

Convergence with the International Standards of the IAASB

Position Paper and Work Plan



Celebrating the 60th Year of Excellence

October 2008
Auditing and Assurance Standards Board



**The Institute of
Chartered Accountants of India**

Convergence with the International Standards of the IAASB

Position Paper and Work Plan



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Chartered Accountants of India**

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Foreword



Free access to international capital markets has been one of the major outcomes of this globalisation, the fruits of which have been enjoyed by the entire globe including our own country. The players in these capital markets need crucial financial information on which to base their economic decisions. Reliability of the information has also a critical role to play in the decision making in the capital markets. It is therefore necessary that the processes through which the truth and fairness of financial information is tested are also universally applied and similarly understood so as to enhance the acceptability of that financial information. The economic developments over the last few years have made it amply clear that no nation harbouring any ambitions of being in the league of developed nations can afford to remain aloof to the internationally accepted conventions.

The Institute of Chartered Accountants of India, a founder member of the International Federation of Accountants, as a part of its membership obligations is committed to harmonizing and promoting the International Standards issued by the IAASB. This obligation has also been articulated in the Preface to the auditing standards issued by its Council. The auditing standards issued by the Institute have always been based on the corresponding standards of the IAASB.

The Auditing and Assurance Standards Board has brought out this Paper titled, “Convergence with the International Standards of the IAASB: Position Paper and Work Plan”, primarily with a view to create awareness about the important aspects involved in convergence with the International Standards of the IAASB, viz., where we are, where we want to reach and how to reach.

At the end, it might be appropriate to mention that whereas while progressing on the path of convergence, we need to adopt a policy of maximum inclusion, there is also a need for the members to appreciate the fact that times are changing and the expectations of the society from our profession are changing with a far greater speed. To remain of use to the society it is necessary that we exert ourselves some more and come out of our shells.

New Delhi
November 25, 2008

CA. Ved Jain
President, ICAI

Preface



The Institute of Chartered Accountants of India (ICAI) being one of the founder members of International Federation of Accountants (IFAC), convergence with International Standards has been a conscious policy of the Institute since the formation of the Auditing and Assurance Standards Board (AASB) (hitherto known as Auditing Practices Committee) as back as in 1982. The current financial crisis across the globe confirms the greater need of unified set of common standards for the development and growth of an economy.

The International Standards issued by the IAASB of the IFAC, is a set of high quality, universally accepted standards on auditing and other assurance and non assurance services performed by professional accountants. Pursuant to Clarity Project of International Auditing and Assurance Standards Board (IAASB), the ICAI in July, 2007, issued the Revised Preface which sets a stronger platform for convergence, and thereafter embarked on the task of revision of its auditing standards in line with the International Standards issued by the IAASB. Concurrently, the Board decided to bring out the Paper on “Convergence with the International Standards of the IAASB : Position Paper and Work Plan” with a view to compare and assess the existing suite of Auditing Standards vis a vis International Standards. While making the current assessment, the Board also decided to identify the challenges to convergence, if any, in the context of Indian environment. As per the Work Plan envisaged in the Position Paper, the ICAI will complete the convergence process by mid-2010.

I am confident that the issuance of the Position Paper clarifies ICAI's stand on the policy of convergence with International Standards and thus, would accelerate the process of development of Standards. As the financial fulcrum shifts to India, such a move sets the pace for the Indian accountancy profession to emerge as a true global player in the world.

New Delhi
November 25, 2008

Harinderjit Singh
Chairman
Auditing and Assurance Standards Board

1

Auditing Standards - An Introduction



- 1.1 Auditing today finds itself as a critical link in the economic development of any nation. The modern day entrepreneurship models are essentially agency relationship models where the owners or the providers of funds are separate from those who actually utilize those funds to run the enterprise. These fund providers can be the promoters and other investors, banks and other financial institutions, etc. In addition to the fund providers, there are other stakeholders also, such as governments and other regulators, employees, suppliers, etc., which need not only timely but also reliable financial information to satiate their various information needs. Even in case of non agency forms of enterprise, audit would still be essential since the latter may be using public funds in the form of bank borrowings, etc.

Concept of Auditing Standards

- 1.2 Auditing, as a profession, is a mix of science and art. It is a normative but not a positive science in the sense that despite being founded on a well developed body of knowledge, there are no straight-jacketed or tailor made formulae to carry out work and reach the goal. Therefore, two professionally qualified auditors can reach different opinions in respect of same issue, on account of their varying professional judgments.
- 1.3 Though professional judgment is an integral part of the auditing process, yet all the aspects of auditing are not open to such judgment, since professional judgment is exposed to the risk of certain amount of subjectivity inevitably. The auditing profession, therefore, does have certain set of universally accepted benchmarks, called Auditing Standards, against which the performance of an auditor can be measured. In common parlance, Auditing Standards represent a codification of best practices in the area of auditing. A large pool of national and international resources is devoted to development of such Auditing Standards.
- 1.4 An Auditing Standard, to be really effective, should be founded on the principles and ground realities, should be easy to understand, have universal acceptance, be reasonably flexible to permit application in all types of situations and importantly, amenable to enforcement. In addition, it is absolutely essential that an Auditing Standard is not perceived by the society as being overly protective of the auditor but as being in the best interests of the users of the auditors' services. As a corollary, it is essential that the Auditing Standards-setting process is objective and transparent, giving fair representation to the concerned stakeholders.

Role of IFAC in Auditing Standards

- 1.5 The International Federation of Accountants (IFAC) was formed in 1977 as a global organisation for the accountancy profession with the objectives of...
- developing high quality international standards and supporting their adoption and use;
 - facilitating collaboration and cooperation among its member bodies;
 - collaboration and cooperation with other international organisations; and
 - serving as the international spokesperson for the accountancy profession.

India is one of the founder members of the IFAC.

- 1.6 The IFAC established various boards/ committees under its aegis to help achieving its objectives in a more



focused manner. One such board is the International Auditing and Assurance Standards Board (IAASB)¹, which was established as the International Auditing Practices Committee (IAPC) in October 1977. 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.”*²

1.7 The IAASB, therefore, develops International Standards on Auditing (ISAs) and on other assurance as well as non assurance services such as review of historical financial information, engagement to compile financial information. Presently, the Standards issued by IAASB comprise International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs) and International Standards on Related Services (ISRSs). These Standards are collectively known as Engagement Standards. Prior to 2004, all these standards were termed as ISAs only. IAASB also develops quality control standards for audit firms. These Standards issued by IAASB *“provide guidance for auditors and other professional accountants, giving them the tools to cope with the increased and changing demands for reports on financial information, and provide guidance in specialized areas.”*³

1.8 For issuing these International Standards, the IAASB follows a rigorous and transparent due process that ensures *“that the views of those affected by its standards and guidance are thoroughly considered”*. The Due Process of the IAASB is given as **APPENDIX A**. Since 2005, the IAASB came under the oversight of the Public Interest Oversight Board (PIOB) established by the IFAC. Further, the processes followed by the IAASB are reviewed by IFAC at least every three years to evaluate their effectiveness.

A. Since 2005, the IAASB came under the oversight of the Public Interest Oversight Board (PIOB) established by the IFAC. Further, the processes followed by the IAASB are reviewed by IFAC at least every three years to evaluate their effectiveness.

1.9 In 2004, the IAASB initiated its Clarity Project. The main objective of the Clarity Project is to encourage greater use of the IAASB's Standards and facilitate their translation. As a part of its Clarity Project, the IAASB also modified the drafting conventions for its Standards, whereby a Standard has five distinct sections, namely, Introduction including scope and effective date, Objectives, Definitions, Requirements and Application and Explanatory Material. These sections have been explained in the following paragraphs.

Introductory Material and Definitions

1.10 Introductory material may include, as needed, such matters as explanation of the purpose and scope of the Standard, including how the ISA relates to other ISAs, the subject matter of the ISA, specific expectations from the auditor and others, and the context in which the ISA is set.

1.11 An International Standard on Auditing may include, in a separate section under the heading '*Definitions*', a description of the meanings attributed to certain terms for purposes of the ISA. These are provided to assist in the consistent application and interpretation of the ISAs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the ISAs.

1 Known as the International Auditing Practices Committee till 2002.

2 IAASB Terms of Reference, March 2006, as downloaded from IFAC's website.

3 Handbook of Internal Auditing, Assurance and Ethics Pronouncements, 2008 Edition, The International Federation of Accountants.



Objectives

- 1.12 Each ISA contains an objective or objectives, which provide the context in which the requirements of the International Standards on Auditing are set. Any limitation of the applicability of a specific Standard is made clear in the Standard itself. An individual Standard should be read in the context of the objective stated in the Standard as well as the Preface to the International Standards. The auditor aims to achieve these objectives, having regard to the interrelationships amongst the ISAs. For this purpose, the auditor uses the objectives to judge whether, having complied with the requirements of the ISAs, sufficient appropriate audit evidence has been obtained in the context of the overall objective of the auditor. Where an individual objective has not been or cannot be achieved, the auditor considers whether this prevents the auditor from achieving his overall objective.

Requirements

- 1.13 The requirements of each Standard are contained in a separate section and expressed using the word “shall”. The auditor applies the requirements in the context of the other material included in the Standard. The auditor complies with the requirements of the Standards in all cases where they are relevant in the circumstances of the audit. In exceptional circumstances, however, the auditor may judge it necessary to depart from a relevant requirement by performing alternate audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective.
- 1.14 When a situation envisaged in paragraph 1.13 above arises, the auditor is required to document how alternative procedures performed achieve the aim of the requirement, and, the reasons for the departure. Further, his report also should draw attention to such departures. However, a mere disclosure in his report does not absolve an auditor from complying with the applicable Standard(s).
- 1.15 A requirement is not relevant only in the cases where the ISA is not relevant, or the circumstances envisioned do not apply because the requirement is conditional and the condition does not exist. The auditor is not required to comply with a requirement that is not relevant in the circumstances of the audit and this does not constitute a departure from the requirement. However, the auditor should document the steps undertaken by him to satisfy himself that the process adopted in the circumstances of the audit assisted him in achieving his overall objective.

Application and Other Explanatory Material

- 1.16 The application and other explanatory material contained in an ISA is an integral part of the ISA as it provides further explanation of, and guidance for carrying out, the requirements of an ISA, along with the background information on the matters addressed in the ISA. It may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement.
- 1.17 Appendices, which form part of the application and other explanatory material, are an integral part of an ISA. The purpose and intended use of an appendix are explained in the body of the related Standard or within the title and introduction of the appendix itself.
- 1.18 In view of the above, the practice of presenting the standard portion (i.e., the principles enunciated) in bold lettering and the application/ explanatory guidance in plain lettering has been done away with. The entire text of the Standard, whether the requirements section or the application and other explanatory material section are presented in plain lettering.



- 1.19 Another important aspect of the Standards issued under the Clarity Project is that they contain, where relevant, guidance on applicability of the requirements of the Standards to audits of small and medium entities as well as public sector entities. Further, the guidance related to auditing in an Information Technology driven client environment is also built in the Standards issued under the Clarity Project. The Standards issued under the IAASB's Clarity Project will be effective for the audits of financial statements for the periods beginning on or after December 15, 2009.

Auditing Standards Setting in India

- 1.20 The Institute of Chartered Accountants of India ("the Institute"), established under The Chartered Accountants Act, 1949, as a regulator of the accountancy profession in India, has also been involved in the development of Auditing Standards in India. In the early years of the Institute's formation, research in the field of auditing was carried out under the aegis of its Research Committee. Though at that time, the concept of Auditing Standards per se was not present (and this is true even at the international fora at that time), the Institute still brought out a significant amount of important auditing literature to help auditors discharge their responsibilities effectively.
- 1.21 A separate non-standing Committee of the Institute by the name of Auditing Practices Committee (APC), was established in September 1982. The main function of the Committee was to develop Statements on Standard Auditing Practices (SAPs). While formulating these SAPs, the APC took into consideration the guidelines issued by the International Auditing Practices Committee (now known as the IAASB) of the IFAC as well as the laws, customs and usage of trade in the country. These Standards were then issued under the authority of the Council of the Institute. In 2002, the APC was renamed as the Auditing and Assurance Standards Board ("the AASB") and the SAPs were rechristened as the Auditing and Assurance Standards (AASs). Further, an objective and a transparent auditing standard setting process was ingrained in the Preface to the Statements on Standard Auditing Practices issued by the APC in 1982.
- 1.22 The above Preface was revised by the Auditing and Assurance Standards Board in 2007 to bring the same in line with the revised Preface issued by the IAASB. Paragraph 2 of the revised Preface states as follows:

"2. The ICAI is committed to the goal of enabling the accountancy profession in India to provide services of high quality in the public interest and which are accepted worldwide. To further this goal, the ICAI develops and promulgates technical Standards and other professional literature. The ICAI being one of the founder members of the International Federation of Accountants (IFAC), the Standards developed and promulgated by the AASB under the authority of the Council of the ICAI are in conformity with the corresponding International Standards issued by the International Auditing and Assurance Standards Board (IAASB), established by the IFAC. The "Due Process" of the AASB for formulation of Standards, Statements, Guidance Notes and its other pronouncements is given in the Appendix to this Preface."

- 1.23 The Due Process, to be followed by the AASB with effect from April 1, 2008 also reiterates the above position. Paragraph 2 of the Due Process states as follows:

"2. The ICAI is one of the founder members of the International Federation of Accountants (IFAC). It is one of the membership obligations of the Institute to actively propagate the pronouncements of the International Auditing and Assurance Standards Board (IAASB) of the IFAC to contribute towards global hereforeion and acceptance of the Standards issued by the IAASB. Accordingly, while formulating Engagement and Quality Control Standards,



the AASB takes into consideration the corresponding Standards, if any, issued by the IAASB. In addition, the AASB also takes into consideration the applicable laws, customs, usages and business environment prevailing in India within the parameters of the July 2006 Policy Paper, A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications, issued by the IAASB."

- 1.24 The revised Due Process for auditing standard setting has infused greater transparency, accountability and also public participation in the process. The revised standard setting process is quite detailed and exacting in its requirements. It contains specific provisions for various stages and situations which a Standard is subjected to as well as strict timelines therefor. The Revised Due Process of the AASB is given in **APPENDIX B**.
- 1.25 As a first step towards convergence, the AASB, after going through its rigorous due process, in July, 2007 published the "Revised Preface to Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. Pursuant to the Revised Preface, applicable from April 1, 2008, the new Standards to be issued by the AASB are collectively known as Engagement Standards and comprise of Standards on Auditing (SAs), Standards on Review Engagements (SREs), Standards on Assurance Engagements (SAEs) and Standards on Related Services (SRSS). The Preface also necessitated categorisation of standards on the basis of the specific aspect of audit that they deal with and accordingly allotted the number from that category.

AASB's Response to IAASB's Clarity Project

- 1.26 With the issuance of the abovementioned revised Preface, the AASB in 2007, embarked on the task of revision of its auditing standards in line with the International Standards being issued under the Clarity Project by the IAASB. The following Standards have been issued by the AASB under its Clarity Project...

Standard	Effective Date
Framework for Assurance Engagements	The Framework is effective from April, 2008
Standard on Quality Control (SQC) 1, <i>Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements</i>	This Standard on Quality Control is recommendatory for all engagements relating to accounting periods beginning on or after April 1, 2008 and is mandatory for all engagements relating to accounting periods beginning on or after April 1, 2009.
Standard on Auditing (SA) 240 (Revised), <i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2009.
Standard on Auditing (SA) 250 (Revised), <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> ⁴	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2009.
Standard on Auditing (SA) 260 (Revised), <i>Communication with Those Charged with Governance</i> ⁵	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2009.
Standard on Auditing (SA) 300 (Revised), <i>Planning an Audit of Financial Statements</i>	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2008.

⁴ The Standard has been cleared by the Council of the Institute at its 281st meeting held in October 2008.

⁵ The Standard has been cleared by the Council of the Institute at its 281st meeting held in October 2008.



Standard on Auditing (SA) 315, <i>Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment</i>	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2008.
Standard on Auditing (SA) 330, <i>The Auditor's Responses to Assessed Risks</i>	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2008.
Standard on Auditing (SA) 570 (Revised), <i>Going Concern</i> ⁶	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2009.
Standard on Auditing (SA) 580, <i>Written Representations</i>	This Standard is effective for audits of financial statements for periods beginning on or after 1st April 2009.

1.27 With a view to facilitating understanding and better implementation of recently issued Standards, the Board also published the following Implementation Guides...

- Implementation Guide to SQC 1
- Implementation Guide to Risk-based Audit of Financial Statements
- Practitioner's Guide to Audit of Small Entities

1.28 In addition to above Implementation Guides, the AASB has also published a Background Material to be used at training programmes. The Background Material contains a snapshot of the fundamental principles contained in the various Standards on Auditing along with notes as well as case studies and technical posers, illustrating their applications. The Background Material also contains illustrative documentation requirements culled out from the various Standards. Further, with a view to assisting the members in understanding the industry-specific issues while conducting audits of such entities, the Board has also published *Technical Guide on E-Commerce and A Study on Basel II and Risk-based Supervision*.

1.29 In 2008, a booklet titled, “*What is an Audit Understanding an Audit - of Financial Statements*”, was also brought out by the AASB, explaining the genesis of audit, importance of financial reporting, myths associated with audit, inherent limitations of an audit *vis-à-vis* detection of frauds, etc. To create awareness amongst the users of the audit report, the brochure also aimed to explain in a simple language, the significant aspects of an audit report, the responsibilities of the management and the auditor, and the various types of opinions used in an audit report.

Objective of This Paper

1.30 The objective of this Paper is to set forth the position and policy of the Institute in respect of convergence with the International Standards issued by the IAASB and the need for continuing the work towards that direction. It also discusses the pertinent issues before the AASB in developing Standards that are in harmony with the IAASB's Standards. The Paper also outlines the advances made by the Institute till date in that direction. At the end, the Paper discusses the work plan of the AASB in the context of achieving convergence with the IAASB's Standards.

⁶ The Standard has been cleared by the Council of the Institute at its 281st meeting held in October 2008.

2

Need for Convergence



An IFAC Membership Obligation

2.1 As mentioned in the preceding Chapter, India is a founder member of the IFAC. Flowing from the objectives of the IFAC are certain obligations for its members which have been codified in the Statements on Membership Obligations (SMOs) issued by the IFAC. The SMO 3, *International Standards, Related Practice Statements and Other Papers Issued by the IAASB*, requires “the members to use their best endeavours to”...

- a. *To incorporate the International Standards issued by the IAASB into their national standards or related other pronouncements, or where responsibility for the development of national standards or related other pronouncements lies with third parties, to persuade those responsible to incorporate the International Standards into their national standards or related other pronouncements; and*
- b. *To assist with the implementation of International Standards or national standards and related other pronouncements that incorporate International Standards. This includes promoting the use of related Practice Statements, or the development of national pronouncements that incorporate related Practice Statements or that provides similar implementation guidance.*

Although the Constitution of IFAC and SMO 3 acknowledge national standards, member bodies should, in implementing their obligations of membership, have as a central objective the convergence of national standards or related other pronouncements with International Standards issued by the IAASB.”

2.2 The Institute, for the first time in 2002, was invited to attend the meeting of the National Auditing Standards Setter (NSSs) of the IAASB. The NSSs comprise of ten countries including India. Participation in the annual NSS meeting is a regular feature for the Institute since 2002. Being a part of the NSSs group is critical on account of the fact that only those standard setters are invited which...

- Are significantly active in the development of national auditing standards, or by way of contributing to the development of International Standards on Auditing (ISAs);
- Have adopted or plan to adopt ISAs, or are demonstrably committed towards the achievement of convergence of international and national standards;
- Are sufficiently resourced to participate actively in collaborative efforts identified through the activities of the liaison group; or
- Represent the world's largest economies.

A Step in Line with the International Developments

2.3 The Standards issued by the IAASB are increasingly gaining acceptance world over. Whereas in some countries, these Standards have been adopted, in some others they form the primary consideration in development of national standards. As per the 2007 Annual Report of the IAASB, “more than 100 countries use auditing standards that are ISAs, either as written or adapted locally, or national standards that are compared to eliminate the differences.”⁷

2.4 The following provides a snapshot of the acceptance of ISAs in various parts of the world...

7 2007 IAASB Annual Report, page 12.



- The *Financial Reporting Council* in United Kingdom has already adopted ISAs, with effect from 1st January, 2004.
- The *European Commission* vide its Directive numbered 2006/43/EC of 17th May 2006, has decided to adopt the ISAs subject to the due process.
- The *Canadian Institute of Chartered Accountants* has also decided to adopt ISAs.
- The *Australian Auditing and Assurance Standards Board* as well as the *American Institute of Certified Public Accountants* also plan to revise their standards based on the ISAs issued by IAASB.
- The *International Organisation of Securities Commission* is currently evaluating conditions on which it can endorse ISAs for use for cross border purposes and the form of such an endorsement⁸.
- A survey by the *International Organisation of Supreme Audit Institutions (INTOSAI)* has revealed that ISAs are used by many national SAIs to develop their detailed Financial Audit Guidelines⁹.
- Recognised by the *World Bank* as benchmark standards for carrying out its study on Observance of Standards and Codes.
- The *World Federation of Exchanges* has endorsed the IAASB's process for standard setting and recognises the importance of ISAs.

More detailed information on the status of various countries with respect to convergence with ISAs can be found at www.ifac.org.

A Corollary to Adoption of IFRSs

- 2.5 Having regard to the increasing ease with which enterprises can access the capital markets of different parts of the world, a pressing need is being felt by the investor community as well as the Governments and the regulators in different jurisdictions to have a common basis for preparation and presentation of the financial information that is being given to them to make economic and other decisions. Accounting and regulatory bodies world over are working towards this direction and the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) have come to be recognised as the most acceptable financial reporting standards. In India, the Institute has already declared its intention to converge with the IFRSs by the year 2011.
- 2.6 Convergence with the Standards issued by the IAASB would follow as a natural corollary to the adoption of IFRSs, since the stakeholders would look for a uniform level of credibility attached to those financial statements, whatever may be the nationality of the auditor. This uniform level of credibility and assurance on these financial statements can be provided by the universally accepted consistent set of Standards of the IAASB.

Benefits for Small and Medium Practitioners

- 2.7 The IAASB (as well as the AASB) has held a consistent position that there should be one set of auditing standards irrespective of size, nature or type of an entity. As a matter of fact, a feature of the Clarity Project of the IAASB was to introduce guidance relevant to audit of small and medium entities within the Standards. Convergence with these Standards supplemented by training and other such knowledge dissemination programmes, would help even the small and medium sized practitioners to offer services of internationally benchmarked standards.

⁸ IOSCO's Media release no. IOSCO/MR/010/2007 dated November 9, 2007, Tokyo.

⁹ 2007 IAASB Annual Report, page 13.



Following Up with the ROSC 2004

- 2.8 The World Bank, in 2004, carried out a worldwide study on the status of standard setting and standards' compliance, popularly known as Report on Standards and Codes (ROSC 2004). The ROSC 2004 was a result of the 1990's economic crisis in the South East Asia. The Financial Stability Forum (FSF) was established by the World Bank in 1999 to promote international financial stability through information exchange and international co-operation in financial supervision and surveillance. The FSF has identified twelve key principles for sound, stable and well functioning financial systems, one of them being audit and audit carried out as per ISAs*.
- 2.9 The World Bank's ROSC 2004 involved assessing ISAs *vis-à-vis* the national standards. The data for the survey was gathered through templates designed by the World Bank based on the requirements in ISAs. The aspects evaluated by the ROSC 2004 included existence of auditing standards, legal backing for these standards, existence of a national standard setter, legal authority of the national standard setter, composition of the standard-setting body, accountability of the standard-setting body, due process of standard-setting and issuance of practical implementation guidance on auditing standards.
- 2.10 In respect of the individual standards, the following specific aspects evaluated included Standard gap and compliance assessment, i.e., whether Standard has been adopted and whether the national standard setters address certain specific aspects of each of the ISAs. Another aspect evaluated was Standards as practiced i.e., the extent to which the practice differs from the written requirements of the national Standards and the difficulties faced by the professional accountants in public practice to fully comply with the Standard.
- 2.11 Some of the significant findings of the ROSC 2004 included the observations that the Institute follows a due process in formulating and issuing Standards, auditing Standards generally replicate the ISAs, modifications being made to adapt to the local circumstances and lesser audit alternatives as compared to ISAs. The Report, however, also made the following observations...
- The incoming auditor is not allowed access to the working papers of the outgoing auditor on account of the client confidentiality requirements contained in the Chartered Accountants Act, 1949.
 - There is no requirement for assessment of the professional competence of another auditor where such other auditor is also a member of the Institute.
 - Quality of audit practices differs significantly among audit firms.
 - There was an improper use of the expression "subject to/ except for" audit opinions in audit reports.

* As mentioned in paragraph 1.7, till 2004 ISAs included SRE, SAEs & SRSs also. Therefore, reference to ISA in ROSC, 2004 included reference to all these Standards also.



Convergence - Some Issues

3

- 3.1 The Institute is committed to the goal of enabling the accountancy profession in India to provide services of high quality in the public interest and which are accepted worldwide. To further this goal, the Institute develops and promulgates technical Standards and other professional literature. Further, as noted in the earlier Chapter, the Institute being one of the founder members of the International Federation of Accountants (IFAC), the Standards developed and promulgated by the AASB under the authority of the Council of the Institute are in conformity with the corresponding International Standards issued by the IAASB.
- 3.2 While developing auditing Standards that conform to the corresponding International Standards of the IAASB, the AASB has time and again been faced with a number of issues. The following paragraphs deal at length with some such issues.

Convergence *vis-à-vis* Adoption

- 3.3 Convergence may simply be defined as coming together from different directions to a common point of intersection. The issue of convergence *vis a vis* adoption has also been discussed in the 2004 Report of the IFAC, *Challenges and Success in Implementing International Standards-Achieving Convergence to IFRSs and ISAs*¹⁰. The Report notes that a variety of terms have been coined to describe the extent of adoption of ISAs, such as harmonised, largely harmonised, etc.
- 3.4 In July 2006, the IAASB came out with a policy on modifications to the Standards issued by the IAASB. The policy titled, *A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications*, sets out the policy of the IAASB on the question of what modifications may a national standard setter (NSS) that adopts International Standards (ISs) promulgated by the IAASB as its national standards (NSs) make to the ISs while still asserting that the resulting NSs conform to ISs. The principle requirements of this Policy are as follows...
- i. National Standard (NS) cannot be in conformity with the corresponding International Standard (IS) unless the standard setter has in place a Standard conforming to the IAASB's International Standards on Quality Control.
 - ii. NS cannot be in conformity with the corresponding International Standard unless the NS includes all the requirements and guidance contained in the corresponding ISA, except as provided in (iii) and (iv) below.
 - iii. Limited additions permitted to an IS...
 - a. national legal/ regulatory requirements.
 - b. other requirements/ guidance that are not inconsistent with the current requirements/ guidance in IS.
 - iv. Limited deletions from the ISs are...
 - a. elimination of options in ISs.
 - b. requirement/ guidance which the law/ regulation does not permit.
 - c. requirement/ guidance where the IS recognises different practices may exist in different jurisdictions.

In case of (b) and (c) above, however, the objective of any deleted requirement must still be met.
 - v. All the ISAs of a particular category have been included.

¹⁰ Popularly known as the Wong Report after its Chairman, Peter Wong.



The complete text of the said Policy Paper is given in **APPENDIX C**.

- 3.5 From the above, it is clear that issuance of quality control standards corresponding to the International Standard(s) on Quality Control is a pre-requisite for claiming conformity with the IAASB Standards. It is also clear that the national standards setters have extremely limited options when it comes to modifying the International Standards, which are limited to matching the requirements of a law or regulation of the land. In any case, there is an overriding need to meet the objectives of the modified requirement of the IAASB's Standard. The said Policy Paper of the IAASB was also noted by the Council of the Institute at its 268th meeting held in April-May, 2007 while considering the Item No.8 on Proposed Standard on Quality Control (SQC) 1. Having regard to this, the modifications made by the AASB to the IAASB's Standards are, to the extent possible, within the parameters laid down in this Policy Paper.

Access to Auditor's Working Papers

- 3.6 The AASB, while formulating Standards in harmony with the International Standards of the IAASB is often faced with the issue of access to working papers of the auditors (as required by the IAASB Standards) *vis-à-vis* auditor's responsibilities with respect to confidentiality of the information pertaining to the client. With respect to this issue, the IFAC Code provides as follows:

“Confidentiality

140.1 The principle of confidentiality imposes an obligation on professional accountants to refrain from...

- a. Disclosing outside the firm or employing organization confidential information acquired as a result of professional and business relationships without proper and specific authority or unless there is a legal or professional right or duty to disclose; and*
- b. Using confidential information acquired as a result of professional and business relationships to their personal advantage or the advantage of third parties.*

.....
.....

140.7 The following are circumstances where professional accountants are or may be required to disclose confidential information or when such disclosure may be appropriate...

- a. Disclosure is permitted by law and is authorized by the client or the employer;*
- b. Disclosure is required by law, for example...*
 - i. Production of documents or other provision of evidence in the course of legal proceedings; or*
 - ii. Disclosure to the appropriate public authorities of infringements of the law that come to light; and*
- c. There is a professional duty or right to disclose, when not prohibited by law...*
 - i. To comply with the quality review of a member body or professional body;*
 - ii. To respond to an inquiry or investigation by a member body or regulatory body;*
 - iii. To protect the professional interests of a professional accountant in legal proceedings; or*
 - iv. To comply with technical standards and ethics requirements.*

.....
.....”

- 3.7 In so far as the situation in India is concerned, it may be noted that in terms of clause (1) of Part I of the Second Schedule to the Chartered Accountants Act, 1949, a chartered accountant in practice shall be deemed guilty of professional misconduct, if he “discloses information acquired in the course of his professional engagement



to any person other than his client so engaging him, without the consent of his client or otherwise than as required by law for the time being in force.” In this context, it may be noted that the peer review process also requires an auditor to disclose his audit working papers to the peer reviewer. For the purpose of complying with the provisions of this clause, the auditor incorporates a specific mention in this regard in the audit engagement letter itself, which in turn has to be acknowledged by the client. Further, clause (9) of Part I of the Second Schedule holds a chartered accountant in practice guilty of professional misconduct if he “*fails to invite attention to any material departure from the generally accepted procedure of audit applicable to the circumstances.*” The Standards issued by the Institute have a force of law as far as the members of the Institute are concerned and are included in the concept of “*generally accepted procedures of audit*”. Therefore, if a Standard requires disclosure of client related information acquired by the member in the course of his engagement to the persons identified in the Standard, the same would not constitute a professional misconduct under the Act.

Assessment of Professional Competence of the Other Auditor

3.8 A member of the Institute carrying out audit or other assurance engagements, on various occasions, may need to use the work of another auditor. Audit of consolidated financial statements, audit in situations of joint audits are the most common examples of these situations. The Standards issued by the IAASB require an auditor to assess the professional competence of the other auditor whose work the former is using. For example, paragraph 11 of ISA 600, *Special Considerations - Audit of Group Financial Statements (Including the Work of a Component Auditor)*, at various places requires the group engagement partner/ team to obtain an understanding/evaluate the professional competence of the component auditor. Following are some examples...

“14. In accordance with [proposed] ISA 220 (Redrafted), the group engagement partner is required to be satisfied that those performing the group audit engagement, including component auditors, collectively have the appropriate capabilities and competence. The group engagement partner is also responsible for the direction, supervision and performance of the group audit engagement.

19. When the group engagement team plans to request a component auditor to perform work on the financial information of a component, the group engagement team shall obtain an understanding of the following:

.....

 b. The component auditor's professional competence; (Ref: Para. A38)

A38. The group engagement team's understanding of the component auditor's professional competence may include whether the component auditor...

- Possesses an understanding of auditing and other standards applicable to the group audit that is sufficient to fulfill the component auditor's responsibilities in the group audit;
- Possesses the special skills (e.g., industry specific knowledge) necessary to perform the work on the financial information of the particular component; and
- Where relevant, possesses an understanding of the applicable financial reporting framework that is sufficient to fulfill the component auditor's responsibilities in the group audit (instructions issued by group management to components often describe the characteristics of the applicable financial reporting framework).”

3.9 Another example, is proposed ISA 402 (Revised), *Audit Considerations Relating to an Entity Using a Third*



Party Service Organisation. Paragraphs 15 and A29 of the said Standard read as follows...

“15. In determining the sufficiency and appropriateness of the audit evidence provided by a Type A or Type B report in support of the user auditor's opinion, the user auditor shall be satisfied as to the service auditor's professional reputation, competence and independence.

A29. The user auditor may inquire as to the professional reputation and standing of the service auditor from the auditor's professional organization and other practitioners and inquire whether the service auditor is subject to regulatory oversight. The service auditor may be practicing in a jurisdiction where different standards are followed in respect of reports on controls at a service organization. In such a situation, the user auditor may inquire about the adequacy of those standards.”

- 3.10 The assessment of professional competence of the other auditor assumes significance having regard to the fact that factors such as overall experience as well as the experience in the relevant industry can have an impact on the professional competence of a member. The assessment of professional competence is of particular importance in the today's complex economic environment involving highly specialised nature of industry and financial services sector, since professional accountants are required to deal with several intricate issues pertaining to the particular industry. Therefore, one may come across a situation wherein an auditor having adequate experience and standing in the profession may not have relevant experience of the particular industry. Thus, it may be imperative for an auditor assuming the ultimate responsibility for the audit opinion to assess the professional competence of the other auditor in the context of the particular assignment before relying upon the latter's work.

Audit of Small & Medium Entities

- 3.11 At present, the Standards issued by the IAASB adopt a risk-based approach to audit of financial statements. Whereas following a risk-based approach in case of large clients having huge amounts of transactions, wide geographical spreads, intricate risk management and control systems is imperative, the application of the same in case of audit of small and medium entities may be restricted.

- 3.12 In the above context, it may be noted that the basic principles enunciated in these Standards have remained the same to a large extent, what has been changed or expanded is the application guidance for the same. As a corollary, these Standards, wherever necessary, contain separate paragraphs on application of the Standard in case of small and medium entities. Therefore, the application of the principles enunciated in these Standards are scalable in accordance with the size of the entity being audited. In fact, as noted earlier, the new/ revised Standards being issued by the AASB corresponding the IAASB's Standards under the Clarity Project, where appropriate, contain separate guidance on application of the principles of the Standards to small and medium entities.

Difference in the definition of “public sector”

- 3.13 The IAASB's Glossary defines “public sector” as *“National governments, regional (for example, state, provincial, territorial) governments, local (for example, city, town) governments and related governmental entities (for example, agencies, boards, commissions and enterprises)”*. Accordingly, the special considerations to be borne in mind by the auditors of financial statements of “public sector” are also discussed separately in the Application and Other Explanatory Material in an ISA.

- 3.14 The concept of “public sector” as understood in India is different from that given in the IAASB's Glossary. In our country, the “public sector” is construed as the public sector undertakings established by the Central and/ or the State level governments, i.e., the State Owned Enterprises (SOEs). These SOEs undertakings were established as corporate bodies/ companies, primarily with the following objectives in mind...



- to provide public utilities and services to the public at large, free of cost or at low price;
- to establish the presence and control of the Government in industries critical to economic development to avoid any monopoly of the private sector; and
- to generate more employment opportunities for the public.

3.15 These SOEs, however, today operate in the same manner as any other commercial enterprise in the private sector. The “public sector” therefore does not constitute the government departments, etc. Therefore, keeping in view the fact that the same auditing principles are applicable in public sector entities, the auditing standards issued by the AASB do not contain any separate specific reference to application of these standards to audit of the financial statements of public sector entities, the spirit of the guidance for public sector as provided in the corresponding International Standard is generally retained by rewording/ redrafting that guidance.

3.16 From the above, it may be noted that though the principles laid out in the IAASB's Standards apply to audit of financial statements of all entities irrespective of their size, nature, legal form, etc., it is also recognised that application of these principles of auditing may need to be modified to a limited extent in some situations, such as in audit of financial statements of public sector.



4

Current Assessment and Status



4.1 The previous Chapters make it clear that convergence with the International Standards has been a conscious policy of the Institute. From the first auditing standards which were issued in 1985 corresponding to the then extant International Auditing Guideline(s)¹¹ to the most recent Standard on Auditing, the Institute has endeavoured to harmonise with the International Standards. In early 2007, the IAASB had issued thirty eight engagement standards¹². As against these 38 Standards of the IAASB, the Institute was yet to issue Standards corresponding to the following six International Standards...

- ISA 545, *Auditing Fair Value Measurements and Disclosures*
- ISA 701, *Modifications to the Independent Auditor's Report*
- ISA 720, *Other Information in Documents Containing Audited Financial Statements*
- ISA 800, *The Independent Auditor's Report on Special Purpose Audit Engagements*
- ISRE 2410, *Review of Interim Financial Information, Performed by the Independent Auditor of the Entity*
- ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

4.2 Though the IAASB embarked on its Clarity Project in 2004, a major landmark in the formulation of the International Standards came in 2003 when the IAASB issued two new standards, ISA 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, and ISA 330, *The Auditor's Procedures in Response to Assessed Risks*, and revised two of its existing Standards viz., ISA 200, *Objective and General Principles Governing an Audit of Financial Statements*, and ISA 500, *Audit Evidence*. These four Standards were collectively known as the *Audit Risk Standards*. These Standards were effective in respect of audits of financial statements for periods beginning on or after December 15, 2004. Issuance of these four standards gave rise to conforming amendments/ revision to almost the entire suite of the International Standards on Auditing. The accordingly revised International Standards on Auditing were issued by the IAASB during the period 2004 and were effective for all audits of financial statements for the periods beginning on or after December 15, 2004.

4.3 Since 2007, when the AASB initiated the process of issuing Standards corresponding to the International Standards on Auditing issued by the IAASB under the Clarity Project, it has been faced with a daunting task of not only making amendments to the writing conventions for the Standards but also of revising almost entire suite of its Standards. The following paragraphs provide a gist of the major differences in the existing auditing standards of the Institute vis-à-vis the IAASB's International Standards and the progress made by the AASB to minimise the differences in conjunction with the Clarity Project.

ISQC 1: Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements

4.4 The ISQC 1 was issued by the IAASB in the year 2004 with a requirement that Systems of quality control in

¹¹ The International Auditing Guidelines were later converted into the International Standards on Auditing (ISA). The first ISA was issued in 1991.

¹² "Engagement Standards" comprise the International Standards on Auditing (ISAs), International Standards on Review Engagements (ISRE), International Standards on Assurance Engagements (ISAE) and the International Standards on Related Services (ISRS). This classification of International Standards into four categories was adopted by the IAASB with effect from January 1, 2004. Prior to this date, all these Standards were known as International Standards on Auditing only.



compliance with ISQC 1 be established by June 15, 2004. The SQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* was issued in the year 2007 and is effective for all engagements relating to accounting periods beginning on or after April 1, 2009.

- 4.5 The significant differences in SQC 1 *vis-à-vis* ISQC 1 include the fact that unlike ISQC 1, only a member of the Institute of Chartered Accountants of India can act as the *engagement quality control reviewer* or lead the team of engagement quality control reviewers or act as a “*suitably qualified external person*”. Further, since in India an individual can practice in his individual name and also in the name of the firm as proprietor of that firm, accordingly, the term 'Proprietor' has been added to the definition of the term “*firm*” and similarly since in India, chartered accountants are not permitted to practice in a corporate form therefore the definition of “*firm*” does not include a reference to that form.
- 4.6 In addition, having regard to the requirements of the Chartered Accountants of India and the Regulations thereunder, the minimum period of retention of engagement documentation has been enhanced to ten years as against the five years prescribed by ISQC 1. Also, in the context of suitably qualified person, SQC 1 does not envisage an organisation that provides relevant quality control services to act as a suitably qualified person since it is felt that a review of a firm of accountants should be done by a similar firm of accountants only. Further, in case of audits of listed entities done by sole practitioners, the SQC 1 envisages peer review, instead of rotation of the audit partner, to mitigate the familiarity threat. Also since the Standards, Statements, General Clarifications and Guidance Notes issued by the Institute are equally applicable in case of all engagements, irrespective of the form, nature and size of the entity, this Standard does not specifically mention application of the Standard in cases of public sector.

ISA 200: Objectives and General Principles Governing an Audit of Financial Statements

- 4.7 The Institute, in 1985, issued SA 200¹³, *Basic Principles Governing an Audit* and SA 200A¹⁴, *Objective and Scope of the Audit of Financial Statements* corresponding to which there is one International Standard, ISA 200. The ISA 200 has been revised at least twice by the IAASB between the period 1985 and 2008. The current version of the ISA 200 which is effective for audits of financial statements for periods beginning on or after June 15, 2006. The SAs 200 and 200A differ from the current version of ISA 200 to the extent that the concepts, professional skepticism, reasonable assurance, audit risk and materiality, determining the acceptability of the financial reporting framework, expressing an opinion on the financial statements have not been discussed in the Indian Standards.
- 4.8 ISA 200 is again being revised and redrafted under the IAASB's Clarity Project. Though the IAASB in May 2007 issued exposure draft of the revised & redrafted ISA 200, the AASB plans to undertake revision of SA 200 and SA 200A only once the final revised and redrafted version of ISA 200 has been issued by the IAASB.

ISA 210: Terms of Audit Engagement

- 4.9 SA 210¹⁵, *Terms of Audit Engagement*, corresponding to the ISA 210 was issued by the Institute in the year 2003. The SA 210 is generally consistent with ISA 210 except that it does not contain a requirement for

¹³ Hitherto known as Auditing and Assurance Standard (AAS) 1.

¹⁴ Hitherto known as Auditing and Assurance Standard (AAS) 2.

¹⁵ Hitherto known as AAS 26.



providing a draft of the format of the report that can be expected by the client. In addition, having regard to the client confidentiality requirements in terms of the Chartered Accountants Act, 1949, the SA 220 also contains a requirement to explicitly mention the fact that the audit may be subject to peer review.

- 4.10 The ISA 210 is also being revised under the Clarity Project of the IAASB. The AASB has also recently considered the draft of the revised SA 210 based on the requirements of the exposure draft of the revised ISA 210 issued by the IAASB in January 2008. The exposure draft of the revised SA 210 will soon be published for public comments.

ISA 220: *Quality Control for Audits of Historical Financial Information*

- 4.11 SA 220¹⁶, *Quality Control for Audit Work*, corresponding to the then extant ISA 220, *Quality Control for Audit Work* was issued in 1999 and was generally consistent with the said ISA except that the public sector perspective appearing at the end of the ISA and the illustrative quality control policies given in the appendix to the ISA were not included in the SA 220.
- 4.12 The ISA 220 was thoroughly revised by the IAASB in the year 2004 and renamed as *Quality Control for Audits of Historical Financial Information*. This version of ISA 220 became effective for audits of financial statements for the periods beginning on or after June 15, 2004. The existing SA 220 is therefore not as detailed as this exiting (revised) ISA 220 and focuses on general aspects of quality control only.
- 4.13 The IAASB has placed ISA 220 for **redrafting** under the Clarity Project. The Auditing and Assurance Standards Board has, however, constituted a study group to prepare a draft of the revised SA 220 based on the exposure draft of the Redrafted ISA 220 issued by the IAASB under the Clarity Project in August 2007.

ISA 230: *Audit Documentation* (Clarity Project)¹⁷

- 4.14 The SA 230¹⁸, *Documentation*, was issued by the Institute in 1985 corresponding to the then existing ISA 230. The ISA 230 was revised in the year 2004 due to the issuance of the ISA 315 and ISA 330 in the year 2003, dealing with the concept of risk-based audit, as well as the issuance of revised ISA 500, *Audit Evidence*. The ISA 230 was revised once more in 2005 and became effective for audits of financial statements for periods beginning on or after June 15, 2006. This ISA was again **redrafted** under the Clarity Project of the IAASB and issued in December 2007. The Redrafted ISA 230 is effective for audits of financial statements beginning on or after December 15, 2009. The existing SA 230 therefore contains significant differences from the **revised** ISA 230 issued by the IAASB in 2004. These differences pertain to additional principles relating to nature of audit documentation, concept of experienced auditor, identifying characteristics of specific items being tested, documentation of significant matters, identification of the preparer, assembly of the final audit file after the date of the auditor's report, contained in the revised ISA 230. The AASB had in 2004 issued the exposure draft of the revised SA 230 based on this revised ISA 230 but the project could not be proceeded with due to certain technical reasons.
- 4.15 The IAASB in December 2007 issued the final **redrafted** ISA 230 under the Clarity Project. The AASB has revised the SA 230 corresponding to this ISA 230. The revised SA 230 will soon be placed before the Council of the Institute for its clearance.

¹⁶ Hitherto known as AAS 17.

¹⁷ In this Chapter, the expression "Clarity Project" after the name of the Standard has been used only in those cases where the final standard has been issued by IAASB under this project.

¹⁸ Hitherto known as AAS 3.



ISA 240: *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements (Clarity Project)*

- 4.16 The IAASB issued the redrafted ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, under the Clarity Project in December 2006. The Institute too in December 2007 issued the revised SA 240¹⁹, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, corresponding to this ISA. The revised SA 240 does not contain any material modifications *vis-à-vis* Redrafted ISA 240 except that the specific reference to application of certain requirements of the Standard to public sector entities (as given in ISA 240) have been generalised since in terms of the revised Preface issued by the AASB, auditing standards apply equally to all entities irrespective of their nature, size, etc., and also given the fact that the term “public sector” as understood in India is different from its definition as given in the IFAC Glossary of Terms.

ISA 250: *Consideration of Laws and Regulations in an Audit of Financial Statements (Clarity Project)*

- 4.17 SA 250²⁰, *Consideration of Laws and Regulations in an Audit of Financial Statements* was issued by the Institute in 2001 corresponding to ISA 250. An important difference between the two was that whereas ISA 250 requires communication without delay if the non-compliance is believed to be intentional and material, AAS 21 requires such communication if the non-compliance is believed to be intentional *and/ or* material.
- 4.18 The IAASB has recently issued the final redrafted ISA 250 under its Clarity Project. The AASB had also issued the exposure draft of the revised SA 250 corresponding to the former. As per the due process, the proposed revised Standard is being placed before the Council of the Institute for its consideration.

ISA 260: *Communication of Audit Matters with Those Charged with Governance (Clarity Project)*

- 4.19 SA 260²¹, *Communication of Audit Matters with Those Charged with Governance* was issued in 2003 by the Institute corresponding to the existing ISA 260 and is generally consistent with the ISA.
- 4.20 The IAASB in 2008, issued the final version of the **revised and redrafted** ISA 260, *Communication with Those Charged with Governance*, under the Clarity Project, which becomes effective for audits of financial statements for periods beginning on or after 2009. The AASB too had issued the Exposure Draft of the revised SA 260 and the same is being finalised in the light of the revised and redrafted ISA 260 and has been placed before the Council of the Institute for its consideration.

ISA 300: *Planning an Audit of Financial Statements (Clarity Project)*

- 4.21 The IAASB issued the redrafted ISA 300²², *Planning an Audit of Financial Statements*, under the Clarity Project. The Institute too in December 2007 issued the revised SA 300 corresponding to this ISA. The revised SA 300 does not contain any material modifications *vis a vis* Redrafted ISA 300.

¹⁹ Hitherto known as AAS 4.

²⁰ Hitherto known as AAS 21.

²¹ Hitherto known as AAS 27.

²² Hitherto known as AAS 8.



ISA 315: Identifying and Assessing the Risk of Material Misstatement Through Understanding the Entity and its Environment (Clarity Project)

- 4.22 The IAASB in December 2006 issued the **redrafted** ISA 315 pursuant to the Clarity Project. The AASB too in December 2007, issued a Standard on Auditing corresponding to this ISA 315. The SA 315 is generally consistent with the ISA 315 except that the reference to application of certain principles of the Standard to public sector entities has been generalised (for reasons as noted in respect of SA 240) and that the term “material weakness” has been defined.

ISA 320: Audit Materiality

- 4.23 SA 320²³, *Audit Materiality* was issued in 1997 corresponding to then extant ISA 320, *Audit Materiality*. The IAASB issued a revised ISA 320 in the year 2004 giving effect to the modifications arising out of issuance of the revised ISA 240, ISA 315, ISA 330 and ISA 500. There are some semantic differences between SA 320 and the existing version of ISA 320. There is also a significant conceptual difference between them. According to SA 320, materiality depends on the size and nature of an item, judged in the particular circumstances of its misstatement. ISA 320, on the other hand, quotes the definition of materiality from International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements' according to which materiality depends on the size of an item or error judged in the particular circumstances of its omission or misstatement. Thus, SA 320 seems to take a broader view of materiality than ISA 320. An item could be material under SA 320 independent of its size, but not so under ISA 320.
- 4.24 The ISA 320 is, presently, under revision by the IAASB pursuant to the Clarity Project. The IAASB in November 2006 issued Exposure Drafts of two ISAs relating to materiality, viz., ISA 320 (Revised and Redrafted), *Materiality in Planning and Performing an Audit* and SA 450, *Evaluation of Misstatements Identified During the Audit*. The exposure drafts of SAs corresponding to these proposed ISAs are before the AASB for consideration.

ISA 330: The Auditor's Responses to Assessed Risks (Clarity Project)

- 4.25 The IAASB in December 2006 issued the **redrafted** ISA 330 pursuant to the Clarity Project. The AASB too in December 2007, issued a Standard on Auditing corresponding to this ISA 330. The SA 330 is generally consistent with the ISA 330 except that the reference to application of certain principles of the Standard to public sector entities has been generalised (for reasons as noted in respect of SA 240).

ISA 402: Audit Considerations Relating to Entities Using Service Organisations

- 4.26 SA 402²⁴, *Audit Considerations Relating to Entities Using Service Organisations*, was issued in 2002 corresponding to ISA 402. A revised ISA 402 was issued in 2004 to give effect to the modifications arising out of issuance of ISA 315, ISA 330 and ISA 500. The Indian Standard is generally consistent with the ISA except that unlike the ISA it does not give the auditor a blanket permission to visit the auditor of the service organisation and also does not require the auditor of the entity to assess the professional competence of the auditor of the service organisation if the latter is also a member of the Institute of Chartered Accountants of India.

23 Hitherto known as AAS 13.

24 Hitherto known as AAS 24.



- 4.27 The IAASB in December 2007 issued the Exposure Draft of the **revised** ISA 402 under the Clarity Project. The AASB will also soon be publishing the exposure draft of the revised SA 402 for public comments.

ISA 500: Audit Evidence

- 4.28 SA 500²⁵, *Audit Evidence* was issued in 1988 corresponding to then extant ISA 500. The ISA 500 was revised by the IAASB in 2003 to give effect to the changes brought about by the audit risk standards i.e., ISA 315 and ISA 330. The revised ISA 500 became effective for audit of financial statement beginning on or after 15th December 2004.
- 4.29 The IAASB in May 2007 issued an Exposure Draft of the **redrafted** SA 500, *Considering the Relevance and Reliability of Audit Evidence* under the Clarity Project. The AASB has also issued an Exposure Draft of the revised SA 500 based on the aforementioned exposure draft of the ISA for public comments.

ISA 501: Audit Evidence-Additional Considerations for Specific Items

- 4.30 SA 501²⁶, *Audit Evidence - Additional Considerations for Specific Items*, was issued in 2005 by the Institute corresponding to the ISA 501. The IAASB pursuant to the issuance of the audit risk standards and revised ISA 500, issued a revised ISA 501 in 2004, which became effective for audit of financial statements for periods beginning on or after December 15, 2004.
- 4.31 The SA 501 is generally consistent with the ISA 501 except that due to practical reasons, paragraph 23 of the SA requires that when litigation or claims have been identified by the management or when the auditor believes they may exist, and are likely to be material, the auditor may seek direct communication with the entity's lawyers. The auditor need not necessarily communicate with the entity's lawyers and such other professionals to whom the entity engages for litigation and claims in case the auditor is able to obtain the sufficient appropriate audit evidence regarding the identification of litigation and claims involving the entity which may have a material effect on the financial statements. The ISA on the other hand requires that the auditor should communicate with the entity's lawyers to obtain sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and management's estimates of the financial implications, including costs, are reliable. Further, each part of the SA contains the requirements related to obtaining the management representations [see paragraphs 18, 28, 35 and 42]. There is, however, no such requirement in the ISA.
- 4.32 The ISA 501 is being **redrafted** by the IAASB under the Clarity Project and an exposure draft titled, *Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures*, of the same was issued by the IAASB in December 2007. The AASB too has constituted a study group to prepare the draft of the revised SA 501 based on the said exposure draft of the ISA.

ISA 505: External Confirmations

- 4.33 SA 505²⁷, *External Confirmations*, was issued in 2003 corresponding to the then existing ISA 505. The ISA 505 was revised in 2004 to give effect to the modifications arising out of the issuance of the audit risk standards.

²⁵ Hitherto known as AAS 5.

²⁶ Hitherto known as AAS 34.

²⁷ Hitherto known as AAS 30.



The revised ISA 505 became effective for audits of financial statements for the periods beginning on or after December 15, 2004. Significant differences between ISA 505 and SA 505 include that...

- a. The SA 505 requires the auditor to obtain an understanding of the substance of transactions and agreement with the third parties to decide about the information to be included in the request for confirmation. ISA 505 does not contain any requirements in this regard.
- b. The SA 505 requires the auditor to consider the information from audits of earlier years. This requirement is not present in ISA 505.
- c. The SA 505 requires the auditor to request the management to verify and reconcile the discrepancies revealed by the external confirmations received or by the additional procedures carried out by the auditor. The SA further requires the auditor to consider what further tests can be carried out to satisfy himself as to the correctness of related assertions. This requirement is not present in ISA 505.

- 4.34 The IAASB is **revising and redrafting** ISA 505 under the Clarity project and in October 2007 issued an exposure draft of the same. The AASB has also constituted a study group to undertake the revision of the SA 505 in line with the IAASB's exposure draft.

ISA 510: Initial Engagements - Opening Balances

- 4.35 The SA 510²⁸, *Initial Engagements - Opening Balances*, was issued in 2001 corresponding to the then existing ISA 510. The ISA 510 was revised in 2004 by the IAASB upon issuance of ISA 315 and ISA 330. The revised ISA became effective for audits of financial statements for the periods beginning on or after December 15, 2004. The fact that unlike ISA 510, SA 510 does not permit modifications to the prior period's balances in the current period, is a major point of difference between ISA 510 and SA 510.

- 4.36 The IAASB has issued a **redrafted** ISA 510 under the Clarity Project. The AASB has also issued an Exposure Draft of the revised SA 510 (based on the redrafted ISA 510) for public comments.

ISA 520: Analytical Procedures

- 4.37 SA 520²⁹, *Analytical Procedures*, was issued in 1997 corresponding to the then extant ISA 520. The ISA 520 was revised in 2004 upon issuance of audit risk standards and revised ISA 500 by the IAASB. The revised ISA 520 became effective for audits of financial statements for periods beginning on or after December 15, 2004. The major differences between SA 520 and the existing ISA 520 arise on account of absence of risk-based approach in SA 520. ISA provides detailed guidance on aspects such as use of analytical procedures as risk assessment procedures, suitability of using substantive analytical procedures given the assertions, assessing the reliability of data, evaluating whether expectation is sufficiently precise, amount of difference of recorded amounts from expected value that is acceptable. The guidance on extent of reliance on analytical procedures was deleted since it was covered in audit risk standards.

- 4.38 The ISA 520 is being **redrafted** by the IAASB pursuant to the Clarity Project and an exposure draft of the same has been issued in December 2007. The AASB has also constituted a study group to prepare the revised SA 520 based on the exposure draft of the ISA 520.

28 Hitherto known as AAS 22.

29 Hitherto known as AAS14.



ISA 530: *Audit Sampling and Other Means of Testing*

- 4.39 SA 530³⁰, *Audit Sampling*, was issued in 1998 corresponding to the then extant ISA 530. The ISA 530 was revised in 2004 consequent to the issuance of the audit risk standards and revised ISA 500. The revised ISA 530 became effective for audit of financial statements for the period beginning on or after December 15, 2004. Accordingly, unlike SA 530, the existing ISA 530 also deals with other means of testing in addition to audit sampling. Further, the revised ISA 530 provides far more detailed guidance on audit sampling and related aspects *vis a vis* SA 530.
- 4.40 ISA 530 is being **redrafted** by the IAASB under the Clarity Project and an Exposure Draft of the Standard was issued by the IAASB in July 2007. The AASB has constituted a study group to prepare the draft of the revised SA 530.

ISA 540: *Audit of Accounting Estimates*

- 4.41 SA 540³¹, *Audit of Accounting Estimates*, was issued by the Institute in 2000 corresponding to the existing ISA 540. The said ISA was however revised by the IAASB in 2004 consequent to the issuance of the audit risk standards and the revised ISA is effective for audits of financial statements beginning on or after December 15, 2004. It is important to note that the IAASB had also issued ISA 545, *Auditing Fair Value Measurements and Disclosures*. There is no corresponding Standard of the Institute.
- 4.42 It may however be noted that the IAASB has issued a final **revised and redrafted** ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* under the Clarity Project. The AASB has also issued an Exposure Draft of the revised SA 540 corresponding the revised and redrafted ISA 540.

ISA 550: *Related Parties*

- 4.43 SA 550³², *Related Parties*, was issued in 2001 corresponding to the then existing ISA 550. The ISA was revised in 2004 consequent to the issuance of the audit risk standards and the revised ISA 500. The revised ISA 550 became effective for audits of financial statements for periods beginning on or after December 15, 2004.
- 4.44 The IAASB has recently issued the **revised and redrafted** ISA 550 under the Clarity Project. The AASB too has published the exposure draft of the revised SA 550 based on the revised ISA 550.

ISA 560: *Subsequent Events*

- 4.45 SA 560³³, *Subsequent Events*, was issued in 2000 corresponding to the then existing ISA 560. A revised ISA 560 was issued by the IAASB in 2004. The AASB in 2004, issued the exposure draft of the revised SA 560 based on the revised ISA 560 but the project could not be proceeded with at that time. Therefore, presently, the definition of 'Subsequent Events' in ISA 560, *Subsequent Events* is considerably broader than the definition in SA 560, *Subsequent Events* as it also includes the facts discovered after the date of the auditor's report. Unlike SA 560, ISA 560 does not deal with the effect of management's refusal or failure to account for material subsequent events properly.

30 Hitherto known as AAS 15.

31 Hitherto known as AAS 18.

32 Hitherto known as AAS 23.

33 Hitherto known as AAS 19.



- 4.46 The IAASB has recently issued the **redrafted** ISA 560 under the Clarity Project. The AASB has also finalised the revised SA 560 and will place the same for the consideration of the Council as per the due process.

ISA 570: *Going Concern*

- 4.47 SA 570, *Going Concern*, was issued in 1998 corresponding to the then existing ISA 570. This ISA was revised in 2004 consequent to the issuance of the audit risk standards and the revised ISA 500. The revised ISA 570 became effective for audits of financial statements for periods beginning on or after December 15, 2004. The major differences between SA 570 and the existing ISA arise on account of risk-based approach followed by the latter. Further, the ISA also crystallizes the responsibility of the management for assessment of going concern *vis-à-vis* responsibility of the auditor. It also contains additional guidance in respect of planning the audit and performing risk assessment procedures, evaluating management's assessment, procedures in respect of period beyond management's assessment, existence of material uncertainty, etc.

- 4.48 The IAASB has recently issued a **redrafted** ISA 570 under the Clarity Project. The AASB too had issued SA 570 based on the exposure draft of the aforementioned redrafted ISA. Now since the final redrafted ISA 570 has also been issued, the AASB has finalised the revised SA 570 in the light of the redrafted ISA as well as the comments received on the exposure draft of revised SA 570. The revised Standard has been placed for the consideration of the Council.

ISA 580: *Written Representations (Clarity Project)*

- 4.49 SA 580³⁴, *Representations by Management*, was issued by the Institute in 1996 corresponding the then existing ISA 580. The ISA 580 has since been **revised and redrafted** under the Clarity Project as *Written Representations*. The Institute too has issued the revised SA 580 corresponding to this ISA. The revised SA 580 does not contain any material modifications *vis-à-vis* ISA 580 issued under the IAASB's Clarity Project.

ISA 600: *Using the Work of Another Auditor*

- 4.50 SA 600³⁵, *Using the Work of Another Auditor*, was issued by the Institute in 1995 and revised in 2002 corresponding to ISA 600 with the difference that unlike ISA 600, SA 600 did not entitle the principal auditor to review the working papers of the other auditor. Further, SA 600 also does not envisage assessment of the professional competence of the other auditor by the principal auditor in case such other auditor is also a member of the Institute.

- 4.51 The IAASB has issued **revised and redrafted** ISA 600, *Special Considerations - Audits of Group Financial Statements (Including the Work of Component Auditors)* under the Clarity Project. The AASB had also issued an exposure draft of the revised SA 600 based on the revised and redrafted ISA for public comments. Recently, the AASB has also finalised the revised SA 600 in the light of the comments received on its exposure Draft and will soon place the same for the consideration of the Council of the Institute.

ISA 610: *Relying Upon the Work of an Internal Auditor*

- 4.52 SA 610³⁶, *Using the Work of an Internal Auditor*, was issued in 1989 corresponding to ISA 610. ISA 610,

34 Hitherto known as AAS 11.

35 Hitherto known as AAS 10.

36 Hitherto known as AAS 7.



Considering the Work of Internal Audit does not list 'physical examination and verification' of assets whereas SA 610, *Relying upon the Work of an Internal Auditor* does not list the 'review of compliance with laws, regulations and other external requirements and with management policies and directives and other internal requirements' among the principal activities of internal audit function.

- 4.53 The IAASB in December 2006 issued an exposure draft of the **redrafted** ISA 610, *The Auditor's Consideration of the Internal Audit Function* under the Clarity Project. The AASB has constituted a study group to revise the SA 610 in the light of the exposure draft of the redrafted ISA 610.

ISA 620: Using the Work of an Expert

- 4.54 The SA 620³⁷, *Using the Work of an Expert*, was issued in 1991 corresponding to ISA 620 and is generally consistent with the latter. The ISA was revised in 2004 pursuant to the issuance of audit risk standards and the revised ISA 500 (this part of the amendments being effective from December 15, 2004) as also because of the issuance of ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*, and ISA 220 (Revised), *Quality Control for Audits of Historical Financial Information* (these amendments being effective for audits of financial statements for periods beginning on or after June 15, 2004.). The existing SA 620 therefore contains significant differences *vis-à-vis* existing ISA 620, including the following...

- Unlike ISA 620, SA 620 does not contain a requirement that where the expert is an employee of the auditor, the latter need not evaluate the expert's capabilities and competence for each audit engagement. ISA 620 envisages that these aspects would be taken care of in terms of the requirements of ISA 220.
- ISA 620 requires the auditor to consider the engagement team's knowledge and previous experience of the matter being considered when determining the need to use the work of an expert. This requirement is not present in SA 620.
- ISA 620 is more exacting in its requirements since it requires the auditor to "evaluate" (unlike SA 620 which requires the auditor to "consider") professional competence and objectivity of the expert, scope of the work of the auditor, appropriateness of the expert's work as audit evidence, etc.
- ISA 620 requires the auditor to seek legal advice where the expert refuses permission to make a reference to his work in the audit report, even in circumstances where such reference is considered necessary for the auditor to explain the modification to the audit report. This guidance is not present in SA 620.

- 4.55 The IAASB has placed the ISA 620 under the Clarity Project for **revision and redrafting** and has issued an exposure draft titled, *Using the Work of an Auditor's Expert*, of the same in October 2007. The AASB too has constituted a study group to prepare draft of the revised SA 620 based on this exposure draft of ISA 620.

ISA 700: The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements

- 4.56 SA 700³⁸, *The Auditor's Report on Financial Statements* was issued in 2003 corresponding to the then existing ISA 700. The ISA 700 was revised by the IAASB in 2004 and issued as *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*, which became effective for auditor's reports dated on or after December 31, 2006. Both the Standards differ from each other in certain aspects. As per SA 700, the date of the auditor's report is the date on which the auditor signs the report. ISA 700, *The Independent*

³⁷ Hitherto known as AAS 9.

³⁸ Hitherto known as AAS 28.



Auditor's Report on a Complete Set of General Purpose Financial Statements, on the other hand, requires that the auditor should date the report on the financial statements no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the opinion on the financial statements. SA 700 also requires that the audit report should name a specific location which is "ordinarily the city where the audit report is signed". ISA 700, on the other hand, construes that the report should name the location in the country or jurisdiction where the auditor practices.

4.57 Further, as per SA 700, where a firm is appointed as auditor, the audit report should be signed in "the personal name of the auditor and in the name of the firm", along with the membership number of the partner/proprietor signing the audit report. ISA 700 requires that the audit report should be signed "in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction". SA 700 considers it preferable that an emphasis-of-matter paragraph precede the opinion paragraph. ISA 700, on the other hand, prefers such a paragraph to be included after the opinion paragraph. In addition, the IAASB had also issued **ISA 701, *Modifications to the Independent Auditor's Report***.

4.58 ISA 700 is being redrafted under the IAASB Clarity Project and an Exposure Draft of the same has been issued by the IAASB. In addition, the IAASB in August 2007 issued exposure draft ISA 705 (***Revised and Redrafted***), *Modifications to the Opinion in the Independent Auditor's Report*, ISA 706 (***Revised and Redrafted***), *Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report*. The AASB has constituted a study group to prepare the new/ revised Standards on Auditing corresponding to these ISAs.

ISA 710: *Comparatives*

4.59 SA 710³⁹, *Comparatives*, was issued in 2002, corresponding to ISA 710. The ISA was revised in 2004 pursuant to the issuance of audit risk standards and the revised ISA 500. The revised ISA 710 became effective for audits of financial statements for periods beginning on or after December 15, 2004. There is a significant difference between them in relation to the auditor's responsibilities where, in performing the audit of the current period financial statements, the auditor becomes aware of a material misstatement that affects the prior period financial statements on which an unmodified report has been previously issued. Another major difference between SA 710 and ISA 710, *Comparatives* relates to the procedures prescribed in a situation where the prior period financial statements are not audited.

4.60 The IAASB issued an exposure draft of the ***redrafted*** ISA 710, *Comparative Information-Corresponding Figures and Comparative Financial Statements* in January 2008. The AASB too has constituted a study group to prepare draft of the revised SA 710 based on this exposure draft of ISA 710.

ISA 720: *Other Information in Documents Containing Audited Financial Statements (Clarity Project)*

4.61 Presently, there is no Standard on Auditing corresponding to ISA 720. The IAASB has issued ISA 720 (***Redrafted***), *The Auditor's Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements* under the Clarity Project. The AASB has recently finalised the exposure draft of the proposed SA 720 and will soon publish it for public comments.

39 Hitherto known as AAS 25.



ISA 800: The Independent Auditor's Report on Special Purpose Audit Engagements

- 4.62 Presently, there is no Standard on Auditing Corresponding to ISA 800. The IAASB in August 2007 issued exposure draft of the **Revised and Redrafted** ISA 800, *Special Considerations-Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement* under the Clarity Project. The AASB has also constituted a study group to prepare a Standard corresponding to this Exposure Draft.

Standard on Joint Audits

- 4.63 The practice of appointing more than one auditor to conduct the audit of large entities has been in vogue for a long time. Such auditors, known as joint auditors, conduct the audit jointly and report on the financial statements of the entity. The Institute, in November 1996 issued a Standard, *Responsibility of Joint Auditors*. This SA deals with the professional responsibilities which the auditors undertake in accepting such appointments as joint auditors. The important aspect of joint audit assignments as covered by this SA include possible bases of division of work among joint auditors, co-ordination among joint auditors, joint and several liability of joint auditors, responsibility for obtaining and evaluating information and explanation from management, responsibility for scrutiny of branch accounts and returns, need for review of work performed by one joint auditor by other joint auditor(s), reporting responsibilities etc. The IAASB has not yet issued any Standard on joint audits.

ISRE 2400: Engagements to Review Financial Statements

- 4.64 The Institute in 2000 had issued Guidance Note, Engagements to Review Financial Statements corresponding to ISRE 2400 (then ISA 910) which was in 2005 converted in a full fledged auditing standard, SRE 2400⁴⁰, *Engagements to Review Financial Statements*.
- 4.65 The principles established in SRE 2400 are generally consistent in all material respects with those set out in ISREs 2400 except the following...
- The SRE does not require the engagement letter to include form of report to be issued pursuant to the engagement since the format of report, in some cases, is prescribed by the laws or regulations pursuant to which the financial statements are required to be reviewed.
 - Due to the practices prevailing in India, the SRE requires the auditor to mention the "Place" instead of the "Auditor's Address" [see paragraph 26] in the report on a review of financial statements. The place of signature is the name of specific location, which is ordinarily the city where the review report is signed. According to ISA 700 (which defines the term), the expression "Auditor's Address" means the name of a specific location, which is ordinarily the city where the auditor maintains the office that has the responsibility for the audit.
 - The SRE requires the auditor to mention the membership number assigned by the Institute of Chartered Accountants of India [see paragraph 26]. ISRE 2400, however, does not contain any corresponding requirement.
 - Paragraph 29 of the SRE requires that the auditor should not agree to a change of engagement where there is no reasonable justification for doing so. If the auditor is unable to agree to a change of the engagement and is not permitted to continue the original engagement, the auditor should withdraw and consider whether there is any obligation, either contractual or otherwise, to communicate the

40 Hitherto known as AAS 33.



circumstances necessitating the withdrawal to other parties, such as the board of directors or shareholders. There is no corresponding requirement in ISRE 2400.

- 4.66 The ISRE 2400 was revised in 2005 pursuant to the issuance of ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. The AASB has also constituted a study group to revise SRE 2400.

ISRE 2410: Review of Interim Financial Information Performed by the Independent Auditor of the Entity.

- 4.67 The Institute is yet to issue an SRE corresponding to ISRE 2410. For this purpose the AASB has constituted a study group to prepare the draft SRE 2410.

ISAE 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information

- 4.68 The Institute is yet to issue an SAE corresponding to ISAE 3000. For this purpose the AASB has constituted a study group to prepare the draft SAE 3000.

ISAE 3400: The Examination of Prospective Financial Information

- 4.69 The Institute, in 2007, issued SAE 3400⁴¹, *The Examination of Prospective Financial Information*, corresponding to ISAE 3400 (known as ISA 810 till December 2003). Except for the matters noted below, the basic principles and essential procedures of this SAE 3400 and International Standard on Assurance Engagement (ISAE) 3400 *The Examination of Prospective Financial Information*, are consistent in all material respects...

- a. SAE 3400 precludes the auditor from expressing positive assurance regarding the assumptions as it may tantamount to vouching for the accuracy of the forecast/projection/hypothetical assumptions. Whereas, the ISAE 3400 permits the auditor to express positive assurance when in his judgment an appropriate level of satisfaction has been obtained.
- b. The sub-points in paragraph 17 (corresponding to paragraph 17 of the ISAE 3400) have been rearranged. Sub-point (e) has been elucidated for the sake of better understanding of the readers. The sub points (f) and (g) have been added in the SAE as additional factors to be considered by the auditor.
- c. In paragraph 20 of the SAE, the phrase “although evidence supporting hypothetical assumptions need not be obtained” has been deleted since it is felt that such a phrase is inconsistent with the necessity for the auditor to obtain evidence to support his conclusions.
- d. In paragraph 26 (corresponding to paragraph 26 of the ISAE 3400), the term “professional standards” has been changed to “professional pronouncements” since pronouncements would include standards as well as other relevant documents, such as Guidance Notes, announcement(s), issued by the Institute.
- e. In line with requirement of SA 700, *The Auditor's Report on Financial Statements*, this SAE requires the auditor to include a scope section in the examination report to explain the nature and extent of the auditor's work. ISAE 3400 does not contain an equivalent requirement.
- f. SAE specifically provides for the documentation required to be done by the auditor in regard to any

41 Hitherto known as AAS 35.



engagement of examination of prospective financial information. However, ISAE 3400 does not contain such explicit provision.

ISRS 4400: Engagements to Perform Agreed upon Procedures regarding Financial Information

- 4.70 The Institute issued SRS 4400⁴², *Engagements to Perform Agreed upon Procedures regarding Financial Information*, in 2004. The principles enunciated in SRS 4400 are generally consistent with those in ISRS 4400 (earlier known as ISA 920).

ISRS 4410: Engagements to Compile Financial Information

- 4.71 The Institute issued SRS 4410⁴³, *Engagements to Compile Financial Information*, in 2004. The standards for compilation engagements established in SRS 4410 are generally consistent in all material respects with those set out in the ISRS 4410, *Engagements to Compile Financial Information*, except for the additional section titled, "Special Considerations", as given in paragraphs 19 to 22 of this Standard.
- 4.72 The said section has been added to provide guidance to members in respect of certain typical issues which might be faced by the members in carrying out compilation engagements. For example, duties and responsibilities of the accountant in case of clients having an identified financial reporting framework, such as the Companies Act, 1956 and any material departures therefrom; clients having no identified financial reporting framework, say, where the financial statements are based on the requirements of the Income Tax Act, 1961. The section also provides guidance in respect of situations where the accountant becomes aware of a material non-compliance with the applicable Accounting Standards; as also duties of the accountant relating to accounting estimates made by the client.
- 4.73 Moreover, the SRS, in paragraph 24, unlike the ISRS 4410, also requires that the financial statements should be approved by the client before compilation report is signed by the accountant. The SRS also requires the accountant to ensure that the users of the compiled financial statements are aware of the extent of his/ her involvement with the accounts so that the users do not derive any unwarranted assurance. The SRS, unlike the ISRS, also prohibits the accountant from preparing the financial statements on his letter head or other stationery bearing his (or firm's) name or address.
- 4.74 In addition, the SRS 4410, unlike the ISRS 4410, does not require the accountant to send a form of expected report to the client along with the engagement letter. Also, the SRS requires the accountant to mention the place of signature in his report as compared to the ISA which requires the accountants to give his address.

Overview of the Status as of October, 2008

- 4.75 From the above, the following status of the Institute's Clarity Project *vis-à-vis* the IAASB's Clarity Project emerges...

42 Hitherto known as AAS 32.

43 Hitherto known as AAS 31.



A. Final ISAs issued under Clarity Project= 22

	ISA				
		<i>Final Issued</i>	<i>Before Council</i>	<i>ED Issued</i>	<i>Under Prepara- tion</i>
200	Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards On Auditing				✓
230	Audit Documentation		✓ ⁴⁴		
240	The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements ⁴⁵	✓			
250	Consideration of Laws and Regulations in an Audit of Financial Statements ⁴⁶	✓			
260	Communications of Audit Matters with Those Charged with Governance ⁴⁷	✓			
300	Planning and Audit of Financial Statements ⁴⁸	✓			
315	Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment	✓			
320	Materiality in Planning and Performing an Audit			✓	
330	The Auditor's Responses to Assessed Risks ⁵⁰	✓			
450	Evaluation of Misstatements Identified During the Audit			✓	
510	Initial Engagements - Opening Balances			✓	
530	Audit Sampling			✓	
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures			✓	
550	Related Parties			✓	
560	Subsequent Events		✓ ⁵¹		

44 Approved by the AASB at its 124th meeting held in September, 2008 for consideration of the Council. Draft Standard will be placed before the Council at its November, 2008 meeting.

45 Effective for audits of financial statements for periods beginning on or after 1st April, 2009.

46 The Standard has been cleared by the Council at its 281st meeting held in October 2008 and is effective for audits of financial statements for periods beginning on or after 1st April, 2009.

47 The Standard has been cleared by the Council at its 281st meeting held in October 2008 and is effective for audits of financial statements for periods beginning on or after 1st April, 2009..

48 Effective for audits of financial statements for periods beginning on or after 1st April, 2008.

49 Effective for audits of financial statements for periods beginning on or after 1st April, 2008.

50 Effective for audits of financial statements for periods beginning on or after 1st April, 2008.

51 Approved by the AASB at its 124th meeting held in September, 2008 for consideration of the Council. Draft Standard will be placed before the Council at its November, 2008 meeting.



570	Going Concern ⁵²	✓			
580	Written Representations ⁵³	✓			
600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)		✓ ⁵⁴		
610	Using the Work of Internal Auditors				✓
705	Modifications to the Opinion in the Independent Auditor's Report				✓
706	Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report				✓
720	Other Information in Documents Containing Audited Financial Statements			✓	
22	Total	08	03	07	04

52 The Standard has been cleared by the Council at its 281st meeting held in October 2008 and is effective for audits of financial statements for periods beginning on or after 1st April, 2009.

53 Effective for audits of financial statements for periods beginning on or after 1st April, 2009.

54 Approved by the AASB at its 124th meeting held in September, 2008 for consideration of the Council. Draft Standard will be placed before the Council at its November, 2008 meeting.



Exposure Drafts of the ISAs issued under Clarity Project = 13

IS	ISA	Institute's status	
		Study Group	ED issued
210	Agreeing the Terms of Audit Engagements		✓
220	Quality Control for an Audit of Financial Statements	✓	
265	Communicating Deficiencies in Internal Control		✓
402	Audit Considerations Relating to an Entity Using a Third Party Service Organization		✓
500	Considering the Relevance and Reliability of Audit Evidence		✓
501	Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures	✓	
505	External Confirmations	✓	
520	Analytical Procedures	✓	
620	Using the Work of an Auditor's Expert	✓	
700	The Independent Auditor's Report on General Purpose Financial Statements	✓	
710	Comparative Information-Corresponding Figures and Comparative Financial Statements	✓	
800	Special Considerations-Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	✓	
805	Engagements to Report on Summary Financial Statements	✓	
13	Total	09	04

4.76 In addition, the Institute has already embarked on the revision of the existing Code of Ethics to bring it in line with the Code of Ethics issued by IFAC, including ironing out the structural differences between the two Codes. The difference in the structuring of the two Codes of Ethics have been leading to difficulties when drawing corresponding reference from the IFAC Code of Ethics to the Institute Code of Ethics. For example, paragraph 1 of the International Standard on Quality Control (ISQC) 1 draws a reference to Parts A and B of the IFAC Code. Since the Institute Code of Ethics does not contain such corresponding Parts A and B, while drafting the corresponding Standard on Quality Control (SQC) 1, the reference had to be drawn to the entire Code of Ethics of the Institute.



Convergence - Work Plan

5

- 5.1 It is quite clear from the earlier discussion that the IAASB is revising and/ or redrafting the entire suite of its existing Standards pursuant to its Clarity Project. In addition, it is also bringing out a few new Standards. As a result, the IAASB frequently issues Exposure Drafts (EDs) of these revised and/ or redrafted or new Standards. The comment period for each such Exposure Draft is six months. Thereafter, the comments are considered by the IAASB and the proposed Standard, revised as necessary, is sent to the Public Interest Oversight Board (PIOB) for final approval. The issuance of a final Standard therefore, normally, takes at least one year. The due process of the AASB also requires about one year for a Standard to be finally issued. In this context, it may, however, also be noted that despite the fact that the IAASB is frequently issuing revised and/ or redrafted International Standards under its Clarity Project, these revised/ redrafted Standards would be effective only after December 15, 2009.

Co-terminus Exposure Drafts

- 5.2 In view of the above, issuing an exposure draft of the new/ revised Standard only after the final Standard has been issued by the IAASB after approval from PIOB would create a lot of time lag between when the Standard is issued by the IAASB *vis-à-vis* when issued by the AASB. To reduce this gap, the AASB issues exposure drafts of its Standards based on exposure drafts of the International Standards issued by the IAASB and seek public comments. At present, the comments are considered once the final Standard is issued by the IAASB, so as to enable the AASB to also consider changes made by the IAASB in its final ISA *vis-à-vis* ED of that ISA. The following is the proposed timeline for issuance of the final revised/ new Standards on Auditing (which are now either under preparation by the Study Group or are in the exposure draft stage or are before the Council for the final clearance) corresponding to ISAs issued under the Clarity Project...

Proposed Timeline of Issuance⁵⁵ of the Institute Standards corresponding to the IAASB Clarity Project

SA	Title	The IAASB expected time of completion ⁵⁶	The Institute expected time of completion		
			2008	2009	2010
200	Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with the Standards on Auditing ⁵⁷				✓
210	Terms of Audit Engagement	2008/ September		✓	
220	Quality Control for an Audit of Financial Statements	2008/ September		✓	
230	Audit Documentation		✓		

55 The Timeline is subject to the issuance of the final ISAs by IAASB as indicated in the IAASB's timeline given on their website. Those ISAs which are still in the Exposure Stage or in respect of which the comment period is expired but are still to be issued by IAASB (including ISAs whose expected date of completion was September, 2008), are shown in shaded (blue) in this table.

56 As per the information available at the IAASB's website.

57 As noted in the earlier Chapter, the AASB has decided to take up this project only after the final ISA 200 is issued by IAASB.



250	Consideration of Laws and Regulations in an Audit of Financial Statements		✓		
260	Communication with Those Charged with Governance		✓		
265	Communicating Deficiencies in Internal Control	2008/ December		✓	
320	Materiality in Planning and Performing an Audit			✓	
402	Audit Considerations Relating to Entities Using Service Organisation	2008/ December		✓	
450	Evaluation of Misstatements Identified During the Audit			✓	
500	Considering Relevance and Reliability of Audit Evidence	2008/ September		✓	
501	Audit Evidence Regarding Specific Financial Statement Account Balances and Disclosures	2008/ September		✓	
505	External Confirmations	2008/ September		✓	
510	Initial Engagements - Opening Balances	✓			
520	Analytical Procedures	2008/ September		✓	
530	Audit Sampling			✓	
540	Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures		✓		
550	Related Parties		✓		
560	Subsequent Events		✓		
570	Going Concern		✓		
600	Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)		✓		
610	The Auditor's Consideration of the Internal Audit Function			✓	
620	Using the Work of Auditor's Expert	2008/ September		✓	
700	The Independent Auditor's Report on General Purpose Financial Statements	2008/ September		✓	
705	Modifications to the Opinion in the Independent Auditor's Report	—		✓	
706	Emphasis of Matter Paragraphs and Other Matter(s) Paragraphs in the Independent Auditor's Report	—		✓	
710	Comparative Information - Corresponding Figures and Comparative Financial Statements	2008/ September		✓	
720	Other Information in Documents Containing Audited Financial Statements	—		✓	
800	Special Considerations-Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement	2008/ September			✓
805	Engagements to Report on Summary Financial Statements	2008/ September			✓



- 5.3 Once we reach the stage where the standards issued by AASB are at par with those issued by IAASB, it should be our endeavour to issue exposure drafts co-terminus with the exposure drafts issued by the IAASB. This would help in creating timely awareness about the proposed changes to auditing standards among the members, at large. It would also help in generating a timely response from the members as to the issues and difficulties that they might foresee if that Standard were to be issued. These responses can then be collated and forwarded to the IAASB. Further, the AASB's exposure draft, subject to the due process, can be finalised and issued as final standard without much time lag *vis-à-vis* the final International Standard.

Implementation Guidance

- 5.4 It is important to note the fact that the IAASB's Standards are quite generic in nature, but then with more than 157 member bodies spread out in 123 countries of IFAC to serve, it would not be possible for the IAASB to accommodate the country specific legal, regulatory requirements and/ or cultural and trade practices and customs in the Standards formulated by it. The aim of the IAASB when formulating ISAs is to propound principles of auditing which are fundamental to carrying out an effective audit of financial statements. The national standards setters can make the necessary modifications to the IAASB's Standards arising out of their legal/ statutory requirements and/ or trade/ cultural practices/ customs in the Application and Other Explanatory Material section of the Standard in accordance with the requirements set out in the July 2006 IAASB policy paper. Alternatively, they can bring out Implementation Guides to help the auditors in their jurisdiction guiding them on implementing the requirements of the ISAs.
- 5.5 Having regard to the exacting requirements of the Standards being issued by the IAASB under its Clarity Project, the AASB decided to *bring out implementation guides* to assist the practitioners in understanding the Standards better and apply them in various practical situations. As stated earlier, the AASB has recently issued an *Implementation Guide on SQC 1* and a *Guide to Risk-based Audit of Financial Statements*. As a part of its future work plan, it intends to bring out implementation guide in all significant areas and update the existing implementation guides as and when new Standards are issued.

Enhancing Professional Skill Sets

- 5.6 Keeping in view the series of continuous developments in the field of audit, it is imminent for the Institute to organise training programmes, workshops and such other awareness programmes. Absorption of the requirements of the new Standards and corresponding changes required to the audit methodology at the members' end would need time. The Institute would also need to make concerted efforts to help members understand the new Standards and resolve any implementation issues or other concerns that may arise therefrom. In this context, it is necessary that the focus of such learning activities is on providing knowledge about technology and risk assessment techniques including knowledge of macro economic environment, industry-specific issues, etc.

Representation at the IAASB

- 5.7 The Institute is the second largest accountancy body in the world. It is also a founder member of the International Federation of Accountants. Further, India is one of the most keenly watched economies in the Asia since a number of economies in the developed world have vast commercial interests in the Indian economy and *vice versa*. It is therefore essential that the auditing standards used to report on the financial information generated in India are benchmarked with the International Standards. With that background, it is essential that the Institute plays a proactive role in development of the IAASB's Standards. It is also essential that the concerns and issues of the practitioners in India are communicated in an effective and timely manner to the IAASB at the early stages of development of the relevant Standard. The Institute should therefore work towards obtaining a membership of the IAASB to closely integrate the working of the AASB with the IAASB.

APPENDICES





APPENDIX A

IFAC's Standards-Setting Public Interest Activity Committees' Due Process and Working Procedures – March 2006

In promulgating international pronouncements, including international Standards, IFAC's standards-setting Public Interest Activity Committees' (PIACs) adopt the following due process and working procedures.

Matters of due process are identified in each of the following paragraphs. Working procedures, shown in italics, are steps adopted by the PIAC to facilitate the operation of its due process but are not themselves part of the due process.¹ Working Procedures may be modified to reflect unique circumstances of the individual PIAC or, as considered necessary, to respond to changes in circumstance.

General

1. PIAC meetings to discuss the development and to approve the issue, of international pronouncements are open to the public. Matters of a general administrative nature or with privacy implications may be dealt with in closed sessions...
 - *Where practicable, PIAC meetings are broadcasted over the Internet or recorded and archived on the IFAC website.*
2. Meeting agenda papers, including issues papers and draft international pronouncements prepared for the PIAC's review and debate and minutes of the immediately preceding meeting of the PIAC, are published on the IFAC website in advance of each PIAC meeting...
 - *Meeting agenda papers are published on the IFAC website ordinarily no later than three weeks in advance of each PIAC meeting. Draft meeting minutes are published on the IFAC website ordinarily within six weeks after each PIAC meeting. Final minutes are retained on the website indefinitely.*
 - *Updated project summaries and meeting highlights are posted to the website after each meeting. Agenda papers are retained on the IFAC website for at least three years from the date of the meeting. Only the final international pronouncements issued by the PIAC are authoritative.*

¹ For discussion purposes, this document presents matters of due process and working procedures together. This presentation style may also be used when publishing such matters on the IFAC website. A PIAC may however publish its due process, either separately or along with its working procedures, in a document within its Handbook (or equivalent) containing the PIAC's international pronouncements.



3. Meetings and agenda papers are in English, which is the official working language of IFAC.

Project Identification, Prioritization and Approval

4. The PIAC identifies new projects based on a review of national and international developments and on comments and suggestions from those who have an interest in the development of international pronouncements issued by the PIAC.
5. The Public Interest Oversight Board (PIOB) is consulted to help establish the appropriateness of the PIAC's project priorities and any changes therein. The PIAC obtains the PIOB's opinion, as at the date of that opinion, on the appropriateness of the items on the work program and on whether or not it wishes, from a public interest perspective, to have any further items added. The PIAC adds to its work program those items that the PIOB resolves should, from a public interest perspective, form part of the PIAC's work program.
6. The PIAC's Consultative Advisory Group (CAG) is consulted to help establish the appropriateness of the PIAC's project priorities and any changes therein. A proposal to start a new project is prepared based on research and on appropriate consultation within the PIAC and with the PIAC's CAG, with consideration given to the costs and benefits of the proposed project. It is also circulated to other IFAC Committees and IFAC Task Forces to identify matters of possible relevance to the project. The PIAC considers and prioritizes the project proposal having regard to the public interest. As appropriate, the PIAC approves, amends or rejects the project proposals in a meeting open to the public...
 - Where the PIAC has a Steering Committee (or equivalent), a proposal to start a new project is first considered by the Steering Committee (or equivalent). As appropriate, the Steering Committee (or equivalent) recommends to the PIAC either that a project proposal be approved or that no new project be initiated at that time. A project proposal identifies, where applicable, who has recommended the project for consideration by the PIAC.
7. Where the PIAC's CAG has recommended a project for consideration by the PIAC, the Chair of the PIAC informs the PIOB and the PIAC's CAG of the decisions of the PIAC.

Development of Proposed International Pronouncements

8. The PIAC may assign responsibility for a project to a Project Task Force. The Project Task Force operates within the guidelines established by the PIAC...
 - *A project proposal includes any proposed assignment of responsibility for the project to a Project Task Force. It addresses, where appropriate, specific areas of expertise or geographical representation that may be needed on the Project Task Force. The identification of Project Task Force members focuses on finding the best person for the job.*
 - *A Project Task Force is chaired by a member of the PIAC and may contain participants, such as external experts, who are not members of the PIAC but have experience relevant to the subject matter. Members of a Project Task Force are identified in the project summaries contained on the IFAC website.*
 - *Project Task Force meetings are not open to the public.*
 - *Draft pronouncements are developed based on research and consultation, which may include: conducting research; consulting with the PIAC or the PIAC's CAG, practitioners, regulators, national standard setters and*



other interested parties; and reviewing professional pronouncements issued by IFAC member bodies and other parties.

- *The PIAC may carry out projects in cooperation, or conduct projects jointly, with a national standard setter(s) or other organizations with relevant expertise. In the case where a project is to be conducted jointly,² a member of the PIAC chairs the joint Project Task Force. Where practicable, joint projects are conducted on a multi-national basis whereby two or more national standard setters or national organizations are involved in the joint project.*
9. The PIAC considers whether to hold a public forum or roundtable, or issue a consultation paper, in order to solicit views on a matter under consideration. The PIAC should also consider the appropriateness of conducting a field test of the application of its proposals for a new or revised standard. The decision to undertake any of these steps may be made at any stage before or after a draft international pronouncement is issued for public exposure. The rationale for the PIAC's decision in relation to these steps shall be discussed at a PIAC meeting and the decision minuted. Comments received through a public forum or roundtable, or the issue of a consultation paper, are considered in the same manner as comments received on an exposure draft...
- *In deciding upon the need to hold a public forum or roundtable or to issue a consultation paper, the PIAC considers whether the subject of the international pronouncement, the level of interest within and outside the profession, the likely or actual existence of a significant and controversial divergence of views, the need for additional information in order to further the PIAC's deliberative process, or some other reason indicates that wider or further consultation would be appropriate.*
 - *The outcome(s) of a public forum or roundtable, or the issue of a consultation paper, is summarized and reported to the PIAC, as part of the PIAC's public agenda papers, for purposes of the PIAC's deliberation on the subject under consideration.*
10. When the Project Task Force is satisfied that it has a proposed draft international pronouncement that is ready for exposure, it presents the draft to the PIAC for approval in accordance with the PIAC's voting procedures.

Public Exposure

11. Approved draft international pronouncements are exposed for public comment. Exposure drafts are placed on the IFAC website where they can be accessed free of charge by the general public. Each exposure draft is accompanied by an explanatory memorandum that highlights the objective(s) of and the significant proposals contained in the draft international pronouncement, as well as the PIAC's view on the main issues addressed in the development thereof...
- *Notice of the issuance of exposure drafts is widely distributed to: regulatory bodies; organizations that have an interest in the pronouncements issued by the PIAC; member bodies of IFAC; and the press.*
 - *An explanatory memorandum may also direct respondents, including those representing specific*

² Joint projects are subject to the due process of the PIAC. If exposed separately both internationally and by the national standard setter(s) with whom the project is being jointly developed, and where applicable, the PIAC may additionally have regard to comments received by the national standard setter(s), where they may be relevant internationally, and to the extent the process does not result in unnecessary delay in the finalization of the pronouncement. The final pronouncement approved by PIAC becomes a final international pronouncement in the normal way. It may differ from the corresponding document(s), if any, approved by the collaborating national standard setter(s).



constituencies such as developing nations, small-and medium-sized practices or the public sector, to aspects of the draft international pronouncement on which specific comments are sought.

12. The exposure period will ordinarily be no shorter than 90 days.³
 - *A shorter or longer exposure period, however, may be set when considered appropriate. A longer exposure period may be set, for example, where complex or pervasive changes might affect translation or to make wider consultation possible. A shorter exposure period may be 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 PIAC decides to re-expose all or only part of a draft international pronouncement*
 - *Exposure drafts indicate that the PIAC cannot undertake to consider comments and suggestions received after the close of the comment period.*
13. Comments made by respondents to an exposure draft are a matter of public record and are posted on the IFAC website after the end of the exposure period.
 - *An acknowledgement of receipt is sent to every respondent to an exposure draft.*
 - *PIAC members, their technical advisers, and Project Task Force members who are not members of the PIAC are notified when comment letters have been made available on the IFAC website.*
 - *A number of printed copies of the exposure draft and comment letters are also made available for the reference purpose of PIAC members at the PIAC meeting in which the project is scheduled for discussion.*

Consideration of Respondents' Comments on an Exposure Draft

14. To facilitate the deliberative process, the Project Task Force provides the PIAC, as part of the PIAC's public agenda papers, with an analysis that summarizes the main issues raised by respondents, outlines the proposed disposition of the issues that have been raised and, as appropriate, explains the reason(s) significant changes recommended by a respondent(s) are, or are not, to be accepted.
 - *The comments and suggestions received within the exposure period are read and considered by the Project Task Force.*
 - *Project agenda papers contain a cumulative summary of the significant decisions made by the PIAC on matters relating to the project, including its position on the main points raised in comment letters.*
 - *When an exposure draft has been subject to many changes, a summary comparative analysis is presented to the PIAC. This analysis shows, to the extent practicable, the differences between the exposure draft and the proposed final international pronouncement.*
15. Members of the PIAC familiarize themselves with the issues raised in comment letters on exposure drafts such that they are able to make well informed decisions as they finalize an international pronouncement. The PIAC deliberates significant matters raised in the comment letters received, with significant decisions

³ Note: In response to the IAASB's exposure draft on due process, several national standard setters expressed concern that a 90 exposure period does not provide sufficient time to allow: the issue of exposure drafts nationally in parallel with the IAASB exposure process; (ii) comment from jurisdictions where translation is necessary; and (iii) representative bodies to consult and achieve consensus of their comments within their due process. Accordingly, the exposure period proposed for the IAASB due process states: "The exposure period will ordinarily be 120 days." While the extension from 90 days to 120 days may not significantly impact the IAASB timetable, it would affect the timeliness of output by other PIACs that do not convene as frequently as the IAASB.



recorded in the minutes of the meeting of the PIAC...

- *The PIAC does not enter into debate or discussion with respondents on individual comment letters.*
- *The PIAC may decide, however, to discuss a letter of comment with the respondent to seek clarification on a matter. For comments received from members of the Monitoring Group and from the CAG, if and as requested, the PIAC will explain to them the reason(s) for not having accepted their proposals. The nature and outcome of such discussions are reported and recorded in the minutes of the PIAC meeting at which the related project is discussed.*

Re-Exposure

16. After approving the revised content of an exposed international pronouncement, the PIAC assesses whether there has been substantial change to the exposed document that may warrant re-exposure. If so, the PIAC votes on a resolution in favor of re-exposure that is subject to the same voting rules as a vote on the issue of an exposure draft or final international pronouncement of the type to be issued, in accordance with the PIAC's terms of reference...
 - *The senior staff member of the PIAC, in consultation with the Chair of the PIAC and chair of the Project Task Force, advises the PIAC on whether a draft international pronouncement, or part thereof, needs to be re-exposed.*
 - *Situations that constitute potential grounds for a decision to re-expose may include, for example; substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the PIAC before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the PIAC; or substantial change to the substance of a proposed international pronouncement.*
17. When an exposure draft is re-exposed, the explanatory memorandum accompanying the re-exposure draft includes the reasoning for re-exposure and sufficient information to allow an understanding of the changes made as a result of the earlier exposure.

Approval of a Final International Pronouncement

18. The senior staff member of the PIAC is responsible for advising the PIAC and the PIOB on whether the established due process has been followed before a final international pronouncement is approved for issue...
 - *The senior staff member provides a written report in the agenda papers of the meeting outlining the basis for this conclusion with respect to actions up to the date of the meeting.*
 - *The senior staff member also reports to the PIAC whether established due process has been followed during the meeting at which a final international pronouncement is approved for issue. The substance of this report is recorded in the minutes.*
 - *The senior staff member communicates by email to the Chairman of the PIOB (with a copy to the Secretary General and any PIOB member who was present at the meeting) confirming that established due process has been followed during the meeting and that, subject to any concern received from PIOB within 14 days of the date of the memo, the final pronouncement will be posted on the IFAC web site.*
19. When a revised draft international pronouncement is approved by the PIAC, it is issued as a definitive final international pronouncement. Where applicable, the PIAC sets an effective date for the application of the international pronouncement...
 - *In setting such dates, the PIAC considers the reasonable expected minimum period for effective*



implementation, including the need for translation into national languages.

20. For each final international pronouncement, the PIAC issues a separate document explaining its basis of conclusions with respect to comments received on an exposure draft...

- *The document explaining the PIAC's basis of conclusions with respect to comments received on an exposure draft is circulated to the PIAC for comment and is issued after clearance by the Chair and senior staff member of the PIAC. The issue of the document is not subject to voting approval by the PIAC and therefore does not constitute part of the final international pronouncement and is non-authoritative. It is retained for an indefinite period on the IFAC website.*

Voting

21. The PIAC votes on the approval of an exposure draft or on the approval or withdrawal of a final international pronouncement in accordance with the PIAC's terms of reference.

Matters of Due Process

22. If an issue over adherence to due process is raised with the PIAC (other than an issue that is clearly frivolous or vexatious), whether by a third party or otherwise, the PIAC assesses the matter and seeks an appropriate resolution. The PIAC's decision on the matter is communicated to the party raising the matter. Alleged breaches of due process and the resolution thereof are communicated by the PIAC to the PIOB...

- *Where the PIAC has a Steering Committee (or equivalent), the Steering Committee (or equivalent) assesses issues raised over due process and obtains relevant information from all parties involved. The Steering Committee (or equivalent) brings the issue to the attention of the PIAC with a recommendation on whether the alleged breach has merit and if so, an appropriate resolution.*
- *The PIAC reports annually on the manner in which it has complied with its due process during the period.*





APPENDIX B

Auditing and Assurance Standards Board and its Due Process

Brief History

1. The Institute of Chartered Accountants of India (ICAI) constituted the Auditing Practices Committee (APC) on 17th September 1982, to review the existing auditing practices in India and to develop Statements on Standard Auditing Practices so that these may be issued under the authority of the Council of the Institute. Subsequently, at its 226th meeting held in July 2002, the Council of the Institute approved certain recommendations of the APC to strengthen its role in the growth and development of the accountancy profession in India. The Council, at the said meeting, also approved the renaming of the Auditing Practices Committee as the Auditing and Assurance Standards Board (AASB) as well as renaming of the Statements on Standard Auditing Practices as Auditing and Assurance Standards (AASs).
2. The ICAI is one of the founder members of the International Federation of Accountants (IFAC). It is one of the membership obligations of the Institute to actively propagate the pronouncements of the International Auditing and Assurance Standards Board (IAASB) of the IFAC to contribute towards global harmonisation and acceptance of the Standards issued by the IAASB. Accordingly, while formulating Engagement and Quality Control Standards, the AASB takes into consideration the corresponding Standards, if any, issued by the IAASB. In addition, the AASB also takes into consideration the applicable laws, customs, usages and business environment prevailing in India within the parameters of the July 2006 Policy Paper, A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications, issued by the IAASB.

Objectives and Functions of the Auditing and Assurance Standards Board

3. The following are the objectives and functions of the Auditing and Assurance Standards Board...
 - i. To review the existing and emerging auditing practices worldwide and identify areas in which Standards on Quality Control, Engagement Standards and Statements on Auditing need to be developed.
 - ii. To formulate Engagement Standards, Standards on Quality Control and Statements on Auditing so that these may be issued under the authority of the Council of the Institute.
 - iii. To review the existing Standards and Statements on Auditing to assess their relevance in the changed conditions and to undertake their revision, if necessary.



- iv. To develop Guidance Notes on issues arising out of any Standard, auditing issues pertaining to any specific industry or on generic issues, so that those may be issued under the authority of the Council of the Institute.
- v. To review the existing Guidance Notes to assess their relevance in the changed circumstances and to undertake their revision, if necessary.
- vi. To formulate General Clarifications, where necessary, on issues arising from Standards.
- vii. To formulate and issue Technical Guides, Practice Manuals, Studies and other papers under its own authority for guidance of professional accountants in the cases felt appropriate by the Board.

Composition

- 4. The composition of the AASB is fairly broad-based and attempts to ensure participation of all interest groups in the standard-setting process. Apart from amongst the elected members of the Council of the ICAI, the following are also represented on AASB...
 - i. Eminent members of the profession, whether in industry or in practice, as co-opted members on the Board.
 - ii. One special invitee from each three regulatory bodies, viz., the Securities and Exchange Board of India, the Reserve Bank of India and the Insurance Regulatory and Development Authority.
 - iii. One special invitee from the Indian Institute(s) of Management, or from any other prominent academic and/or research organisation, as considered appropriate.
 - iv. One special invitee from a prominent Industry association.
 - v. One special invitee representing public interest, e.g., not for profit organization, etc.

The special invitees mentioned at (ii) through (v) above are decided in consultation with the President of the Institute. Further, special invitees do not constitute the members of the Board, as referred to in this document.

Term of the Members

- 5. The term of the Chairman of the Board is three years. Where such period of three years exceeds the term of the Council of ICAI during which the Chairman has been appointed, the term of the Chairman is restricted to the abovementioned term of the Council. The Council of the ICAI may fill any vacancy in the Office of the Chairman and the Chairman so appointed holds office for the unexpired term of the Council. The term of other members of the Board and the special invitees is one year. However, in case the period of one year exceeds the term of the Council during which the members have been appointed, the term of the members is restricted to the abovementioned term of the Council.

Attendance at the Meetings

- 6. Each AASB meeting requires the presence, in person, of at least one third of the members of the Board. However, the AASB meetings whereat a Standard or Statement, at whatever stage (as envisaged in the following paragraphs), is proposed to be considered, requires attendance of at least two thirds of the AASB



members, in person or by simultaneous telecommunication link.

7. In case any member of the AASB absents himself from three consecutive meetings of the Board, the AASB would bring such fact to the attention of the Council.

AASB WORKING PROCEDURE

Standards, Statements on Auditing and General Clarifications

Project Identification, Prioritisation and Approval

8. Project proposals to develop new, or revise existing Standards, Statements or General Clarifications are identified based on international and national developments, input from members of the Council of the ICAI, AASB members, members of other committees of the ICAI and/or recommendations received from other interested parties, such as regulators or professional accountants.
9. The AASB determines the priorities of various projects on hand for commencement.
10. In the preparation of Standards, Statements and General Clarifications, AASB is assisted by Study Groups/Task Forces constituted to consider specific projects. The AASB appoints one of the professional accountants as a convenor of the Study Group/Task Force. The convenor, in consultation with the Chairman, AASB, nominates other members of the Study Group/Task Force, ordinarily five to seven in number. For operating convenience and economy, a study group is usually based in the area where the convenor is located. In situations considered necessary, the Board may also consider having an outside expert on such Study Groups/Task Forces and such an expert need not necessarily be a professional accountant. The Study Group/Task Force is responsible for preparing the basic draft of the Standard/ Statement/ General Clarification. In addition, a separate group of experts may be formed to advice the Study Group/Task Force.
11. The AASB may also conduct projects jointly with regulators and/or others. In such cases, the joint Study Group/Task Force is ordinarily chaired by the convenor appointed with mutual consent.

Consultation and Debate

12. The Study Group/Task Force develops the preliminary draft of the Standard/ Statement/ General Clarification based on appropriate research and consultation, which may include, depending on the circumstances, consultation with the other professionals, regulators and other interested parties, as well as reviewing professional pronouncements issued by IFAC member bodies and other professional bodies. The draft submitted by the study group, along with issue papers/background papers, is sent to the Chairman, AASB for approval.
13. The draft Standard/Statement/General clarification, along with other agenda papers, as approved by the Chairman, is hosted on the website of the AASB at least twenty one days in advance of the AASB meeting at which such draft Standard/ Statement is planned to be considered. A notification to that effect is also sent to the AASB members. The printed version of the agenda papers, including background papers and draft Standard/ Statement/General Clarification prepared by the Study Group/Task Force for review and debate are made available to the members of and special invitees to the AASB at the concerned meeting.
14. The AASB considers the preliminary draft of the Standard/ Statement/General Clarification prepared by the Study Group/Task Force. The AASB may refer the draft to the Study Group/Task Force to examine the issues



arising out of the deliberations of the AASB and accordingly modify the draft Standard/ Statement/General Clarification.

15. In case the revision to the Standard/ Statement/General Clarification is made by the Study Group/ Task Force in terms of the requirements of paragraph 14 above, the procedure laid down in paragraphs 12 to 14 above is followed for the revised draft of the Standard/ Statement/General Clarification.
16. The draft of the proposed Standard/ Statement/General Clarification, as modified in the light of the deliberations of the Board and approved by the Chairman, AASB, is circulated to the Council members of the ICAI for their comments before being issued as an Exposure Draft. Normally, a period of ten days is given for receiving comments on the Draft Exposure Draft. AASB finalises the Exposure Draft of the proposed Standard/ Statement on the basis of the comments so received, if any. Ordinarily, an Exposure Draft of a General Clarification is not issued.

Public Exposure

17. The Exposure Draft of the proposed Standard / Statement is issued, by way of publication in the monthly Journal of the Institute, for comments by the professional accountants and the public. The Board, however, may decide not to issue an Exposure Draft of a Statement, in which case, the reasons for such a decision is recorded in the minutes of the relevant AASB meeting. Each Exposure Draft is, ordinarily, accompanied by an explanatory memorandum that highlights the objectives and significant proposals contained in the draft. The explanatory memorandum may also direct the respondents to those aspects of the Exposure Draft on which specific feedback is sought.
18. The Exposure Draft is sent to the members of the Council of the ICAI, the Institute's past Presidents, Regional Councils and their branches. Copies of the Exposure Draft are also sent to the following bodies...
 - i. The Ministry of Company Affairs, Government of India
 - ii. The Comptroller and Auditor General of India
 - iii. The Reserve Bank of India
 - iv. The Insurance Regulatory and Development Authority
 - v. The Central Board of Direct Taxes
 - vi. The Central Board of Excise and Customs
 - vii. The Securities and Exchange Board of India
 - viii. The Central Registrar of Co-operative Societies
 - ix. The Institute of Cost and Works Accountants of India
 - x. The Institute of Company Secretaries of India
 - xi. The Indian Banks Association



- xii. Industry organisations such as Federation of Indian Chambers of Commerce and Industry, Associated Chambers of Commerce, Confederation of Indian Industry
 - xiii. Indian Institute(s) of Management
 - xiv. The Telecom Regulatory Authority of India
 - xv. The Standing Conference on Public Enterprises
 - xvi. Recognised stock exchanges in India
 - xvii. Any other body considered relevant by the AASB keeping in view the nature and requirement of AAS/ Statement.
19. Exposure Draft is also hosted on the website of the ICAI as well as the AASB, and is downloadable free of charge. To allow adequate time for due consideration and comment from all interested parties, exposure period is ordinarily 60 (sixty) days or such other period, but not less than 60 days in any case, as may be decided by the AASB.

Responses to Exposure Drafts and Consideration of Respondents' Comments

20. An acknowledgement is sent to every respondent to an Exposure Draft. Except where the respondent has specifically indicated otherwise, the respondents' comments are considered a matter of public records. Comments which are received upto ten days prior to the date of the AASB meeting at which such comments are proposed to be considered, are hosted on the website of the AASB and kept there till the date of the AASB meeting at which the Exposure Draft and comments thereon are considered. The members of the AASB as well as the Council of the Institute are notified when the comments are hosted on the website of the AASB. Copies of the Exposure Draft and comment letters are also made available to the AASB members at the AASB meeting at which the Exposure Draft is scheduled for discussion.
21. The comments and suggestions received within the exposure period are read and considered by the AASB. The AASB's deliberations on the significant issues raised in the comments letters received together with the AASB's decision thereon are recorded in the minutes of the relevant AASB meeting and also hosted on the website of the AASB. The AASB may decide to discuss with the respondents their comment letters or explain to them the reasons for not having accepted their proposals. The nature and outcome of such discussions are reported and recorded in the minutes of the relevant AASB meeting.
22. Such part of the AASB meetings whereat the Exposure Draft of proposed Standard/ Statement and the comments thereon are to be discussed is open for public. The members of the public, at their own expenditure, can attend the said part of the meeting(s) as observers. Such observers, however, do not have the right to participate in the discussions at the meeting. The notification as to the date of the said AASB meeting is hosted on the website of the Institute at least 30 days in advance and the members of the public desirous of attending the said meeting(s) are required to send their request for the same to the Board at least 15 days prior to the date of the concerned AASB meeting. The seats for the members of the public at such meetings are limited to such numbers as may be decided by the AASB and allotted on a first come first serve basis. The AASB may also hold a meeting with the representatives of the specified bodies, as may be identified by the Board on a case to case



basis, to ascertain their views on the draft of the proposed Standard/ Statement.

23. After taking into consideration the comments received, the draft of the proposed Standard/ Statement is finalised by the AASB and submitted to the Council of the ICAI for its consideration and approval. The draft of the General Clarification, as finalised by the AASB, is submitted to the Council of ICAI for its consideration and approval.
24. The Council of the ICAI considers the final draft of the proposed Standard/ Statement/General Clarification, and if found necessary, modifies the same in consultation with AASB. The concerned Standard/ Statement/ General Clarification is then issued under the authority of the Council of the ICAI.

Re-exposure

25. The AASB on a direction from the Council of the ICAI or on its own, in cases considered appropriate, may re-expose a proposed Standard/ Statement. The need for re-exposure may arise on account of factors such as significant issues coming to the notice of the Board subsequently, including, significant changes in the laws or regulations having an impact on the requirements of the Standard/ Statement or revision of the corresponding International Standard by IAASB. In cases where a re-exposure of a Standard or a Statement is required, the procedures as listed in paragraphs 12 to 24 are followed.

Procedure for Issuing the Guidance Notes

26. The AASB identifies the issues on which Guidance Notes need to be formulated and the priority in regard to selection thereof.
27. In the preparation of the Guidance Note, the AASB is assisted by Study Groups/Task Forces constituted to consider specific projects. The AASB appoints one of the professional accountants as a convenor of the Study Group/ Task Force. The Convenor nominates other members of the Study Group/Task Force and in the formation of Study Groups/ Task Forces, provision is made for participation of a cross-section of members of the ICAI. In situations considered necessary, the Board may also consider having an outside expert on such Study Groups/Task Forces and such “expert” need not necessarily be a professional accountant. The Study Group/Task Force will be responsible for preparing the basic draft of the Guidance Note.
28. The Study Group/ Task Force develops the preliminary draft of the Guidance Note based on appropriate research and consultation, which may include, depending on the circumstances, consulting with the other professionals, regulators and other interested parties, as well as reviewing professional pronouncements issued by IFAC member bodies and other parties and submits the preliminary draft Guidance Note to the AASB. The draft Guidance Note, along with the background papers, if any, is sent to the Chairman, AASB for approval.
29. The AASB considers the preliminary draft prepared by the Study Group/ Task Force and may refer the same to the Study Group/ Task Force to examine the issues arising out of the deliberations of the AASB and accordingly modify the draft Guidance Note. The modified Draft Guidance Note is once again considered by the Board. The draft Guidance Note as finalised by the Board is submitted for the consideration of the Council of the ICAI.
30. Unlike Standards/Statements, ordinarily, no proposed Guidance Note is exposed for comments of the professional accountants and others. However, in situations considered necessary by the Board, an Exposure Draft of a Guidance Note may well be issued for public comments. In case an Exposure Draft of a Guidance Note is to be issued, the same procedures as required for an Exposure Draft of the Standard/ Statement (as



mentioned in paragraphs 17 to 22 above) is required to be followed. The reasons for issuing an Exposure Draft of the Guidance Note are recorded in the minutes of the relevant AASB meeting. However, the part of the AASB meeting at such Exposure Draft is considered is not open for public.

31. The Council of the Institute considers the final draft of the proposed Guidance Note and, if necessary, suggests modifications thereto in consultation with the AASB. The Guidance Note is then issued under the authority of the Council of the ICAI.

Limited or Substantive Revision to the Standard, Statement or Guidance Note

32. Subsequent to issuance of a Standard, Statement or Guidance Note, the introduction of any new legal or professional requirement or any other national or international development in the field of auditing, may require a substantive revision to that Standard, Statement or Guidance Note. In that case, the Council of the ICAI makes substantive revision to such Standard/ Statement /Guidance Note. The procedure followed for substantive revision is the same as that followed for formulation of a new Standard, Statement or the Guidance Note, as the case may be, as detailed above.
33. Similarly, subsequent to issuance of a Standard, Statement or Guidance Note, some aspect(s) may require revision which are not substantive in nature. For this purpose, the Council of the ICAI may make limited revision to a Standard/ Statement /Guidance Note. In case of the Standards on Auditing (SAs), any revision to a Standard is treated as limited only if that revision is restricted to the application guidance of that Standard. The procedure followed for the limited revision is, in principle, the same as that followed for formulation of a Standard, Statement or Guidance Note, as the case may be. However, the AASB may decide to cut short some time limits, e.g. period of public exposure in case of a limited revision to a Standard/Statement, as detailed above, for the process.

Technical Guides, Practice Manuals, Studies and Other Papers Published by the Auditing and Assurance Standards Board

34. For issuance of a Technical Guides/Studies, etc., the procedure adopted by the AASB is ordinarily the same as in case of a Guidance Note except that the draft Technical Guide/ Practice Manual/ Study is never exposed for public comments nor such part of the AASB meeting at which the proposed Technical Guide, Practice Manual, etc., is considered, open for public. Also, since the Technical Guides, Practice Manuals, Studies, etc., do not have any authority attached to them, those are not required to be placed for consideration and final approval of the Council, rather they are issued by the AASB under its own authority.

Voting

35. The affirmative votes of at least two thirds of the members of the Board, in person or by simultaneous telecommunication link, are required to approve the final draft of a Standard or Statement for submission to the Council.





APPENDIX C

Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB) A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications

Objective

1. The objective of this paper is to set out the policy of IAASB on the question: What modifications may a national standard setter (NSS) that adopts International Standards promulgated by IAASB (ISs) as its national standards (NSs) make to the ISs while still asserting that the resulting NSs conform to ISs?
2. NSSs often follow a policy of adopting ISs as their NSs with little or no amendment. Such NSSs are likely to wish to assert that their NSs conform to ISs. This paper sets out IAASB's views on when such an NSS may make such an assertion.
3. It should be noted that IAASB does not endorse the use of such terms as 'based on,' 'in substantial compliance with,' or 'in compliance with the principles of,' ISs.
4. This paper does not deal with any other aspect of the general subject of convergence. Nor does it rule out the possibility that NSSs that adopt a different approach will have created NSs that are equivalent in effect to the ISs.

Conformity with ISs

5. IAASB will regard NSs that comprise the ISs with modifications as conforming to ISs when the conditions in paragraphs 6-10 have been met.
6. The International Standards promulgated by IAASB are the following...
 - a. International Standards on Quality Control.
 - b. International Standards on Auditing.
 - c. International Standards on Review Engagements.



- d. International Standards on Assurance Engagements.
- e. International Standards on Related Services.

NSSs shall not be regarded as conforming to the respective ISs in categories (b) to (e), unless professional accountants who are required to follow those NSSs are also required to follow a NSS that conforms to the International Standards on Quality Control.

7. NSSs shall be regarded as conforming to a category of ISs if, except for the permitted modifications as set out in paragraphs 8 and 9, they include all the requirements and guidance¹ of the ISs in that category. It is not necessary that all the requirements and guidance of an IS be included in a *single* NSS. Different elements of an IS may be included in different NSSs, provided that...
 - a. Those standards together include all the requirements and guidance of the IS; and
 - b. The requirements and guidance included in the NSS carry the same intention (as to their meaning and effect) and authority as they do in the IS. This condition requires that there is nothing in the way in which the requirements have been included that undermines their meaning and effect, and that a professional accountant following the NSSs is obliged to consider all the guidance, as included, in order to understand and apply the requirements, as included.
8. For the purposes of conformity under this policy, the NSS shall limit additions to an IS to the following...
 - a. National legal and regulatory requirements.
 - b. Other requirements or guidance that are not inconsistent with the current requirements or guidance in the IS.

NSSs are encouraged to communicate additions falling within paragraph 8(b) to IAASB for future consideration.

9. For the purposes of conformity under this policy, the NSS shall limit deletions from, or other amendments to, an IS to the following...
 - a. The elimination of options (alternatives) provided for in the IS.
 - b. Requirements or guidance, the application of which law or regulation does not permit, or which require amendment to be consistent with law or regulation.
 - c. Requirements or guidance, where the IS recognises that different practices may apply in different jurisdictions and the NSS is in such a jurisdiction.

In the case of paragraph 9(b)-(c), however, the objective of any deleted requirement must still be met. Consequently, it will be necessary for the NSS to replace the deleted requirement with an appropriate alternative that, in the opinion of the NSS, meets the test of the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* for those exceptional circumstances

¹ 'Requirements and guidance' means: in the case of standards written under the style adopted prior to the clarity project, 'basic principles and essential procedures together with related guidance;' and in the case of standards written under the style subsequently adopted, 'objectives, requirements and application material.' In both cases, definitions included in the standards and glossary are to be applicable.



when a professional accountant may judge it necessary to depart from a basic principle or essential procedure of an IS to achieve more effectively the objective of the engagement.²

10. Modifications to ISs shall be subject to a satisfactory due process established by the NSS.³ Furthermore, the NS shall highlight or explain modifications to the ISs. In addition, NSSs shall communicate modifications falling within paragraph 9(b), which are expected to be rare, to IAASB.

Other Matters

11. An NSS to whom this guidance applies may refer to its NSs as conforming to one or more of the categories of ISs referred to in paragraph 6(b)-(e) only if the International Standards on Quality Control and all current ISs of the relevant category have been included. Where the NSS has not included all *current* ISs (for example, because of delays in issuing a new IS for national use), the NSS shall appropriately qualify the reference to conformity with the ISs and clearly disclose which ISs have and have not been included.
12. IAASB encourages NSSs to maintain a record of how the ISs have been included in the NSs, sufficient to demonstrate what has or has not been included, and that such inclusion has been effected so as to avoid any change in meaning and effect.
13. It is recommended that translations of the ISs be made in accordance with a process conforming to the Policy Statement, *Translation of Standards and Guidance Issued by the International Federation of Accountants* (issued September 2004).

² This requirement of the Preface is under review.

³ A satisfactory due process is an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

