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IAASB Makes Further Progress on Clarity Standards; Issues Proposals to Enhance Written Representations

(New York/December 22, 2006) -- At its most recent meeting in London in December, the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), approved new proposals to enhance the written representations that auditors request from management, those charged with governance and others, as well as five new exposure drafts written in accordance with its new clarity drafting conventions.

Written Representations

The proposals, which are incorporated in proposed International Standard on Auditing (ISA) 580 (Revised and Redrafted), *Written Representations*, provide for general written representations regarding the financial statements, including internal control, and the completeness of information made available to the auditor, and for written representations about specific assertions in the financial statements.

"The aim of this project was to improve the quality and appropriateness of written representations sought by the auditor and, in particular, to deal with concerns about whether auditors may over-rely on representations at the expense of other evidence," explains John Kellas, IAASB Chairman.

New Clarity Exposure Drafts

As part of its comprehensive program to enhance the clarity of international standards, the IAASB has also issued the following

exposure drafts of proposed ISAs:

- ISA 230 (Redrafted), *Audit Documentation*;
- ISA 540 (Revised and Redrafted), *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*;
- ISA 560 (Redrafted), *Subsequent Events*;
- ISA 610 (Redrafted), *The Auditor's Consideration of the Internal Audit Function*; and
- ISA 720 (Redrafted), *Reading Other Information in Documents Containing Audited Financial Statements*.

Proposed ISA 540 (Revised and Redrafted) is a combination of ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures (Other Than Those Involving Fair Value Measurements and Disclosures)* and ISA 545, *Auditing Fair Value Measurements and Disclosures*. The IAASB approved ISA 540 (Revised) in September 2006 as a basis for applying the clarity drafting conventions. As part of the redrafting of ISA 540 (Revised), the IAASB decided that the similarities between estimates and fair value information could be emphasized, and redundancy eliminated, by combining ISA 540 (Revised) and ISA 545 within the proposed revised and redrafted ISA 540.

"The proposed ISA 540 (Revised and Redrafted) will reinforce best practice and cause the auditor to give appropriate attention to areas of accounting judgment, such as assumptions, and to possible bias. The other proposed redrafted standards contain clear requirements and easy to understand application guidance," notes Mr. Kellas.

The exposure drafts form part of the IAASB's ambitious 18-month program to redraft existing standards and to develop new and revised standards following the new drafting conventions, which were developed after extensive consultation with interested parties, such as the IAASB's Consultative Advisory Group and national auditing standard setters, and public consultation. Key elements of the new drafting conventions include: basing each standard on the objective of the auditor with respect to the subject matter of the standard; separating the requirements that the auditor is required to follow from guidance on their application; eliminating the present tense to describe actions by the auditor, which raised ambiguity about whether such actions were required; and other structural and drafting improvements to enhance the overall readability and understandability of the standards. Standards redrafted in this way are described as "redrafted." If further revision has been undertaken, a standard is described as "revised and redrafted."

How to Comment

Comments on the exposure drafts of proposed redrafted ISAs 230, 560, 610 and 720 are requested by March 31, 2007. Comments on the exposure drafts of proposed ISAs 540 (Revised and Redrafted) and 580 (Revised and Redrafted) are requested by April 30, 2007. The exposure drafts may be viewed by going to <http://www.ifac.org/EDs>. Comments may be submitted by email to EDComments@ifac.org. They can also be faxed to the attention of the Executive Director, Professional Standards at +1 (212) 286-9570 or mailed to IFAC, 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. All comments will be considered a matter of public record and will ultimately be posted of IFAC's website.

About the IAASB and IFAC

The objective of the IAASB, an independent standard-setting board within IFAC, is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The Public Interest Oversight Board oversees the activities of the IAASB and, as one element of that oversight, establishes the criteria for its due process and working procedures.

IFAC is the worldwide organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 155 members and associates in 118 countries, representing more than 2.5 million accountants in public practice, education, government service, industry and commerce. In addition to setting international auditing and assurance standards through the IAASB, IFAC, through its independent standard-setting boards, sets international ethics, education, and public sector accounting standards. It also issues guidance to encourage high quality performance by professional accountants in business.

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