

## Clarity ISA Implementation Monitoring - Issues and IAASB Task Force Proposals

### Key Issues to Consider

#### Part One Monitoring the implementation process

- 1) Is the IAASB supportive of the suggested approach to implementation monitoring in 2009 and 2010?
- 2) Are the draft questionnaires appropriate to obtain relevant information about the implementation experience of :
  - a. Audit firms
  - b. National Auditing Standard Setters?

#### Part Two Considering the need for a post-implementation review

- 3) If a post-implementation review is to be undertaken should the focus be on consistency of application, an effectiveness review or a combination of the two?
- 4) Should a post-implementation review focus on:
  - a. The whole set of ISAs, or
  - b. Individual ISAs?
- 5) What are the views on the possible timing of a post-implementation review?
- 6) How far should the Task Force go in developing criteria for responding to the findings of any post-implementation review? For example should it develop criteria for the different types of response described in paragraph 3.20?

#### Terms of Reference

- 7) Does the IAASB agree with the proposed revised Terms of Reference for the Task Force (see Appendix 2)?

### 1. Background and developments to date

- 1.1 Among various initiatives the IAASB is considering to support implementation of the clarified ISAs the IAASB committed to undertake in its *Strategy and Work Program, 2009-2011* is the development and implementation of a process for assessing the effectiveness of the implementation of the Clarity ISAs. The purpose of such a process is to assist the IAASB in determining whether there is any need for further refinement in those standards in order to achieve their intended objectives.

1.2 Any such post-implementation review should be distinguished from:

	<b>Responsibility</b>
Monitoring national compliance for IFAC purposes	IFAC Member Body Compliance Program
Evaluating the appropriateness of how audit firms integrate the ISAs into their methodology and train their staff	National audit monitoring units
Evaluating the appropriateness of the application of the ISAs to individual audits	National audit monitoring units

1.3 Draft Terms of Reference (Appendix 1) were discussed at the December 2008 IAASB meeting and at the meeting of the IAASB Consultative Advisory Group (CAG) in March 2009. Discussions on the preliminary direction of the project were held with the IAASB Steering Committee in March 2009 and at the IAASB-National Auditing Standard Setters (NSS) meeting in April 2009. The Task Force has met on a number of occasions to date to discuss the input received and strategic and directional matters for this project.

1.4 The Task Force proposes that during 2009 and 2010 IAASB should:

- actively monitor the implementation process of the Clarity ISAs, and
- discuss with stakeholders their views on the need for a post-implementation review and, if so, how and when such a review might be conducted.

## **2. PART ONE - Monitoring the implementation process (July 2009 – June 2011)**

2.1 Audit firms in many countries will be planning to implement the Clarity ISAs in their methodologies in 2009 and 2010. This activity is likely to provide important information regarding matters such as:

- The way that the ISAs are implemented (including the use made of the objectives and the application material),
- Aspects of the ISAs that might be difficult to understand, and
- Areas in which the audit firms decide to provide additional guidance material to achieve consistent application.

2.2 At the same time there will also be activity at a national level to embed the Clarity ISAs in national standards and translate them. This activity is likely to provide interesting information regarding matters such as:

- The way that the ISAs are implemented (including the use made of the objectives and the application material),
- The need for additional requirements (“pluses”) or deletions (“carve-outs”), and
- Aspects of the ISAs that may be difficult to translate for various practical reasons, for example because the meaning of the ISA may be unclear.

- 2.3 The Task Force believes that it will be valuable to collect this information while it is still fresh in peoples' minds although it is important to do this in a way that does not give rise to expectations that the ISAs will be changed in the near future as a result. While changes to the Clarity ISAs are not expected this activity might result in:
- Further implementation support initiatives including possible Staff Audit Practice Alerts (to assist later adopters benefit from the experience of early adopters), and
  - A "reservoir" of information to assist in future revisions to the ISAs.
- 2.4 It is planned that most of the data to support monitoring the implementation process will be obtained from the completion of questionnaires. It is likely that direct dialogue with some or all participants will be needed to understand the responses included in the questionnaires this may be undertaken in focus groups.
- 2.5 It is planned that data will be requested from 10 of the larger firms, 10 national organizations providing methodology support to smaller firms and 15 countries that are implementing the Clarity ISAs<sup>1</sup>. The timing of data collection will reflect when the underlying activity takes place. While responses from the larger audit firms and some countries<sup>2</sup> can probably be expected by early 2010, other responses are likely to be later. Aiming for a preliminary summary of findings by June 2010 and a final report by June 2011 is likely to be realistic. Care will however be needed in how the findings of this work are communicated externally – the findings may be seen by some stakeholders as being overly focused on the views of the audit profession.
- 2.6 The Task Force will be alert throughout the information gathering process for indications of whether urgent action may be needed, and will report these to IAASB. While such action is not likely to involve changes to the Clarity ISAs themselves, there may be a need for interpretation/supplementary guidance to be provided where:
- A number of different firms / countries identify the same topic as one which causes significant difficulty in the implementation process, and
  - That topic is considered by the Task Force to have a significant impact on the consistent application of the Clarity ISAs.

**The Task Force will not however develop supplementary guidance or provide interpretations to individual firms or countries.**

### **3. PART TWO - Considering the need for a post-implementation review**

- 3.1 In parallel with monitoring the implementation process, it is proposed that discussions be held with stakeholders to obtain their views on the need for a post-implementation review of the Clarity ISAs and, if so, how and when such a review might be conducted.

---

<sup>1</sup> An informal survey of countries represented at the IAASB NSS meeting held in April 2009 provided updated information about those countries' plans to adopt the Clarity ISAs.

<sup>2</sup> At a minimum it would seem feasible to collect information from Australia, Brazil, Canada, Netherlands, New Zealand, South Africa and the UK in late 2009.

- 3.2 While a number of stakeholders are likely to be supportive of a post-implementation review being undertaken, care will need to be taken not to raise expectations regarding the extent and imminency of possible changes that would:
- give the impression that IAASB does not believe that its existing ISAs are high-quality and fit for purpose, and
  - act as a deterrent for countries and audit firms not implementing the Clarity ISAs as soon as is practicable.

### Objective

- 3.3 Being clear as to the objective of such a post-implementation review is fundamental as this will influence the participants, process for data collection, and the timetable. It will also have a significant impact on the likely extent of IAASB's work in responding to the comments received.
- 3.4 There is a difference between evaluating whether the Clarity ISAs are being implemented in the way that IAASB had hoped (consistency review) and revisiting whether the Clarity ISAs need to be further enhanced to achieve audit quality (an effectiveness review).
- 3.5 A *consistency* review is likely to involve consideration of matters such as:
- Consistency in the way that the ISAs are understood;
  - Consistency of the application of the ISAs in practice; and
  - Identifying difficulties in application of the ISAs.
- 3.6 Responses to comments received are likely to impact on changes to the wording of the ISAs (to achieve further clarity) and perhaps additional guidance being drafted but probably not significant changes to the requirements.
- 3.7 The Task Force has discussed whether the primary focus should be on the consistency of the **understanding** of the ISAs or the consistency of their **application**. There are challenges in both regards. Consistency of the understanding may be closely linked to training / translation issues (which are outside of IAASB's remit) and will be difficult to measure. Consistency of application will also be difficult to measure given that the standards are principles-based and allow for judgment. In practice it will be difficult to disentangle the two and it is suggested that the focus should be on the consistency of application as this embraces the consistency of understanding.
- 3.8 An *effectiveness review* would involve consideration of matters such as:
- Whether there are additional matters that need to be addressed in the overall ISAs package to improve audit quality;
  - Whether the requirements of individual ISAs are sufficiently robust to achieve audit quality; and
  - The scalability of the application of the ISAs to audits of different size and complexity.
- 3.9 Responding to comments received from an effectiveness review is likely to have a much bigger impact on the requirements in the ISAs. The Task Force is concerned that encouraging

such an exercise in the near future could reduce the effectiveness of the current implementation exercise.

3.10 The Task Force proposes that the focus of any post-implementation review should be on consistency of application. However, in practice comments are likely to be obtained on aspects of improvement and, in the public interest, IAASB will also need to be prepared to respond to these as well.

3.11 The objective of the review could be stated as:

To evaluate the consistency in the way that the Clarity ISAs are being applied internationally and determine whether action needs to be taken to increase this. If, in the course of the review, issues come to the IAASB's attention that would help to improve the standards, the IAASB will analyze them and determine whether changes to the ISAs would be appropriate in promoting audit quality in the public interest.

3.12 To avoid any unreasonable expectations developing about the nature of the IAASB's review we will need to make clear that we will not be reviewing individual audits to determine whether the ISAs have been properly applied as that is the role of national audit oversight functions.

### **Potential Participants in the Review**

3.13 Who the IAASB encourages to participate in the review will depend on the objective of the review. If the focus is primarily on the consistency aspect, it is suggested that review should focus on obtaining information about issues arising from the direct experience of those who have experienced the ISAs first hand. These "main user groups" are likely to be:

- Audit inspection groups
- Larger firms
- Smaller firms
- Public sector auditors.

3.14 If the objective is broadened to the effectiveness of the ISAs, the views of "main user groups" will still be very important but others are also likely to have an interest including perhaps NSS, securities regulators, preparers<sup>3</sup> and investors.<sup>4</sup> There has never been a shortage of opinion on how standards should be changed to improve the quality of audits. Indeed, views on this have already been obtained in response to the Clarity exposure drafts and, to the extent that the ISAs have been revised, embodied in the final Clarity ISAs. However, not all of the ISAs have been recently revised in substance.

3.15 The "best of both worlds" might be achieved by focusing IAASB's resources on working with the "main user groups" in a relatively structured manner and allowing others to contribute as they wish in accordance with a published IAASB timetable. To explore the extent to which the

---

<sup>3</sup> For example, preparers may have a particular interest in ISA 580 and audit committees on ISA 260 and 265.

<sup>4</sup> For example, investors may have a particular interest in ISAs 700, 705 and 706

process of data collection can be structured and coordinated discussions could usefully be held with:

- International Forum of Independent Audit Regulators (IFIAR) – Independent audit inspection/oversight groups
- IFAC – Inspection/quality assurance activities of IFAC member bodies
- The Forum of Firms – Larger firms and networks of firms
- IFAC’s SMP Committee - Smaller firms
- INTOSAI - Public sector auditors
- the CAG.

3.16 The extent to which it will be possible to obtain a single coordinated response from these groups will need to be discussed with them. Even if it will not be possible to get a single response, working with these groups is likely to be helpful to assist with communicating IAASB’s objective and plans and in obtaining input from their constituencies.

### **Responding to the Results of the Review**

3.17 Responding to the information obtained from the review is likely to be a far greater challenge for IAASB than gathering the information. Information gathered will need to be analyzed, decisions will need to be taken as to whether changes to the ISAs are needed and what they are to be and changes will need to be exposed for comment. All this will take time. In order to avoid unrealistic expectations about how quickly ISAs might be changed it will probably be desirable for IAASB to communicate externally its strategy for further revisions to the ISAs at the same time as its plans for a post-implementation review.

3.18 One of the key aspects of IAASB’s future strategy for further revisions to the ISAs will be whether future changes to ISAs will be made on a “rolling basis” or as another “big bang.” One of the lessons of the Clarity project has been to demonstrate the interrelationships that exist between individual ISAs. There was also significant support for releasing revised standards as a package (the “big bang” approach).

3.19 While a “big bang” approach for future revisions remains appealing, disadvantages include:

- Other stakeholders may take the view that it could result in unacceptable delay to changes to the standards in important areas. For example, it would seem wrong to delay changes to an important standard identified at an early stage in the process until, say 2016, by which time the whole set of ISAs had been reviewed.
- It would delay the ISAs being updated for relatively easy issues; the International Accounting Standards Board, for example, has an annual improvement project for updating accounting standards for relatively minor issues.

3.20 In parallel with developing plans for any post-implementation review, the Task Force believes that IAASB will need to also establish a strategy for responding to the information collected. Any such strategy is likely to need to deal with:

- Urgent changes to the requirements;

- Less urgent but nevertheless significant changes to the requirements (including structural changes to the ISAs); and
- Relatively minor changes (e.g., a request to clarify an ISA in a relatively narrow area).

Possible criteria for these different responses are set out in Appendix 3.

### **Timing**

3.21 The Clarity ISAs come into effect for accounting periods commencing on or after 15 December 2009. If we were to focus the review on the second year of implementation (i.e., calendar 2011 audits) the earliest it could commence would be mid-2012, and data collection would not have been completed much before 31 December 2012. This allows for:

- The first two calendar years audits, being 2010 and 2011.
- Audit inspection units will not be reviewing the audits of 2011 calendar year end audits much before June 2012.
- It will take at least six months to allow participants to collect data and summarize it in a helpful manner (more time will probably be needed if the main user groups aim to prepare a single coordinated response).

3.22 Undertaking the review in 2012 may be too early to involve some important groups if, as is likely, the European Commission (EC) and other important jurisdictions such as China, Japan and the AICPA will not have adopted the Clarity ISAs for 2010 audits. A case can be made for starting in 2013. However 2012 fits well with IAASB's strategic planning timetable (see section 4).

3.23 An important issue to consider in relation to timing is whether any review would focus on individual ISAs or on the whole package of Clarity ISAs. This decision will impact the process to be applied and, more importantly perhaps on the timing of the overall project.

### **Review of Individual ISAs or the Package of Clarity ISAs at One Time**

3.24 One approach might be to focus on a relatively small number of standards in any one year. For example, IAASB could plan to review about seven standards each year and therefore cover the whole population of ISAs within a five year period.

3.25 Advantages of such an approach include:

- It will be possible to spread the work (an advantage to both the "main user groups" and IAASB).
- It would allow the IAASB to establish priorities (e.g., perhaps to focus on those Clarity ISAs that were not revised as part of the Clarity Project in the early years).
- It would allow the review to focus on an ISA at a reasonable level of detail (this could also be a disadvantage if we are trying to avoid a proliferation of relatively minor changes).
- It might work well with a "rolling approach" to future changes to the ISAs.

3.26 Disadvantages of such an approach include:

- Focusing on individual ISAs might mean that the review becomes overly detailed.
  - Focusing on individual ISAs might miss “macro” issues such as whether there are additional matters that need to be addressed in the overall ISAs package that might improve audit quality.
  - If a “big bang” approach is favored for updating the ISAs, spreading the review process over five years and allowing, say, a further three years for IAASB to update the ISAs and follow due process for issuing them is likely to mean that ten years would have passed since the Clarity ISAs were first issued – this may seem rather too long.
- 3.27 The underlying feeling of the Task Force is that public expectations are likely to be that IAASB should have completed its review and revised the ISAs within, say, six years of introducing new standards. If the review starts two and a half years after the effective dates, takes six months to collect data, and will require at least two years (and probably more time) to decide what changes to make and consult on them, there is no option but to review the whole package of Clarity ISAs.

#### **4. Communications**

- 4.1 IAASB’s plans to review the Clarity ISAs are likely to be of considerable interest to stakeholders/constituencies including: national standards setters; the CAG; IFIAR; the Forum of Firms; the IFAC SMP Committee; and INTOSAI. It will be important to obtain the views of these groups at as early a stage as possible but also in a logical sequence.
- 4.2 The discussion of the project with the NSS in April provided the following summary points for consideration concerning Part One (Implementation Monitoring Phase):
- Willingness by the NSS to help the IAASB gather information about their respective countries’ experiences of implementing the clarified ISAs.
  - With regard to obtaining information about the implementation experiences of SMPs around the world, large national training organizations (which are viewed as a source of this information) do not exist in all countries.
  - Information gathering should extend also to professional accounting bodies that are not otherwise also national standard setters, as those bodies are likely to also have information relevant to the implementation experience.

The NSS also noted the following points concerning Part Two (Considering the need for a post-implementation review):

- There may be a question as to whether the IAASB is perceived as having the external credibility to undertake an effectiveness review of its own standards.
  - Planning to complete an effectiveness review by 2012 may be too early as many countries are expected to have later adoption time frames, and audit inspection units would only be in a position to provide feedback on implementation a year or so afterwards.
- 4.3 For purposes of consultation with further stakeholders/constituencies, a possible project timetable might be as follows:

- July / August – Discuss with Forum of Firms, SMP Committee and INTOSAI
  - September – Discuss with CAG and IFIAR and finalize with IAASB (during 21-25 September meeting)
- 4.4 If there is support for monitoring the implementation process in 2009/2010 the IAASB will need to communicate directly with those groups who are to be requested to complete questionnaires. It is hoped that the IAASB's interest in obtaining the information requested will be self-evident and it will not be necessary to explain IAASB's longer-term plans for a post implementation review at this stage.
- 4.5 Views on the need for and likely design of a post-implementation review are likely to evolve in 2009 / 2010. Rather than consulting on these separately it may be beneficial to integrate these in a wider consultation of IAASB's 2012 / 2014 Strategy and Work Program. Appendix 4 sets out an outline plan which demonstrates that IAASB could:
- Consult on its plans for a post-implementation review alongside its consultation of its 2012-2014 strategy (mid-2010?), and
  - Benefit from the findings of any post-implementation review when setting its priorities for its 2015-2018 strategy (mid-2013?).

## **5. Remit of the Task Force**

- 5.1 The Task Force has reviewed the draft Terms of Reference (Appendix 1) and proposes certain amendments (Appendix 2) to:
- Relate it to the two-phased strategy, and
  - Stop short of commencing any post-implementation review (in part as this is likely to be outside the time scale of the current members of the Task Force's membership of IAASB).

**IAASB [December 2008, Brussels]**

**Effectiveness Review Task Force – Draft Terms of Reference**

**Background**

In developing its proposed strategy and work program for 2009-2011, the IAASB received requests from stakeholders that it undertake to assess the effectiveness of the implementation of any new standard to determine the consistency and completeness of such implementation, and to identify any aspects of the standard that could be refined to achieve its intended objectives. These calls arose, in particular, in the context of the anticipated conclusion of the clarity project, given the magnitude of, and expectations in relation to, that project. Accordingly, as part of its 2009-2011 Strategy and Work Program, the IAASB agreed to develop and implement a process for that purpose.

An important part of the project will involve consulting relevant parties such as the Public Interest Oversight Board, oversight bodies that monitor audit quality, regulators, national standard setters, audit firms, the IFAC Small and Medium Practices (SMP) Committee, and INTOSAI, as their experience should provide an important source of information to the IAASB about how its standards are being implemented in practice.

**Task Force Roles and Responsibilities**

As a result of the above, the IAASB has established a Task Force on effectiveness review, chaired by an IAASB member and comprising interested parties with relevant perspectives and expertise, with the following mandate:

- To consider and make recommendations on the **form, scope and timing** of such a process, and the **due process** to be applied, taking account of the need to involve, consult with, and draw upon the experience of, relevant parties. It is not intended that, through this process, the IAASB will extend its activities to monitor the implementation of its standards, as this is the role of the regulators and oversight bodies that monitor audit quality. It is, however, expected that any proposed process should take account of their findings to the extent that it is practicable to obtain sufficient relevant detail. It is envisaged that, once finalized, the process would become a standing part of the IAASB's process of continuous improvement of its standards.
- If necessary, to develop a **project proposal** for the development of the process.
- To consider and make recommendations as to the implementation of the process, including:
  - In consultation with national standard setters and others as appropriate, the development of a systematic process for collecting relevant input at the jurisdictional level to ensure a uniform approach to data collection internationally; and
  - The structure and composition of the **Task Force on an ongoing basis**.
- To identify priority topics for the effectiveness review, taking account of the needs of users of the ISAs.

- Subject to approval of the project proposal, if any, to develop the proposed process and the form, extent and timing of any public consultation thereon for consideration by the IAASB.
- **To proceed with the implementation of the process once it has been approved by the IAASB.**

It is not intended that any process that is developed should envisage re-opening an approved standard, and accordingly any such process should not include general consultation on the content of a standard whose effectiveness is being reviewed. The intention is that the process should be clearly focused on matters arising from the experience of using a standard in practice, and the resolution of practical issues arising from its implementation.

The Task Force will report its recommendations on the form, scope, timing and due process for such process to the IAASB for approval.

The IAASB is responsible for final approval of any project proposal.

### **Other Matters**

Any implications for budgetary or due process considerations will be communicated by the Chair and staff of IAASB to the IFAC Board and PIOB as appropriate.

The Task Force members' travel expenses will be reimbursed in accordance with IFAC policies.

## Appendix 2

### IAASB

#### Clarity ISA Implementation Monitoring Task Force – Proposed Revised Draft Terms of Reference

##### Background

Implementation of the Clarity ISAs in 2009/2010 by a large number of firms and countries provides a unique opportunity for IAASB to obtain information regarding how its standards are being applied. Gathering this information on a timely basis will provide a valuable reservoir of information to assist the IAASB if, and when, it decides to make amendments to the Clarity ISAs.

In addition, in developing its proposed strategy and work program for 2009-2011, the IAASB received requests from stakeholders that it undertake to assess the effectiveness of the implementation of any new standard to determine the consistency and completeness of such implementation, and to identify any aspects of the standard that could be refined to achieve its intended objectives. These calls arose, in particular, in the context of the anticipated conclusion of the Clarity Project, given the magnitude of, and expectations in relation to, that project. Accordingly, as part of its *Strategy and Work Program, 2009-2011*, the IAASB agreed to develop and implement a process for that purpose.

An important part of the project will involve consulting relevant parties such as the Public Interest Oversight Board (PIOB), oversight bodies that monitor audit quality, regulators, national standard setters, audit firms, the IFAC Small and Medium Practices (SMP) Committee, INTOSAI and the IAASB's Consultative Advisory Group, as their experience should provide an important source of information to the IAASB about how its standards are being implemented in practice.

##### Task Force Roles and Responsibilities

As a result of the above, the IAASB has established an Implementation Monitoring Task Force chaired by an IAASB member with the following mandate:

- To actively monitor the implementation process of the Clarity ISAs in 2009 and 2010 to assess whether implementation support initiatives (including possible Staff Audit Practice Alerts) are necessary and to provide a reservoir of information to assist IAASB if, and when, it should decide to make amendments to its standards.
- To consider and make recommendations on the **form, scope and timing** of a post-implementation review taking account of the need to involve, consult with, and draw upon the experience of, relevant parties. It is not intended that, through this process, the IAASB will extend its activities to monitor the implementation of its standards, as this is the role of the regulators and oversight bodies that monitor audit quality. It is, however, expected that any proposed process should take account of their findings to the extent that it is practicable to obtain sufficient relevant detail. It is envisaged that, once finalized, the process would become a standing part of the IAASB's process of continuous improvement of its standards.

## **Timetable**

### Part One

The Task Force will report on its preliminary findings from monitoring the implementation process to the IAASB	June 2010
The Task Force will finalize its report on monitoring the implementation process to the IAASB	June 2011

### Part Two

The Task Force will make its recommendations on the form, scope and timing of a post-implementation review process to the IAASB	June 2010
---	-----------

## **Other Matters**

Any implications for budgetary or due process considerations will be communicated by the Chair and staff of IAASB to the IFAC Board and PIOB as appropriate.

The Task Force members' travel expenses will be reimbursed in accordance with IFAC policies.

The IAASB is responsible for final approval of any project proposal.

## Appendix 3

### Possible Criteria for Use in a Strategy to Respond to Information Obtained

Information obtained may identify issues classified as one of the following categories:

- **Urgent enough to call for immediate changes to an ISA, or creation of or modifications to documents of other form published by the IAASB**

The information received will be classified in this category if:

- The issue is of global nature and its resolution is discussed in the broader context (e.g., G20 or Financial Stability Board);
- The issue has a significant impact to audit quality worldwide, which may have implications to the international macro economy; and
- The issue is relevant to the forthcoming year-end or period-end.

- **Significant but would allow more time to enable a package review/change**

The information received will be classified in this category if:

- The issue is of significant impact to audit quality worldwide but do not necessarily have an urgent relevance to forthcoming year-end or period-end; and
- The issue is raised from practitioners and/or audit oversight bodies in audit or inspection process, in improve the practice or in response to changing business environments.

- **Relatively minor, so that it can be included in some sort of improvement process (e.g., an annual improvement process)**

The information received will be classified in this category if:

- The issue may not be of significant impact to audit quality worldwide but call for the change of standards to ensure consistent understanding and application
- The issue is frequently questioned from practitioners to national standards setters or national regulators, seeking for interpretation
- The issue is raised in the adoption or translation process of ISA in each jurisdiction.

**Appendix 4**

**Review timetable in context of IAASB's 3 year planning cycle**

