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## IAASB Issues Clarified Standards on Audit Documentation, Communication, and Auditor's Responsibility in Relation to Other Information

(New York/December 20, 2007) - The International Auditing and Assurance Standards Board (IAASB), an independent standard-setting board under the auspices of the International Federation of Accountants (IFAC), has reached another milestone in its Clarity Project. Following the consideration and approval of due process by the Public Interest Oversight Board (PIOB), the IAASB issued three final standards that reflect its new clarity drafting conventions:

- I International Standard on Auditing (ISA) 230 (Redrafted), *Audit Documentation*;
- I ISA 260 (Revised and Redrafted), *Communication with Those Charged with Governance*; and
- I ISA 720 (Redrafted), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*.

The standards form part of the IAASB's ambitious 18-month program to redraft existing standards and to develop new and revised standards following the clarity drafting conventions.<sup>1</sup>

"The complete set of clarified ISAs, including some newly revised standards also under development, will be effective for audits of financial statements for periods beginning on or after December 15, 2009. We are releasing standards as they are approved in order to provide standard setters, regulators and auditors with sufficient time to plan for the adoption and implementation of the standards," explains John Kellas, IAASB Chairman.

### Audit Documentation

ISA 230 (Redrafted) incorporates several

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enhancements and additional guidance to clarify the auditor's documentation obligations. In particular, it explains in clearer terms what is expected of the auditor in fulfilling the requirement to document compliance with ISAs, and provides clarifying guidance regarding the circumstances in which it is appropriate for the auditor to prepare audit documentation relating to the use of professional judgment. The flow of the requirements in the redrafted ISA, particularly in relation to changes to audit documentation after the date of the auditor's report, has also been simplified and clarified.

#### **Communication with Those Charged with Governance**

ISA 260 (Revised and Redrafted) has been fully revised. It sets out an overarching framework for communication with those charged with governance; it also identifies specific matters to be communicated by the auditor, including a requirement to communicate in writing about auditor independence. It acknowledges that law or regulation or an agreement with the entity, for example, may require that other matters be communicated. The ISA contains new requirements and guidance dealing with the communication process, including a specific requirement for the auditor to evaluate the adequacy of the two-way communication between the auditor and those charged with governance.

"The quality of the relationship between auditors and directors, audit committees and others charged with governance is one of the most important factors in achieving an effective audit. That is why the IAASB has emphasized the importance of two-way communication. A constructive and open working relationship between the auditor and those charged with governance not only assists the auditor in obtaining relevant information, but also assists those charged with governance in fulfilling their responsibility to oversee the financial reporting process," notes Mr. Kellas.

#### **The Auditor's Responsibility in Relation to Other Information**

ISA 720 (Redrafted) deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the corresponding auditor's report. It requires the auditor to read this other information and to respond appropriately when such information could undermine the credibility of the financial statements.

The clarified ISAs can be downloaded free-of-charge from the IFAC online bookstore at <http://www.ifac.org/store>.

#### **About the IAASB and IFAC**

The objective of the IAASB 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 its due process and working procedures.

Founded in 1977, IFAC is the global 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 158 members and associates in 123 countries and jurisdictions, 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.

Further information about IAASB may be obtained from its website:

<http://www.iaasb.org>. The PIOB website address is <http://www.ipiob.org>.

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<sup>1</sup> Key elements of the clarity drafting conventions include: establishing an objective for the auditor with respect to the subject matter of each standard; clearly distinguishing requirements from guidance on their application; avoiding ambiguity through eliminating the present tense to describe actions by the auditor and using more imperative language where a requirement was intended; and other structural and drafting improvements to enhance the overall readability and understandability of the standards.

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