

**PROPOSED IMPACT ANALYSES GUIDANCE****CONTENTS**

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## Introduction

1. An Impact Analysis contributes to the development of high-quality standards by providing a systematic and structured approach to obtain information about the potential impacts of a proposed new standard on key stakeholders and to document and communicate this information.
2. The following steps, which are conducted as part of the due process, are important to the development of an Impact Analysis:<sup>1</sup>
  - (a) Determining the nature and magnitude of the problem and the need for action by the IAASB.
  - (b) Determining the objective(s) of the IAASB in addressing the problem.
  - (c) Identifying the primary options to achieve the objective.
  - (d) Consulting relevant stakeholders.
  - (e) Conducting an overall assessment and drawing a conclusion.

The Impact Analysis provides a tool to analyze the impact of the preferred option for each key issue ((c) above) and the overall impact of the proposed new standard ((e) above). This tool may also be referred to as a “cost-benefit analysis” or an “effect analysis.”

3. The Impact Analysis is scalable; that is, its scope and depth depend on the nature and magnitude of the problem being addressed.

## Informing the Impact Analysis

4. The Impact Analysis is informed throughout the development of the proposed new standard and documented in the Explanatory Memorandum that accompanies the Exposure Draft. The final Impact Analysis is documented in the Basis for Conclusions.
5. The Impact Analysis, in the first instance, is developed by staff for discussion with and further development by the task force. The outcome of this discussion is included in the documents presented to the IAASB or its Consultative Advisory Group. This takes place

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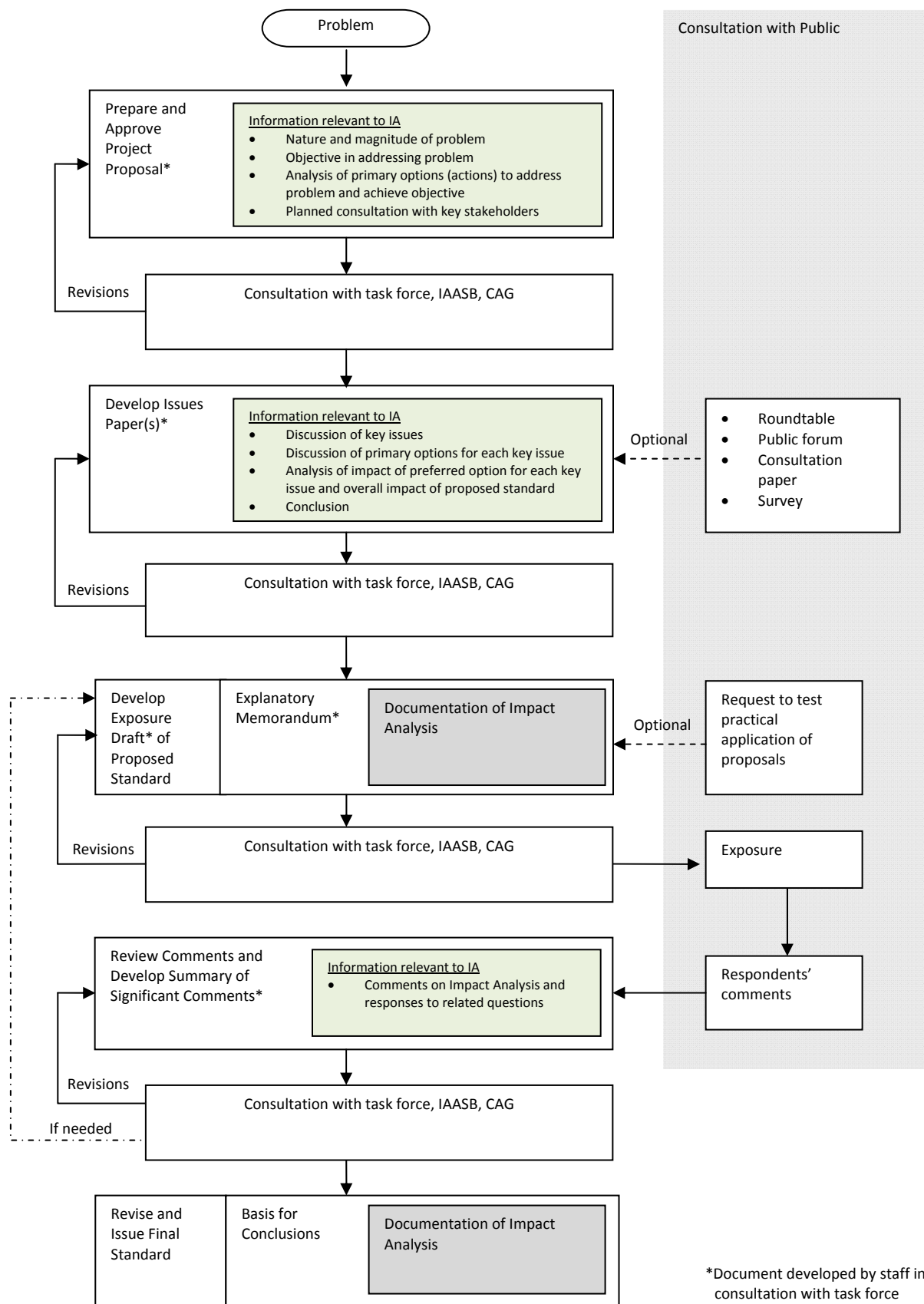
<sup>1</sup> The impact assessment steps are adapted from those presented in *Hints & Tips for Writing a Regulatory Impact Statement/Business Compliance Cost Statement (RIS/BCCS)* developed by the Ministry of Economic Development, Wellington, New Zealand. They are also in line with those in the Markt/2007/15/F – Study on International Standards on Auditing, *Evaluation of the Possible Adoption of International Standards on Auditing (ISAs) in the EU – Interim Report* (21/08/2008). Paragraph 57 of this report notes that the impact assessment reporting format recommended by the European Commission depicts the following major (methodological) steps:

- (a) Procedural issues and consultation of interested parties;
- (b) Problem definition;
- (c) Objectives;
- (d) Policy options;
- (e) Analysis of impact;
- (f) Comparing the options; and
- (g) Monitoring and evaluation.

throughout the development of the proposed new standard, and the Impact Analysis is modified accordingly.

6. Documenting the Impact Analysis in the Explanatory Memorandum is particularly important for obtaining feedback from stakeholders other than those represented on the IAASB or its Consultative Advisory Group. Selected respondents to the Exposure Draft may be requested to test the practical application of the proposals to inform further the Impact Analysis.
7. The following diagram illustrates how the Impact Analysis will be informed through discussion or consultation at each stage of the development of the proposed new standard.

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## Developing the Impact Analysis

8. When developing a proposed new standard, the IAASB analyzes the impact of both the overall standard and the preferred option for each key issue addressed during the development of the standard. Narrative descriptions of these analyses are included in the Explanatory Memorandum. These analyses are scalable; that is, their scope and depth depend on the nature and magnitude of the problem being addressed. The template below assists in analyzing the overall impact of a proposed new standard. The template may also assist in analyzing the impact of the preferred option for each key issue, but its use is not required.
9. The template identifies who will be affected by the proposed standard / preferred option, how they will be affected, and to what extent they will be affected. It provides for an analysis of the primary impacts and other impacts, if any. The extent (magnitude) of the impact is measured in qualitative terms, using a simple 5-point directional scale. The scale takes account of the type (increase or decrease) and relative magnitude of the impact (small or large). The template also indicates whether the impact varies by size or nature of the entity subject to audit, and the duration of the impact.
10. In completing the Impact Analysis, it is important to note that it analyzes the impact of the incremental difference between the extant and proposed new standard, not between current and future practice. This is necessary to render comparable analyses. For example, a new standard may propose that communication of certain matters to those charged with governance be documented. It may be that, due to law or regulation in some jurisdictions, this communication was already documented. The impact should be measured from the extant requirement (no documentation required) to the new requirement (documentation required) rather from current practice (documentation already required).

**Note:** Guidance on filling out the template is presented in italics and brackets.

<b>Subject</b> _____ <i>[Describe the subject being analyzed, which is either the overall impact of the proposed new standard or the preferred option for a key issue.]</i>			
<b>Audit Effectiveness</b>	<b>Direction and Magnitude of Impact (Note 1)</b>	<b>Variability by Size / Nature of Entity Subject to Audit (Note 2)</b>	<b>Duration of Impact</b>
Audit effectiveness increases/decreases because ... <i>[Narrative description of impact, including the reasons for the increase in audit effectiveness and, where applicable, who is affected and how they are affected]</i>	<i>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>

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<b>Work Effort</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability</b>	<b>Duration of Impact</b>
<p>Auditors (Note 3)</p> <p>Work effort increases/decreases because ... [Narrative description of impact, including the reasons for the change in work effort and how this stakeholder is affected]</p>	<p>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</p>	<p>[If appropriate, describe variability]</p>	<p>[Insert One-off or Recurring]</p>
<p>Management or, where appropriate, those charged with governance (audit client) (Note 4)</p> <p>Work effort increases/decreases because ... [Narrative description of impact, including the reasons for the change in work effort and how this stakeholder is affected]</p>	<p>[Insert direction and magnitude]</p>	<p>[If appropriate, describe variability]</p>	<p>[Insert One-off or Recurring]</p>
<p>Other stakeholders (such as audit oversight bodies)</p> <p>Work effort increases/decreases because... [Narrative description of impact, including the reasons for the change in work effort and how this stakeholder is affected]</p>	<p>[Insert direction and magnitude]</p>	<p>[If appropriate, describe variability]</p>	<p>[Insert One-off or Recurring]</p>
<b>Other Impacts</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability</b>	<b>Duration of Impact</b>
<p>Auditors (Note 3)</p> <p>Other impact occurs because ... [Narrative description of other impact and how this stakeholder is affected]</p>	<p>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</p>	<p>[If appropriate, describe variability]</p>	<p>[Insert One-off or Recurring]</p>
<p>Management or, where appropriate, those charged with governance</p> <p>Other impact occurs because... [Narrative description of other impact and how this stakeholder is affected]</p>	<p>[Insert direction and magnitude]</p>	<p>[If appropriate, describe variability]</p>	<p>[Insert One-off or Recurring]</p>
<p>Investors (Note 5)</p> <p>Other impact occurs because... [Narrative description of other impact and how this stakeholder is affected]</p>	<p>[Insert direction and magnitude]</p>	<p>[If appropriate, describe variability]</p>	<p>[Insert One-off or Recurring]</p>

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Other stakeholders (such as audit oversight bodies)	<i>[Insert direction and magnitude]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
Other impact occurs because... <i>[Narrative description of other impact and how this stakeholder is affected]</i>			

- Note 1: The extent (magnitude) of the impact on audit effectiveness is measured in qualitative terms, using a simple 5-point directional scale. The scale takes account of the direction (increase or decrease) and relative magnitude of the impact (small or large).
- Note 2: Indicate whether audit effectiveness, work effort, or other impact is affected for all entities or is limited to specific industries, particular types of entities, or entities in particular jurisdictions. In particular, the difference between the impact on small and large firms should be considered. For example, in the case of the IAASB, the impact of a new requirement for audit planning may have a larger impact on small firms than large firms, while a new requirement relating to the work of internal auditors may have little or no impact on smaller firms. Any difference in the impact for public sector entities should also be considered
- Note 3: The references to Auditors are assumed to include Supreme Audit Institutions.
- Note 4: For example, a new requirement for management to use an expert may create additional effort (and costs) for management to interact with the expert, and for management's expert to interact with the auditor's expert.
- Note 5: Investors are considered to be a representative subset of users. The "Framework for the Preparation and Presentation of Financial Statements," adopted by the IASB in April 2001, indicates that, for a profit-oriented entity, as investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.

## Documenting the Impact Analysis

11. The Explanatory Memorandum and Basis for Conclusions include the template analyzing the overall impact of the (proposed) new standard and, if used, the templates analyzing the impact of the preferred option for each key issue. To enhance the flow of the Explanatory Memorandum / Basis for Conclusions, brief descriptions of the analyses and related questions for respondents are included in the body of the document, and the completed template(s) are presented in an appendix.
12. The headings of the Explanatory Memorandum / Basis for Conclusions reflect the steps, which are conducted as part of the due process and that underlie the Impact Analysis. The headings of the Explanatory Memorandum, and guidance on the content to be included under each heading, are presented below.

## EXPLANATORY MEMORANDUM

### 1. Subject

- Briefly describe the subject area to be investigated.

### 2. Statement of the Nature and Magnitude of the Problem and the Need for Action

- This statement provides context to the development of a proposed new standard. Assume the reader has no prior knowledge of the problem. Consider:
  - How the matter has arisen / who has identified it. A problem may be identified by:
    - Information gathered during the strategy review process of the IAASB and included in its strategy and work program.
    - National standard setters, including information obtained at formal sessions such as the IAASB-National Standard Setters meeting.
    - The firms or IFAC member bodies.
    - The findings of audit oversight authorities, inspection reports, or the post implementation effectiveness review of the IAASB.
    - The IAASB Consultative Advisory Group.
    - Other regulators or users.
    - Questions or concerns that develop from emerging issues, such as the current financial crisis.
  - Key factors in the current environment that are contributing to the matter.
  - Where relevant, any constraints in dealing with the matter (for example, timeliness of response).
  - Where relevant, any international, regional or national developments that are contributing to the matter or any actions taken by international, regional or national standard setters or regulators in relation to the matter.
- It also identifies any research conducted, including consultation with various stakeholders, for example:
  - Focus groups, roundtables, public forums, or other consultations with stakeholders.
  - Consultation papers.
  - The findings of surveys.

### **3. Statement of the Objective of the IAASB in Addressing the Problem**

- This statement describes what the IAASB is setting out to achieve in relation to the underlying problem in terms of output and outcomes.
- The objective ordinarily supports the IAASB's stated objective.<sup>2</sup> The objective is practical, and achievable under the primary options identified in 4 below.

### **4. Statement of the Primary Options that Were Considered in Achieving the Objective**

- This statement describes the primary options (actions) to address the problem and achieve the objective, and analyzes the IAASB preferred option (action) (e.g., the development of a new standard).
- It also describes the key issues addressed during the development of the new standard.
  - Describe the primary options for addressing each key issue. (The first option is always the status quo (the current environment or do-nothing approach).)
  - Compare the primary options and describe the conclusion reached with regard to the preferred option. If applicable, explain why it is no longer appropriate to maintain the status quo.
- Information on the consideration of the primary options is gathered from the project proposal, issues paper(s) and, if applicable, results of public forums, roundtables, consultation papers or field tests.

### **5. Analyses of the Overall Impact of the Proposed New Standard and of the Impact of the Preferred Options**

- This section indicates the overall impact of the proposed new standard in narrative form. It is supported by the completed template included in the appendix to the Explanatory Memorandum.
- It also describes the impact of the preferred option for each key issue (see 4). The completed template(s), if developed, are included in the appendix to the Explanatory Memorandum. This may also be presented as part of each key issue described in 4 above.
- In addition, this section includes questions for respondents regarding the results of the Impact Analyses. In some cases, selected respondents may be requested to test the practical application of the proposals or to quantify the impacts at national level to inform further the Impact Analyses.

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<sup>2</sup> The IAASB's stated objective is to serve the public interest by setting high quality standards dealing with auditing, review, other assurance, quality control and related services, and by facilitating the convergence of national and international standards; thereby contributing to enhanced quality and uniformity in practice in these areas throughout the world, and strengthened confidence in financial reporting.

## **6. Statement of Consultation to Date**

- This statement describes the form of consultation that has taken place with stakeholders during the development of the proposed new standard. It outlines any consultation with other IFAC boards and committees, the Consultative Advisory Group, and other key stakeholders. It discusses any significant concerns raised and how these concerns were addressed.
- It also outlines other forms of consultation, which include public forums, roundtables, consultation papers, surveys or tests of the practical application of the proposals. In this regard, it describes the form of such other consultations and the stakeholders consulted. It discusses any significant concerns raised and how these concerns were addressed.

## **7. Project Timetable**

- This section identifies the major project milestones and the expected timeline for achieving those milestones. For example:

Comment Deadline	[Date]
Review of Comments on Exposure Draft	[Date]
Tentative Date for Approval of Final Standard	[Date]
Proposed Effective Date of the Standard	[Date]

## **8. Guide for Respondents**

- This section describes the guidelines for respondents in developing comments on the Exposure Draft. It includes requests for specific comments on matters such as public interest concerns, developing nations, and translation issues. It also addresses any special considerations in the audit of smaller entities or public sector entities. For example:

### **a. General**

State guidelines for respondents to use, for example:

The IAASB welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

**b. Request for Other Specific Comments**

1. Public Interest Concerns— Respondents are asked to address whether there are any public interest concerns that have not been addressed.
2. Special Considerations in the Audit of Smaller Entities— Respondents are asked to comment whether, in their opinion, guidance addressing special considerations in the audit of smaller entities should be provided in the proposed ISA. If so, respondents are asked to explain why, and to suggest the nature of any such considerations.
3. Special Considerations in the Audit of Public Sector Entities—Respondents are asked to comment whether, in their opinion, special considerations in the audit of public sector entities have been dealt with appropriately in the proposed ISA.
4. Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the ISAs, the IAASB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed ISA in a developing nation environment.
5. Translations—Recognizing that many respondents intend to translate the final ISA for adoption in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing the proposed ISA.