

## **International Auditing and Assurance Standards Board**

### **Draft Action Plan 2005 – 2006**

*The IAASB action plan represents the intended focus of the IAASB as of [month] 2005 for the next two years. This plan is subject to continuous revision and is provided to inform interested parties of the planned activities of the IAASB.*

#### **Introduction**

The International Auditing and Assurance Standards Board (IAASB) has developed this action plan to set the direction and priorities of its future activities. Within the context of the International Federation of Accountants' (IFAC) overall strategy, it responds to significant developments in the environment in which audit and other assurance services are performed and standards for such services are set. The development of this plan is part of an ongoing process of reviewing how the IAASB can continue to serve the public interest and its various stakeholders – the public, investors, IFAC member bodies, regulators, governments, investors, accountancy firms, professional accountants and others across the world.

The IAASB aims to be flexible in its planning in order to be able to respond to new events and circumstances as they arise and to alter its work program to address new priorities.

This plan is presented in four sections:

1. **Planning Framework** – outlining the objectives of the IAASB.
2. **Developments in the Environment Affecting IAASB's Initiatives and Related Actions** – summarizing the events affecting the activities of the IAASB.
3. **Initiatives** – setting out IAASB plans.
4. **Action Plan** – describing IAASB's planned projects and activities to be undertaken over the next two years.

#### **Planning Framework**

The objective of the IAASB is to serve the public interest by setting high quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession. The IAASB achieves this objective by:

- Establishing high quality auditing standards and guidance for financial statement audits that are generally accepted and recognized by investors, auditors, governments, regulators and other key stakeholders across the world;
- Establishing high quality standards and guidance for reviews and other types of assurance services on both financial and non-financial matters;
- Establishing high quality standards and guidance for other related services;

- Establishing high quality standards for quality control covering the scope of services addressed by the IAASB; and
- Publishing other pronouncements on auditing and assurance matters, thereby advancing public understanding of the roles and responsibilities of professional auditors and assurance service providers.

The objective of the IAASB, and the type of standards, guidance and other pronouncements covered by its remit, form the broad basis for the IAASB's initiatives and related actions. The action plan adopted by the IAASB to achieve its objective, however, is influenced by the ever-changing environment and by available resources. These factors affect the priority which is placed by the IAASB on a particular initiative and related actions, and how resources are best allocated.

### **Developments in the Environment Affecting IAASB's Initiatives and Related Actions**

There are a number of national and international developments that are influencing the IAASB's initiatives, related actions and, ultimately, its agenda. The major developments that the IAASB has considered when setting its action plan include:

- Recent corporate failures and financial reporting irregularities have undermined the public's confidence in the governance of public companies and the quality of their published financial information. This has reinforced the need for, and the key role of, high quality auditing standards that drive the effectiveness of audits. In particular, these standards must be clear, understandable and capable of consistent application, containing no ambiguity over the responsibilities that professional accountants must fulfill. It has also re-emphasized the need for international standards that serve the public interest to be promulgated following a rigorous and transparent due process.
- Different approaches to the oversight of the profession, and setting of national standards are being pursued. In many jurisdictions, this has resulted in a change from self-regulation to one of the following: monitored self-regulation; joint regulation shared between the local accountancy profession and government agencies; or regulation by entities completely outside the local accountancy profession. Many of the activities undertaken by the profession are being enhanced through the involvement of external oversight operating alongside a level of regulation by the profession of its members. Internationally, in contributing to restoring public confidence, IFAC and key regulatory groups have agreed a set of reforms which include the formation of a Public Interest Oversight Board (PIOB) to oversee IFAC's public interest activities, and the continued strengthening and transparency of its public interest activities, including those of the IAASB.
- Governments and regulators increasingly accept that international standards assist the reliable functioning of the global capital markets. Organizations such as the International Organization of Securities Commissions (IOSCO), the World Bank, the European Commission (EC) and the Financial Stability Forum have expressed support for the development of international standards on auditing (ISAs) or for convergence of national and international standards. A number of national regulators, standard setters and others in various countries have also expressed support for, or have committed to adopt or converge national standards with, international auditing and assurance standards, with national bodies continuing to set standards for local regulatory purposes and uniquely local situations. In doing so, they have been considering how to adopt or achieve convergence of national standards with ISAs.

- The EC has reaffirmed its belief in the use of ISAs by auditors in the European Union (EU). The draft revised EC 8<sup>th</sup> Directive proposes to require use of ISAs throughout the EU not only for the audits of the approximately 7000 listed EU companies, but also for the more than one million statutory audits conducted in the EU each year. This endorsement of ISAs is subject to the quality of ISAs being viewed as satisfactory and conducive to the European public good, to the standard setting process reflecting proper due process, and to appropriate public oversight and transparency.
- In the United States, the Sarbanes-Oxley Act has significantly affected auditors, including those practicing outside the US but conducting audits of subsidiaries of US companies or of foreign registrants. Due to the size and influence of the US capital market, the provisions of this Act are influencing the agenda of auditing standard setters not only in the United States but also elsewhere.
- In 2004, the IFAC Board commissioned a study on the extent to which professional accountants and others have faced challenges and achieved successes in the adoption and implementation of both International Financial Reporting Standards (IFRSs) and ISAs within their national environments. The report on the findings from this study, *Challenges and Successes in Adopting and Implementing International Standards: Achieving Convergence to IFRSs and ISAs*,<sup>1</sup> (the “Wong Report”) highlights, among other matters, the need for action by international and national standard setters and others to reach a common understanding of the meaning of international convergence and to make international convergence the core of their work and the focus of their resources. It also highlights issues in relation to translation and the complexity and structure of the international standards, the frequency and volume of changes to them, and the challenges for small- and medium-sized entities and accounting firms.
- In restoring public confidence in financial reporting, regulators, preparers of financial statements, investors and other users are placing greater expectations on auditors to communicate important matters arising from an audit by way of the auditor’s report, communications with management and those charged with governance and, in some cases, to relevant oversight authorities. In many jurisdictions, however, a gap continues to exist between what regulators, investors and other users expect to receive as a result of assurance services and what professional accountants believe can be realistically provided by assurance services, especially audits.
- Demand for assurance engagements continues to grow internationally, particularly in the areas of sustainability reporting, reporting on internal controls, and information reported on the internet or by way of new business-enabling technologies and electronic commerce. Internationally, however, criteria for reporting are not fully developed and in some cases, greater input from, and participation by, external parties may be needed.
- Effective July 1, 2005 a new regime for prospectuses will be effective within the European Union. Other jurisdictions are also responding to globalization and the continued demand for cross-border financing by considering ways to streamline and harmonize the regulation of their capital markets. These developments increase the demand for national and international

<sup>1</sup> The report, published in September 2004, is available on the IFAC website at [www.ifac.org](http://www.ifac.org).

guidance for auditors on their involvement with prospectuses, including comfort letters, and related reporting obligations in respect of historical and prospective information.

### *Implications for IAASB*

IAASB's work must be prioritized in light of the developments in the environment, matters of public interest, the needs of practitioners and the resources available. In addition, many of these developments are continuously evolving and their impact may be significant in the future. This requires the IAASB to consider the actions to meet its objectives both on a short term and medium term basis.

The IAASB has drawn the following main conclusions from its review of the current environment:

- There is a need for common worldwide auditing and assurance standards. The IAASB must balance the views of a large circle of interested parties, remaining cognizant of different cultural and business environments and the different strategies towards oversight, regulation, and adoption or convergence and implementation of international standards. The IAASB must work closely with regulators to explain its work program and to address their needs. At the same time, the IAASB needs to work with national standard setters to assess whether projects can be undertaken jointly so that work programs are not duplicated and to promote convergence of standards for global acceptance.
- IAASB's highest priority must be the continued development of high-quality ISAs that serve the public interest. The IAASB must, however, strive to achieve an appropriate balance between the need to develop, review and update its ISAs and the need to develop guidance on other emerging topics, including assurance and other services. At the same time, the pace at which ISAs are issued needs to be manageable for the practitioners to be able to understand and implement new or revised standards. Public interest consideration must remain, as always, at the forefront of decisions of the IAASB, whether in terms of project priorities or decision on specific standards.
- The IAASB must work to ensure that its standard setting due process continues to be rigorous, transparent and responsive, and that adequate resources are available and committed to its standard-setting process. The IAASB must also continue to identify and consider other opportunities for restoring public confidence.
- The standards IAASB promulgates must be clear, understandable and capable of consistent application. In particular, since audits are required to be performed on large and small entities, international standards must be applicable to, and understandable by, all professional accountants for all relevant engagements, regardless of the size and structure of their firm or of the entity subject to the engagement. Instrumental in achieving this goal will be the completion of the IAASB's project to improve the clarity of IAASB standards and further development of the close relationships with national standard setters. The findings of the Wong Report also need to be studied and acted upon in a concerted and coordinated fashion. In addition, the IAASB needs to continue to monitor and give consideration to the work of other IFAC groups, including the IFAC Developing Nations Permanent Task Force, Small and Medium Practices Permanent Task Force and the IFAC compliance function.
- Throughout 2003 and 2004 IAASB has striven to enhance its relationship with the international regulatory community, reinforcing the role that the accountancy profession can play in serving

the public interest. Maintaining these relationships and developing new ones will be critically important for the IAASB throughout the implementation of the oversight and standard-setting reforms. In addition, the IAASB must maintain, and where necessary enhance, mechanisms that ensure effective communications between itself and its stakeholders, such as its member bodies, firms, regulators, professionals and leaders in commerce and industry and international financial institutions. It is an important process not only for disseminating information and generating awareness and support, but also for obtaining input from IAASB's key stakeholders.

The IAASB recognizes that the current planning environment is creating the potential for an ever increasing work agenda. The plan that follows represents the intended focus of the IAASB for the next two years.

### **Initiatives**

To achieve its objective, the IAASB plans to focus on following three major strategic initiatives. These initiatives are broadly based on those identified in the IAASB's 2003-2004 Action Plan. The specific focus of the initiatives and related actions, however, has been revised taking into account the changes and developments described above.

**A. Development of Standards** – *establish high quality auditing, review, other assurance, quality control and related services standards.*

The IAASB's priority over the next two years will continue to be the maintenance and development of auditing standards relevant to historical financial information due to their importance to the public interest. The major focus will be on addressing auditor reporting standards following from the 2004 revision of its standard on the independent auditor's report, and on standards that address considerations and procedures in areas of highest audit risk. Concurrently, the IAASB will focus on seeking ways to improve further the clarity and understandability of its standards. To reflect the growing demand for guidance on assurance services, however, the IAASB will also provide international leadership and promulgate standards on other assurance services.

**B. Global Acceptance, Convergence and Partnership** – *promote the adoption and acceptance of IAASB pronouncements throughout the world; support a strong and cohesive international auditing profession by coordinating activities with regional organizations, member bodies and national standard setters.*

The IAASB will implement the IFAC agreed reforms and other initiatives aimed at restoring public confidence. Priority attention will be given to responding to the challenges being experienced by those implementing IAASB standards as identified in the Wong Report. In addition, emphasis will be placed on enhancing the IAASB's relationship with the international regulatory community and national standard setters, continuing active and constructive dialogue with stakeholders and reinforcing the role that the accountancy profession can play in serving the public interest. The IAASB will seek to build on relationships built with national standard setters to continue to explore close coordination of work agendas and collaboration, and will seek ways to achieve international convergence.

- C. **Communications** – *support the development of standards, and their global acceptance, by communication with stakeholders and promoting the public image and awareness of IAASB’s activities and outputs.*

The IAASB recognizes the need for consultation and exchange of views with its stakeholders to promote transparency and to enhance its consultative process and image. It will maintain, and where necessary enhance, effective communications between itself and its stakeholders, effectively disseminating information and generating awareness and support as well as obtaining input on its activities.

### **Action Plan**

This section provides an overview of the IAASB’s planned actions to be undertaken over the next two years for each of its initiatives.

The IAASB continually monitors the environment in which standards are set out in order to respond effectively to changing circumstances. Accordingly, both the nature and priority of the actions may need to change from those listed below.

#### **Initiative A – Development of Standards**

Establish high quality auditing, review, other assurance, quality control and related services standards.

- A1. Complete the revision and development of identified ISAs aimed at the enhancement and global acceptance of IAASB’s set of standards for audits of financial statements.
- A2. Conclude on and, as appropriate, implement the proposals seeking to clarify professional requirements in IAASB standards, and consider further the meaning of “high quality” standards, as a means of guiding the drafting of such standards.
- A3. Consider, and implement as appropriate, other ways to enhance the clarity of IAASB standards, by dealing with the complexity and structure of IAASB standards, the approach to writing the standards and the need to simplify language where appropriate.
- A4. Commence at least one project on a specific assurance subject matter taking account of developments in, and international views on assurance work by auditors on, areas such as sustainability reporting and internal control reporting.
- A5. Proactively address regulatory issues relating to quality control, auditing, review, other assurance and related services standards, including those identified through effective dialogue with the PIOB and the IAASB CAG and its individual members.
- A6. Continue active discussions with IOSCO, the EC and other regulators aimed at achieving agreement on standards to be issued or revised to meet the common needs of all parties.
- A7. Establish a process for responding to requests for interpretations and guidance on urgent issues. *[Note: Subject to approval of the proposed establishment of urgent issues and interpretations committee – See Agenda Item 8.]*
- A8. Liaise regularly with the IASB on international developments, work programs and priorities.

- A9. Seek regular consultation with the International Organization of Supreme Audit Institutions (INTOSAI) and IFAC committees and task forces (including the IFAC Ethics Committee, Transnational Auditors Committee and Compliance Committee, Small and Medium Practice Permanent Task Force, and Developing Nations Permanent Task Force) on issues of relevance to standards.

Exhibit I identifies ISAs and other pronouncements under development or revision and those on which the IAASB will focus its efforts throughout 2005-2006.

#### **Initiative B – Global Acceptance, Convergence and Partnership**

Promote the adoption and acceptance of IAASB pronouncements throughout the world; support a strong and cohesive international auditing profession by coordinating activities with regional organizations, member bodies and national standard setters.

- B1. Implement reforms identified with respect to due process and transparency, liaison with the IAASB CAG and the present working relationship with national standard setters.
- B2. Encourage acceptance and adoption of ISAs by national standard setters, and the alignment of their agendas with that of the IAASB, by strengthening liaison activities, seeking opportunities for national standard setters to contribute to IAASB's standard setting process through joint projects or otherwise and seeking solutions to possible obstacles affecting adoption, convergence or implementation.
- B3. Consider, and where appropriate respond to, the findings of the Wong Report. In particular, study and seek to clarify what is meant by the convergence of IAASB and national standards, and take steps to address issues relating to translation, the frequency, volume and complexity of changes to IAASB standards and the setting of their effective dates, and the challenges for small- and medium-sized entities and accounting firms.
- B4. Seek agreement with national standard setters on convergence strategies.
- B5. Develop and maintain effective working relationships with the EC, IOSCO, and key national regulators.

#### **Initiative C – Communications**

Support the development of standards, and their global acceptance, by communication with stakeholders and promoting the public image and awareness of IAASB's activities and outputs.

- C1. Publicize the operations and activities of the IAASB through its website to further the acceptance of IAASB's processes and transparency.
- C2. Publish an annual report for a broad interested audience on IAASB's performance, including reporting of progress against this action plan and on how IAASB has complied with its stated due process.

- C3. Expand the IAASB's website to provide source references to additional resources, guidance, or tools relevant to international auditing and assurance engagements prepared by national standard setters and others.
- C4. Present to or liaise with academics, regional and national conferences and organizations and others to increase understanding of the activities of the IAASB.
- C5. Continue public relation activities aimed at increasing the public image and awareness of IAASB's activities and outputs, including continued enhancement of the IAASB annual report, press communications, web site, etc.

**Exhibit 1 – Project Plan: January 2005**

IAASB Handbook	
Active Projects	<ul style="list-style-type: none"> <li>• Amendments to Preface – <i>Due Process and Working Procedures</i></li> <li>• Proposed Policy Statement – <i>Clarifying Professional Requirements in International Standards Issued by the IAASB</i></li> <li>• Consultation Paper – <i>Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements</i></li> </ul>
Audit of Historical Financial Information	
Active Projects	<ul style="list-style-type: none"> <li>• ISA 230, <i>Documentation</i> (revision)</li> <li>• ISA 260, <i>Communications of Audit Matters With Those Charged With Governance</i> (revision)</li> <li>• ISA 320, <i>Audit Materiality</i> (revision)</li> <li>• ISA 540, <i>Audit of Accounting Estimates</i> (revision)</li> <li>• ISA 550, <i>Related Parties</i> (revision)</li> <li>• ISA 580, <i>Management Representations</i> (revision)</li> <li>• ISA 600, <i>Using the Work of Another Auditor</i> (revision)</li> <li>• ISA 620, <i>Using the Work of an Expert</i> (revision)</li> <li>• ISA 701, <i>Modifications to the Independent Auditor’s Report</i> (revision)</li> <li>• ISA 800, <i>The Auditor’s Report on Special Purpose Audit Engagements</i> (revision)</li> <li>• New IAPS, <i>The Audit of Group Financial Statements</i></li> <li>• New ISA, <i>Review of Interim Financial Information Performed by the Auditor of the Entity</i></li> </ul>
Topics for Consideration as Possible Projects	<ul style="list-style-type: none"> <li>• Revision of ISA 402, <i>Audit Considerations Relating to Entities Using Service Organizations</i></li> <li>• Revision of ISA 505, <i>External Confirmations</i></li> <li>• Reporting on Internal Control</li> <li>• Reasonable Assurance</li> </ul>
Assurance Engagements	
Topics for Consideration as Possible Projects	<ul style="list-style-type: none"> <li>• Reporting on Sustainability Reports</li> <li>• Reporting on Prospective Financial Information</li> <li>• Auditor Involvement with Prospectuses, including Pro-forma Financial Information and Comfort Letters</li> </ul>
Review Engagements	
Topics for Consideration as Possible Projects	<ul style="list-style-type: none"> <li>• ISRE 2400, <i>Engagements to Review Financial Statements</i> (revision)<sup>2</sup></li> </ul>
Other Topics	
Active Projects	<ul style="list-style-type: none"> <li>• Comfort Letters</li> </ul>

<sup>2</sup> Subject to IAASB consideration of the project plan to finalize the June 2003 Exposure Draft, *Review of Interim Financial Information Performed by the Auditor of the Entity*.

[Blank Page]