Committee: IAASB
Meeting Location: Berlin
Meeting Date: December 8 – 12, 2003

Audit Risk – Conforming Changes

Objectives of Agenda Item
1. To discuss the Audit Risk conforming changes project.

Background

December 2002
The approach to developing conforming changes was agreed with the IAASB in December 2002.

Where a project is underway to create or revise an ISA, the relevant project task force is responsible for ensuring conformity and consistency with the new Audit Risk Standards. The Audit Risk Conforming Changes Project focuses on other ISAs; any revisions required to IAPSs are to be considered separately. ISAs in the 800 (Specialized Areas) and 900 (Related Services) series are not related to audits of financial statements and, therefore, have not been considered. Agenda paper 9-A provides a summary of the ISAs included and excluded from the project.

The IAASB also discussed the need for formal approval of the conforming changes or exposure for comment. It was agreed that:

- The conforming changes will not be individually discussed in IAASB main meeting time. However, the proposed revised ISAs were posted to the IFAC Leadership Intranet.

- Conforming changes will not be exposed for public comment.

March 2003
At the March 2003 IAASB meeting, the conforming changes (prepared based on the exposure drafts) were provided to the IAASB.

Overall, the conforming changes do not give rise to extensive changes. Although the actual number of changes per ISA varied, the extent of required changes did not indicate difficulty in conforming to the new approach, or any significant areas of concern. This was not unexpected as conforming changes are restricted to those required to align terminology and overall concepts to the Audit Risk Standards. The purpose and objective of the underlying ISA remains the same. Agenda item 9-B provides an extract of the March 2003 paper which describes the nature of conforming changes and the process adopted by the task force.
Members were requested to provide any comments they had on the proposals to the task force outside of IAASB meeting time.

**Final Conforming Changes**

The Audit Risk Standards were approved by the IAASB in October 2003. The task force agreed to update the conforming changes based on the final ISAs with the intention of completing the changes for the December 2003 meeting.

Generally, the approach to conforming changes and the drafts presented in March 2003 remain appropriate and additional changes were not extensive. The more relevant and extensive additions include:

- Some ISAs such as ISA 505, “External Confirmation” are procedures-based ISAs and provide explanation of how to perform specific types audit procedures. These ISAs include additional changes to incorporate guidance on the nature, timing, and extent of procedures and the sufficiency and appropriateness of audit evidence.

- The need to introduce and link “significant risks” was considered in preparing the conforming changes. Generally, the task force did not introduce significant risks because the subject matter did not require it or because the existing structure and focus of the ISA does not focus on the risk assessment aspect of the audit. However, the task force anticipates that as ISAs are developed or revised, project task forces will debate the need to incorporate significant risk guidance (as well as structure the ISA as a risk-based standard) in addressing the project subject matter (for example, ISA 540, “Audit of Accounting Estimates”). The task force has, however, introduced reference to significant risks to ISA 545, “Auditing Fair Value Measurements and Disclosures”, as ISA 545 is a recent standard unlikely to be reopened in the near future.

- Some ISAs make more references to the separate risks (inherent risk and control risk) and more extensive editorial changes were required to reflect the combined risk assessment approach. For example, a number of changes in ISA 530, “Audit Sampling and Other Selective Testing Procedures” were to reflect the combined risk assessment approach.

Conforming changes to the other ISAs are more editorial and general in nature.

Conforming changes to the following ISAs were not prepared in March 2003 as they are ISAs currently under revision. However, the task force has now prepared conforming changes as these ISAs are not expected to be issued until 2005.

- ISA 230, Documentation
- ISA 320, Materiality
- ISA 540, Audit of Accounting Estimates

Attached to this agenda paper are the following ISAs presented for illustration of conforming changes and may be referred to during the IAASB meeting.

(a) ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements.
(b) ISA 505, External Confirmations.

(c) ISA 545, Auditing Fair Value Measurements and Disclosures.

The other ISAs are attached as supplementary papers for IAASB information and need not be brought to the meeting (unless there is a matter to be raised).

### Material Presented

| Agenda Paper 9-A (Pages 2169 – 2170) | ISAs Subject to Conforming Changes |
| Agenda Paper 9-B (Pages 2171 – 2172) | Scope of Conforming Changes (extract from March 2003 agenda paper 4-A for information only) |
| Agenda Paper 9-C (Pages 2173 – 2180) | Conforming Changes to ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements |
| Agenda Paper 9-D (Pages 2181 – 2188) | Conforming Changes to ISA 505, External Confirmations |
| Agenda Paper 9-E (Pages 2189 – 2204) | Conforming Changes to ISA 545, Auditing Fair Value Measurements and Disclosures |

### FOR INFORMATION ONLY (NOT REQUIRED FOR IAASB MEETING PRESENTATION)

| Agenda Paper 9-F | Glossary |
| Agenda Paper 9-G | ISA 210, Terms of Audit Engagements |
| Agenda Paper 9-H | ISA 230, Documentation |
| Agenda Paper 9-I | ISA 260, Communications of Audit Matters with Those Charged with Governance |
| Agenda Paper 9-J | ISA 320, Audit Materiality |
| Agenda Paper 9-K | ISA 402, Audit Considerations Relating to Entities Using Service Organizations |
| Agenda Paper 9-L | ISA 501, Audit Evidence-Additional Considerations for Specific Items |
| Agenda Paper 9-M | ISA 510, Initial Engagements - Opening Balances |
| Agenda Paper 9-N | ISA 520, Analytical Procedures |
Agenda Paper 9-O  ISA 530, Audit Sampling and Other Means of Selecting Items for Testing
Agenda Paper 9-P  ISA 540, Audit of Accounting Estimates
Agenda Paper 9-Q  ISA 550, Related Parties
Agenda Paper 9-R  ISA 560, Subsequent Events
Agenda Paper 9-S  ISA 570, Going Concern
Agenda Paper 9-T  ISA 580, Management Representations
Agenda Paper 9-U  ISA 610, Considering the Work of Internal Auditing
Agenda Paper 9-V  ISA 620, Using the Work of an Expert
Agenda Paper 9-W  ISA 710, Comparatives
Agenda Paper 9-X  ISA 720, Other Information in Documents Containing Audited Financial Statements

**Action Requested**

1. IAASB is requested to discuss significant issues with the proposed conforming changes.