

ISA Implementation Monitoring Project—IAASB Task Force Report**Objective**

1. To provide a report to the Board on Phase 1 of the ISA Implementation Monitoring project, concerning the clarified ISAs.

Background

2. In its *Strategy and Work Program, 2009-2011*, the IAASB committed to develop and implement a process for assessing the effectiveness of the implementation of the clarified 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.
3. In 2009, the IAASB established a project Task Force to consider how it might approach the design of such a process. After initial IAASB discussion, the Task Force proposed a two-phased approach by which the IAASB would:
 - (a) Monitor the implementation process of the clarified ISAs (Phase 1); and
 - (b) Consult with key stakeholders to understand their views on the need for a post-implementation review (Phase 2), and on how and when such a review might be conducted.
4. The IAASB made clear at the outset in its communications on this project that any post-implementation review would be distinct in aims and objectives from any compliance monitoring program (such as the IFAC Compliance Program), and from national audit inspection/monitoring functions carried out as part of national auditor oversight functions.
5. The Task Force identified the following timelines for each phase:
 - Phase 1: 2009/2010,
 - Phase 2: 2011/2013.

These timeframes recognize that any post-implementation review cannot usefully be commenced prior to completion of the second year of implementation of the clarified ISAs (i.e., for audits undertaken for financial statements relating to periods ending on 31 December 2011). See Appendix 1 for an overview of implementation time frames.

Activities Undertaken in Phase 1 to June 2010

6. In 2009, the Task Force commenced with Phase 1 by surveying IAASB National Auditing Standard Setters (NSS) that were known to be implementing the clarified ISAs in line with the IAASB's effective date, and also the larger audit firms.
7. At the time of this report, the Task Force has surveyed eleven countries and eight firms.

- (a) The first seven countries among the NSS that are adopting, or have adopted the clarified ISAs in line with the IAASB's effective date for the ISAs¹ responded to a questionnaire sent out in 2009.
 - (b) Another four countries among the NSS that are adopting the clarified ISAs² in the 2011-2012 period, provided preliminary responses based on information available at present given their respective timeframes for developing national standards that either adopt, or are based on the clarified ISAs.
- 8. Information is also being sought on other countries that plan to adopt the clarified ISAs during 2011 that are not part of the NSS group, to the extent information is available (for example, through the IFAC Compliance Program).
 - 9. In addition, the Task Force surveyed the largest firms³ that have been implementing the clarified ISAs through incorporating the standards into their firm auditing methodologies and training materials. A number of additional auditing network firms (members of the Forum of Firms) have provided,⁴ or have expressed interest in providing information to the Task Force during 2010/2011.
 - 10. In order to collect information about implementation experiences of small and medium practices (SMPs) survey questionnaires were sent to professional bodies in countries that are adopting the clarified ISAs in line with the IAASB's effective date. The project Task Force also plans to obtain more detailed information about SMP implementation experiences during 2011/2012 by surveying SMPs in the NSS countries, and in other countries that are known to be adopting the clarity ISAs. The project Task Force has consulted with the IFAC SMP Committee (SMPC) about this (See further discussion at paragraphs 42–50).
 - 11. Preliminary information obtained from the Task Force's activities to date is summarized below.

Discussion: Preliminary Information from Phase 1

- 12. There have been many detailed responses to the country and firm questionnaires. In this paper, the Task Force has sought to identify common themes that would point to areas of common interest, concern or difficulty regarding implementation of the clarified ISAs.
- 13. Information provided about the structure and content of the clarified ISAs has been positive in the sense that the structure of the ISAs does not appear to pose any significant challenge to adopters, and the objectives and application material in the ISAs are viewed as useful. Firms using the ISAs in their audit methodologies report very few issues.
- 14. The point raised by some firms is the practical problem that there may not be a direct link within the methodology to the objectives stated in individual ISAs due to the way some audit

¹ Australia, Brazil, Canada, the Netherlands, New Zealand, South Africa, and the United Kingdom (UK).

² China, India, Japan and the United States (USA) (regarding the AICPA auditing standards for audits of non-issuers).

³ BDO, Deloitte, E&Y, Grant Thornton, KPMG and PricewaterhouseCoopers.

⁴ PKF International; SMS Latinoamerica.

methodologies are written. However, when that is the case, firms seem to be undertaking the additional step of mapping relevant parts of their audit methodology to the ISA objectives to ensure that these will be achieved in the application of the methodology.

15. The main themes identified from the questionnaires are set out in the following sections of this paper:
- Modification of the ISAs by NSS adopting the ISAs as national standards
 - Implementation Support
 - Individual ISAs
 - Issues regarding use of the ISAs in audits of small and medium entities (SMEs).
 - Translation issues.

Modification of the Clarified ISAs by NSS

16. The responses to the survey indicate a variety in the ways the ISAs are being used and in the extent of the modifications made to them.
17. Three basic methods of use are apparent:
- (a) Adoption with an overall statement of conformity with ISAs.
 - (b) Adoption with no overall statement of conformity with ISAs.
 - (c) Basing national standards on the ISAs.⁵

The IAASB's Policy Position Paper on modifications to the ISAs (IAASB Policy Guidance)⁶ addresses the question of modifications in the context of NSS which are adopting the ISAs, and which intend to assert that National Standards conform to the ISAs. Conformity can be expressed by (a) a statement in the national standards about conformity with the ISAs and/or (b) a statement of compliance with the IAASB Policy Guidance. The full text of the IAASB Policy Guidance is included in Appendix 2, for reference purposes.

18. The survey questionnaire requested information about the extent and nature of modifications to the ISAs made by NSS in adopting those standards as national standards.

⁵ For example, in the USA, the Auditing Standards Board (ASB) of the AICPA is revising and re-drafting the AICPA's Statements on Auditing Standards (SAS), which apply to audits of non-issuer entities. Under the ASB's *International Convergence Plan* the ASB has adopted an official position of "ISA BASE", which means that new SASs would use the ISA, including the international convention for wording, as the base standard. The ASB would modify the base standard only where modifications are deemed necessary to better serve the needs of U.S. users of audited financial statements of non-issuers or where modifications are appropriate for U.S. legal and regulatory reasons. A few of the new SAS (or proposed SAS, a few of which are still on exposure under the AICPA's due process) appear to differ from the ISAs possibly in significant respects (examples are modifications made in the SAS-equivalents of ISAs 240; 265; 530; and 600).

⁶ *A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications (2006).*

19. Responses show broadly three different approaches being followed by NSS, as follows (see Appendix 3 for more detail):
 - (a) Adoption without modifications (one country⁷);
 - (b) Adoption with few/minimal modifications (seven countries⁸);
 - (c) Use with more extensive modifications – additions, deletions and other amendments to requirements and application material (three countries⁹);
20. The Task Force’s remit does not extend to surveying implementation of the clarified ISAs from a perspective of ascertaining compliance with the IAASB Policy Guidance. However, the Task Force considers that it is likely to be of interest to the IAASB to know:
 - (a) The extent to which the IAASB’s Policy Guidance is being used;
 - (b) How it is being applied by NSS; and
 - (c) Whether it would appear to be serving its intended purpose.
21. Of particular interest for this project are modifications that some NSS have elected to make for the purpose of enhancing the quality of audits in the context of application of their national auditing standards. (See Appendices 4 and 5)
22. The Task Force notes that the IAASB Policy Guidance is not an authoritative IAASB pronouncement, and was issued only as guidance to NSS adopting the IAASB’s International Standards, or any category of the IAASB’s Standards (e.g., the ISAs), regarding making modifications to those standards when adopting them as national standards.
23. In light of information obtained in this project about how NSS are using the clarified ISAs within their national auditing standards, a number of issues and questions arise in relation to the IAASB Policy Guidance. For example:
 - (a) The policy addresses what modifications NSS can make to those standards, while still asserting that the national standards conform to the International Standards or a relevant category of International Standards (see IAASB Policy Guidance: paragraph 1 read with paragraphs 6 and 11, at Appendix 2). It would seem that in the absence of any assertion by an NSS of conformity of its national standards with the IAASB’s International Standards, the guidance does not apply. As some NSS do not make any assertion of conformity of their national standards with the International Standards, they are not constrained by the policy regarding what modifications are made.
 - (b) The policy allows an NSS to qualify a reference to conformance with International Standards (see IAASB Policy Guidance: paragraph 11) when a category of

⁷ South Africa.

⁸ Brazil, Canada, New Zealand, the Netherlands and the UK (however, the Auditing Practices Board in the UK has not adopted all the clarified ISAs, i.e. ISAs 800; 805 and 810). China and Japan have stated that they will be adopting the ISAs with only limited additions and other amendments.

⁹ Australia, India and the AICPA ASB’s Standards.

International Standards has been adopted as national standards but not all current International Standards of the relevant category have been included. Specifically:

- (i) Can this guidance be applied also in the situation where an NSS has not adopted the clarified ISQC 1, but has adopted the “pre-clarity” ISQC 1? Is the NSS able to make a statement of conformance with the ISAs with the qualification that clarified ISQC 1 has not been adopted?
 - (ii) Can it be applied in the situation where an NSS has not adopted all the ISAs because some of the ISAs (for example, ISAs 800, 805 and 810) do not apply to a statutory audit of financial statements? Is the NSS able to make a statement of conformance with the ISAs with the qualification that certain ISAs that are not applicable to those audits, have not be adopted?
 - (iii) Can an NSS state conformity with individual ISAs, rather than with the entire set of ISAs?
- (c) Paragraph 8 of the IAASB Policy Guidance states that, for the purposes of conformity under the policy NSS shall limit additions to an IS to national legal and regulatory requirements, and to other requirements or guidance that are not inconsistent with the current requirements or guidance in the ISs. In view of information obtained about the extent of additions made to the ISAs in a few cases, the question arises whether there should possibly be more discouragement of additions? Is there a point where the extent of such modifications (i.e., additions) made to a set of national auditing standards would undermine, or detract from an NSS’s assertion of conformity with the ISAs?
- (d) Taking account of the information obtained about use of the IAASB Policy Guidance, does it achieve its intended objective of specifying appropriate conditions under which an NSS adopting the ISAs with modifications is able to assert conformity with the ISAs? Is the explanation of how those conditions apply sufficiently clear?
24. The Task Force believes there will be benefit in reviewing the IAASB Policy Guidance in view of the findings of the survey.

Questions to the IAASB

1. Does the IAASB consider that the IAASB Policy Guidance continues to be the best mechanism for limiting modifications to its standards? If so, is promulgation of this an IAASB or an IFAC responsibility?
2. As the IAASB Policy Guidance is non-authoritative and may not apply to some NSS, is there more that can be done to promote or enhance consistent implementation of the ISAs on an international basis, when countries adopt the ISAs as national standards? If so, what are those other measures?
3. Does the IAASB agree that in view of the survey findings the IAASB Policy Guidance should be reviewed? If so, does the IAASB have a view about whether:

- (a) The conditions specified in the policy concerning an NSS's ability to assert that their national standards are in conformity with the ISAs, are too constraining? or
- (b) The policy is possibly too liberal, i.e., is there potential for interpretations of the policy that are not conducive to promoting consistent implementation of the ISAs by countries adopting the ISAs?

Implementation Support

25. A general point made by some countries¹⁰ is that in providing implementation support for the clarified ISAs, it would be very useful if the IAASB were to consider developing a summary of major changes introduced in the clarified ISAs by way of revisions and the underlying reasons for those changes. This would be especially useful for national auditing standard setters in promoting implementation of the ISAs in their countries.

Question to the IAASB

4. Does the IAASB agree that there would be benefit in developing a summary of major changes to the clarified ISAs, and the reasons for the changes?

Individual ISAs

26. Only very few ISAs appeared to raise questions of a common nature across the responses obtained. Issues raised in connection with three ISAs (ISAs 320,¹¹ 600,¹² and 700¹³) are discussed below.

ISA 320

27. Responses raised an array of issues about questions on interpretation and application of ISA 320 in practical situations. This reflects the fact that the ISA is written at a high level addressing only the key principles concerning the application of materiality in financial statement audits. This approach leaves scope for individual auditor judgments but raises a question about how consistent those judgments are likely to be. This gives rise to the question of whether additional guidance may be needed in some situations, so that auditor judgments about the application of materiality can be made on a reasonably consistent basis across different audits, and by different auditors.
28. Some examples of situations that arise in practice where guidance may be needed are:
- (a) Interpretation of the requirement to have a different materiality level for particular classes of transactions and balances;

¹⁰ China, and some NSS in EU member states.

¹¹ ISA 320, "Materiality in Planning and Performing an Audit."

¹² ISA 600, "Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)."

¹³ ISA 700, "Forming an Opinion and Reporting on Financial Statements."

- (b) The relationship between materiality and performance materiality; and
 - (c) Whether performance materiality can be reduced for certain balance sheet items (particularly relevant in context of audits of banks and insurance companies).
29. A new ISA Module is being planned to address ISA 320, expected to be available for release towards the end of 2010, but this will explain the current ISA rather than provide new guidance on these issues.

Question to the IAASB

5. Does the IAASB consider that any particular actions are needed to provide implementation support for ISA 320, in addition to the planned ISA module?
- (a) For example, is there a need for research on how firms apply materiality when performing the audit?
 - (b) Is there a need for further implementation guidance on application of the materiality requirements?

ISA 600

30. Responses indicated the following areas as needing further clarification or guidance:
- (a) Equity accounted investments, joint ventures and other entities.
 - (b) Shared service centers.

Equity Accounted Investments, Joint Ventures and Other Entities

31. A number of firms raised issues relating to how to apply the requirements of ISA 600 to a significant component that is accounted for under the equity method under the applicable financial reporting framework.
32. While the definition of a component has not changed from the previous ISA 600 to the clarified ISA 600, the nature and extent of the group auditor's involvement in a significant component has changed to reflect the "sole responsibility" concept, specifically:
- (a) In relation to the component auditor's risk assessment to identify significant risks of material misstatement of the group financial statements (ISA 600.30).
 - (b) The group auditor's involvement in the evaluation of the appropriateness of the further audit procedures to be performed by the component auditor to respond to the significant risks of material misstatement of the group financial statements identified in a component (ISA 600.31).

This approach assumes that the group auditor has available access to the component auditor. A number of firms have indicated that such access may not be available. In these circumstances ISA 600 suggests that the auditor's report may need to be modified, but in some jurisdictions the listing authority does not accept a modified audit report.

33. A number of questions arise from this:

- (a) What is the extent of the potential problem (i.e., do auditors expect there will be a significant number of situations where access will be difficult or denied completely?)
- (b) What are the possible impediments? For example, are they related to confidentiality, data privacy, auditor privilege, auditor liability, or other legal reasons? It has been suggested that laws of some countries relating to prohibitions on insider trading may prevent access for certain components that have publicly traded securities.
- (c) Where such impediments exist, what types of alternative procedures might be used to obtain the necessary information about the component and/or to demonstrate sufficient involvement with the component auditor? What is management's responsibility to help the auditor obtain the necessary access?
- (d) Are regulators and other users in certain jurisdictions willing to accept more instances of audited financial statements with a modified auditor's report? What about those jurisdictions for which modified reports are not permitted?
- (e) Whether the inability of the group auditor to have access to component management or component auditor indicates that group management does not hold significant influence over the investee and therefore should not account for the component by the equity method? Significant influence is demonstrated, in part, by the ability of the investor to obtain timely information or the ability to obtain more information – required to apply the equity method – than shareholders that do not have significant influence. Determining whether the presumption of significant influence has been overcome requires considerable judgment.

34. A number of the firms have been discussing these questions, and there has been ongoing debate on whether there would be benefit in issuing material that would at least highlight these issues to assist early consideration by firms and audit teams.

Question to the IAASB

6. Does the IAASB consider that any actions might be needed to address the practical implementation issues regarding ISA 600 outlined above?

Shared Service Centers

35. When ISA 402¹⁴ was being finalized, there was considerable debate as to whether it should be applied to intra-group service centers or whether in such circumstances ISA 600 should apply. A number of firms believe that IAASB should issue standards or guidance to cover this. Issues of concern include:

¹⁴ ISA 402, "Audit Considerations Relating to an Entity Using a Service Organization."

- (a) Clarification on the extent to which audit work related carried out at a shared service center may be used as assurance across the whole group especially in relation to subsidiary auditors expressing an opinion on subsidiary statutory accounts.
- (b) Communications needed between the group auditor and the component auditor(s) as it relates to testing of controls and substantive work done at the shared service center.

Question to the IAASB

7. Does the IAASB consider that it would be worthwhile considering developing standards or guidance on shared service centers at this stage, or should it rather await feedback from the IAASB's 2012–2014 strategy consultation?

ISA 700

- 36. The Task Force's survey of the NSS inquired about whether the NSS has adopted, or would be adopting the clarified ISA 700.
- 37. Most countries responded that they have adopted, or intend to adopt ISA 700 with changes that are necessary to reflect national laws and regulations. Most also indicated the need to change some language in the ISA 700 auditor's report, to reflect the language or conventions used or applied in their own countries.
- 38. Two NSS indicated that their national standards equivalent to or based on ISA 700 contain more extensive changes.¹⁵
- 39. In the UK and Ireland auditor's reports may not be exactly aligned with the format of auditor's reports required by ISA 700. Paragraph 26 (on the description of management's responsibilities in the auditor's report) and paragraph 31 (on the description of an audit in the auditor's report) of ISA 700 are not replicated in their entirety. The UK report allows for the inclusion of a cross reference to the web site of the Auditing Practices Board (APB) for a description of the scope of an audit, in place of the paragraphs under the heading Auditor's Responsibility in the IAASB report. This reflects an initiative by the APB to reduce the amount of "boiler plate" text presented in the report. Auditors have a choice whether to refer to the APB website or include the description in the actual auditor's report.
- 40. In the USA, the proposed SAS removed all references to compliance frameworks because the proposed SAS is written in the context of a complete set of general purpose financial statements prepared in accordance with a fair presentation framework. The AICPA Auditing Standards Board (ASB) has concluded that all financial reporting frameworks used in the USA are fair presentation frameworks and, therefore, compliance frameworks do not exist in the USA. By way of further illustration of the types of changes made in the SAS-equivalent to ISA 700, paragraph 23(d) of ISA 700 requires the introductory paragraph in the auditor's report to refer to the summary of significant accounting policies and other explanatory information. The proposed SAS does not include this requirement because the ASB believes

¹⁵ The UK and the USA.

the notes to the financial statements are an integral part of the financial statements and, therefore, do not need to be referred to separately in the introductory paragraph of the auditor's report. The ASB believes this is not a divergence from the ISA.

41. The IAASB's Working Group on Auditor Reporting, which is looking into auditor's reports, including user perceptions of the standard unqualified auditor's report, and auditor communications more widely, is taking account of national developments regarding auditor reporting, including the types of modifications mentioned above.

Issues Regarding use of the Clarified ISAs in SME Audits

42. A number of responses both from firms and countries indicated that implementation issues are likely to exist in relation to the use of the ISAs for SME audits. However, it was acknowledged that these comments were based on preliminary concerns and not on actual experience of use of the ISAs for SME audits at this point as, even for earlier adopters, the ISAs will not have been applied yet to audits of SMEs. Accordingly, it may be premature for IAASB to consider reacting to potential implementation problems at this stage.
43. Examples of areas of likely concern are:
 - (a) Potential implementation problems/costs due to the large number of requirements of the ISAs.
 - (b) The paragraphs on "Considerations Specific to Smaller Entities" in the clarified ISAs do not contain sufficient guidance and are not particularly helpful.
 - (c) What is the most appropriate audit approach for audits of very small, or "micro-entities" (application of a substantive audit approach is often the most efficient and effective approach, but the question arises about how best to apply the ISAs in such circumstances).
44. A number of the professional bodies in adopting countries reported that they are putting significant effort towards providing adoption and implementation support for SMPs on use of the ISAs for SME audits, including practice aids, guides, e-learning modules and educational events. However there is little sharing of this material on an international basis. There would seem to be some benefit in coordinating this on a regional or international basis.
45. The Task Force considers that development of a basis for making it possible for countries to share implementation support material would be worthwhile and beneficial for enhancing the efficiency and consistency of application of the clarified ISAs on an international basis. There are some national initiatives that are very worthwhile and, if able to be used more widely may significantly bolster consistent and effective application of the ISAs.¹⁶
46. There is also a question as to whether IAASB or other IFAC bodies should assist with the implementation of the clarified ISAs on SME audits by responding to questions on implementation, for example along the lines of the recent initiative commenced by the IASB

¹⁶ The IAASB is currently considering a possible new initiative of compiling a catalogue list of available NSS implementation guidance on the clarified ISAs.

in relation to SME implementation of International Financial Reporting Standards (see Appendix 7).

47. The Task Force has discussed whether it would be feasible to receive and respond to frequently asked questions and concluded this is unlikely to be practicable. Not only might this be seen as a detraction from taking appropriate training, it would also be difficult to separate out conceptual issues from those related to the particulars of an individual audit assignment.
48. A more useful exercise would be to ensure that we have specific information on implementation issues that have been experienced in practice, for example through obtaining information about use of the clarified ISAs from actual SME audits performed.
49. The Task Force recommends working with NSS and/or the SMPC to arrange for questionnaires to be completed for a selection of SME audits in their countries spanning the 2009, 2010, and 2011 audits. The timing of this exercise would be such that the information would be combined with other findings from Phase 2. This means that it is likely to be necessary to focus on those countries that have adopted the Clarity ISAs for 2010 audits.
50. A sample questionnaire for obtaining information from SMPs for SME audits is included at Appendix 6.

Questions to the IAASB

8. Does the IAASB support the proposed SME survey using the questionnaire?
9. Does the IAASB agree with the Task Force's view that the approach of receiving and responding to frequently asked questions on implementation would be impracticable?
10. Are there other initiatives that should be undertaken at this stage, e.g. sharing of information regarding national initiatives?
11. Is guidance needed on cost-effective application of the ISAs on audits of micro-entities?

Issues Arising Regarding Translation of the Clarified ISAs by Countries that are Adopting the ISAs

51. Among the NSS countries surveyed by the Task Force, there are five countries that have translated or that are in the process of translating the clarified ISAs.¹⁷ Only one respondent among this group indicated some difficulty. However discussion with IFAC staff involved with the translations process that IFAC is administering shows that some countries are reporting difficulties and challenges in their translation of the ISAs. Among the more common issues identified to date are:
 - Difficulties caused by the use of complex language, including use of long and difficult sentences;

¹⁷ Brazil, Canada, China, Japan, and the Netherlands.

- Use of words that have nuances that tend to give rise to different interpretations in translations (e.g. “to consider” and “to issue”);
- Use of terms that are difficult to translate (e.g., “professional accountant;” “assurance engagement”); and
- Challenges arising from the IFAC requirement that translated versions need to render a *close* translation of the ISAs. This sometimes has results that do not have good fit in a national environment. For example the need to translate both the phrase “fairly present” and the phrase “gives a true and fair view of” when usually only one term is used in a country.

Question to the IAASB

12. Does more need to be done in the short term to address the sorts of issues that have been noted in relation to translation of the clarified ISAs?

Communicating Findings from Phase 1

52. The Task Force believes there is benefit from sharing the findings from Phase 1 more widely through a published report. This would encourage those countries that have already decided to adopt the clarified ISAs by describing international progress in this area, and motivate countries that have not yet made that decision.
53. This would provide the IAASB with an opportunity to promote its views about the benefits of adopting the ISAs with minimal modifications, and also serve as an implementation aid by sharing some of the experiences of the earlier adopters.
54. The Task Force felt that publication in mid-October 2010 (ahead of the World Congress of Accountants in November) would be desirable.

Question to the IAASB

13. Does the IAASB agree that publication of a report would be beneficial, and on the Task Force’s proposed timing for such a publication?

Phase 2—Post implementation review of the Clarity ISAs (2012/2013)

55. The next phase of this project will be to design the post-implementation review of the Clarity ISAs (Phase 2).
56. In the course of 2009 and early 2010, the Task Force consulted a number of IAASB stakeholders to obtain their views on what the objective, scope and timing of this process ought to be, including: the IAASB Consultative Advisory Group; the International Organization of Supreme Audit Institutions; the World Bank; the International Forum of Independent Audit Regulators (IFIAR); and the Forum of Firms.

57. The current indications are that there would be some support for Phase 2 to focus on:
- (a) Consistency of application of the ISAs, reflecting the key objective of the Clarity Project to enhance the quality of auditing on an international basis by development of high-quality standards that are able to be applied on a consistent basis worldwide.
 - (b) 2011 audits, where this is the second year of ISA implementation. (See Appendix 1).
58. The Task Force anticipates further discussion of the nature, extent and timing of Phase 2 with stakeholders such as IFIAR. The IAASB Chairman has been invited to attend IFIAR's committee meeting in September 2010 to discuss this further.
59. The Task Force believes there would be merit in designing a structured review of the ISAs in 2012, but believes further debate is needed as to the focus of this work. In particular there may be benefit in combining any such initiative with work on the broad topic of audit quality, and in context of the IAASB's future strategy and work program.

Question

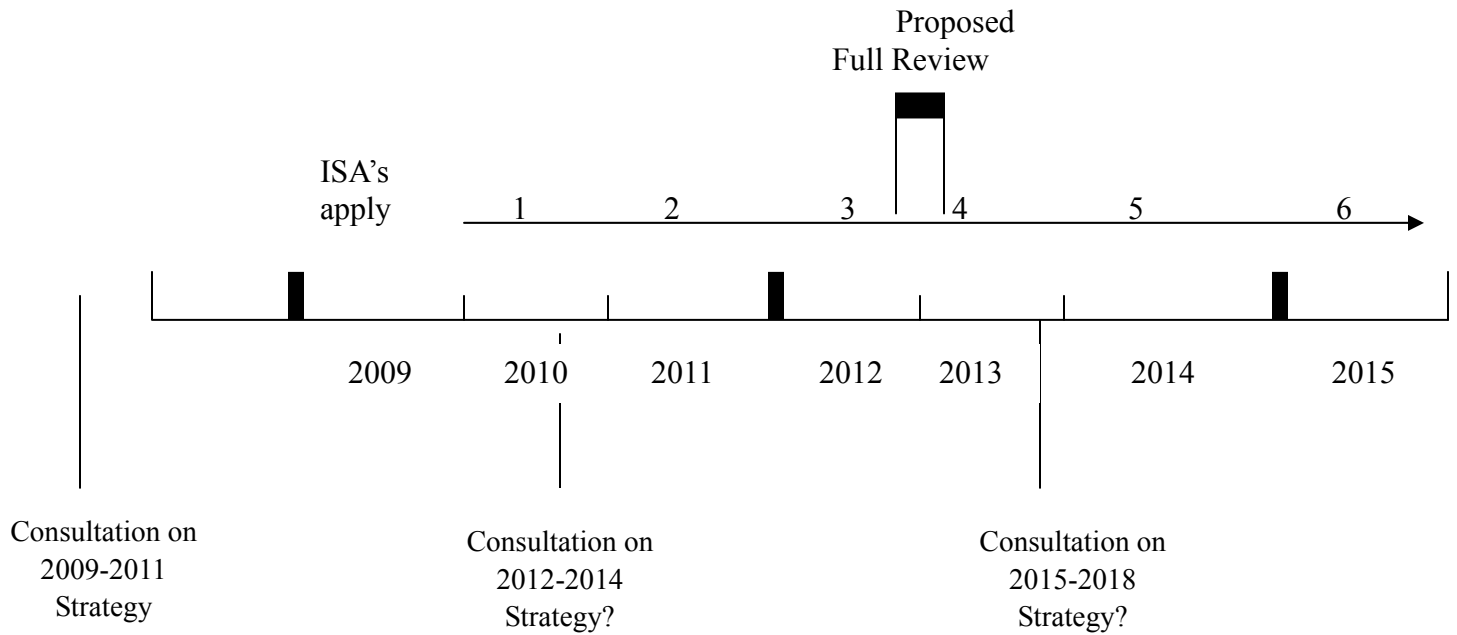
14. What are the IAASB's views about what the nature, extent and timing of Phase 2 ought to be?

Next Steps in the Project—Remainder of 2010

60. With the support of the Board, the actions the Task Force proposes for the remainder of this year are to:
- (a) Initiate the survey of experiences of SMPs in using the ISAs for SME audits (through the NSS, and with SMPC involvement as appropriate).
 - (b) Monitoring remaining responses still to be submitted by other countries and firms that have volunteered to participate through the Forum of Firms (another 5–6 firms).
 - (c) Prepare a public report on findings of Phase 1; and
 - (d) Review the IAASB Policy Guidance and make recommendations for improvement.
61. The Task Force will also commence design of the process to obtain information about the effectiveness of the clarified ISAs in Phase 2, involving relevant stakeholders as appropriate.

Appendix 1

Project Timetable in Context of IAASB's 3-Year Planning Cycle



Appendix 2

[Note: For the purpose of discussion of this Agenda Item, IAASB staff have inserted cross-references in a number of places throughout the document below, in italics, for ease of reference to the main Paper]

Policy Position July 2006

Modifications to International Standards of the International Auditing and Assurance Standards Board

A Guide for National Standard Setters that Adopt IAASB's International Standards but Find it Necessary to Make Limited Modifications

International Auditing and Assurance Standards Board
International Federation of Accountants
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This policy position was prepared by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC). The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

This paper is non-authoritative. In the interest of seeking a common understanding among national standard setters, regulators and the public, the IAASB believes it is appropriate to state its position on the circumstances which it believes should exist before a national standard setter may assert that its standards conform to the IAASB's International Standards. *[See paragraph 22 in the Main Paper].*

This policy position may be downloaded free-of-charge from the IFAC website: <http://www.ifac.org>. The approved text is published in the English language.

The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

MODIFICATIONS TO INTERNATIONAL STANDARDS OF THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

A GUIDE FOR NATIONAL STANDARD SETTERS THAT ADOPT IAASB’S INTERNATIONAL STANDARDS BUT FIND IT NECESSARY TO MAKE LIMITED MODIFICATIONS

Objective

1. The objective of this paper is to set out the policy of IAASB on the question: What modifications may a national standard setter (NSS) that adopts International Standards promulgated by IAASB (ISs) as its national standards (NSs) make to the ISs while still asserting that the resulting NSs conform to ISs? *[See paragraph 23 in the Main Paper]*
2. NSSs often follow a policy of adopting ISs as their NSs with little or no amendment. Such NSSs are likely to wish to assert that their NSs conform to ISs. This paper sets out IAASB’s views on when such an NSS may make such an assertion.
3. It should be noted that IAASB does not endorse the use of such terms as “based on,” “in substantial compliance with,” or “in compliance with the principles of,” ISs.
4. This paper does not deal with any other aspect of the general subject of convergence. Nor does it rule out the possibility that NSSs that adopt a different approach will have created NSs that are equivalent in effect to the ISs.

Conformity with ISs

5. IAASB will regard NSs that comprise the ISs with modifications as conforming to ISs when the conditions in paragraphs 6-10 have been met. *[See paragraph 23 in the Paper]*
6. The International Standards promulgated by IAASB are the following:
 - (a) International Standards on Quality Control.
 - (b) International Standards on Auditing.
 - (c) International Standards on Review Engagements.
 - (d) International Standards on Assurance Engagements.
 - (e) International Standards on Related Services.NSs shall not be regarded as conforming to the respective ISs in categories (b) to (e), unless professional accountants who are required to follow those NSs are also required to follow a NS that conforms to the International Standards on Quality Control. *[See paragraph 23 in the Paper]*
7. NSs shall be regarded as conforming to a category of ISs if, except for the permitted modifications as set out in paragraphs 8 and 9, they include all the requirements and guidance¹⁸

¹⁸ “Requirements and guidance” means: in the case of standards written under the style adopted prior to the clarity project, “basic principles and essential procedures together with related guidance;” and in the case of standards

of the ISs in that category. It is not necessary that all the requirements and guidance of an IS be included in a *single* NS. Different elements of an IS may be included in different NSSs, provided that:

- (a) Those standards together include all the requirements and guidance of the IS; and
 - (b) The requirements and guidance included in the NS carry the same intention (as to their meaning and effect) and authority as they do in the IS. This condition requires that there is nothing in the way in which the requirements have been included that undermines their meaning and effect, and that a professional accountant following the NSSs is obliged to consider all the guidance, as included, in order to understand and apply the requirements, as included.
8. For the purposes of conformity under this policy, the NSS shall limit additions to an IS to the following: *[See paragraph 23 in the Paper]*
- (a) National legal and regulatory requirements.
 - (b) Other requirements or guidance that are not inconsistent with the current requirements or guidance in the IS.

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

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

In the case of paragraph 9(b)–(c), however, the objective of any deleted requirement must still be met. Consequently, it will be necessary for the NSS to replace the deleted requirement with an appropriate alternative that, in the opinion of the NSS, meets the test of the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* for those exceptional circumstances when a professional accountant may judge it necessary to depart from a basic principle or essential procedure of an IS to achieve more effectively the objective of the engagement.¹⁹

10. Modifications to ISs shall be subject to a satisfactory due process established by the NSS.²⁰ Furthermore, the NS shall highlight or explain modifications to the ISs. In addition, NSSs

written under the style subsequently adopted, “objectives, requirements and application material.” In both cases, definitions included in the standards and glossary are to be applicable.

¹⁹ This requirement of the Preface is under review.

²⁰ A satisfactory due process is an established and transparent process involving deliberation and consideration of the views of a wide range of stakeholders.

shall communicate modifications falling within paragraph 9(b), which are expected to be rare, to IAASB.

Other Matters

11. An NSS to whom this guidance applies may refer to its NSs as conforming to one or more of the categories of ISs referred to in paragraph 6(b)–(e) only if the International Standards on Quality Control and all *current* ISs of the relevant category have been included. Where the NSS has not included all current ISs (for example, because of delays in issuing a new IS for national use), the NSS shall appropriately qualify the reference to conformity with the ISs and clearly disclose which ISs have and have not been included. *[See paragraph 23 in the Paper]*
12. IAASB encourages NSSs to maintain a record of how the ISs have been included in the NSs, sufficient to demonstrate what has or has not been included, and that such inclusion has been effected so as to avoid any change in meaning and effect.
13. It is recommended that translations of the ISs be made in accordance with a process conforming to the Policy Statement, *Translation of Standards and Guidance Issued by the International Federation of Accountants* (issued September 2004).

Appendix 3

SUMMARY OF KEY POINTS REGARDING USE OF CLARITY ISAs BY NSS—FIRST 10 COUNTRIES

ISA – Adopters; Name of National Auditing Standards (NS)	NSS has adopted/is adopting the clarity ISAs under a policy that aims to achieve conformity with the clarity ISAs? Or the NS are intended to be in conformity with clarity ISAs?	Relative Extent of Modification to ISAs in NS	All ISAs and ISQC 1 adopted?	NSS asserts/ believes modifications comply with IAASB Policy Guidance?	Effective date of NS that adopt the ISAs
<p>Australia</p> <p>Australian Auditing Standards (ASA)</p> <p>National Standards have force of law</p>	<p>Yes.</p> <p>The AUASB has stated: “<i>Australian Auditing Standards conform with the ISAs</i>”</p> <p>“<i>The revised and redrafted standards use the equivalent International Standard on Auditing (ISA) as the underlying standard and therefore conform with the equivalent ISAs, issued by the International Auditing and Assurance Board (IAASB).</i>”</p>	<p>More—modifications (additions and deletions) in addition to those needed for compliance with national laws and regulations</p>	Y	Y	<p>The revised and redrafted Australian Auditing Standards will be operative on or after 1 January 2010.</p>
<p>Brazil</p> <p>Brazilian Auditing Standards</p>	<p>No formal policy that we are aware of.</p> <p>NSS response indicated Brazil has <u>adopted</u> the clarity ISAs.</p> <p>Intention appears to be that national standards conform to the clarity ISAs.</p>	<p>Minimum (additional application guidance in translated standards in specific circumstances)</p>	Y	Y	<p>Adopted as a package, effective for audits of financial statements for periods beginning on or after 1 January 2010.</p>
<p>Canada</p>	<p>Yes</p>	<p>Minimum</p>	Y	N	<p>All of the new Canadian Auditing Standards are effective for audits of</p>

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ISA – Adopters; Name of National Auditing Standards (NS)	NSS has adopted/is adopting the clarity ISAs under a policy that aims to achieve conformity with the clarity ISAs? Or the NS are intended to be in conformity with clarity ISAs?	Relative Extent of Modification to ISAs in NS	All ISAs and ISQC 1 adopted?	NSS asserts/ believes modifications comply with IAASB Policy Guidance?	Effective date of NS that adopt the ISAs
Canadian Auditing Standards (CAS) National Standards have force of law	AASB formally states the aim of adoption of the clarity ISAs. <i>“The Canadian AASB is adopting ISAs”</i>				financial statements for periods ending on or after December 14, 2010
China (more detailed response to follow) Chinese Auditing Standards (CAS)	No formal policy that we are aware of. NSS response indicated China is <u>adopting</u> the clarity ISAs. Intention would appear to be that the national auditing standards will conform to the clarity ISAs.	Few? <u>Note provided on structure of the Chinese Auditing Standards:</u> “CICPA has adopted ISAs in the similar structure. CICPA has adopted the introduction, objectives, definitions and requirements as Chinese Auditing Standards, adopted the application and other explanatory material as Guidance on Chinese Auditing	Y	?	CICPA plans to ... release the final whole set of updated CASs in June, 2010. The updated CASs are to become effective in 2011.

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ISA – Adopters; Name of National Auditing Standards (NS)	NSS has adopted/is adopting the clarity ISAs under a policy that aims to achieve conformity with the clarity ISAs? Or the NS are intended to be in conformity with clarity ISAs?	Relative Extent of Modification to ISAs in NS	All ISAs and ISQC 1 adopted?	NSS asserts/ believes modifications comply with IAASB Policy Guidance?	Effective date of NS that adopt the ISAs
		Standards, and require the Chinese Auditing Standards to be read in conjunction with the Guidance”.			
India Statements on Auditing (SAs) Have the force of law	Yes. <i>“ ...the Standards developed and promulgated by the AASB under the authority of the Council of the ICAI are in conformity with the corresponding International Standards issued by the International Auditing and Assurance Standards Board (IAASB)... ”</i>	More – modifications (additions and deletions) in addition to those needed for compliance with national laws and regulations	Y	? <i>“...the modifications made by the AASB to the IAASB’s Standards are, <u>to the extent possible,</u> within the parameters laid down in this Policy Paper.”</i>	The SAs incorporating the clarity ISAs become effective in a phased- approach over the period 2008 – 2011 . The various standards, once issued, become effective for audits of financial statements for the periods beginning on or after: 1/4/2008; 1/4/2009; 1/4/2010 and 1/4/2011.
Japan (detailed response to follow)	No formal policy. NSS response indicated that Japan is generally adopting the clarity ISAs	Few? “...Auditing Standards Committee statements	? Yes, Except for	No	The effective date of clarified ASCs is expected to be for audits of financial statements for periods beginning on or after April 1,

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ISA – Adopters; Name of National Auditing Standards (NS)	NSS has adopted/is adopting the clarity ISAs under a policy that aims to achieve conformity with the clarity ISAs? Or the NS are intended to be in conformity with clarity ISAs?	Relative Extent of Modification to ISAs in NS	All ISAs and ISQC 1 adopted?	NSS asserts/ believes modifications comply with IAASB Policy Guidance?	Effective date of NS that adopt the ISAs
Auditing Standards Committee Statements		are developed through translation of ISAs with minimum modifications.”	ISA 800 (which has not yet been decided upon)		2011. This date is tentative and will be changed depending on the project progress as well as consideration of international circumstances.
Netherlands (detailed response to follow) (NV COS)	No formal policy that we are aware of. NSS response indicated Royal NivRA has <u>adopted</u> the clarity ISAs. It would seem that the NV COS are intended to be in conformity with the clarity ISAs.	Few	N Clarified ISQC 1 not adopted	?	The standards are being adopted as a package, effective for audits of financial statements for periods ending on or after 15 December 2010
New Zealand International Standards on Auditing (New Zealand) (ISAs (NZ)) Do not have force of law	Yes. NZICA Auditing Standards are intended to be in conformity with the clarity ISAs. NZICA published a policy document (December 2005) that states NZICA has adopted the clarity ISAs. (+ numerous other published statements to that effect.)	Few	Y	Y	Adopted in a phased manner over 2008-2009, with new standards becoming effective for audits of financial statements for periods beginning on or after specified dates in this period. All the new standards are effective for audits of financial statements covering periods beginning on/after 1 October 2009.
South Africa	No formal policy.	None	Y	n/a	These standards were adopted as a

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ISA – Adopters; Name of National Auditing Standards (NS)	NSS has adopted/is adopting the clarity ISAs under a policy that aims to achieve conformity with the clarity ISAs? Or the NS are intended to be in conformity with clarity ISAs?	Relative Extent of Modification to ISAs in NS	All ISAs and ISQC 1 adopted?	NSS asserts/ believes modifications comply with IAASB Policy Guidance?	Effective date of NS that adopt the ISAs
<p>International Standards on Auditing (ISAs)</p> <p>National Standards have force of law</p>	<p>NSS response indicated South Africa has <u>adopted</u> the clarity ISAs.</p> <p>Clear intention that South African Auditing Standards are in conformity with the clarity ISAs – standards adopted without modifications.</p>			(no changes for the ISAs)	package, effective for audits of financial statements for periods beginning on or after 15 December 2009
<p>United Kingdom</p> <p>International Standards on Auditing (United Kingdom and Ireland)</p> <p>(ISAs (UK and Ireland))</p> <p>National Standards have force of law</p>	<p>No formal policy.</p> <p>NSS response indicated the UK has <u>adopted</u> the clarity ISAs.</p> <p>The APB's intention is that the national auditing standards are in conformity with the ISAs. (Numerous public statements reflect the APB's intent to adopt the clarity ISAs)</p>	Few	<p>N</p> <p>ISAs 800; 805; 810 not adopted</p>	N	These standards are being adopted as a package, effective for audits of financial statements for periods ending on or after 15 December 2010

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ISAs used as the base for national auditing standards (i.e. approach seems to be different to adoption as described in IAASB Policy Guidance)	NSS has adopted or is adopting the clarity ISAs under a policy that aims to achieve conformity with the clarity ISAs? Or the NS are intended to be in conformity with clarity ISAs?	Relative Extent of Modification to ISAs in National Standards	All ISAs and ISQC1 adopted?	NSS asserts compliance with IAASB Policy Guidance?	Effective date of National Standards
<p>USA – AICPA (auditing standards for nonissuers)</p> <p>Statements of Standards on Auditing (SAS)</p> <p>Do not have force of law</p>	<p>Policy is not specifically to adopt the ISAs, but rather to redraft and revise the SASs using the policy of “ISA BASE”.</p> <p>Not clear whether the ASB’s intention is that national auditing standards to be in conformity with the clarity ISAs. Individual SAS equivalents of clarity ISAs touch on a particular standard’s conformity with the equivalent clarity ISA in some cases, or aspects of that standard’s conformity with the relevant ISA.</p>	<p>More – changes (additions and deletions) in addition to those needed for compliance with national laws and regulations</p>	Y	n/a	<p>The effective date <i>for all but six clarified SASs*</i> is expected to be for audits of financial statements for periods beginning on or after December 15, 2010. This date is provisional, but will not be earlier. The date will be changed if the ASB determines more time is necessary for finalization of the standards as well as updating of, and training in, firm methodologies.</p>

Appendix 4

High-Level Analysis of Modifications Made to the Clarified ISAs, as Adopted by NSS in Incorporating ISAs into National Standards

Australia

- All deletions replaced by national requirements that are at least as rigorous.
- 2 additional standards (ASA 101 Preamble and ASA 102 to facilitate the enforceability of relevant ethical requirements).
- About 23 additions of which 11 are relatively major relating to audit quality. Mainly in ISAs 200, 330, 501, 570.

Brazil

- A little unclear as to what changes have been made. It seems that some additions have been made to support legal requirements (e.g., in ISA 240 reference has been made to certain communications that auditors need to consider).

Canada

- A few changes made so the standards can be used in the context of the CICA's Assurance Handbook however statement made that compliance with CASs will not necessarily mean compliance with the ISAs. This relates to ethics and the possibility that there will be future changes in the ISAs that are not picked up in CASs.
- A number of changes made to replace references to the IFAC Code with "relevant ethical requirements."
- Appended national guidance on communication with law firms and communication with actuaries.

China

- At the time of the response the ISA adoption process was incomplete. CICPA had finished translation of 37 ISAs, and released 19 exposure drafts for the first time. CICPA plans to finish the updating work in the first part of 2010.
- As a result it is a little unclear what changes will finally be made. Only few examples have been provided to date, e.g. audit documentation should be prepared in Chinese has been added to ISA 230, and to specify 60 days for assembly of the files and a retention period of 10 years.
- Application material in the ISAs is separately from the ISA requirements (presumably that means they are published separately).

India

- Not all standards had been finalised at the time the questionnaire was submitted. However, there are two major issues affecting ISA adoption in India. The law relating to confidentiality

and professional competence. (Also, there are also quite a few changes to the Indian standards to take account of India's public sector audit requirements).

- Confidentiality. ISAs 600, 610 and to a lesser extent 402 require the auditor to review working papers. This causes a conflict between the ISA requirements regarding access to audit working papers and national law. Indian law states that auditor guilty of misconduct if disclosure made to any person without client consent
- Professional competence. It would seem that it may not be considered appropriate in India to question the competency of another member of the ICAI (possibly as a matter of cultural difference). ISAs that require an auditor to assess the professional competence of another auditor (for example, 220, 402 and 600), pose issues for the ICAI regarding adoption of the ISAs without modification. For example, the ICAI equivalent of ISA 402 includes the ISA requirement to assess the professional competence of another auditor, but with the addition of the words "unless the auditor is a member of the ICAI." Presumably this same issue occurs in relation to the ICAI equivalent of ISA 600, which we understand from information provided by ICAI is still under preparation.
- The ICAI states in its response that modifications are, to the extent possible, within the parameters of the IAASB's policy paper.

Netherlands

- Very few changes have been made and the few that have been made are largely in the application material and by footnotes.
- The clarified version of ISQC1 has not been adopted because the previous version (the "pre-clarity" ISQC 1) was transposed into law.
- "Listed entities" is changed to "OOBs" (entities of public interest based on Dutch Laws).
- All examples of reports and letters are removed - examples are provided in a separate way.

New Zealand

- References to TCWG have largely replaced references to "management."
- Small changes to ISAs 210 and 705 hard to tell whether they are additions or deletions. No material impact.
- References to IFAC Code of Ethics have been changed, and references to "listed entities."
- Deletion of some requirements (e.g. in ISA 700) and examples (e.g. in ISA 501) where requirement is not relevant in New Zealand.
- An additional requirement appears in ISA 700 regarding disclosure in the auditor's report, which is carried over from the previous reporting standard that applied in New Zealand prior to adoption of ISA 700.

South Africa

- No modifications.

UK and Ireland

- ISAs 700, 800, 805 and 810 not adopted.
- 2 additional standards on (i) directors reports and (ii) reporting to regulators.
- Only 2 additions to requirements made and both relate to national law and regulations.

Examples of Modifications Made by NSS by ISA

(Note: This is not an exhaustive list; information drawn from responses provided by NSS to survey questionnaire. It is presented for illustrative purposes, to show the types of modifications being made or that have been made. The larger font has been used to highlight the more important difference, the smaller font the less significant; although inevitably judgement is involved in making this distinction.)

ISA	
200	<u>Australia</u> + Statement that requirements apply to immaterial balances and transactions. + Limits non compliance with a requirement to factors outside the auditors control.
210	<u>Canada</u> + Paragraphs added to describe the acceptable financial reporting frameworks in Canada <u>New Zealand</u> - / + ?? ISA 210 para 21 sets out some procedures to be applied where the layout of the audit report differs from ISAs. ISAs NZ require a separate report that complies with ISAs (NZ). As NZ has adopted the ISAs this does not seem to be a difference.
220	<u>Australia</u> + Adding reference to those other engagements where the firm decides an EQCR required (21.1)
230	<u>Australia</u> + Rewording documentation requirements to match change to ISA 200 23.1 (12.1) + Add a requirement to maintain confidentiality, safe custody, accessibility and retrievability.
240	<u>Brazil</u> + Reference has been made to certain communications that auditors need to consider.
260	<u>Australia</u> + R Statement of independence as required by law. + Auditor needs to distribute written reports to TCWG is they know it has not been sent.
265	<u>Australia</u> + Omit words when the work involves reporting on effectiveness of controls.
330	<u>Australia</u>

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ISA	
	+ Need to establish continuing relevance of substantive evidence used from prior years.
402	<p><u>UK and Ireland</u></p> <p>+ R Added a requirement to consider whether records retained by service organisation impact the auditors reporting responsibilities on accounting records.</p> <p><u>India</u></p> <p>- Competency problem. Requirement in 13(a) requirement to assess the competence of service orgs auditor states “except where the service auditor is also a member of ICAI.”</p>
501	<p><u>Australia</u></p> <p>ISA 501 replaced in entirety and incorporated in ASA 502 which contains additional requirements relating to litigation and claims.</p> <p>+ Obtain representations from in-house counsel and actions to be taken if counsel disagrees with management.</p> <p>+ Enquiries of management about new claims subsequent to the date of the counsel’s representations.</p>
510	<p><u>India</u></p> <p>Minor change to align with legal position on restatements.</p> <p>- Confidentiality problem Requirement in 6 c i to review predecessor auditors working papers has been replaced by “perusing copies of the audited financial statements.”</p>
540	<p><u>Australia</u></p> <p>+ Documentation of indicators of management bias to include whether they are a fraud risk.</p>
550	<p><u>Australia</u></p> <p>+ Modification of report if:</p> <ul style="list-style-type: none"> - insufficient audit evidence; - unable to form a conclusion on the completeness of disclosures; - the disclosures are not in accordance with the accounting framework.
560	<p><u>Australia</u></p> <p>+R Clarification that one of the options in the ISA are not available in Australia due to legislation.</p> <p><u>Netherlands</u></p> <p>+R Paragraphs 14–16 are changed based on Dutch Law on Financial Statement reporting.</p>

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ISA	
570	<p><u>Australia</u></p> <ul style="list-style-type: none"> + Establishing the “relevant period” for consideration of going concern as 12 months from the date of the auditor’s report. + Requiring communication to TCWG is management will not extent the period. + Require auditor to consider risks of misstatement. <p><u>UK and Ireland</u></p> <p>+R Added a requirement to modify the audit report if period considered by TCWG is less than one year from the date of approval of the financial statements.</p>
600	<p><u>Australia</u></p> <ul style="list-style-type: none"> + Requirement to give active consideration to modifications in component auditor reports. <p><u>India (still under preparation) but problem areas</u></p> <ul style="list-style-type: none"> - Confidentiality problem. - Competence problem.
610	<p><u>India</u></p> <ul style="list-style-type: none"> - Confidentiality problem. Internal auditors can not share working papers with the external auditors.
700	<p><u>Australia</u></p> <ul style="list-style-type: none"> +R Reference in the report where company makes a statement of compliance with IFRS and the auditor agrees. + Auditor to date report the date they sign. <p><u>New Zealand</u></p> <ul style="list-style-type: none"> - Deletion of requirement to identify the jurisdiction of the auditor as the standards are named ISAs (New Zealand). + Additional independence requirement for audit report to contain a statement as to any shared interests the auditor has with the company. <p><u>India</u></p> <p>Minor change to refer to “place of signature” rather than “auditor’s address.”</p>
705	<p><u>Australia</u></p> <ul style="list-style-type: none"> + If non-disclosure of information the auditor shall request TCWG to make the disclosure. If still omitted the auditor shall include the reasons for the omission. <p><u>New Zealand</u></p>

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ISA	
	- /+? Minor modification to para 27 to allow for NZ law.
706	<p><u>Australia</u></p> <p>+ Include an EOM where required by other auditing standards.</p> <p>+R Include an EOM where additional disclosures are made that imply that the application of the accounting standards is misleading or are needed to give a true and fair view and the auditor considers that this may mislead users.</p>
710	<p><u>India</u></p> <p>Minor change to align with legal position on restatements.</p>
720	<p><u>Australia</u></p> <p>+R Clarifying that withholding the auditors report is not permitted by legislation.</p> <p><u>India</u></p> <p>Option of withholding the audit report removed.</p>
810	<p><u>Australia</u></p> <p>+R Clarifying that additional disclosures needed if the full audit report has been modified.</p> <p><u>India</u></p> <p>Minor change as law may require the new auditor to report on summary financial statements even if they did not audit the underlying financial statements.</p>
ISQC1	<p><u>Australia</u></p> <p>+R Minor reference to applicable legal and regulatory requirements.</p> <p><u>India</u></p> <p>Minor changes to the definitions.</p> <p>- Para 25(b) not complied with as Indian ethical standards do not require a rotation of a sole practitioner on listed company audits every 7 years.</p> <p>+R Retention period stated as 10 years as in law.</p>

Appendix 5

High-level comparative analysis of the AICPA Auditing Standards Board's Statements of Auditing Standards (SASs) against the Clarity ISAs

Overview

The AICPA has used the structure and much of the wording of the Clarity ISAs when reissuing the SASs. While much of the ISA wording has been retained changes have been made to:

- Eliminate wording in the ISAs that does not apply in the US (e.g. references to “true and fair,” compliance frameworks and references to applicable financial reporting frameworks with minimal or no related party requirements in ISA 550 equivalent);
- Clarify the meaning of the objective/requirements in Clarity ISAs (e.g. ISA 250, 260, 520, 530, 720). While these changes seem to add specificity it is unclear whether they impact the substance of the ISA;
- Move requirements from an ISA to a SAS where they fit better (for example all representations are now included in the SAS equivalent of ISA 580);
- Retain “pluses” in current SASs (e.g. SAS 99 on fraud);
- Avoid some differences from PCAOB standards (e.g. adding material weaknesses to ISA 265);
- In some cases to reduce the auditors exposure to liability (e.g. by changing the ISA definition of fraud, the objective of ISA 250).

The AICPA goal seems to be one of convergence rather than adoption using the ISAs as a “base.” At the end of each SAS there is a section comparing the SAS to the equivalent ISA.

Areas where it is not clear that the AICPA comply with the IAASB's Policy Guidance are:

1. Whether all ISAs have been issued eg ISA 800, 805 and 810?
2. Whether ISQC1 has been issued?
3. Changes in wording / deletions arise from:
 - a. The elimination of options
 - b. Requirements are inconsistent with law
 - c. The IS recognizes that different practices may apply in different jurisdictions

Detailed analysis of SAS equivalents to the ISAs:
[SAS equivalents of ISAs not yet seen are ISA 300, 450, 570, 610]

General	<ul style="list-style-type: none"> Removed requirements and guidance that are not applicable in US e.g., <ul style="list-style-type: none"> Compliance frameworks (ISA 200), Management responsibilities prescribed by law (ISA 210). Removed requirements relating to listed companies as covered by PCAOB standards (e.g. ISQC1).
ISA 200	<ul style="list-style-type: none"> Introduces two categories of requirement (unconditional and presumptively mandatory). Added requirements relating to interpretive publications and other auditing publications (+).
ISA 210	<ul style="list-style-type: none"> Added requirements relating to reminding management of existing terms of engagement and communication with predecessor auditors (+).
ISA 220	<ul style="list-style-type: none"> Change on timing of EQCR (SAS: before the auditor's report released; ISA: before date of auditor's report).
ISA 230	<ul style="list-style-type: none"> Added requirements relating to documentation of abstracts and copies of significant contracts. (+). Specification that assembly of files no later than 60 days and retention at least 5 years (+).
ISA 240	<ul style="list-style-type: none"> A number of added requirements covering engagement team meeting, documentation and inquiries of internal audit (+). Change in definition of "fraud" limiting it to an intentional act that results in material misstatements in the financial statements (-). <p>(ISA definition "... to obtain unjust or illegal advantage" considered likely to (a) expose auditors to additional liability, (b) very subjective and (c) cause confusion with SAs relating to illegal acts).</p>
ISA 250	<ul style="list-style-type: none"> Changes to the ISA objective and paragraph 13 to address concerns that the ISA expanded the auditor's responsibilities to encompass all aspects of laws and regulations. There is a statement that the ASB had confirmed with IAASB that the changes addressed the intent of the ISA. (-?).
ISA 260	<ul style="list-style-type: none"> Moved positioning of "significant" to better convey the intent of the ISA (-?) Additional requirements to communicate corrected misstatements, auditor's

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	view on material matters subject to management consultations with other accountants and disagreements with management. (+).
ISA 265	<ul style="list-style-type: none"> Introduced “material weaknesses” alongside “significant weaknesses” At this stage it is not clear which is the greater and what impact if any this has on the ISA. Added additional requirements in relation to communicating that there were no material weaknesses and prohibiting a written communication stating that there were no significant deficiencies (+).
ISA 315	<ul style="list-style-type: none"> Additional requirements to understand how the information system deals with authorization, understanding the process for reconciling detailed records to the general ledger and on documentation. (+).
ISA 330	<ul style="list-style-type: none"> Minor change relating to “relevant assertions.”
ISA 402	<ul style="list-style-type: none"> Minor change relating to defining Type A and Type B reports to cover management’s assertion.
ISA 500	<ul style="list-style-type: none"> Change in terminology from management’s experts to management specialists. Deleted requirements to consider capabilities, competencies of management’s specialist (- but pending the development of a new SAS??) Added requirement for auditor to consider whether specialist skills needed (+).
ISA 501	<ul style="list-style-type: none"> Additional requirements on legal letters (consider accounting standard on loss contingencies , agreement with ABA regarding form of legal letter and documentation if decide not to seek confirmation from legal counsel) (+). Additional requirements regarding auditing investments (+).
ISA 505	<ul style="list-style-type: none"> Presumptive requirement added to ISA 330 equivalent (+).
ISA 510	<ul style="list-style-type: none"> Additional requirements regarding need for client to authorize the predecessor auditor to permit a review of the work papers and required communications when auditor believes that prior year financial statements need revision (+).
ISA 520	<ul style="list-style-type: none"> A change to the objective to “make standard easier to read”. It is unclear whether this changes the substance of the ISA – probably not. Additional requirements on documentation (+).
ISA 530	<ul style="list-style-type: none"> A change to the definition of sampling to add specificity. It is unclear whether this changes the substance of the ISA—probably not. Removal of ISA requirement relating to anomalies. ASB believes that this will

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	enhance audit quality (-).
ISA 540	<ul style="list-style-type: none"> No significant differences.
ISA 550	<ul style="list-style-type: none"> No significant differences.
ISA 560	<ul style="list-style-type: none"> Added objective and requirements relating to a predecessor auditor's responsibilities when reissuing the auditor's report on previously issued financial statements (+). Report release date used rather than the date financial statements were released. Distinction made between subsequent events and subsequently discovered facts. Change in requirement in ISA 15(b) (-?).
ISA 580	<ul style="list-style-type: none"> Requirement for the rep letter to be dated at the date of the financial statements rather than as near as possible in the ISAs (+).
ISA 600	<ul style="list-style-type: none"> Allowance of divided responsibility results in "substantive differences in the wording of the objectives, requirements and application material." ASB however states that the changes do not create differences in the application of ISA 600 and the proposed SAS.
ISA 620	<ul style="list-style-type: none"> No significant differences.
ISA 700	<ul style="list-style-type: none"> Moved material from ISA 710 on comparatives. Minor change to requirement in the introductory paragraph regarding reference to significant accounting policies (-). No reference to ethical requirements (-). Clarification that sufficient appropriate audit evidence includes review (+).
ISA 705	<ul style="list-style-type: none"> Removal of requirement for a disclaimer for multiple uncertainties (-). Removal of 13(B) requirement to resign when management imposed limitations is both material and pervasive (-). Requirement to disclose other reservations if auditor disclaims an opinion (+).
ISA 706	<ul style="list-style-type: none"> Added wording when auditor decides to limit use of report.
ISA 710	<ul style="list-style-type: none"> Moved material to ISA 700 on comparatives and deleted material on corresponding figures.
ISA 720	<ul style="list-style-type: none"> Minor changes to the ISA objective.

Appendix 6

Draft Survey Questionnaire
International Auditing and Assurance Standards Board
ISA Implementation Monitoring Project
Implementation of the Clarity ISAs by Small and Medium Audit Firms

[Firm Name]

[Insert Introductory Paragraphs]

If you have any questions about this questionnaire, please contact *[Insert contact details]* using the contact details shown below.

Correspondence regarding this questionnaire and the response to it should be submitted by email to, *[Insert contact details]*, who is able to address any questions you may have in relation to this survey.

Contact details of the person responding to this questionnaire:

Name

Title

Email

Telephone

The following questions relate to your firm’s implementation of the clarity ISAs on one selected audit client for a three-period that spans the following time frame (“relevant period”):

1. The year prior to the implementation of the clarity ISAs on the audit;
2. The year in which the clarity ISAs were implemented for the audit; and
3. The year immediately after the implementation of the clarity ISAs on the audit.

(For example: If the clarity ISAs are first to be implemented for the audit of your selected client’s financial statements presented in respect of the client’s financial period commencing during 2010, the information requested below will be required for the years 2009–2011).

The questions below should be answered by the engagement partner responsible for the selected audit engagement.

Throughout the rest of this questionnaire where the word “ISAs” appears it should be read to mean “the clarity ISAs”. Please develop your answers to the all questions below with reference to use of the clarity ISAs.

1. Questions about Effects of Using the Clarity ISAs in the Selected Audit Engagement

- 1.1 In your view did the changes in ISAs result in a more effective audit? For example, in terms of number of errors or misstatements identified? Or the types of matters raised in the management letter issued for the audit (number or quantity)? Any other matters?
- 1.2 In your view, were there observable benefits from applying the ISAs to perform the audit
 - (a) For the engagement team?
 - (b) For the audit firm?
 - (c) For the management of the audited entity?
 - (d) For those charged with governance of the entity and/or users of the audited financial statements?If so, what were those benefits?
- 1.3 What challenges, including cost effects, were experienced in using the ISAs to perform the audit? Please describe what those challenges were.
- 1.4 Were the challenges as great in the second year of using the standards as in the first year?
- 1.5 In retrospect do you think these challenges could have been overcome, wholly or partially, with more training and guidance on the ISAs?
- 1.6 If not, do you think that changes to the ISAs are needed if a cost effective audit of SMEs is to be achieved? If so what changes do you think are needed?
- 1.7 What was your perception of the scale of the impact of use of the clarified ISQC 1 on the firm’s quality control system for audits (high, medium, low)?
- 1.8 What was your perception of the scale of the impact of use of the ISAs on the audit overall (high, medium, low)?

1.9 What is your perception of the magnitude of the effects on the following phases of the audit (high, medium, low):

- Quality control for the engagement (including documentation).
- Audit planning.
- Audit performance.
- Communications with management and those charged with governance.
- Forming an opinion.

2. Contextual Information about the Audit of an Entity Selected for the Purpose of Completing This Survey

2.1 Please describe the type of entity your firm selected for the purpose of this survey i.e.,

- Annual sales (in US\$);
- Industry in which it operates;
- Whether the audit is required under applicable laws or regulations or whether it is requested for the entity on a voluntary basis.

2.2 What was the total time spent to complete the audit (hours)?

Year 1 (pre-implementation year) ---

Year 2 (implementation year) ---

Year 3 (post-implementation year) ---

Was the variance in hours caused by application of the ISAs, or were there other factors, for example was this a first year audit? (If there were other factors please quantify the impact of the change attributable only to the change in the ISAs.)

2.3 Impact on audit team selection

- (a) Did your firm make changes to the selection of audit staff deployed on the audit during the relevant period? Or in the year the ISAs were implemented?
- (b) What were the effects of doing so on the audit?

3. Contextual Information About Implementation of the Clarified ISAs by the Firm for the Firm's Audit Practice

3.1 Does your firm use an acquired audit software package that incorporates the ISAs or has the firm developed its own methodology?

3.2 If your firm using an acquired audit software package has the developer updated it for the ISAs?

3.3 Has your firm previously implemented the pre-clarity ISAs for the firm's audit engagements?

3.4 How did your firm prepare for the implementation of the ISAs (For example regarding methodology changes and training)?

With hindsight do you think more time should have been spent on preparation for implementation of the ISAs?

Appendix 7

Extract from IASB website: Information on the SME Implementation Group

(Available at: <http://www.iasb.org/IFRS+for+SMEs/SME+Implementation+Group/SME+Implementation+Group.htm>)

SME Implementation Group

At their meeting in July 2009, the Trustees of the IFRS Foundation approved the formation of an SME Implementation Group (SMEIG). In their 2010 January meeting the Trustees of the IASC Foundation finalised the terms of reference and operating procedures of the SME Implementation Group. ([Click here](#) to download the terms of reference and operating procedures of the SMEIG).

The mission of the SMEIG will be to support the international adoption of the *IFRS for SMEs* and monitor its implementation. The SMEIG has two main responsibilities:

1. Consider implementation questions raised by users of the *IFRS for SMEs*, decide which ones merit published implementation guidance, reach a consensus on what that guidance should be, develop proposed guidance in the form of questions and answers (Q&As) that would be made publicly available to interested parties on a timely basis, and request the IASB to approve the Q&As for issue. The Q&As are intended to be non-mandatory guidance that will help those who use the *IFRS for SMEs* to think about specific accounting questions.
2. Consider, and make recommendations to the IASB on the need to amend the IFRS: (i) for implementation issues that cannot be addressed by Q&As, and (ii) for new and amended IFRSs that have been adopted since the *IFRS for SMEs* was issued or last amended.

Extract from the SMEIG Terms of Reference and Operating Procedures **(approved by the IASC in January 2010)**

PART C: INVOLVEMENT OF THE IASB IN THE WORK OF THE SMEIG

- 18 The SMEIG assists the IASB in improving financial reporting by undertaking the responsibilities as set out in paragraph 9 above, namely:

- (a) developing non-mandatory guidance for implementing the *IFRS for SMEs* in the form of Q&As that would be made publicly available to interested parties on a timely basis, and
- (b) making recommendations to the IASB on the need to amend the *IFRS for SMEs*.

Due process in developing a Q&A

Stage 1 Identification of issues

- 19 Preparers, auditors and others with an interest in financial reporting by SMEs will be encouraged to refer to the SMEIG questions about the application of the IFRS for SMEs. The IASB will establish a procedure for doing so via its website (and possibly by email as well).

Stage 2 Deciding whether to publish a Q&A

- 20 Staff will prepare a brief analysis of each submitted question with a recommendation on:
- (a) whether it should be addressed by a Q&A (based on the criteria in paragraphs 15–17 above), and
 - (b) if the recommendation is to develop a Q&A, what the staff’s recommended answer would be and why.
- 21 Staff will send their recommendations to members of the SMEIG by email. SMEIG members will have 30 days to respond on (a) whether the SMEIG member agrees with the staff recommendation on the need for a Q&A, and (b) if the recommendation is to publish a Q&A, whether the SMEIG member agrees with the substance of the staff’s proposed answer and, if not, what the SMEIG member’s answer would be and why. SMEIG members should respond in writing to the staff. Such correspondence will be made available to all SMEIG members and to members of the IASB. It will be treated as internal correspondence rather than as public documents.

Stage 3 Reaching a tentative consensus

- 22 Staff will prepare a summary of the views of SMEIG members.
- (a) A tentative consensus is reached on the need for a Q&A if a simple majority of SMEIG members agree with the staff recommendation.
 - (b) A tentative consensus is reached on the substance of the staff’s proposed answer for a Q&A if a simple majority of SMEIG members agree with the staff recommendation.
- 23 If a tentative consensus is reached that a Q&A is needed and on the substance of the answer, staff shall prepare a draft Q&A. The draft Q&A will include the SMEIG’s reasons for reaching the answer that it did.

Stage 4 The IASB’s role in the draft Q&A

- 24 Members of the IASB will have access to all of the communications within the SMEIG leading to development of the draft Q&A.
- 25 The draft Q&A will be circulated to the members of the IASB by email. The draft Q&A is released for public comment unless four or more IASB members object within a week of being informed of its completion.

Stage 5 Inviting comments on the tentative consensus

- 26 The draft Q&A will be posted on the IASB’s website for public comment for a period of 30 days. The website will include a procedure for submitting comments electronically. Comments will be posted on the IASB’s website.
- 27 Staff will prepare an analysis of comments received. Staff will make recommendations for changes to the draft Q&A, if any, and send them to SMEIG members with a request for approval of a final Q&A. SMEIG members should respond in writing to the staff within 30 days. Such correspondence will be made available to all SMEIG members and to members of the IASB. It will be treated as internal correspondence rather than as public documents.

Stage 6 Reaching a final consensus

- 28 Staff will prepare a summary of the views of SMEIG members. A consensus is reached on the final Q&A if a simple majority of SMEIG members agree with the staff recommendation.

Stage 7 The IASB's role in the release of a final Q&A

- 29 Members of the IASB will have access to all of the communications within the SMEIG leading to development of the final Q&A, and to the public comments on a draft Q&A.
- 30 When the SMEIG has reached a consensus on a final Q&A, it will be circulated to members of the IASB by email.
- (a) If four or more IASB members object to the consensus within 15 days of being informed of its completion, it will be placed on the agenda of a public meeting of the IASB for discussion and a formal vote to approve publication. (The IASC Foundation's Constitution provides for a simple majority voting requirement in this case.) The IASB votes on the Q&A as submitted by the SMEIG. If a Q&A is not approved by the IASB, the IASB provides the SMEIG with an analysis of the objections and concerns of those voting against the consensus. On the basis of this analysis, the IASB will decide whether the matter should be referred back to the SMEIG, added to its own agenda or not be the subject of any further action.
- (b) If no more than three IASB members object to the consensus within 15 days of being informed of its completion, the Q&A will be published.
- 31 Approved Q&As are informal guidance and not mandatory standards. Therefore, they are published in the name of the SMEIG, not the IASB.

Stage 8 Publication of a final Q&A

- 32 SMEIG final Q&As will be posted on the IASB's website, possibly in batches rather than one by one, and made available without charge. They will not be separately printed.
- 33 The IASB will create an email alert list by which interested parties can register to be kept informed about the IFRS for SMEs. Those who register will be notified of draft Q&As that have been posted on the IASB's website for public comment, and of final Q&As that are published.
- 34 SMEIG decisions not to develop a Q&A will not be published.
- 35 SMEIG Q&As will include the SMEIG's reasons for reaching the answer that it reached.
- 36 Correspondence among SMEIG members and IASB staff will not be made public.