of the ISA. The result is to ensure that the statement is read in the appropriate context, and to make clear the role of the objectives in relation to the requirements of an ISA. See paragraphs 21, A67 and A70 of ISA 200 (Revised and Redrafted).

Failure to Achieve an Objective and Documentation

32. Paragraph 25 of ED-ISA 200 stated:

If an objective in a relevant ISA cannot be achieved, the auditor shall consider whether this prevents the auditor from achieving the overall objective of the auditor thereby requiring the auditor, in accordance with the ISAs, to modify the auditor's opinion accordingly or withdraw from the engagement. 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."

33. The majority of those respondents who commented on this requirement were content with the draft. However, some respondents did not feel the penultimate sentence to be appropriate. They were of the view that it diminishes the fact that there may be circumstances in a particular engagement where failure to achieve an individual objective does not necessarily result in a failure to achieve the auditor's overall objective, and that it overemphasizes the importance of the individual objectives compared to the achievement of the overall objective.
34. Further, several respondents expressed strong concern about the last sentence in paragraph 25 of ED-ISA 200. While these respondents accepted that matters of such significance that an objective would not be met would generally be documented in the working papers as significant matters, they noted that any particular audit step performed may support the achievement of one or more objectives, and the key decision is whether a significant matter identified during the audit affects the audit opinion – not which objective it relates to. Further, concern was expressed that the requirement, in effect, imposes the structure of the

ISAs on the way in which an audit is to be approached; audit methodologies, however, are generally elaborated on the basis of the requirements of the ISAs and audit files are structured around the subject matter.

35. Further, it was commented that the requirement to document a failure to achieve an objective implies the need to document achievement of the objectives. This implication, were it valid, would drive a checklist approach which could have a negative impact on audit quality, constrain how objectives might be used in audit, and result in too great a focus by the auditor on the achievement of the individual objectives rather than the overall objectives of the auditor while taking account of the ISAs collectively.
36. In contrast, a few respondents were of the view that the ISA should be clear on the point that non-achievement of any objective, while still issuing an unmodified report, would be a very exceptional matter. Accordingly, it was suggested that an explicit statement should be made requiring the documentation of why an objective could not be achieved and, if it were the case, how the auditor was able to determine that the overall objective of the auditor was still met. Further, some strong objections were raised about the material in paragraph A58 of ED-ISA 200 that singled out a few ISAs as containing objectives which, if not achieved, may nevertheless not prevent the auditor from achieving the overall objectives.

IAASB Decision

37. The IAASB believes that a failure to achieve an objective should be ascertainable from the proper use of the objectives as required by the ISA. Accordingly, it is of the view that the wording in paragraph 25 of ED-ISA 200 is broadly appropriate.
38. Nevertheless, the IAASB agreed that the statement that “in most cases, the failure to achieve an objective will prevent the achievement of the overall objective of the auditor” may represent an unwarranted presumption. Accordingly, the IAASB determined that it should be deleted, together with the application material in paragraph A58 of ED-ISA 200. Further, the IAASB has introduced application material to help guide the auditor as to the general circumstances or conditions that may give rise to a failure to achieve an objective. See paragraphs 24 and A75 of ISA 200 (Revised and Redrafted).
39. The IAASB was particularly concerned about the view that the ISA is imposing a requirement to document the achievement of each objective, which was not called for by the requirements of the ISA but which some thought might be inferred. It therefore agreed that some refinement of the related application material is necessary to provide further clarity. Accordingly, ISA 200 (Revised and Redrafted) now explains that audit documentation that meets the requirements of ISA 230 (Redrafted)⁷ and the specific documentation requirements of other relevant ISAs provides evidence of the auditor’s basis for a conclusion about the achievement of the overall objectives of the auditor; that it is unnecessary for the auditor to document separately (as in a checklist, for example) that individual objectives have been achieved; but that documentation of a failure to achieve an individual objective assists the auditor’s evaluation of whether such a failure has prevented

⁷ ISA 230, “Audit Documentation.”

the auditor from achieving the overall objectives. In making this clear the IAASB seeks to avoid imposing unnecessary documentation at a time when there is concern about the burden of documentation, while retaining the need for documentation when it matters. See paragraph A76 of ISA 200 (Revised and Redrafted).

40. The IAASB concluded that ISA 200 (Revised and Redrafted) articulates accurately the expected use of objectives, and gives sufficient emphasis throughout the ISA to the overall objectives of the auditor thereby minimizing the likelihood that they are inadvertently overlooked when the auditor is using individual objectives for the specified purposes.

Inherent Limitations of an Audit

41. ED-ISA 200 reflected IAASB's view that users' understanding of the nature of an audit, and of the auditor's overall objective of obtaining reasonable assurance, would be enhanced through a fuller discussion of the inherent limitations of an audit. Accordingly, paragraphs A28-A40 of ED-ISA 200 addressed the inherent limitations of an audit, in the context of the principal sources that give rise to them.
42. The majority of respondents supported this fuller discussion of the inherent limitations of an audit. Some respondents and some IAASB CAG Representatives, however, found the discussion too extensive and excessively negative, and were of the view that it did not convey a balanced view on limitations versus professional responsibilities. Some respondents also felt that the linkage between the inherent limitations and other concepts such as reasonable assurance and the audit risk model were not sufficiently clear. A few respondents also urged the IAASB to address centrally and comprehensively the inherent limitations, including those specific to other ISAs, in ISA 200 (Revised and Redrafted).

IAASB Decision

43. The IAASB is of the view that ISA 200 (Revised and Redrafted) must achieve an appropriate balance between factual content and length in the discussion of inherent limitations of an audit, and that it should provide clear explanation of the limitations, their sources and consequences, and the responsibilities established by ISAs that counterbalance the limitations. Accordingly, in addition to various drafting changes to make the discussion more concise, the IAASB agreed a number of changes to ED-ISA 200 to better articulate the nature of the inherent limitations of an audit.
44. Firstly, the IAASB concluded that the discussion of the inherent limitations should be presented as part of the application material to the requirement in paragraph 17 of ISA 200 (Revised and Redrafted) addressing audit risk and the sufficiency and appropriateness of audit evidence. In the context of the overall ISA, the result is a more balanced presentation of the responsibilities of the auditor and matters that influence or further define the limit of those responsibilities. This also has the conceptual benefit of further explaining reasonable assurance.
45. Secondly, the IAASB agreed to emphasize the fact that the inherent limitations broadly result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. It is this that principally creates

the inability to obtain absolute assurance; setting this out thereby allows the discussion of the various limitations to explain why this is so.

46. Thirdly, the IAASB expanded the references to other ISAs that discuss inherent limitations related to particular assertions or subject matters covered by those ISAs. This results in a more complete description of the potential effects of the inherent limitations, and clarifies that those ISAs do not introduce new inherent limitations. However, while the IAASB intends to avoid reference to limitations within other ISAs to the extent possible, the IAASB did not agree with the view that it would be appropriate to remove references to the inherent limitations in relevant individual ISAs. There are certain topics to which limitations are especially relevant (for example, fraud and related parties) and, accordingly, it is necessary to provide further explanation of the relevant limitations to place the requirements of those ISAs into context.
47. Finally, as suggested by a few respondents and IAASB CAG Representatives, the IAASB agreed to give greater prominence in the “Introduction” section to how the inherent limitations and reasonable assurance relate, and to where in the ISA the limitations are more fully discussed, in light of their importance to a proper understanding of reasonable assurance.
48. See paragraphs 5 and A45-A52 of ISA 200 (Revised and Redrafted).

Professional Judgment

49. Paragraphs A24-A25 of ED-ISA 200 described the nature and importance of professional judgment in an audit of financial statements. In acknowledging the concern by some about the potential for professional judgment to be used as a justification for decisions for which no other explanation need be given, ED-ISA 200 reflected IAASB’s view that professional judgment should be seen as something that can be challenged; paragraph A25 of ED-ISA 200 therefore stated that the exercise of professional judgment may be regarded as reasonable if other experienced auditors can agree that the exercise of professional judgment in any particular case was reasonable based on the facts and circumstances known at the time the judgment was made.
50. Some respondents expressed concern that the discussion of professional judgment in ED-ISA 200 was not sufficiently robust. They were concerned that it places undue emphasis on professional judgment as a personal quality rather than as a professional responsibility, and that it gives the impression that disparate judgments between auditors are common. In addition, it was commented that the tone and content of the material do not appear to promote sound and consistent professional judgment and could possibly leave room for the exercise of professional judgment to be used as an excuse for deficient auditing.
51. Several respondents also found the statement that “... the exercise of professional judgment may be regarded as reasonable if other experienced auditors can agree that the exercise of professional judgment in any particular case was reasonable ...” problematic. Some felt that it implies that it is sufficient to find any other auditor who agrees with the judgment in order for it to be deemed sound. Others felt that it implies there must be some type of agreement in order for the auditor’s professional judgment to be regarded as reasonable.

IAASB Decision

52. The IAASB is of the view that ISA 200 (Revised and Redrafted) must appropriately stress the importance of sound professional judgment as a professional responsibility that is necessary throughout the planning and performance of an audit. Further, the ISA should leave no doubt that the exercise of professional judgment should not be used as an excuse for deficient auditing (which was precisely what the material in ED-ISA 200 was intended to achieve, though it was apparent that not all respondents felt it had been). Accordingly, the IAASB agreed a number of changes to ED-ISA 200 to better articulate its expectations regarding the exercise of professional judgment in an audit.
53. Firstly, the IAASB concluded that professional judgment should be linked to and emphasized in the requirements of the ISA. Accordingly, paragraph 16 of ISA 200 (Revised and Redrafted) requires that the auditor shall exercise professional judgment in planning and performing an audit.
54. Secondly, the IAASB introduced reference to requirements in other ISAs that emphasize the need to consult on difficult or contentious matters during the course of the audit and for significant professional judgments to be evidenced. This reinforces the auditor's professional responsibility for the exercise of judgment in a sound, consistent and justifiable manner. See paragraphs A25 and A27 of ISA 200 (Revised and Redrafted).
55. Thirdly, the IAASB refined the guidance concerning when the exercise of professional judgment may be regarded as reasonable. It concluded that the evaluation of professional judgment needs to be as objective as possible, and accordingly, paragraph A26 of ISA 200 (Revised and Redrafted) states that professional judgment can be evaluated based on whether the judgment reached reflects a competent application of auditing and accounting principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the auditor up to the date of the auditor's report. In deliberating this matter, the IAASB noted that it is not in the public interest to suggest that the auditor need find only one other auditor who would support the judgment made; on the other hand, it is impracticable to suggest considering a majority view. The IAASB was also of the view that ISA 200 (Revised and Redrafted) should not imply in any sense the use of hindsight to evaluate judgments made, or to suggest the need for more consultation over, and documentation of, judgment applied to routine audit matters.
56. Finally, the IAASB agreed to make clear that professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate audit evidence. See paragraph A27 of ISA 200 (Revised and Redrafted).
57. While the IAASB believes that the changes reflected in ISA 200 (Revised and Redrafted) present an opportunity to limit references to professional judgment in various other places throughout the ISAs (and has done so in ISA 200 (Revised and Redrafted) in some cases), the IAASB did not agree with the view of a respondent that it would be appropriate to remove references to professional judgment from all individual ISAs. There are certain cases where it remains necessary to make reference to professional judgment in order to

emphasize where such judgment is likely to be particularly important to the proper application of a requirement.

Professional Skepticism

58. A few respondents expressed concern about the statement in paragraph A27 of ED-ISA 200 that "... an audit rarely involves the authentication of documents ..." While it was accepted that the auditor is not expected to be a forensic auditor, the IAASB was encouraged to emphasize the need for the auditor always to be on the alert for possible indicators of misstatements or evidence that may not be reliable.

IAASB Decision

59. The IAASB previously discussed this matter both in connection with the development of ED-ISA 200 and in finalizing ISA 240 (Redrafted).⁸ The IAASB concluded that it would be inappropriate to expand the auditor's responsibility to verify the authenticity of documents used as audit evidence unless warranted in the circumstances.
60. Nevertheless, the IAAB agreed that the discussion in ISA 200 (Revised and Redrafted) could further emphasize, but not extend, the responsibilities of the auditor. The IAASB considered that this would most effectively be achieved by, among other changes, providing examples that reference to requirements in other relevant ISAs and that illustrate circumstances where there may be a need for heightened skepticism. See paragraphs A20-A21 of ISA 200 (Revised and Redrafted).

ISAs' Application and Other Explanatory Material

61. Paragraph 21 of ED-ISA 200 included the following requirement:
- The auditor shall consider the entire text of an ISA to understand its objective and to apply its requirements properly.
62. A few respondents found the imperative "shall consider" ambiguous in the context and urged the IAASB to clarify this requirement. In addition, a respondent questioned the adequacy of the explanation in paragraph A49 of ED-ISA 200 regarding the authority of the application and other explanatory material in the ISAs, and the auditor's responsibilities regarding consideration of the procedures described therein.

IAASB Decision

63. The IAASB is of the view that ISA 200 (Revised and Redrafted) must make clear the authority of the application and other explanatory material in the ISAs and dispel any notion that consideration of such material is entirely optional. Accordingly, paragraph 19 of ISA 200 (Revised and Redrafted) now states: "The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly." This emphasizes the original intent of the requirement – that the entire text of an ISA is relevant to the

⁸ ISA 240 (Redrafted), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements."

understanding required – while not suggesting that the auditor needs to read the ISAs in every audit instance, nor prescribing how the understanding of the entire text is to be obtained.

64. The IAASB also concluded that it is important that ISA 200 (Revised and Redrafted) be as clear as possible about the status of application and other explanatory material of the ISAs. Accordingly, the IAASB reflected a number of small changes to the wording in paragraph A59 of ISA 200 (Revised and Redrafted) to explain the fact that the application material may explain more precisely what a requirement means or is intended to cover, and may include examples of procedures that may be appropriate in the circumstances. This is an important clarification in terms of those circumstances where application material elaborates on a requirement but such material is not placed as part of a requirement itself in order to maintain its clarity.
65. The IAASB also noted that paragraph A49 of ED-ISA 200 explained that ISAs may include additional considerations specific to audits of smaller entities and public sector entities within the application and other explanatory material of an ISA. ED-ISA 200 did not, however, make it clear that such additional considerations do not limit or reduce the responsibility of the auditor to apply and comply with the requirements of the ISA. Nor did ED-ISA 200 include a description of the term “smaller entities” which it uses for purposes of specifying additional consideration to audits of smaller entities. Paragraphs A63 and A64-A66 of ISA 200 (Revised and Redrafted) now address these matters.

Definitions

66. Several respondents recommended that the IAASB consider whether the definitions listed in paragraph 16 of ED-ISA 200 are complete. In particular, some respondents suggested that definitions should be provided for the terms “professional judgment” and “professional skepticism,” among others.
67. Some respondents were strongly of the view that the definition of reasonable assurance should include reference to the inherent limitations of an audit to ensure readers better understand the level of assurance envisioned by an audit.

IAASB Decision

68. The IAASB amended the “Definitions” section of the ISA to include the following terms, in light of their importance to a proper understanding of the ISA notwithstanding repetition that arises with some other ISAs:
 - Auditor;
 - Sufficiency (of audit evidence);
 - Appropriateness (of audit evidence);
 - Professional judgment;
 - Professional skepticism;
 - Management; and

- Those charged with governance.

Where appropriate, the IAASB drew the definitions from the extant Glossary of Terms in the *Handbook of International Auditing, Assurance, and Ethics Pronouncements* published by IFAC, related ISAs, or the text of the application material in ED-ISA 200, and amended as necessary to simplify or refine them. See paragraph 13 of ISA 200 (Revised and Redrafted).

69. The IAASB reconfirmed its views that it is not possible to address adequately the issue of the meaning of reasonable assurance through change to its extant definition. Nor does the IAASB believe it appropriate to attempt to do so within the scope of this project, as even minor changes to the definition are likely to raise questions about whether there is an intention to change the nature of reasonable assurance, which there is not. The IAASB believes that to go further in any discussion of reasonable assurance would involve a re-examination of the concept, which would have to be undertaken in consultation with national standard setters, regulators and other stakeholders. This is beyond the scope of the work to clarify ISA 200. The IAASB did not find that respondents' comments raised new arguments sufficient to compel it to reconsider its position on the matter.