

Discussion Paper**Outcome of, and Matters Arising from, the Clarity Forum**

1. Participants in the IAASB Clarity Forum (the “Forum”) held on July 11, 2005 were provided with a copy of the material presented at the June IAASB meeting, along with a report on the main decisions of the IAASB. Participants were asked for their views on the Clarity proposal, including whether the proposed approach is appropriate and of sufficient benefit to be taken forward.
2. An oral report on the discussions held at the Forum will be made at the September IAASB meeting. Participants were broadly supportive of the direction that was proposed by the IAASB. The five elements of the proposal, taken as a whole, were accepted by a significant majority of participants as a reasonable solution to the varying needs that exist internationally. The debate therefore centered on refinement of the proposal.
3. Arising from the Forum, however, a number of matters require discussion and agreement by the IAASB. These are:
 - I. **Objectives:** status; form and level of detail
 - II. **Requirements:** criteria; language; departure conditions
 - III. **Timetable:** addressing older ISAs; accelerating the timetable
 - IV. **Consultation:** form of next consultation
4. These matters are discussed below, with Task Force recommendations thereon identified in text boxes. Additional matters arising from Task Force discussions are highlighted at the end of this paper.

I. Objectives**STATUS**

5. Forum participants generally welcomed the proposed introduction of objectives within ISAs, and in particular the focus on outputs rather than inputs. There was positive support for, and general acceptance of, the idea that, as set out in paragraph 38 of Agenda Paper 9-A of the June IAASB meeting:

“...The auditor [has] an obligation to meet the stated objective(s) by not only complying with the requirements of the ISA, but by performing procedures that, in the auditor’s judgment and based on the ISAs, are deemed appropriate in the particular circumstances. This has the effect of emphasizing that while ISAs are designed to cover substantially all relevant circumstances (that is, an auditor should generally be able to accept that the objective(s) of an ISA has been achieved when the auditor has complied with all of the relevant requirements), they are not necessarily complete as it is not practical for ISAs to specify requirements that address all possible circumstances. There may be circumstances, however, where the intention of the IAASB is that certain required procedures are the full extent of what is required to be done by the auditor; in such cases the objective would make that clear.”

6. It was noted that there would be concern in some jurisdictions if an acceptable audit were portrayed merely as compliance with the requirements of the ISAs rather than fulfilling the auditor's legal responsibility to form an opinion on the fair presentation of the financial statements.

The Task Force recommends that the following obligation attach to the objectives specified in an ISA:

“The auditor has an obligation to meet the stated objectives by complying with the requirements of the ISA, and by performing procedures that, in the auditor's judgment and based on the ISAs, are deemed appropriate in the particular circumstances. Where applicable, however, the stated objectives in a particular ISA will make it clear that any specified procedures represent the full extent of what the auditor is required to do.”

FORM AND LEVEL OF DETAIL

7. Similar to the views expressed by the IAASB in June, Forum participants supported the idea that the objectives should be established at a reasonably high level (i.e., at the overall level for each ISA) and that they should be placed within the ISA. Participants noted that it will be important that the objectives are complete and sufficiently specific in order to be effective, and that there should be a clear linkage between the objectives and the requirements of an ISA. The Task Force supports this view.
8. There was also some support for the suggestion that in some cases it may be appropriate to identify objectives at a lower level within an ISA (for example, for major groups of requirements within ISAs as appropriate), or in relation to specific procedures whose objectives are not self-evident.
9. The Task Force reconsidered, however, whether there is in fact a need to (or any advantage in) identifying objectives at a lower-level within an ISA (“sub-objectives”). In reviewing possible sub-objectives in the preliminary redrafted ISAs, it observed the following:
 - Sub-objectives were largely repetitive of the objectives stated at the overall level of an ISA. Paraphrasing the overall objectives created the potential for inconsistency.
 - Relevant and important sub-objectives could be presented easily, and perhaps more effectively, as part of the overall objectives.
 - The potential for confusion between sub-objectives and the overall objectives exists unless the sub-objectives are relabeled in some manner and their status clarified. Doing so, however, would create a degree of unnecessary complexity.

The Task Force recommends that the objectives to be achieved by the auditor be stated at the overall level for each ISA in a sufficiently specific manner as to be effective and capable of being linked to the requirements. Lower-level objectives should not generally need to be specified (but see also paragraphs 26-29 below for discussion on identifying objectives for requirements).

Q1. Does the IAASB agree with the proposed obligation attaching to objectives?

Q2. Using the redrafted ISAs presented in the agenda material as reference, does the IAASB agree with the proposed form and detail of objectives?

II. Requirements

10. Forum participants generally agreed with using a single level of requirement for ISAs (as opposed to two levels of requirements, such as mandatory and presumptively mandatory requirements). There was concern however over:

- The extent of requirements, and in particular those present tenses that would become requirements and how that determination is to be made.
- The language to be used, specifically whether requirements should be expressed as ‘shall’ or ‘should’.
- The conditions for departure.
- The possibility that there would appear to be no absolutely mandatory requirements, notwithstanding that most participants agreed that there were some things that would need to be done on all audits.

EXTENT OF REQUIREMENTS

11. The paper discussed at the June IAASB meeting and at the Forum contained the following relevant suggestion:

“The Task Force’s approach to ensure that redrafting is conducted in a consistent way that avoids missing valid requirements and an undue inflation of requirements, has been as follows:

- *Ascertain whether the statement is clearly intended to be explanatory in nature.*
- *If the statement is not clearly intended to be explanatory (or there is uncertainty), determine whether establishing the action as a requirement is warranted. (Is the procedure or action important in the context of the stated objective(s) of the ISA such that its establishment as a requirement would enhance the ability of the auditor to meet the objective(s)? Is the procedure or action expected to be relevant and applicable to all audits irrespective of the jurisdiction¹ or governance structure (unless otherwise specified)?)*
- *Consider whether, on balance, the resulting requirements are appropriate having regard to the importance of the objective. The purpose of this last step – effectively a ‘stand-back’ test – is to consider and reflect upon the extent to which the resulting number of requirements may inadvertently interfere with the proper application of professional judgment and thereby, the quality of an audit. (This might be described as a test of ‘proportionality’.)*

¹ Some Forum participants disliked ‘irrespective of jurisdiction’ as part of a criterion.

This process – which may be refined as further experience is gained – links the decision-process to the stated objectives of the ISA and incorporates an assessment of the benefits and disadvantages that an increase in the extent and specificity of the requirements within ISAs may have.”

12. The view at the Forum was generally as follows:
- Requirements should be set by IAASB on a case-by-case basis; and
 - General criteria for identifying requirements could probably not be specified that would work in all circumstances.
13. Despite that view, some suggestions for criteria were made, including the following:
- Requirements should be imposed only where they are the ‘most effective’ ways of dealing with the objectives.
 - Requirements should be applicable in ‘most’ or ‘virtually all’ cases.
 - A requirement should be specified only where it would be obvious to the auditor if it had not been followed.
 - A requirement should ‘further fulfill’ an objective.

There were, however, very strongly held polarized positions: one participant suggested that the general presumption should be that a present tense should not be turned into a requirement; another participant was of the view that quite the opposite presumption should prevail. Further, some feared that the absence of guidelines might lead to arbitrary and inconsistent decisions by the Board of the day. The concerns are likely to be related to requirements that are stated in terms of procedures, rather than those that reflect an objective and are stated in terms of principle.

14. The above suggests that it is important for the IAASB to set out its general philosophy and approach to the determination of requirements to allow stakeholders to understand and comment thereon. Absent this, the IAASB will receive irreconcilable comments on the redrafted ISA exposure drafts.

The Task Force recommends that ‘guidelines’ or ‘rules of thumb’ for use when considering the determination of requirements be identified for purposes of the consultation about the first set of Exposure Drafts (EDs). (Note that although this is being considered in the context of ‘elevating’ present tenses in existing ISAs, the principles should equally apply to new ISAs.) Such ‘guidelines’ might be along the following lines:

“The IAASB considers it appropriate to specify a requirement in the following cases:

- the requirement reflects an objective to be achieved but does not specify how to achieve it², and that objective is important in the context of the subject matter of the ISA; or

² For example, ‘The auditor should obtain an understanding of internal control relevant to the audit.’

- the requirement, if a procedure, is expected to be applicable and practical in virtually all audits to which the objective is relevant;
- the requirement, if a procedure, is important in fulfilling the objective; and
- the objective is unlikely to have been met by other requirements.

In determining the requirements of an ISA, the IAASB considers whether the overall number of requirements is proportionate to the importance of the subject matter of the ISA.”

Q3. Does the IAASB consider that some such indications should be given in the consultation about the first set of EDs? If so, does the IAASB agree with the ‘guidelines’ suggested above?

LANGUAGE

15. There was a certain amount of support at the Forum for the continuation of the use of the word ‘should’, and its meaning being preserved. On the other hand, to those for whom the word seemed to matter (principally the representatives from the European Commission (EC), and some who had to translate the standards) there was a marked preference for ‘shall’.
16. There are two issues relating to the decision to use ‘shall’ for requirements:
 - (i) Is there sufficient benefit to be achieved in changing from ‘should’ to ‘shall’; and
 - (ii) Should a single term be used for all ISAs?
17. On the first issue, the word ‘shall’ is more compatible with legislative practices. While ISAs are not drafted specifically for that purpose, changing to ‘shall’ may assist those jurisdictions that plan to adopt, or establish legal backing to, ISAs through legislation. There is also support by some in that ‘shall’ more clearly expresses an obligation and therefore would be more in line with the high degree of obligation inherent in a requirement. Further, it would align terminology with that used in International Financial Reporting Standards.

The Task Force recommends that the IAASB adopt the use of the word ‘shall’ to indicate a requirement in the redrafted ISAs, and in future new or revised ISAs.

18. On the second issue, there may be an advantage to using different terms to distinguish further those ISAs that had been redrafted from the older ones (that is, to use ‘shall’ for redrafted and future ISAs and retain ‘should’ for existing ISAs).
19. However, it might be argued that to use different terms in the redrafted and existing ISAs during the transition period would be confusing.
20. There is merit in having one single term (‘shall’) for both redrafted and existing ISAs. With the exception of the labels “basic principles and essential procedures” for existing ISAs and “requirements” for redrafted ISAs, the same obligation (in terms of compliance, basis for departure and documentation of departure) is being proposed for the obligations of both the new and older ISAs. There is therefore little basis for creating a difference in language.

The Task Force recommends that the word ‘shall’ replace the word ‘should’ in existing ISAs as a conforming change when the set of redrafted ISAs comes into effect.

DEPARTURE CONDITIONS

21. The current proposed formulation, as agreed at the last IAASB meeting, is:
- “In exceptional circumstances, an auditor may judge it necessary to depart from a requirement of an ISA to achieve the objective(s) of the requirement.”*
22. The above formulation is consistent with principles-based standards that are not overburdened with requirements: if the ISAs contained extensive detailed procedural requirements, the auditor may find it necessary to depart in more circumstances than simply those that are exceptional. It is clear that, if this is the correct test for departure, the IAASB intends that its requirements are, in effect, essentially mandatory in all circumstances while accepting that all circumstances cannot be foreseen and that the auditor, exercising professional judgment, must be given the final say in what is done.

Removal of the condition ‘more effectively’

23. One Forum participant objected to the removal of the ‘more effectively’³ element of the conditions for departure (which was agreed at the last IAASB meeting). It was argued that it meant that an auditor who had a better way of meeting an objective, where a requirement had been specified, was precluded from taking that better way.
24. The Task Force is of the view that the removal of the ‘more effectively’ element is correct and appropriate, for the following reasons:
- Retaining the ‘more effectively’ element in combination with ‘necessary to depart’ creates an obligation, possibly extensive, to depart from requirements whenever there is a more effective alternative available. It is doubtful whether the IAASB/IAPC ever meant this, or that it was ever interpreted in that way.
 - It is, of course, always possible for an auditor to do something additional, on effectiveness or other grounds. The auditor is not precluded from adopting a more effective solution.
25. It will be argued, however, that the ISAs stand in the way of best practice, since it will be inefficient for the auditor to do both the required procedures as well as the more effective alternative procedure. Two solutions would therefore appear to be available to the IAASB:
- (i) allow departure whenever the auditor thinks it necessary or better to do so; or
 - (ii) ensure that all requirements are likely to be essential in the vast majority (virtually all) cases. (As discussed in the section ‘extent of requirements’ above)

The latter would appear to be the solution most consistent with principles-based standards.

³ The original proposal stated “...an auditor may judge it necessary to depart from a requirement of an ISA to achieve more effectively the objective(s) of the requirement.”

The Task Force recommends that the proposed condition for departure be adopted, and that the IAASB uphold its decision to remove the ‘more effectively’ element.

The need to specify the objective of the requirement

26. The current proposed formulation for departures also raises the issue of the need to specify the objective of the requirement.
27. The need to specify the objective of the requirement, for purposes of the proposed departure condition, depends on two factors: (i) the likelihood that there will be a need to depart; and (ii) whether the objective is self-evident. In this regard, based on the review of the redrafted ISAs, the Task Force came to the following general view:
 - A number of the requirements of the ISAs do in fact reflect objectives and are stated in terms of principle rather than procedure.
 - Where the requirement reflects an objective:
 - there were no obvious circumstance where there would appear to be a need to depart; and
 - the objective of the requirement was readily apparent.
 - Where the requirement was stated in terms of procedure:
 - in exceptional circumstances, a need to depart may arise (although no specific cases were identified); and
 - the objective of the requirement, in most cases, was self-evident. Where it was not self-evident, however, it seemed possible to effect clarity through redrafting the requirement, leaving the need to specify the objective separately only where that is not practicable.
28. The above suggests that the need to specify the objective of a requirement exists in only those limited circumstances where the objective is not self-evident. It also suggests that there may be an expectation in terms of when departures are likely to occur, and that it may be relevant to clarify further the phrase ‘in exceptional circumstance’ used in the proposed departure condition.
29. The Task Force considered also whether there is the potential for the auditor to misinterpret the proposed departure condition, which deals with the achievement of the objective of a requirement, with the obligation to achieve the overall objective, which is stated at a much broader level. An auditor using the latter may adopt an alternative procedure that failed to meet the specific objective of the omitted requirement. The Task Force concluded that additional clarification is needed to reduce this possible misinterpretation.

The Task Force recommends the following:

- The objective of a requirement not be specified unless the requirement is a procedure and the objective thereof is not self-evident (and cannot be made evident through redrafting), and that this be made clear in the proposed description of the nature of the requirements of ISAs. The difference between the purpose and nature of the ‘overall objectives’ stated in an ISA and those of the ‘objectives of a requirement’ should also be made clear.

- The IAASB’s intention, with respect to when a departure from a requirement is necessary, should be amplified.

Proposed wording for the above is as follows (additional language from the originally proposed departure condition is underlined):

“The requirements of an ISA are designed to assist the auditor in meeting the objective(s) specified in that ISA. An individual requirement, however, is normally intended to achieve a more limited purpose, which is referred to below as ‘the objective(s) of the requirement’. In most cases, the objective(s) of a requirement is clear, within the context of the objective(s) specified in an ISA. Where that is not the case, a further description of the purpose of the individual requirement is given.

The requirements of ISAs are designed to be applied in all cases when they are relevant to the circumstances of the audit. Requirements are relevant when the circumstances envisaged in the specified requirement exist. In exceptional circumstances, however, the auditor may judge it necessary to depart from a requirement of an ISA to achieve the objective(s) of the requirement. Such exceptional circumstances, if any, are expected to exist only with respect to requirements to perform a specific procedure. When such a situation arises, the auditor shall document...”

Other matters – Documentation of the reason(s) for departure

30. Forum participant broadly agreed that the auditor should explain why it was judged necessary to depart from a requirement, and that such explanation should form part of the related documentation requirement. The Task Force accepts this view and proposes to include this obligation as part of the documentation requirements when there is a departure.

Q4. Is the IAASB satisfied with the proposed departures test, and its implications?

MANDATORY OBLIGATIONS

31. The final concern that was voiced at the Forum was that the ISAs would, under a single level of obligation, contain no truly mandatory instructions, despite the fact that most participants in the Forum accepted that there were some things that an auditor simply must do in all audits (such as plan the audit).
32. The Task Force is of the view that the combination of:
- the use of objectives;
 - the high level of obligation in a requirement as evidenced by the departure conditions; and
 - the general nature of the requirement in reflecting objectives rather than procedures
- ensure that certain requirements simply could not be replaced by the auditor with alternatives.

Given the high degree of support for the single level of obligation, the Task Force recommends that only one level of obligation be established and that no change be made to reflect the concern that there is no explicit provision to allow for the IAASB to declare an obligation as strictly mandatory. The IAASB's position, however, should be explained in the explanatory memorandum accompanying the consultation about the first set of EDs.

Q5. Does the IAASB agree with this approach?

III. Timetable

33. The work effort of the clarity project comprises three elements:

- (i) clarifying recently issued ISAs;
- (ii) completing and clarifying ISAs that are presently under exposure; and
- (iii) revising and clarifying 'older' ISAs.

The preliminary work plan envisions the finalization of the ISAs under the first two elements (17 ISAs in total) throughout the period ending September 2007, with the revision of the remaining 'older' ISAs to be completed towards the end of 2011. An updated preliminary work plan is contained in the Appendix.

34. Forum participants expressed some concern about the proposed timetable. This concern was principally in relation to the delay to 2011 to implement important improvements, which is largely attributable to the revision of the older ISAs. Participants urged the IAASB to consider the following two matters:

- Is the approach to the older ISAs the most appropriate?
- Can the IAASB change its working methods to make the revision process more efficient?

OLDER ISAS

35. The Task Force reconsidered the options available in terms of accelerating the revision of older ISAs for purposes of achieving a 'big-bang' revision of the entire body of ISAs. The Task Force concluded that the original plan – to exclude from the redrafting exercise older ISAs – is the most appropriate and practicable approach.

36. The options considered, and related consequences of concern, are as follows

- *Redraft but not revise the older ISAs* – Doing so may create the impression that the older ISAs have been updated, which would not be the case. Further, 'codifying' older ISAs that would benefit from updating is counter-intuitive.
- *Expedite the revisions process* – It is unlikely that the ordinary revision period of 18-24 months can be accelerated significantly while following due process.
- *Bring the revision of the older ISA earlier onto the IAASB agenda* – Introducing 10-15 new projects into the current IAASB agenda (while not delaying the redrafting of recently issued ISAs) would require additional Board capacity of approximately 200-300

hours over the two year development process (excluding task force time). This would be in addition to full Board capacity planned for 2005-2007. This does not appear feasible.

- *Make greater use of non-Board resources to revise the older ISAs and seek to issue a complete set of redrafted and revised standards at once* – Even if practicable, the issue of 25-30 EDs at one time would create a standards overload for both those organization that wish to respond to the EDs as well as practitioners required to implement the ISAs. This approach would also inconsistent with the responses to the Clarity ED and Consultation Paper that called for improvements to the ‘core’ ISAs on a timely basis.
37. Rather than taking on a full revisions project for all the older ISAs, the Task Force considered the option of a more targeted approach in terms of identifying and assessing which of the extant older ISAs would most benefit from revision. Priority attention could therefore be given to the latter ISAs. This could be done as an internal exercise by the IAASB, or by means of seeking out by initial consultation which of the older ISAs fall into this category and revise only those shown to be in need of significant revision. The Task Force concluded that the latter would be unsatisfactory and would eventually lead to the ‘clarification’ of older ISAs without any other revision to them (which would be open to the first objection in paragraph 36).

Subject to discussion at the IAASB, the Task Force considers that the original implementation plan, calling for the immediate redrafting of recently issued ISAs and EDs followed in the future by the revision of the older ISAs, be pursued.

To address the older ISAs, it is recommended that the IAASB establish a task force to consider, and recommend to the IAASB, the likely revisions required to older ISAs and the priority of such revision. This work could be undertaken on an expedited basis, possibly drawing on the findings of the (former) IAPC Revisions Task Force, for purposes of reporting to the IAASB by the end of 2005. The task force could also be asked to consider whether any of the extant ISAs are capable of being withdrawn or replaced by an IAPS, or combined with other ISAs.

- Q6. **Does the IAASB agree with the proposed implementation approach?**
- Q7. **Are there any other suggestions for facilitating completion of the clarity project, as applied to the older ISAs?**

WORKING METHODS

38. Recognizing that Board meeting time and due process may well be the major limiting factors to the implementation timetable, several Forum participants urged the IAASB to consider any possible steps to expedite the process – for example:
- Taking on temporary members for IAASB.
 - Using staff seconded from firms or from other standard setters.
 - Agreeing with the PIOB a modified due process.
39. Before considering whether any of these approaches should be considered (and assuming that shortcuts in due process are unlikely to be acceptable to either the Public Interest Oversight

Board or IAASB's stakeholders), it needs first to be considered how might it be possible to improve efficiency at IAASB level, including different approaches to working methods.

40. It should be noted at the outset, however, that the potential for delay can be mitigated by the use of existing task forces to address the redrafting of ISAs currently under exposure. This has the effect of avoiding the bottle neck of using only the Clarity Task Force to implement. Other recently completed ISAs scheduled for revision (ISA 700 and ISA 220 (Quality Control)) could be handled by a new task force, drawing as far as possible from those involved in the original projects.⁴
41. In terms of more effective use of Board time, the Task Force noted the following possibilities:
- Establish shadow task forces (using IAASB resources or resources from national standard setters), whose role might be limited to reviewing the documents prior to Board discussion.
 - For those ISAs that are under exposure presently, request the respective task forces to identify the proposed treatment of any existing present tense statements as part of the 'close off' process for the ED, thereby expediting the subsequent redrafting process.

The Task Force did not conclude on which of the above possible changes, individually or in combination, should be adopted. It recommends that the views of the IAASB be sought for purposes of further consideration by the Steering Committee.

Q8. Which, if any, of the suggestions above does the IAASB believe should be implemented?

Q9. Are there any other suggestions for streamlining the process of redrafting the ISAs?

EXPOSURE PERIOD

42. A major factor in terms of the implementation timetable is the length of the exposure period. Under the proposed revised IAASB due process, the exposure period has been set as ordinarily being 120 days. It states, however, that a shorter or longer exposure period may be set when considered appropriate, with a shorter exposure period set, for example, where in the public interest there is a need to conclude on a matter more quickly, the exposure draft is relatively simple or short, or where the IAASB decides to re-expose all or only part of a draft pronouncement.

The Task Force recommends a 120 day exposure period for the consultation about the first set of EDs. This is considered appropriate given the number of redrafted ISAs to be issued for comment and in order to allow respondents adequate time to consider the principles involved and their application to the first set of ISAs.

The Task Force recommends a 90 day exposure period for future redrafted ISA, including those that have already been exposed (e.g., materiality, estimates, communications). This is considered appropriate in order to expedite the overall timetable, and reflects the fact that:

⁴ To assist the other IAASB task forces, staff intend to circulate redrafting guidelines for their reference.

- Those ISAs have all been recently revised or are currently under revision and have been exposed for comment on substantive issues arising from their revision.
- Consultation will be directed towards only those changes arising from the clarity project (i.e., objective, elevation of the present tense, and drafting matters).

Q10. Does the IAASB agree that a 90 day exposure period would be appropriate for the exposure of the redrafted ISAs, other than for those included as part of the first set of EDs?

IV. Consultation

43. There seemed to be a concern amongst some Forum participants that there would be no further chance to comment on the proposals. While the solution was developed with the benefit of the consultation document, it was always intended that the exposure of the first batch of redrafted ISAs would also constitute exposure of the principles of the solution itself as illustrated by the first five.

The Task Force recommends that following material be issued on exposure in October:

- **Explanatory memorandum** - An abbreviated and revised version of the central section of issues paper and proposal of the Clarity Task Force (re: Agenda Item 9-A of the June IAASB meeting), and an explanation of the approach to those ISAs that are currently EDs.
- **Request for comment** - Drawing attention to any specific issues on which views are needed, and explaining that the IAASB does not undertake to consider comments on the redrafted ISAs other than those pertaining to the proposed redrafting, restructuring changes and elevation (or not) of statements in the present tense.
- **The redrafted ISAs and related mapping documents.**
- **Anticipated timetable.**

44. Although the anticipated timetable is subject to many variables, it will be important to communicate the intended work plan and timetable for revisions. In addition, it may be important to indicate the earliest period when the redrafted ISAs might come into effect, and that comment be sought on the difficulties, if any, that such a date may pose.
45. If the preliminary timetable set out in the Appendix is met, and completed ISAs are issued once finalized, it is feasible that one effective date be applied to the complete batch of redrafted ISAs. The earliest possible effective date would appear to be periods beginning on or after December 15, 2007. This effective date should provide a reasonable period for translation and implementation, taking account of the fact that those redrafted ISA scheduled for completion in June-September 2007 are principally reporting standards. However, it may present a challenge in those cases where legislative adoption and more extensive translation programs are in effect, which, when taken in combination, may take up to nine months, or longer following IAASB's release of the redrafted ISAs.

Q11. Are there any other consultation issues to be considered as part of the key elements of the Clarity project?

Other Matters for Consideration – Redrafted ISAs

PLACEMENT OF SME CONSIDERATIONS

46. The Task Force consulted the IFAC SMP Permanent Task Force (SMPPTF) on which of the following options it considers to be more useful and effective for presenting guidance on SMEs in ISAs:
- At the end of the Application Material as a separate section (per redrafted ISA 315); or
 - At relevant points, suitably headed, within the Application Material (per redrafted ISA 240).
47. The SMPPTF indicated a *slight* preference for seeing this guidance included at relevant points, suitably headed, within the Application Material (per redrafted ISA 240) for the following reasons:
- Placing guidance at the relevant juncture within the ISA will ensure the guidance is read within context thereby improving understandability.
 - If all SME guidance were to be in a separate section at the end then the practitioner will still have to refer back to the relevant parts of the ISA. This ‘to-ing’ and ‘fro-ing’ will prove inconvenient and, moreover, reading the guidance out of context runs the risk of the practitioner misinterpreting the guidance.
 - The use of a separate section may cause SMP practitioners to read only those select portions of the ISA that are referred to rather than the entire ISA. Inclusion throughout the ISA at relevant points will force practitioners to consider the whole standard.
48. The redrafted ISAs have therefore positioned SME considerations at relevant points within the Application Material. However, given the limited IAASB discussions on drafting in June (and the fact that some members indicated a preference for the alternative style), redrafted ISA 315 has not been changed in this regard for purposes of comparison and debate.

Q12. Which presentation style for application guidance pertaining to SMEs does the IAASB believe to be most effective?

INCLUSION OF APPENDIX MATERIAL IN APPLICATION GUIDANCE

49. Material in the appendices to extant ISA 315 and 300 has been moved into the body of the application guidance of the respective redrafted ISAs. This was done largely to achieve the elimination of some duplication and to take advantage of the flexibility introduced by restructuring to pull together relevant guidance at the appropriate points in the ISA (The appendices of ISA 240 were treated differently based on the nature and extent of the guidance therein).
50. There has been indication, however, of some concerns over incorporating the material now in appendices into the application guidance. The concerns are mainly two fold:
- It results in a level of detail that may not be appropriate (that is, would it better belong in non-authoritative guidance or training material). How IAASB deals with this issue may result in setting a precedent for the nature and extent of guidance that goes into the application guidance.

- Incorporating appendices into the application guidance may be perceived as elevating the authority of the appendices (notwithstanding the fact that appendices are considered by the IAASB to be a part of the authoritative ISA).
51. The Task Force believes that the incorporation of the material in the appendices of ISA 315 and 300 into the body of the application guidance is appropriate. Appendices are an integral part of the ISAs, as agreed previously by the IAASB, and the reserving of appendices for ‘material of a different authority’ will only perpetuate the question of ‘what *is* the authority of the appendices?’ The key question, therefore, is whether there is any material (whether presented in an appendix or moved to the body of the application material) that is in fact education or training in nature and as such, should therefore be removed entirely from the ISA?
- Q13. Does the IAASB agree with the proposed treatment of the material for the existing appendices?**

Appendix

Preliminary Clarity Timetable

I. Issue of New ‘Redrafted’ ISAs

ISA	Tentative Timetable for Issue of Final Redrafted ISA
Understanding the Entity and Its Environment (ISA 315)	May 2006
Auditor’s Response to Assessed Risks (ISA 330)	May 2006
Auditor’s Responsibility To Consider Fraud (ISA 240)	May 2006
Audit Evidence (ISA 500)	May 2006
Audit Planning (ISA 300)	May 2006
Related Parties (ISA 550) (if ED issued in Dec. 05 following the new style) ⁵	September 2006
Independent Auditor’s Report (ISA 700)	June 2007
Quality Control for Audits of Historical Financial Information (ISA 220)	September 2007
Documentation (ISA 230)	September 2007
Objective and General Principles (ISA 200)	December 2007

II. Issue of Revised and Redrafted ISAs Currently Under Exposure

Current Exposure Drafts	Current Timetable Plan for Issue of Final Revised ISA	Revised Timetable Plan for Issue of Final Revised and Redrafted ISA
Estimates (ISA 540)	March 2006	March 2007
Materiality (ISA 320)	March 2006	March 2007
Communication (ISA 260)	March 2006	March 2007
Group Audits (ISA 600)	March 2006	March 2007
Modified Reports (ISA 705)	March 2006	June 2007
Special Purpose Reports (ISA 701/800)	June 2006	June 2007

III. Issue of Revised and Redrafted ISAs Currently Under Development

Current Projects	Current Timetable Plan for Issue of Exposure Draft	Revised Timetable Plan for Issue of Exposure Draft (reflecting Clarity drafting conventions)
Representations (ISA 580)	December 2005	July 2006
Using the Work on an Expert (ISA 620)	March 2006	September 2006

⁵ The timetable for the project on ISA 550 will be discussed separately at the September IAASB meeting.

IV. Revision and Redrafting of Balance of ISAs (as considered necessary)

ISA	Estimated Time Period
<ul style="list-style-type: none"> • Audit Considerations Relating to Entities Using Service Organizations (ISA 402) • External Confirmations (ISA 505) • Auditing Fair Value Measurements and Disclosures (ISA 545)⁶ • Going Concern (ISA 570) • Subsequent Events (ISA 560) • Consideration of Laws and Regulations (ISA 250) • Analytical Procedures (ISA 520) • Audit Sampling (ISA 530) • Audit Evidence—Specific Items (ISA 501) • Initial Engagements—Opening Balances (ISA 510) • Considering the Work of Internal Auditing (ISA 610) • Comparatives (ISA 710) • Other Information in Documents Containing Audited Financial Statements (ISA 720) • Terms of Audit Engagements (ISA 210) 	2008-2011

⁶ Consideration should be given to whether the redrafted ISA 540 (following the clarity proposal) should subsume some or all aspects of ISA 545, as part of the effort to reduce duplicate guidance.