

**DRAFT
Consultation Paper
IAASB
Strategy 2009 – 2011**

The International Auditing and Assurance Standards Board (IAASB) is a standard-setting body designated by, and operating under the auspices of, the International Federation of Accountants (IFAC). The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high-quality standards dealing with auditing, review, other assurance, quality control and related services, and by facilitating the convergence of national and international standards. This objective contributes to enhanced quality and uniformity of practice in these areas throughout the world, and strengthened public confidence in financial reporting.

The IAASB is subject to the oversight of the Public Interest Oversight Board (PIOB). It follows a rigorous due process, which ensures that the views of those affected by its pronouncements are thoroughly considered.

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

The IFAC Strategic Plan 2007 – 2010 provides a decision-making framework for those involved in IFAC's governance and management structure. It serves as a guidepost for IFAC's boards, committees and advisory panel, whose priorities reflect and support the organization's overall strategic direction, and for member bodies, who are encouraged to support IFAC initiatives, promote its standards and contribute to the international profession's efforts to enhance the quality of practice by the world's professional accountants.

Consultation Paper

IAASB Strategic Plan 2009 – 2011

Contents

Paragraph

Introduction

Proposed Strategy

Possible Actions to Implement Proposed Strategy

Basis for Possible Actions

Appendix 1: Current (Ongoing) Actions

Appendix 2: Completed and Current Projects of the IAASB

Appendix 3: ISAs Redrafted but Not Revised as Part of the Clarity Project

Appendix 4: Other International Standards

Introduction

The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high-quality standards dealing with auditing, review, other assurance, quality control and related services, and by facilitating the convergence of national and international standards. The IAASB aims to achieve its objective through the following strategic initiatives:

- (a) *Development of Standards* – Establish high quality auditing, review, other assurance, quality control and related services standards.
- (b) *Global Acceptance, Convergence and Partnership* – Promote the acceptance and adoption of IAASB pronouncements throughout the world; support a strong and cohesive international accountancy profession by coordinating with IFAC member bodies, regional organizations, and national standard setters to achieve the objective of the IAASB.
- (c) *Communication* – Improve the quality and uniformity of auditing practices and related services throughout the world by encouraging debate and presenting papers on a variety of audit and assurance issues; and increase the public image and awareness of the activities of the IAASB.

Over the last few years, the focus of the IAASB has been the development of high-quality International Standards on Auditing (ISAs) that are accepted globally and that facilitate convergence. This included significant revisions to the audit approach to risk assessment, together with responses to concerns over accounting fraud and accounting developments, such as the greater use of fair values in financial reporting. Furthermore, regulatory concerns and developments, and practitioners' requests for more understandable standards, gave rise to a project to improve the clarity of ISAs.¹

These revisions and clarifications have resulted in ISAs that are up to date in important areas, contribute to strengthening public confidence in financial reporting, which the IAASB recognized as being especially necessary after Enron and other financial reporting failures, and provide a basis for enhanced quality and uniformity of practice in audit services throughout the world. Throughout this

¹ In 2003 the IAASB reviewed the drafting conventions used in its International Standards. The objective of the review was to identify ways to improve the clarity, and thereby the consistent application, of International Standards issued by the IAASB. Improvements arising from this Clarity project, which is scheduled for completion in late 2008, broadly comprise:

- Identifying the auditor's overall objective when conducting an audit in accordance with ISAs, setting an objective in each ISA, and establishing an obligation on the auditor in relation to those objectives;
- Clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements;
- Eliminating any possible ambiguity about the requirements an auditor needs to fulfill (such possible ambiguity arose from the use of the present tense in the current ISAs); and
- Improving the overall readability and understandability of the ISAs through structural and drafting improvements, including presenting the requirements and application and other explanatory material in separate sections within the ISAs.

process, the IAASB was assisted by well-established relationships with the IAASB Consultative Advisory Group (IAASB CAG), national standard setters, public authorities, audit oversight bodies and regulators.

The latest IFAC survey indicates that ISAs are widely accepted. More than 100 countries use auditing standards that are ISAs, either adopted as written or locally adapted, or national standards that are compared with ISAs to eliminate differences. ISAs are also accepted for the audits of foreign listed entities by many of the world's major capital markets.

2006 alone saw a number of developments. The World Federation of Exchanges endorsed the process of the IAASB for standard setting and recognized the importance of ISAs. Mainland China announced new auditing standards that are closer to ISAs, and Hong Kong announced full convergence to ISAs. Canada, after careful consultation, decided to move its auditing standards to ISAs. In the United States, the Auditing Standards Board of the American Institute of Certified Public Accountants, which issues auditing standards for the audits of non-listed entities, decided to align its work program with that of the IAASB in order to converge to ISAs. In addition, the European Union's new Directive on Statutory Audit came into force in June 2006, providing a platform for the possible European-wide adoption of ISAs for statutory audits.

In the public sector, the International Organization of Supreme Audit Institutions (INTOSAI) uses ISAs as a basis for its Financial Audit Guidelines. The IAASB's cooperation with INTOSAI, and the promotion of the use of ISAs as the basis for audits in the public sector, are important to us. The IAASB will therefore continue to cooperate with the Professional Standards Committee of INTOSAI as it determines its mandate for 2007 – 2010 and beyond.

These are welcome developments, and the revisions and clarifications of ISAs are intended to maintain this momentum. They have, however, also resulted in substantial change at a time of considerable pressure on the audit profession from oversight, regulatory and financial reporting changes and, hence, there is a strong sense of regulatory overload. It is acknowledged that the short-term effect of the revisions and clarifications of ISAs within countries newly adopting ISAs (either as written or locally adapted) is to create practical implementation and educational challenges greater than those experienced by auditors responding to changes in ISAs. They also particularly affect small- and medium-sized enterprises (SMEs) and their auditors, and the prospect of a wider requirement for audits to be conducted in accordance with ISAs is raising concerns about whether an audit is the right service for SMEs.

There have also been developments in areas where the IAASB has not yet been able to assess what the demand for assurance services might be. These include Extensible Business Reporting Language (XBRL) and corporate and social responsibility reports.

The Consultation Process

The IAASB is focusing its resources on completing the Clarity and other current projects by the end of 2008. To prepare for the period after 2008, the IAASB embarked on an extensive consultation program to obtain the widest possible input into determining its future priorities.

This consultation paper forms the final stage of the consultation process. It presents the proposed strategy for 2009 – 2011, possible actions to implement the proposed strategy, and the basis for the possible actions. It was developed after initial consultation with those affected by the activities of the IAASB and takes account of:

- The findings of a strategy review survey in early 2007. 138 responses were received, including responses from IFAC member bodies, regional professional accountancy organizations, organizations representing preparers of financial statements, audit firms and public sector audit organizations, and public authorities and international regulators.
- Consultation with the IAASB Consultative Advisory Group (CAG), which has wide representation of those with an interest in auditing and assurance services including preparers of financial statements and other information, investors, regulators and other users, and the auditing profession.
- Consultation at:
 - Meetings of the IAASB – National Auditing Standard Setters, the European Auditing Standard Setters, the Latin American Auditing Standard Setters, the Executive Council of the Inter-American Accounting Association, the IFAC Small and Medium Practices Committee, the Steering Committee of the Professional Standards Committee of INTOSAI, and the Transnational Auditors Committee; and
 - Forums held in Sydney (April 13) and Brussels (June 28), which were addressed by representatives of standard setters, preparers and users of financial statements, regulators and others.
- Views expressed during the International Organization of Securities Commissions (IOSCO) Roundtable on the Quality of Public Company Audits from a Regulatory Perspective (June 1).
- The results of a review of reports recently issued by audit oversight and other relevant bodies.
- Presentations on relevant matters from certain standard setters and regulators at the October and December 2006 IAASB meetings.

Guide for Respondents

The IAASB invites comments on any aspect of the proposed strategy and possible actions. In particular, it would be helpful if respondents' comments could include the following:

- (a) Whether, within the broad strategic initiatives, a focus on (i) the world's capital markets, (ii) the implementation of standards, and (iii) the needs of SMEs and their auditors is appropriate (see paragraphs 1-8).
- (b) Where there is a choice of possible actions on the list of possible actions, how those actions should be prioritized.

- (c) Whether the list of possible actions is complete. If respondents propose other actions, it would be helpful to know which of the possible actions on the list could be deleted to make resources available to address the proposed other actions.

The proposed strategy and possible actions, amended in the light of comments received, will form the basis for the IAASB Work Program for 2009 – 2011. The strategic plan and work program set the direction and priorities of the activities of the IAASB. They are set within the context of the overall strategy of IFAC, and respond to significant developments in the environment in which assurance services are performed and in which standards for such services are set. The IAASB is aware, however, of the need to be flexible in its planning process to be able to respond to new events and circumstances as they arise and the need to alter its work program to address new priorities.

In line with its terms of reference, the Public Interest Oversight Board will evaluate whether due process has been followed in developing the strategic plan and work program, and will consider whether to recommend that projects be added to the work program. It is envisaged that the strategic plan and work program will be finalized by the second quarter of 2008 to enable efficient and effective implementation thereof in 2009.

Comments should be emailed to Edcomments@ifac.org. They may also be faxed to +1-212-286-9570 or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by **[insert date]**.

Proposed Strategy

1. The initial consultations confirmed the continued appropriateness of the strategic initiatives of the IAASB set out in the Introduction. However, within those broad initiatives, the consultations indicated that, to respond to the needs of preparers, auditors and users of financial statements, regulators, and others, the future strategy of the IAASB should focus on:
 - (a) Contributing to the effective operation of the world's capital markets;
 - (b) Assisting with the implementation of standards; and
 - (c) Addressing the needs of SMEs and their auditors.

The World's Capital Markets

2. The effective operation of the world's capital markets remains a matter of high public interest. The development of high-quality auditing standards contributes to high-quality financial reporting and ultimately leads to growth and efficiencies in the capital markets, decreased cost of capital, reduced corruption, and improved decision-making and transparency. Consequently, the IAASB intends to continue to make auditing standards its first priority. As part of this priority, the IAASB also intends to consider the effect of developments in technology, such as XBRL, on financial reporting.
3. Efficient international capital raising requires information that is understandable across borders, together with assurance designed to enhance users' confidence in that information, wherever the users are based. The European Union (EU) Prospectuses Directive, which provides that information prepared for one EU capital market should be accepted in all other EU jurisdictions, provides a clear need for common assurance standards throughout the EU. But other countries have also indicated to the IAASB that there is a need for relevant assurance standards. The IAASB therefore intends to:
 - (a) Develop assurance standards for those services most relevant to the world's capital markets; and
 - (b) Continue to make the case for the acceptance of ISAs by market regulators for use in cross-border offerings and the continuing reporting obligations of foreign issuers.
4. International investors expect greater focus on sustainability and corporate responsibility from participants in the world's capital markets. Increasingly, participants' annual reports include sustainability information, and often auditors are involved in assurance engagements on corporate sustainability reporting. During the initial consultations, the IAASB has been called on to consider how it could contribute to the development of such reporting. The IAASB intends to do so.

The Implementation of Standards

5. The IAASB recognizes that the effective implementation of standards is as important as their development, and that it has an important role to play in addressing the practical implementation challenges experienced by those that have adopted, or are adopting, ISAs (either as written or locally adapted). These challenges, however, require a joint effort by the IAASB, other IFAC boards and committees, IFAC member bodies, regional professional accountancy organizations, the Forum of Firms, national standard setters, regulators and development agencies. The IAASB intends to contribute to this joint effort by:
 - (a) Providing auditors and national standard setters (and other adopting authorities) with a period of at least two years after completion of the Clarity project during which no new auditing standards will become effective, unless there is an urgent need to respond to new or unforeseen circumstances;
 - (b) Developing a process for assessing the effectiveness of the implementation of new standards, in order to determine whether there is any need for further refinement to achieve the intended objective of new standards; and
 - (c) Considering other actions intended to facilitate the implementation of its standards, particularly in respect of the audit of SMEs.

The Needs of SMEs and Their Auditors

6. In addition to practical implementation challenges, the prospect of a wider requirement for audits to be conducted in accordance with ISAs is raising concerns about whether an audit is the right service for all SMEs.
7. In some countries, regulators have introduced exemptions from audit (e.g., based on the type of entity, its size, or other public interest consideration) for entities that would otherwise be required to have an audit. Although there may be no requirement for these entities to have any form of third party involvement with their financial statements, they often request their professional accountants to conduct a review or compilation engagement.
8. Other countries are currently considering, for SMEs, an alternative assurance service to an audit. It is the view of the IAASB that ‘an audit is an audit,’ and that ISAs are the standards to be applied to all audits. The initial consultations indicated little support for any possibility that the audit of SMEs might be carried out to limited auditing standards. However, they indicated support for the IAASB to explore, in consultation with other interested parties, the concept of an alternative assurance service, clearly distinguished from an audit, designed to meet the needs of stakeholders of SMEs. The IAASB intends to do so. In addition (or perhaps to achieve this), the IAASB intends to revise the International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*.

Possible Actions to Implement the Proposed Strategy

Key Assumptions

9. The development of the work program of the IAASB will be based on the following key assumptions:
 - The existing staff complement of one director, two deputy directors, four technical managers and one assistant remains unchanged.
 - The IAASB meets for five days, four times per year.
 - Detailed work on projects is undertaken by task forces drawn from the membership of the IAASB and which may include representatives nominated by INTOSAI or from other relevant organizations.
 - Each project is discussed approximately 6 to 8 times by the IAASB. Approximately six projects can be discussed at each IAASB meeting.
 - In following the IAASB due process, each project takes approximately 24 to 36 months to complete. This includes consultation with the IAASB CAG, IFAC Small and Medium Practices Committee and public exposure for comment.
 - The expectation that the membership of the IAASB will consist of 50% practitioners and 50% non-practitioners by 2009 will not affect the IAASB's current working procedures and level of activity.
10. Based on the above, the IAASB will be able to commence approximately 10 to 12 projects during 2009 – 2011.

Possible Actions

11. The IAASB is of the view that the actions in the table below will assist it in achieving the proposed strategy in light of the focus described in paragraphs 1-8. Paragraphs 13-50 provide the basis for the possible actions.
12. The possible actions include the potential projects that the IAASB may commence during 2009 – 2011. The IAASB will select projects from the list of possible actions based on available resources. Appendix 1 contains a list of current (ongoing) actions, which the IAASB intends to continue during 2009 -2011.

A. The World's Capital Markets

A.1 Enhancing Public Confidence in Financial Reporting Through the Development of High-quality International Standards on Auditing

Performance Standards

- A.1.1 Develop two ISAs – possibly ISA 610, *Considering the Work of Internal Audit* and ISA 720, *Other Information in Documents Containing Audited Financial Statements*.

Reporting Standards

- A.1.2 Determine actions to be taken based on research to be conducted with regard to the auditor's report to be issued in accordance with ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.
- A.1.3 In consultation with national standard setters and relevant XBRL groups, develop guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with the auditor's report.

A.2 Developing Assurance Standards Relevant to Raising International Capital

- A.2.1 Revise International Standard on Assurance Engagements (ISAE) 3400, *The Examination of Prospective Financial Information*.
- A.2.2 In consultation with audit firms, national standard setters and other interested parties, including regulators, develop a new pronouncement addressing aspects of the auditor's involvement in prospectuses.

A.3 Contributing to the Development in Sustainability Reporting

- A.3.1 Develop a pronouncement addressing auditors' reports on information relating to tradable carbon credits.
- A.3.2 Review Royal NivRA's recently issued assurance standard on sustainability reporting to determine whether it provides an appropriate basis for an international pronouncement.

B. The Implementation of Standards

B.1 Assisting with the Implementation of ISAs

- B.1.1 Provide auditors and national standard setters (and other adopting authorities) with a period of at least two years after completion of the Clarity project during which no new auditing standards will take effect, unless there is an urgent need to respond to unforeseen

circumstances.

- B.1.2 Develop a process for assessing the effectiveness of the implementation of new standards, in order to determine whether there is any necessity for further refinement to achieve the intended effect of new standards.
- B.1.3 Publish with each new standard a short note of the key changes introduced and the intended effect on the engagement.
- B.1.4 Consider whether eNews communications and a summary of the most important matters in press releases and the annual report should be translated in the five languages of the United Nations.

B.2 Developing Implementation Guidance

- B.2.1 Review the existing International Practice Statements on Auditing (IAPSs) and determine whether they should be withdrawn or revised.
- B.2.2 Identify and develop implementation guidance for one topic if it is clear that IAASB is the appropriate body to do so.

B.3 Assessing the Impact of New Standards

- B.3.1 Determine how to implement any proposals that IFAC might adopt for the assessment of the impact of proposed new standards (possibly including an assessment of the cost vs. the benefits).

C. The Needs of SMEs and Their Auditors

- C.1 Revise ISRE 2400, *Engagements to Review Financial Statements*.
- C.2 Explore, in consultation with other interested parties, the concept of an alternative assurance service for SMEs and, if considered appropriate, commence a project to develop a standard for such a service if different from ISRE 2400.

Basis for Possible Actions

The World's Capital Markets

International Standards on Auditing

13. The IAASB believes that the actions taken up to 2008 will result in a set of ISAs that are fully up to date in those areas that contribute most to the performance of high-quality audits of financial statements. The IAASB, however, recognizes the pressures on the auditing profession arising not only from the recent and proposed changes in ISAs, but also from changes in regulation, oversight and financial reporting requirements. In this environment, the future actions of the IAASB will have to be clearly responsive to generally accepted needs and proportionate to them. That is, the IAASB will not develop any new or revised ISAs unless it is clearly necessary to do so. Stability has an important role to play in audit quality, as it enables effective implementation. This was also a clear message from the initial consultations.

Performance Standards

A.1.1 Develop two ISAs – possibly ISA 610, *Considering the Work of Internal Audit* and ISA 720, *Other Information in Documents Containing Audited Financial Statements*.

14. During the initial consultations it was noted that some of the ISAs that are being redrafted, but not revised, as part of the Clarity project (see Appendix 3, “ISAs not revised since 2002”) may be outdated. Although ISA 210, *Terms of Audit Engagements*, ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*, ISA 570, *Going Concern*, ISA 610, *Considering the Work of Internal Audit*, and ISA 720, *Other Information in Documents Containing Audited Financial Statements* were mentioned in that context, there was no clear consensus on the ISAs in this category in need of updating and the reasons why they should be updated.
15. Based on direction provided by members of the IAASB CAG, and deliberations of the IAASB, the IAASB proposes that ISAs 610 and 720 be revised during 2009 – 2011. These ISAs are the ones whose revision appeared to receive the most support. The IAASB accepts that there have been developments in the role of internal audit, and in the presentation of financial statements (for example, their presentation on websites) that are likely to justify revision of those standards.

Reporting Standards

A.1.2 Determine actions to be taken based on research to be conducted with regard to the auditor's report to be issued in accordance with ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*.

16. The IAASB is concerned that a number of jurisdictions that have adopted the ISAs (either as written or locally adapted) have shown reluctance to adopt ISA 700, *The Independent Auditor's Report on a Complete Set of General Purpose Financial Statements*. Further, some participants in the initial consultations were of the view that the IAASB should revise the auditor's report to be issued in accordance with ISA 700. Some noted that the auditor's report should be more informative, for example, by communicating in greater detail the work undertaken by the auditor, including identified significant risks, responses to such risks or significant findings; or, in the case of some of the more radical suggestions, by including commentary on such matters as accounting policies.
17. As a result, the IAASB proposes that research be conducted in two areas: first, whether there is anything in ISA 700 that creates a barrier to its adoption and, secondly, whether the matters communicated by the auditor's report should be revised.

New Technologies and Reporting Models

A.1.3 In consultation with national standard setters and relevant XBRL groups, develop guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with the auditor's report.

18. Although some respondents to the survey questionnaire referred to new technologies and new reporting models, these topics did not get strong support for new standards. This may be because their implications are not yet understood fully or accepted, or because they are not presently regarded as high priority. However, some of the reports recently issued by audit oversight and other relevant bodies reviewed by IAASB staff seemed to place more emphasis on such developments. Reference was made to: the effect that XBRL may have on the audit of financial statements, and continuous auditing and the continuous availability of information on which assurance will be sought. Discussions at the forums also emphasized the future importance of XBRL.
19. Regulators are beginning to permit or require the submission of financial statements and other information to be filed electronically using XBRL. There is a need for guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with an auditor's report. The IAASB proposes that this be provided for in the proposed actions.
20. XBRL offers further possibilities, including entities making detailed information, tagged using XBRL, available on a real-time basis to third parties. These possibilities could include assurance on such detailed information, possibly including assurance services designed to reassure third party users of entities' data bases. At this stage, these possibilities go beyond current practice and may in fact never be made available or, if made available, may never be something in relation to which assurance is sought by users. The IAASB does not think that pronouncements for such potential services are yet required, but intends to monitor developments so as to be able to identify if and when such projects become necessary.

21. The IAASB also intends to monitor developments relating to continuous auditing and the continuous availability of information on which assurance will be sought.

International Standards on Assurance Engagements

22. Some participants in the initial consultations supported the development of new ISAEs. Recommendations for topics included the following: reporting on internal control and risk management; reporting on corporate and social responsibility reports (including sustainability reports); reporting on budgets and key performance indicators; compliance auditing; performance auditing; and the auditor's involvement in prospectuses, including prospective and pro forma financial information and comfort letters. Although each of internal control, sustainability reports and prospectuses received some support, there was no clear consensus on the topics to be addressed in new ISAEs.

Assurance Services Relevant to Raising International Capital

- A.2.1 Revise International Standard on Assurance Engagements (ISAE) 3400, *The Examination of Prospective Financial Information*.
- A.2.2 In consultation with audit firms, national standard setters and other interested parties, including regulators, develop a new pronouncement addressing aspects of the auditor's involvement in prospectuses.

23. A member of the IAASB is chairing a group of representatives from audit firms formed to consider whether to commence a project (or projects) to develop a standard or guidance for services relevant to the world's capital markets. This has a primary focus on services required under the EU Prospectuses Directive, though any proposals are expected to have wider application. Topics that might be covered include reporting on pro forma information, or on prospective financial information (which would entail the revision of an existing standard). Any project would be subject to a proposal being approved by the IAASB.

Assurance on Sustainability Reports

- A.3.1 Develop a pronouncement addressing auditors' reports on information relating to tradable carbon credits.
- A.3.2 Review Royal NivRA's recently issued assurance standard on sustainability reporting to determine whether it provides an appropriate basis for an international pronouncement.

24. The trend towards entities, especially large and listed entities, publishing information about their contributions to sustainable development and corporate responsibility is increasing. While, in some jurisdictions, such reporting is not commonplace, in others it is quite widespread. It is also common for entities to engage professional accountants or others to perform an assurance

engagement or other form of “verification” in relation to that information. Again, the extent to which such services are provided varies throughout the world.

25. National standard setters in a number of jurisdictions have developed standards or guidance for professional accountants who wish, and are competent, to provide such assurance services. As indicated above, the IAASB has also been asked to consider developing pronouncement(s) to support professional accountants operating in this field. There are also others actively providing other forms of assurance services, using standards which are gaining in recognition but which are not aimed at the type of assurance service as understood by professional accountants.
26. A further development is the introduction of tradable carbon credits by governments as a means of contributing to the control of carbon emissions for environmental reasons. These are gaining in acceptance. In some cases, the schemes are supported by requirements for assurance over relevant data in order to provide a reliable basis on which the schemes are monitored by the relevant authorities. IAASB staff have already drafted a project proposal to enable the IAASB to determine whether to commence a project to develop the necessary pronouncement.
27. In 2006, the IAASB provided comments on draft proposals from the standard setter in The Netherlands, Royal NIVRA, with the intention of contributing to Royal NIVRA’s final assurance standard relating to sustainability reports in the hope that it might provide a basis for an international pronouncement. The final Royal NIVRA standard was published in 2007. The IAASB proposes a review of that standard to determine whether it provides such a basis. The IAASB will also consider other possible projects in this field.

The Implementation of Standards

Implementation Assistance

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| <ol style="list-style-type: none">B.1.1 Provide auditors and national standard setters (and other adopting authorities) with a period of at least two years after completion of the Clarity project during which no new auditing standards will take effect, unless there is an urgent need to respond to unforeseen circumstances.B.1.2 Develop a process for assessing the effectiveness of the implementation of new standards, in order to determine whether there is any necessity for further refinement to achieve the intended effect of new standards.B.1.3 Publish with each new standard a short note of the key changes introduced and the intended effect on the engagement.B.1.4 Consider whether eNews communications and a summary of the most important matters in press releases and the annual report should be translated in the five languages of the United Nations. |
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28. To date, the IAASB has contributed to the implementation of its standards by setting clear standards and providing adequate time for their implementation. The IAASB has not seen its role as one of developing implementation guidance. The initial consultations, however, clearly indicated a need by practicing accountants for assistance with the implementation of ISAs.
29. Some participants in the initial consultations were of the view that the implementation of the 36 clarity redrafted ISAs will be challenging. Although they noted that it is critical that the completion date for the Clarity project is achieved, some recommended that the IAASB consider a later effective date in order to allow more time for implementation. Some suggested that the effective date be aligned with that (still to be determined) for implementation of ISAs in the European Union. The IAASB [has recently announced that the definitive implementation date will be X].
30. To enable a focus on implementation of the clarity redrafted ISAs, participants in the initial consultations also recommended the establishment of a period after the completion of the Clarity project in which no new ISAs will become effective. The IAASB agrees that this is appropriate.
31. Some participants in the initial consultations supported a review of matters arising from the implementation of recent ISAs. The experience of the oversight bodies that monitor audit quality ought to provide an important source of information to the IAASB about how standards are being implemented in practice. The IAASB proposes to develop a process for assessing the effectiveness of the implementation of new standards.
32. There have been major changes to important standards in recent years, including ISA 220, *Quality Control for Audits of Historical Financial Information*, ISA 240 (Redrafted), *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* and the *Audit Risk Standards*. The IAASB proposes that the process for assessing the effectiveness of the implementation of new standards focus initially on them. However, the IAASB is of the view that stability in the ISAs enables effective implementation and thereby plays an important role in audit quality. Unless the assessment indicates otherwise, the IAASB does not intend to revise them.

Implementation Guidance

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| <p>B.2.1 Review the existing International Practice Statements on Auditing (IAPs) and determine whether they should be withdrawn or revised.</p> <p>B.2.2 Identify and develop implementation guidance for one topic if it is clear that IAASB is the appropriate body to do so.</p> |
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33. The initial consultations indicated a need for guidance on how to implement ISAs, in particular in audits of the financial statements of SMEs and entities operating in emerging economies. Other recommendations included guidance on audits of the financial statements of entities operating in specialized industries, such as banks and insurance companies, as well as guidance on the audit of complex valuation models.

34. Some participants in the initial consultations cautioned against the IAASB taking on the role of developing implementation guidance, in part because of potential confusion over its status. Other participants were of the view that the development of implementation guidance is the responsibility of IFAC or regional and national professional accountancy organizations and that valuable implementation guidance has already been developed by those organizations (as well as by some national standard setters). Some participants, for example, recommended that the IAASB (or IFAC), if satisfied with the quality of such guidance, promote and facilitate access to it. In addition, the IAASB could assist by responding to any inquiries that such organizations may have in developing the guidance.
35. The IAASB sees its role primarily as facilitator, but does not rule out the provision of further guidance (for example, in the form of IAPs or similar pronouncements) if there is a clear need, and if the IAASB is clearly the most appropriate provider of the guidance.

Impact Assessment

B.3.1 Determine how to implement any proposals that IFAC might adopt for the assessment of the impact of proposed new standards (possibly including an assessment of the cost vs. the benefits).

36. The initial consultations also gave rise to suggestions that the IAASB assess the impact that new standards may have. The IAASB recognizes the importance of proposing changes to standards only when there is a clear benefit in doing so that is not outweighed by any costs of implementation. Assessing these matters on an international basis is not straightforward.
37. IFAC is currently undertaking a project on impact assessments. The IAASB will consider how to implement any proposals that IFAC might make for its public interest activities.

Other Matters Arising in Consultations to Date

Clarity Redrafting of Standards Other than International Standards on Auditing

38. Some participants in the initial consultations indicated a need to redraft the standards other than ISAs in the clarity style. Those standards are listed in Appendix 4. There are relatively few such standards and in general they do not overlap (i.e., for any engagement only one such standard is likely to be relevant). Possible responses to this recommendation include redrafting all in the clarity style as a separate exercise; drafting new standards in the clarity style, but not redrafting the older ones until such times as they require their own substantive revision; or retaining the existing style for all non-ISA standards. To promote efficient and effective utilization of its limited resources, the IAASB proposes that new standards are drafted in the clarity style, but that existing standards are not redrafted until such time as they require their own substantive revision.

A Conceptual Framework

39. Some participants in the initial consultations indicated support for the possibility of developing a conceptual framework for assurance services. Previous experience has indicated that this might be very time consuming. It is also a project that would be best undertaken in cooperation with other auditing standard setters. If it is considered an important project, it may be better suited to academic research.
40. It seemed from the responses to the survey questionnaire that respondents who were advocating the development of a conceptual framework were mostly interested in matters such as professional judgment, or reasonable assurance.
41. It is unlikely that the IAASB will develop a conceptual framework as a whole. It may, however, develop parts of such a framework.

Global Acceptance, Convergence and Partnership

42. The initial consultations primarily focused on the development and implementation of the standards. Limited direction was provided with regard to this strategic initiative.
43. Continued dialogue with those groups affected by the activities of the IAASB, in particular with national standard setters, was encouraged. It was also noted that future improvements to the ISAs will promote convergence. The IAASB was encouraged to build acceptance of its standards across various audit and other assurance providers and, in particular, the SME / SMP environment.
44. Some of the reports reviewed, as well as participants in the initial consultations, cautioned against the development of standards that are over-prescriptive.
45. Based on the above, the IAASB intends to continue its current (ongoing) actions with regard to global acceptance, convergence and partnership. See Appendix 1.

Communications

46. Many respondents to the survey questionnaire were of the view that increased and targeted communication with those affected by the activities of the IAASB is key to promoting adoption and implementation of the standards. In general, respondents were of the view that the IAASB should develop a communication strategy, given its level of activity and the need to keep those affected by its activities abreast of new developments. Other recommendations included: project updates; summaries of the key points and implications of new standards; and web casts.
47. The initial consultations also indicated that the IAASB should take a leadership role in significant international debates affecting audit and other assurance standards in the areas of

alternative assurance engagements and sharing of best practice guidance, and build on the success of meetings with national standard setters as a productive means of communication.

48. The IAASB believes that its promotional objectives are as follows:

- To keep stakeholders informed of the activities of the IAASB;
- To promote adoption of or convergence with the standards of the IAASB;
- To educate and promote implementation; and
- To promote audit quality generally in the public interest.

49. The IAASB believes that communication is a two-way process that also enables the IAASB to hear others' concerns about practice, and what standard setters can do about them; hear concerns about standards; be aware of recent developments in practice; and be aware of relevant regulatory developments.

50. Based on the above, the IAASB intends to continue its current (ongoing) actions with regard to communication. See Appendix 1.

Appendix 1**Current (Ongoing) Actions the IAASB Intends to Continue***A. Global Acceptance, Convergence and Partnership*

- A.1 Continue active discussions with the IAASB CAG and national standard setters, public authorities (in particular the European Commission), audit oversight bodies and international regulators (including the International Organization of Securities Commissions (IOSCO)) aimed at achieving common agreement on the content and breadth of any proposed new standards to meet the common needs of all parties and lead to global acceptance and endorsement of the standards.
- A.2 Continue to cooperate with INTOSAI, promoting the use of ISAs as the basis for audits in the public sector.
- A.3 Continue to seek regular consultation with the IFAC Small and Medium Practices Committee on issues of relevance to SMEs and small- and medium-sized practices (SMPs) regarding audit and quality control standards.
- A.4 Continue to seek regular consultation with the IFAC Developing Nations on issues of relevance to developing nations regarding audit and quality control standards.
- A.5 Seek regular consultation with the International Accounting Standards Board on financial reporting developments that may affect the pronouncements of the IAASB or create a need for new pronouncements.
- A.6 Continue to take steps to address the issues of translation; the frequency, volume and complexity of changes; and the setting of effective dates.

B. Communication

- B.1 Continue to issue a press release, communicating the approval of each proposed or final IAASB pronouncement and any other major activity of the IAASB.
- B.2 Continue to issue IAASB eNews communications (three to four times per year).
- B.3 Continue to publish an annual report written to a broad interested audience on the performance of the IAASB, including a report on progress against this action plan and on how IAASB has complied with its stated due process.
- B.4 Continue to promote the activities and publications of the IAASB through the IAASB website (this include agenda material, audio records of meetings, meeting highlights, proposed pronouncements and related comment letters, final pronouncements and bases for conclusions).

B.5 Continue to enhance communications with national standard setters (including the annual meeting with 12 national standard setters), regulators, member bodies, the Forum of Firms, academics and conference organizers.

Appendix 2

Completed and Current Projects of the IAASB since 2002

Completed

- Project to develop the Quality Control Standards (ISQC 1 and ISA 220)
- Project to revise the requirements and guidance for audit documentation (ISA 230)
- Project to revise the requirements and guidance on the auditor's responsibility relating to fraud in an audit of financial statements (ISA 240)
- Project to develop the Audit Risk Standards (ISAs 315, 330 and 500)
- Project to develop requirements and guidance for the audit of group financial statements (ISA 600)
- Project to develop the International Framework for Assurance Engagements and a standard for assurance engagements other than audits or reviews of historical financial information (Framework and ISAE 3000)
- Project to develop guidance for national auditing standards setters that adopt the International Standards on Auditing with limited modifications

Current

- Project to revise the requirements and guidance on communication with those charged with governance (ISA 260)#
- Project to revise the requirements and guidance on materiality in planning and performing an audit and the evaluation of misstatements identified during the audit (ISAs 320 and 450)#
- Project to revise the requirements and guidance on audit considerations relating to entities using service organizations (ISA 402)*
- Project to revise the requirements and guidance on external confirmations (ISA 505)*
- Project to revise the requirements and guidance on auditing of accounting estimates, including fair value estimates (ISA 540)#
- Project to revise the requirements and guidance on related parties (ISA 550)*
- Project to revise the requirements and guidance on written representations (ISA 580)*

- Project to revise the requirement and guidance on using the work of an expert (ISA 620)*
- Projects to revise the requirements and guidance on the independent auditor's report on general and special purpose financial statements (including modifications to the opinion in the independent auditor's report) (ISAs 700, 705, 706 and 800)#
- Project to develop requirements and guidance on control deficiencies noted in an audit*
- Project to develop an assurance standard for practitioners reporting on controls at service organizations (ISAE 3402)*
- Project to improve the clarity of the IAASB pronouncements

Project to revise the ISA has been completed. The revised ISA are currently being redrafted in the "clarity style."

* Exposure draft has been / will be issued in revised and clarity redrafted format.

Appendix 3

ISAs Redrafted but Not Revised as part of Clarity Project

ISAs not revised since 2002

ISA 210, Terms of Audit Engagements (Issued March 1994)

ISA 250, Consideration of Laws and Regulations (Issued March 1994)

ISA 501, Audit Evidence – Additional Considerations for Specific Items (Issued March 1994)

ISA 510, Initial Engagements – Opening Balances (Issued November 1993)

ISA 520, Analytical Procedures (Issued June 1993)

ISA 530, Audit Sampling and Other Means of Testing (Issued November 1997)

ISA 560, Subsequent Events (Issued November 1993)

ISA 570, Going Concern (Issued June 1999)

ISA 610, The Auditor’s Consideration of the Internal Audit Function (Issued March 1994)

ISA 710, Comparatives (Issued March 1996)

ISA 720, The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (Issued November 1993)

ISAs revised since 2002

The ISAs shown in Appendix 2 as revised since 2002 (and ISQC 1) are being redrafted in Clarity form without further revision.

Appendix 4

Other International Standards

International Standards on Review Engagements (ISREs)

ISRE 2400, Engagements to Review Financial Statements

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

International Standards on Assurance Engagements (ISAEs)

ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information

ISAE 3400, The Examination of Prospective Financial Information

International Standards on Related Services (ISRSs)

ISRS 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information

ISRS 4410, Engagements to Compile Financial Information