

International Federation of Accountants

Genesis of the IAASB Clarity Project

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FEE European Auditing Standard
Setters Meeting

Brussels

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Agenda

- A Brief Review of Challenges and Successes
- The Clarity ISAs: Major Changes
- Resources, Support and Monitoring

IAASB Mandate

- Serve the public interest
 - Set high quality auditing, review, other assurance, quality control, and related services standards
 - Facilitate international convergence

Thereby enhance the quality and consistency of practice and strengthen public confidence

IAASB Mandate

- Understood in the context of ISAs as meaning the issue of high quality standards that are
 - Understandable ☹️
 - Clear and capable of consistent application ☹️
 - Applicable to all practices for all engagements regardless of size ☹️
 - Recognized by regulators around the world and accepted by the profession ☹️
- **The Clarity Project: An intervention, of sorts...**

Understandability

“Current ISAs are intended to include basic principles and essential procedures. While they are excellent in specifying essential procedures, it is not clear how basic principles are dealt with”

“It is clear from experience that the longer the standards, the more detailed the explanatory material, the greater the risk that auditors (i) do not read them; (ii) do not understand them; and (iii) do not apply them”

“It is difficult to understand the ISAs since the logic of their structure is not always clear.”



Clear and Capable of Consistent Application

“Readers of auditing standards must be able to ascertain clearly what is mandatory and what is not. ISAs do not always make this evident. The IAASB needs to ensure that there is no ambiguity regarding the considerations that are required in a high-quality audit”

“There is anecdotal evidence that some constituents interpret the bold paragraphs as having more authority than the paragraphs in plain type”

The IAASB ‘test’



Applicable to Practice/Entities of All Sizes

“The ISAs are progressively becoming more difficult to apply to SME audits. The ISAs are not being written with the simplest audit in mind (a “think-small-first” approach) which is important to global application”

“It is unclear why SME audit considerations are subrogated to an IAPS. Such considerations need to be addressed at relevant points within the standards for context”

Acceptance

“Many languages are not capable of using words such as “shall” and “should” and the present tense to indicate different levels of obligations”

“International standard setters appear to have little or no sympathy for the fact that some countries need to incorporate their adopted international standards in national law or regulation”

“There is a need to strike a balance between improving the standards and providing countries with the time they need to adopt and implement the standards”



Balancing competing demands

- Over time, practitioners and regulators have called for more specificity to the procedures expected and more guidance as to how they might be carried out, to increase the quality and consistency of performance
 - An appropriate reflection of today's environment, where additional guidance is a useful and essential characteristic of high quality standards
- How best to manage this trend to avoid difficulties with long and complex standards, especially amongst SMPs and auditors of SMEs, and to continue to promote the exercise of professional judgment

Goals of Clarity Project

- Enhancing the clarity of ISAs by
 - Basing standards on objectives
 - Clarifying auditor's obligations
 - Improving readability and understandability
- Elements of project influenced by SME & SMP needs

The Clarity ISAs: Major Changes

Some Highlights

- Objectives and obligation for their use
 - Strengthen the ‘thinking audit,’ provide “beacons” to help understanding of what needs to be accomplished
- Restructuring
 - To improve readability, logical flow and concerns over length
 - Helps grasp entirety of requirements, and relates the standards to how they might actually be used in practice, especially by SMPs
 - Accommodates different national adoption strategies



Some Highlights

- Redrafting
 - Wording simplified, and refined to make more applicable to SMEs, where possible
 - Conditional requirements clarified, especially those not always applicable to SMEs
 - Considerations specific to SMEs highlighted, and additional guidance added as appropriate
- Requirements
 - One convention only, present tense eliminated
 - Expectations of compliance with and documentation of relevant requirements clarified



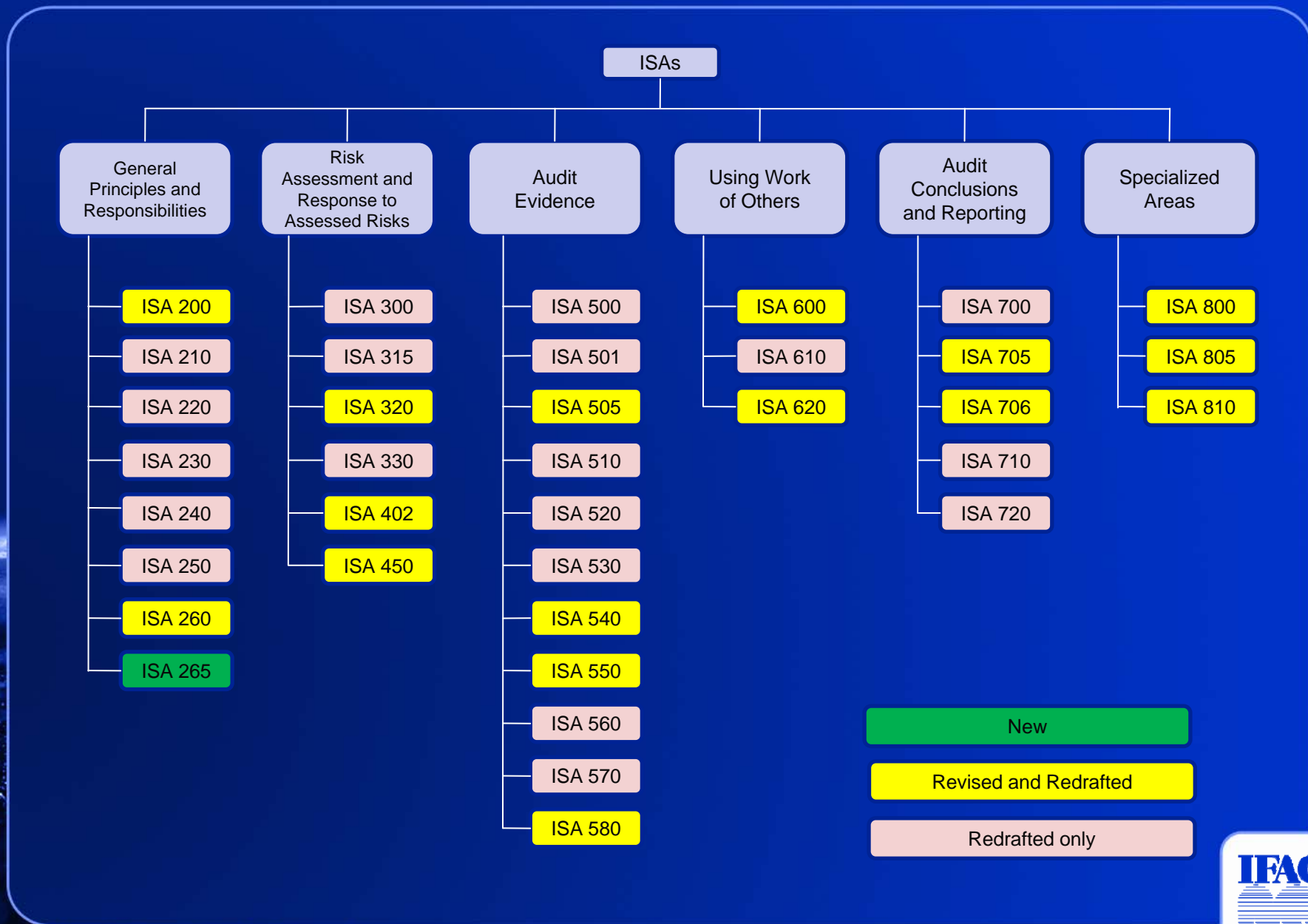
Considerations in Audits of SMEs

- Differences between SMEs and larger entities recognized by ISAs
 - Audit approach may vary with circumstances (simpler/more complex)
- Requirements do not usually specify audit procedures
 - Professional judgment needed to determine procedures
- Application of ISAs designed to be proportionate
 - Proportionate to size, level of complexity, nature of entity and its activities, etc.
 - Proportionality \neq modification of requirements

Output of the Clarity Project

- 36 Clarified ISAs and ISQC 1
 - 16 revised and redrafted ISAs; 1 new ISA
 - Remaining ISAs and ISQC 1 redrafted
- Revisions include new requirements and guidance that aim to improve practice in a variety of respects
- Redrafts include requirements drawn from existing ‘grey text’
- Effective date: 2010 year end audits
- Moratorium: no new ISAs effective before 2011





Objectives and overarching responsibilities

Risk assessment and evidence gathering in riskier areas

Quality of audit evidence, and basis for reliance on others

Auditor communications

ISA 200 – Overall Objectives and Conduct of ISA Audit

ISA 402 – Service Organizations

ISA 580 – Written Representations

ISA 260 – Communication with TCWG

ISA 320 - Materiality

ISA 505 – External Confirmations

ISA 600 – Group Audits

ISA 265 – Communicating Deficiencies in I/C

ISA 450 – Evaluation of Misstatements

ISA 540 – Estimates and Fair Values

ISA 620 – Using Work of Experts

ISA 705 - Modifications

ISA 550 – Related Parties

ISA 706 – EOM/Other Matter Paragraphs

Developments

- Globally, 126 jurisdictions now use or rely on ISAs (from 70 in 2002)
- Support/endorsement from IOSCO, Basel Committee, World Bank, INTOSAI, and Forum of Firms
- Positive feedback on EC Consultation on ISA Adoption
- 23/25 of the world's largest capital markets accept ISAs
- Endorsement of IAASB process by World Federation of Exchanges
- Top 22 global networks' methodologies aligned with ISAs



Implementation

- Effective implementation key to realizing full benefits of clarified ISAs
- Impacts on
 - National standards/legislation and guidance
 - Audit methodologies, programs and manuals
 - Training programs
 - Monitoring and enforcement

IAASB Clarity Center

- <http://web.ifac.org/clarity-center/index>
- Background and information on Clarity Project
- Individual ISAs and Basis of Conclusions
- Staff Updates, Alerts, FAQs, Q&A, etc
 - Including Staff Q&A on applying ISAs proportionately with size and complexity of an entity
- Information on translation and permissions
- ISA Modules



ISA Modules

- Contents of each module
 - Main thrusts of ISA and significant changes expected in practice
 - Video, slides, supplemental notes, transcripts on request
- Seven modules released to date
 - ✓ Introduction to the Clarity Project
 - ✓ The Clarified ISAs, Audit Documentation, and the SME Audit
 - ✓ Communication with Those Charged with Governance
 - ✓ Accounting Estimates/FV
 - ✓ Related Parties
 - ✓ Group Audits
 - ✓ Communicating Deficiencies in Internal Control



Related Initiatives

- Outreach
- Dialogue with regulators
- IFAC translation support
- IFAC SMPC ISA and QC Guides, articles, etc.
- National implementation guidance
- Staff exploring an initiative to facilitate dissemination among NSS
- Clarity ISA implementation monitoring
- Phase 1 (2009-2011): obtain information about early adopters' experiences



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