



**International Federation of Accountants**

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**Agenda Item  
4**

**Committee:** IAASB  
**Meeting Location:** Brussels  
**Meeting Date:** December 8-11, 2008

**Review of Clarified ISAs for Consistency**

**Objectives of Agenda Item**

1. To agree proposed changes to the approved clarified ISAs arising from the Clarity Task Force's review for consistency and other matters of clarity.
2. To approve the withdrawal of International Auditing Practice Statement (IAPS) 1005<sup>1</sup> and IAPS 1014<sup>2</sup> when the clarified ISAs come into effect.

**I. ISA Consistency Review**

BACKGROUND

3. Individual clarified ISAs have been released as they were approved. In doing so, the IAASB made clear that further conforming changes to the released ISAs may be necessary as other ISAs are redrafted. Any such changes were not expected to change the substance of the ISAs already approved, though they may have a small effect on their content. The IAASB agreed that a review of the clarified ISAs should be undertaken towards the end of the Clarity project to ensure that the various conforming amendments, agreed during a particular project or otherwise required for consistency in the ISAs, have been considered.
4. To date, the IAASB has finalized 33 clarified ISAs. All agreed conforming amendments arising from the finalization of individual ISAs have now been processed.<sup>3</sup> Proposed final ISA 210 (Redrafted),<sup>4</sup> ISA 265<sup>5</sup> and ISA 402 (Revised and Redrafted),<sup>6</sup> and related

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<sup>1</sup> IAPS 1005, "The Special Considerations in the Audit of Small Entities."

<sup>2</sup> IAPS 1014, "Reporting by Auditors on Compliance with International Financial Reporting Standards."

<sup>3</sup> Part II of the 2008 IFAC *Handbook of International Standards on Auditing, Assurance, and Ethics Pronouncements* includes final ISAs released up to December 31, 2007. All conforming amendments up to that date were processed in those ISAs. Agreed conforming amendments arising from ISAs finalized to date in 2008 have now been processed. They are identified separately in the ISAs in Agenda Item 4-D.

<sup>4</sup> Proposed ISA 210 (Redrafted), "Agreeing the Terms of Audit Engagements."

<sup>5</sup> Proposed ISA 265, "Communicating Deficiencies in Internal Control."

<sup>6</sup> Proposed ISA 402 (Revised and Redrafted), "Audit Considerations Relating to an Entity Using a Third-Party Service Organization."

conforming amendments, if any, are addressed in the IAASB's December agenda materials on those projects.

#### SCOPE OF THE REVIEW

5. Broadly, the review consists of the following considerations:
  - (i) **General drafting consistency**
  - (ii) **Matters other than those related to general drafting consistency**
  - (iii) **Definitions and the Glossary of Terms**

#### *General Drafting Consistency*

6. This aspect of the review addresses matters such as consistency of:
  - Objectives
  - Content in ISAs' Scope paragraphs
  - Structure (e.g., ISAs' Introduction sections, Definition sections, etc.)
  - Specific words and phrases throughout the ISAs (e.g., reference to management's responsibilities, consistency in wording of documentation requirements, reference to 'prohibited' versus 'permitted', etc.)
  - References between standards, etc.
7. The following outlines the process followed in conducting the review:
  - IAASB Staff review of internal notes, taken over the course of the Clarity project, on points of consistency noted by IAASB and IAASB CAG participants, respondents to exposure drafts, and staff of national standards setters supporting the IAASB's Clarity project.
  - Sectional analysis<sup>7</sup> of all 33 ISAs to identify any further inconsistencies across the ISAs.
  - Detailed review of proposed changes by IAASB Staff responsible for individual ISAs.
  - Processing of proposed changes in the ISAs and review of the full proposed amended text of the ISAs for consistency and any further consequential changes.
  - Review by the Clarity Task Force.

In all cases, the context of the extant wording in the approved ISAs was considered and, as appropriate, strict consistency of drafting was secondary to the need to ensure that no unintended change in meaning arose.

8. In the Task Force's view, none of the proposed changes alters the substance of any requirement or the application of any ISA, and all are derived from some perceived

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<sup>7</sup> This entailed listing separately particular aspects of the ISAs (for example, ISAs' objectives, ISAs' documentation requirements, etc.) so that they could be reviewed for consistency.

inconsistency in the use of language or style of drafting as a result of refinements over the course of the Clarity project. Further, only those changes that are necessary for purposes of consistency, having regard to context, have been considered. Accordingly, the proposal in this Agenda Item could be described as editorial conforming changes.

9. The findings from this aspect of the review is summarized in Agenda Item 4-A.

*Matters Other Than Those Related to General Drafting Consistency*

10. The Task Force has identified certain other matters relevant to the finalization of the clarified ISAs. These include:

- Treatment of guidance explaining the application of ISAs to circumstances other than an audit of financial statements (for example, guidance pertaining to use of ISAs in engagements involving the offering of securities to the public); and
- Correction of errors and other amendments.

11. The Task Force's proposals are outlined in Agenda Item 4-B.

*Definitions and Glossary of Terms*

12. This aspect of the review addresses the question of whether the definitions in ISAs in relation to the extant Glossary are complete, and the proposed direction to be taken by Staff in updating of the Glossary of Terms in the IFAC Handbook. See Agenda Item 4-C.

ADMINISTRATIVE MATTERS

13. Certain administrative matters relating to the final set of clarified ISAs remain to be completed. These include updating ISAs' paragraph references, verifying all cross-references (including consideration of whether all footnote references are valid), processing conforming amendments arising from the ISAs to be finalized in December, etc. Changes to the ISAs arising from any such required editorial and formatting considerations will be made available on the IAASB website to assist those that have been tracking changes made to finalized ISAs.
14. The Task Force has recommended to Staff that the 2009 Handbooks (Part I – extant ISAs, and Part II – clarified ISAs) should make clear that the clarified ISAs that come into effect for audits of financial statements for periods beginning on or after December 15, 2009 supersede their respective extant counterparts. This could be communicated (for example, in tabular form) in the introduction to the 2009 Handbooks as well as on the IAASB website. Further, the Task Force has recommended that Staff explore a protocol for recording changes to the ISAs over time, including how amendments to the requirements of individual ISAs that come into effect at a specific date are to be identified. Staff has agreed to give these matters appropriate consideration.

MATERIAL PRESENTED (AGENDA ITEMS 4-A TO 4-C WILL BE USED FOR PURPOSES OF DISCUSSION AT THE MEETING

Agenda Item 4-A (Pages 2743 to 2822)	Issues Paper – General Drafting Consistency (Including extracts of the ISAs showing proposed changes in marked text)
Agenda Item 4-B (Pages 2823 to 2826)	Issues Paper – Matters Other Than Those Related to General Drafting Consistency (Including extracts of the ISAs showing proposed changes in marked text)
Agenda Item 4-C (Pages 2827 to 2846)	Issues Paper – Definitions and Glossary
Agenda Item 4-D (Pages 2847 to XXXX)	33 Clarified ISAs and ISQC 1 (Marked Showing Changes) (for information only)

15. The Task Force recommends that the IAASB focus on the principles behind the proposed drafting changes, and on whether any of them inadvertently changes the tone or substance of an approved ISA (in which case the proposal will be withdrawn). The principles are outlined on pages 1-10 of Agenda Item 4-A, in Agenda Item 4-B, and on page 1 of Agenda Item 4-C. The length of the material presented is because of appendices that include extracts from the ISAs showing changed material. Agenda Item 4-D (marked ISAs) is for information purposes only.

**ACTION REQUESTED**

The Task Force does not believe that any form of consultation is required in respect of any of the matters addressed, and considers that the IAASB may agree the changes after discussion at the meeting. The Task Force confirms that, if all proposed changes were withdrawn, the ISAs as approved can stand without any concern that they would be flawed as a result.

The IAASB is asked to agree the proposed changes to the approved clarified ISAs.

**II. Withdrawal of IAPS 1005 and IAPS 1014**

16. In redrafting the ISAs, the relevant IAASB task forces and the IFAC Small and Medium Practices (SMP) Committee gave consideration to relevant material in IAPS 1005. The purpose of doing so was to embed relevant considerations specific to audits of smaller entities within the clarified ISAs, thereby allowing the IAPS to be withdrawn when the clarified ISAs come into effect.
17. IAPS 1005 includes an appendix containing material that has not been carried forward to the ISAs. That appendix provides commentary on the application of ISAs in audits of smaller entities when the auditor is legally and professionally permitted to prepare accounting records and financial statements of the entity. The Task Force does not believe it would be appropriate to retain that material within the IAPS series as it comments on

matters addressed by the IFAC Code of Ethics. Accordingly, it is recommended that IAPS 1005 be withdrawn in its entirety.<sup>8</sup>

18. In addition, the IAASB has incorporated relevant guidance in IAPS 1014 in ISA 700 (Redrafted)<sup>9</sup> with the view to withdrawing that IAPS.
19. It is proposed that the IAASB, having been satisfied that relevant provisions of IAPS 1005 and IAPS 1014 have been considered and incorporated in the clarified ISAs, approve at this meeting the future withdrawal of these IAPSs when the clarified ISAs come into effect.

ACTION REQUESTED

The IAASB is asked to approve the withdrawal of IAPS 1005 and IAPS 1014.

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<sup>8</sup> Nevertheless, the material may be useful to some in some other form. Staff is in progress of discussing this with Staff of the IESBA and the SMP Committee, including whether the material is relevant to the future update of the SMP Committee's *ISA Guide*.

<sup>9</sup> ISA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements."

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