



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

9

Committee: IAASB

Meeting Location: Rome

Meeting Date: June 13-17, 2005

Clarity of IAASB Standards

Objectives of Agenda Item

- To consider the comments received on IAASB's Clarity Exposure Draft (ED) and Consultation Paper.
- To consider the Clarity Task Force's proposal and to agree the way forward.

Clarity Task Force Members

John Kellas (Chairman)

Paul Chan (IFAC SMP Task Force)

Denise Esdon

John Fogarty

Jon Grant

Bodo Richardt

Jim Sylph (ex-officio)

Gerard Tremoliere

Activities Since Issue of the Clarity ED and Consultation Paper

Responses to the Clarity ED and Consultation Paper

- A total of 40 comment letters were received on the Clarity ED and Consultation Paper issued in September 2004. A list of respondents is included in the Appendix.
- Input was also received from the IFAC Small and Medium Practices Permanent (SMP) Task Force.

Discussions and Briefings

- In November 2004, the IAASB Consultative Advisory Group (CAG) discussed and provided preliminary views on the key elements of the Clarity ED and Consultation Paper.
- In February 2005, participants at the IAASB-national auditing standard setters (NSS) meeting were provided with a broad indication of the comments received. Views of the NSS were explored further for purposes of obtaining additional input to the Task Force.
- In March 2005, the Chairman on the Task Force briefed representatives of the European Commission and members of the IOSCO Auditing Subcommittee on the general nature of comments received and on the preliminary proposed direction of the Task Force, for purpose of obtaining additional input to the Task Force.

- In March 2005, the Task Force briefed the IAASB in March on the general nature of comment received and on the preliminary proposed direction of the Task Force in moving the project forward.
- The enclosed agenda material is scheduled for discussion at the June CAG meeting. The Task Force will brief the IAASB on the outcome of those discussions.

Clarity Task Force

- The Clarity Task Force has met four times during February through May.
- In March, Mr Richardt joined the Task Force. In May, Mr Chan joined the Task Force as a representative from the IFAC SMP Task Force.

Matters for Consideration

SEEKING A SOLUTION TO THE ISSUES

A wide range of views were expressed by respondents on the proposals contained in the Clarity ED and matters addressed in the Consultation Paper. While many respondents expressed their satisfaction with the current standards, the responses nevertheless indicate a clear need to progress the project, and to achieve improvement in the clarity of the standards, on a timely basis. It was also clear that the approach to improving clarity may need to include not only elements of the proposals in the Clarity ED, but also matters raised in the Consultation Paper.

The Task Force has formulated a proposal designed, as a whole, to improve the standards by making them clearer, in a way that meets the balance of respondents' views, assists adoption of IAASB's standards and facilitates international convergence.

The Task Force recognizes that various views will be held by members of the IAASB, as by respondents. It will be critical in moving the project forward, however, for the IAASB to acknowledge the divergent needs of different stakeholders and that compromise may be needed if agreement is to be reached.

Accordingly, the IAASB is asked to consider the issues in light of the need to achieve a solution that does not result in a weakening of the existing standards, but that does assist the widest range of stakeholders and users of the standards.

The Task Force recommends that the elements of the proposal contained in Agenda Item 9-A be considered together as a package. The Task Force will therefore be seeking support for the proposal as a whole. In the absence of such support, the IAASB will be asked for their position on which element(s) raises concern significant enough for the proposal to be rejected. The objective of this will be to determine, if necessary, whether agreement can be reached on an acceptable subset of the elements of the proposal, and to provide the Task Force with a clear indication of the direction that it should take.

If agreement cannot be reached (or the IAASB is not satisfied that the proposals will achieve the objectives of the project), then it is recommended that the IAASB continue with the

present style of ISAs and eliminate the present tense and improve drafting on a prospective basis. The Task Force does not consider that another alternative would be worth pursuing.

MAIN AGENDA PAPERS FOR DISCUSSION

Agenda Item 9-A (Issues Paper and Proposal) and Items 9-B and 9-C (redrafted ISAs) serve as the primary basis for discussion in June.

Given the importance of the effect of the proposal on the way in which ISAs may be drafted (or redrafted) in the future, it is anticipated that a good portion of the allotted discussion time will focus on the illustration of the Task Force's proposal through the redrafted ISAs, and in particular the new "should" requirements that have been introduced. Further, it is important that a full discussion of these redrafted ISAs be held if the Task Force is to meet its proposed implementation timetable¹ (outlined in Agenda Item 9-A).

The IAASB should also note that redrafted ISA 240 (Agenda Item 9-C) demonstrates the effect of redrafting if maximum opportunity is taken to reduce or eliminate the repetition existing amongst the ISAs, using the relationship between that ISA and the requirements and guidance contained in other ISAs (i.e., ISA 200, 315, 330, 500, etc.). It does not represent a recommendation by the Task Force as to the final redrafting approach to be taken for the ISA, but rather demonstrates what may be possible in redrafting. A more limited approach to redrafted ISA 240 could have been taken.

SUPPORTING PAPERS

There is a series of supporting papers (Agenda Items 9-B.1 and B.2, and 9-C.1 and C.2) that demonstrates in detail how the material in the current ISAs has been reflected in the redrafted documents. They are provided for reference purposes to assist IAASB's understanding of the nature of the changes that have been made.

For reference, Agenda Item 9-D presents a collation of the general comments made by respondents on the ED and Consultation Paper. Agenda Item 9-D.1 and D.2 collate the comments to the questions posed in the ED and Consultation Paper, respectively.

WAY FORWARD

The Task Force recognizes that it is critical for IAASB to know whether there is broad acceptance of the proposal before embarking on such a major initiative. Accordingly, a meeting of interested parties, including national standards setters, regulators, firms and others, together with representatives of the IAASB, has been scheduled in Brussels on July 11th. The purpose of this meeting is to provide an opportunity for those attending to appreciate the views of others and, with an understanding of the divergent needs of different

¹ If there is support for the proposal, it is envisioned that redrafted ISAs 315 and 240, among others, would be submitted for approval as an exposure draft at the September 2005 IAASB meeting. The IAASB is asked to bear this in mind when reviewing Agenda Items 9-B and 9-C. Members are encouraged to provide staff with any detailed editorial comments outside of the meeting discussions in June.

stakeholders, to advise whether the proposed approach is appropriate and of sufficient benefit to be taken forward.

The input received from this forum, along with the decision of the IAASB in June, will serve as the basis for moving forward on this project.

Material Presented

Agenda Item 9-A (Pages 1021 – 1052)	Issues Paper and Proposal
Agenda Item 9-B (Pages 1053 – 1088)	Redrafted ISA 315 (Clean)
Agenda Item 9-B.1 (Pages 1089 – 1144)	Supporting Paper – Analysis of ISA 315 and Mapping Document
Agenda Item 9-B.2 (Pages 1145 – 1152)	Supporting Paper - Redrafted ISA 315 (Referenced to extant ISA 315)
Agenda Item 9-C (Pages 1153 – 1184)	Redrafted ISA 240 (Clean)
Agenda Item 9-C.1 (Pages 1185 – 1240)	Supporting Paper – Analysis of ISA 240 and Mapping Document
Agenda Item 9-C.2 (Pages 1241 – 1248)	Supporting Paper - Redrafted ISA 240 (Referenced to extant ISA 240)
Agenda Item 9-D (Pages 1249 – 1286)	Item 9-D - Respondents' Comments – General Statements on ED and Consultation Paper
Agenda Item 9-D.1 (Pages 1287 – 1360)	Item 9-D.1 – Respondents' Comments on ED By Question
Agenda Item 9-D.2 (Pages 1361 – 1442)	Item 9-D.2 – Respondents' Comments on Consultation Paper By Question

(A file containing all of the comment letters can be found on the IAASB website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0033> - Download the file “All Respondents.”)

Action Requested

The IAASB is asked to consider the accompanying agenda material and to advise on the way forward.

Appendix

List of Respondents

Clarity Exposure Draft and Consultation Paper

Comments Received From:	Category:
1. American Institute of Certified Public Accountants (AICPA)	MB
2. Association of Chartered Certified Accountants (ACCA)	MB
3. Auditing Practices Board (APB UK)	Other
4. Australasian Council of Auditors-General (ACAG)	Other
5. Australian Auditing and Assurance Standards Board (AUASB)	Other
6. Basel Committee	Regulator
7. Canadian Institute of Chartered Accountants Auditing & Assurance Standards Board (CICA AASB)	MB
8. Certified General Accountants Association of Canada (CGA)	MB
9. The Chartered Institute of Public Finance and Accountancy (CIPFA)	MB
10. Committee of European Banking Supervisors (CEBS)	Regulator
11. Conseil National de la Compagnie nationale des commissaires aux comptes (CNCC) & Conseil Supérieur de l'Ordre des experts-comptables (CSOEC)	MBs
12. CPA Australia	MB
13. Deloitte & Touche LLP (DT)	Firm
14. Der Norske Revisorforening (DNR)	MB
15. European Commission (EC)	Regulator
16. Ernst & Young (EY)	Firm
17. Foreningen Auktoriserade Revisorer (FAR)	MB
18. Fédération des Experts Comptables Européens (FEE)	Other
19. Grant Thornton (GT)	Firm
20. Haut Conseil du Commissariat aux Comptes (H3C)	Regulator
21. IBR-IRE Belgium (IBR-IRE)	MB
22. Institut der Wirtschaftsprüfer (IDW)	MB
23. Institute of Certified Public Accountants of Kenya (ICPAK)	MB
24. Institute of Chartered Accountants in England & Wales (ICAEW)	MB
25. Institute of Chartered Accountants in Ireland (ICAI)	MB
26. Institute of Chartered Accountants of New Zealand (ICANZ)	MB

27. Institute of Chartered Accountants of Pakistan (ICAP)	MB
28. Institute of Chartered Accountants of Scotland (ICAS)	MB
29. International Organisation of Securities Commissions (IOSCO)	Regulator
30. Japanese Institute of Certified Public Accountants (JICPA)	MB
31. KPMG	Firm
32. London Society of Chartered Accountants Technical Committee (LSCA)	Other
33. Mahadevan, Ramachandran (Professional Accountant in Public Practice)	Other
34. Malaysian Institute of Certified Public Accountants (MIA) ²	MB
35. National Association of State Boards of Accountancy (NASBA)	MB
36. PricewaterhouseCoopers (PWC)	Firm
37. Public Accountants' and Auditors' Board (PAAB)	Other
38. Public Company Accounting Oversight Board (PCAOB)	Regulator
39. Regal, Richard (RNR)	Other
40. Royal NIVRA (NIVRA)	MB

² Response received April 2005.