DRAFT BASIS FOR CONCLUSIONS:
INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD
STRATEGY AND WORK PROGRAM, 2009-2011

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, the Strategy and Work Program, 2009-2011, which was [unanimously approved by the IAASB in June 2008].

Background

1. During 2007 the IAASB followed an extensive consultation program to obtain the widest possible input into determining its strategy and work program for 2009-2011. The consultation program included extensive discussions with the IAASB Consultative Advisory Group at various stages of developing the strategy and work program.

2. In October 2007 the IAASB issued a Consultation Paper, Proposed Strategy for 2009-2011, which formed the final stage of the consultation program. It presented a proposed strategy, possible actions to implement the proposed strategy, and the basis for them. Fifty-five responses were received from a variety of respondents. Respondents included professional bodies, national standard setters, preparers and users of financial statements, audit firms, public sector organizations, regulators, oversight bodies, individuals and others. The Small and Medium Practices Committee and Developing Nations Committee of the International Federation of Accountants (IFAC) also submitted a response.

3. The Strategy and Work Program, 2009-2011 is based on the IAASB’s consideration of the outcome of the consultation program.

Major Themes from the Responses to the Consultation Paper

4. The majority of respondents to the Consultation Paper were generally supportive of the proposals. Major themes from the responses are summarized below.

   - Significant support for the proposed strategic direction and focus areas, although some concern was expressed about a perceived lower priority associated with addressing the needs of smaller entities (SMEs) and their auditors.

   - Significant support for the proposal to provide auditors and national standard setters (and other adopting authorities) with a period of at least two years after the effective date of the clarity redrafted International Standards on Auditing (ISAs) during which no new auditing standards will take effect, unless there is an urgent need to respond to unforeseen circumstances.

   - Significant support for the proposal to determine actions based on research to be conducted with regard to the auditor’s report issued in accordance with ISA 700, The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements.

1 See minutes of the June 16-17, 2008 IAASB meeting at [insert link].
• Support for guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with the auditor’s report.

• Significant support for new standards for certain types of assurance engagements, i.e., reporting on carbon emissions information and reporting on prospectus information.

• Demand for assessments of the impact of proposed new standards, and the effectiveness of the implementation of new standards.

• Appeal for the IAASB to contribute to the effective implementation of ISAs, though views differed on how this would be best accomplished.

• Insufficient demand for an alternative assurance service for SMEs, but a call for the revision of the standards on compilation and review engagements.

• Limited demand, some degree of support for work on conceptual aspects of the standards, such as materiality, audit evidence and professional judgment.

5. There were also calls for translations of and education and training in the standards. The IAASB recognizes that these activities are closely linked to the implementation of the standards; however, they do not fall within the remit of the IAASB. As the worldwide organization for the accountancy profession, IFAC has an important role in the facilitation of translations, and education and training of professional accountants. Regional and national professional accountancy organizations have an equally important role in this regard.

6. A summary of significant comments on the Consultation Paper and related recommendations, and how the IAASB addressed them, are set out below.

Objective, Strategic Initiatives and Focus Areas

7. The responses to the Consultation Paper confirmed the continued appropriateness of the objective and strategic initiatives of the IAASB as set out in its terms of reference. Within the

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2 The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high quality standards dealing with auditing, review, other assurance, quality control and related services, and by facilitating the convergence of national and international standards. This objective contributes to enhanced quality and uniformity of practice in these areas throughout the world, and strengthened public confidence in financial reporting.

The IAASB aims to achieve its objective through the following strategic initiatives:

(a) Development of Standards – Establish high quality auditing, review, other assurance, quality control and related services standards.

(b) Global Acceptance, Convergence and Partnership – Promote the acceptance and adoption of IAASB pronouncements throughout the world; and support a strong and cohesive international accountancy profession by coordinating with IFAC member bodies, regional organizations, and national standard setters to achieve the objective of the IAASB.
broad strategic initiatives of: development of standards; global acceptance, convergence and partnership; and communication, the Consultation Paper proposed that the IAASB focus on:

(a) Contributing to the effective operation of the world’s capital markets;
(b) Assisting with the implementation of standards; and
(c) Addressing the needs of SMEs.

8. In general, respondents to the Consultation Paper supported this proposal.

9. The International Organization of Securities Commissions (IOSCO) was of the view that the IAASB’s most compelling reason for being an international standard setter stems from the need for high quality assurance on the reporting of public companies’ financial information in the world’s capital markets. As a result, that the principal focus of the strategy, and the driver for the majority of the IAASB’s actions, should be the overriding public interest in “audit quality” for the purposes of the world’s capital markets. The IAASB should therefore focus on standards that will contribute to high quality audits. The European Commission (EC) drew a similar conclusion, though for a wider class of entity, noting that the primary mission of the IAASB should remain ensuring the highest quality and consistency of standards for statutory auditors.

10. Many respondents agreed that assisting with the implementation of standards will contribute to the effective operation of the world’s capital markets, and to high quality auditing across the range of entities whose financial statements are audited.

11. A few respondents, mainly professional bodies, did not agree with the proposal that the IAASB’s resources be particularly focused on contributing to the effective operation of the world’s capital markets and assisting with the implementation of standards, while possible further actions to address the needs of SMEs, such as an alternative assurance service, be given a lower priority. It was not the intention of the IAASB to give a lower priority to addressing the needs of SMEs. In this regard, the Consultation Paper explained that a focus on assisting with the implementation of standards is also intended to assist with the needs of SMEs and their auditors. This is confirmed by respondents that suggested that the needs of SMEs be specifically included in assisting with the implementation of standards to ensure successful implementation of ISAs across all entities subject to audit.

12. A few respondents were of the view that the IAASB’s future strategy should not be limited to the short to medium term (i.e., 2009-2011); but that it should include longer term strategic considerations. They were of the view that, without the consideration of a longer term objective and its attendant strategies, the IAASB may not consider the actions necessary in the short and medium term to implement the strategic initiatives designed to meet its longer term objective. This may result in ineffective or inefficient use of resources.

(c) Communication – Improve the quality and uniformity of auditing practices and related services throughout the world by encouraging debate and presenting papers on a variety of audit and assurance issues; and increase the public image and awareness of the activities of the IAASB.

The Terms of Reference can be accessed at http://www.ifac.org/IAASB/downloads/IAASB_ToS.pdf.
13. The majority of IAASB members were of the view that the objective stated in the Terms of Reference is an appropriate longer term objective and that the related strategic initiatives are sufficiently broad to enable the IAASB to identify the most effective and efficient short and medium term actions to achieve that objective. The IAASB was concerned that a longer term objective that refers to convergence between specific national standards in major jurisdictions and the international standards within a specified period of time may not be achievable as certain jurisdictional matters – such as legal and regulatory environments – are beyond its control.

14. Nevertheless, the IAASB agreed that the final strategy document should acknowledge a vision that all audit and assurance work would, to the extent possible and respecting necessary jurisdictional differences, be carried out under International Standards.

15. In considering the responses, the IAASB also debated what the proper limits of its activities were, having regard to its terms of reference, the skills of its members and staff, and the extent of its resources. The IAASB concluded that, in its standard-setting and related activities, it should concern itself with adoption and implementation, to the extent that barriers to adoption and difficulties in implementation can be alleviated by actions within those activities. In addition, the IAASB has a clear interest in monitoring the adoption of its standards. Accordingly, the focus of the strategy and work program is on:

(a) Development of standards;

(b) Monitoring and facilitating adoption of those standards; and

(c) Responding to concerns about the implementation of the standards by actions designed to improve the consistency with which they are applied in practice.

16. In the area of development of standards, the IAASB agreed that its proposed focus on the effective operation of the world’s capital markets, and the needs of SMEs remained reasonable.

Actions to Achieve the Strategy

Prioritization

17. The possible actions listed in the Consultation Paper received considerable support, either explicitly or implicitly, through expressions of overall and specific support. The majority of respondents, however, did not provide a comprehensive prioritization of the possible actions. Some respondents identified those actions that they viewed to be of high priority. Some respondents identified those actions that they did not support.

18. A few respondents cautioned against actions in areas where services, and best practice as to how to provide such services, are still evolving. They were of the view that the development of any new International Standard on Assurance Engagements (ISAE), for example, should only be undertaken when there is a clear user demand for such an engagement and the nature of the engagement is likely to be consistent on an international basis. Two significant regulatory responses stressed the importance of auditing standards as IAASB’s priority (see paragraph 9).

19. The completion of the Clarity and other current projects is necessary to ensure that ISAs form a globally accepted and recognized set of up-to-date high quality standards for the audit of
financial statements. In considering the responses, the IAASB concluded that auditing standards should remain its most important single product for the foreseeable future; however, during 2009-2011 its focus will shift to the adoption and implementation of the ISAs. The strategy and work program reflect this.

20. In order to develop the work program, the IAASB considered the level of support expressed for particular actions during the consultations, and the interrelationship between specific actions. The work program is based on the IAASB’s current working procedures, level of activity and resources. Although the current resources do not seem to place a major constraint on the proposed activities of the IAASB, the situation will be monitored as the work program progresses.

21. The work program is subject to periodic revision and change by the IAASB. The commencement of a new project is subject to the IAASB approving a proposal that confirms that it is appropriate to commence the project, taking account of the effective and efficient use of resources, the likely output of the project and its timescale. In future, this decision may also be informed by an assessment of the impact of the proposed new standard (see paragraphs 68-71).

22. In the paragraphs that follow, the text in the grey-shaded boxes reflects the possible actions that were included in the Consultation Paper, followed by a summary of significant comments or recommendations from respondents and IAASB’s conclusions thereon.

The World’s Capital Markets

International Standards on Auditing – Performance Standards

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

23. A few respondents to the Consultation Paper explicitly supported the proposed revision of ISA 610. The Institute of Internal Auditors (IIA), for example, noted that proposed ISA 610 (Redrafted), The Auditor’s Consideration of the Internal Audit Function did not include the new definition of internal auditing (as revised by the IIA), or a reference to the current International Standards for the Professional Practice of Internal Auditing. One respondent asked whether the scope of ISA 610 should be broadened to include the work of others, such as internal control testing teams established by management. Another respondent explicitly did not support the revision of ISA 610 as it was not convinced that the evolving role of internal audit gave rise to a need to revise the principles-based requirements relating to the external auditor’s consideration of the work of internal audit.

24. A few respondents explicitly supported the revision of ISA 720. One respondent emphasized the relevance of the ISA in audits of public sector entities. This respondent was concerned that non-financial information in documents containing audited financial statements may be

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4 Although extant ISA 610 contains a definition of internal auditing, a definition was not included in proposed ISA 610 (Redrafted).
interpreted as part of the audited financial statements if the non-financial information is required by law or regulation. Another respondent, however, was of the view that the existence of law or regulation, which may differ amongst jurisdictions, may impede the development of such a standard at an international level. This respondent did not support the revision of ISA 720. Another respondent did not view the current developments in the presentation of financial statements (e.g., on-line presentation) as necessitating a fundamental revision of the ISA and an extension of the involvement of the auditor beyond what is laid down in existing law and regulation.

25. A few individual suggestions were made. One respondent noted that the IAASB’s discussions during the development of proposed ISA 500 (Redrafted), *Considering the Relevant and Reliability of Audit Evidence* indicated that revision of that ISA should be a high priority. Another respondent was of the view that revisions of ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* and ISA 530, *Audit Sampling and Other Means of Testing* were of a similar priority to that of ISA 610 and ISA 720. A few other respondents supported a revision of ISA 250. Another respondent suggested the development of a new ISA that deals with management’s experts.

26. A few respondents suggested revision of all the ISAs that had not been revised during the Clarity project. Another respondent, however, suggested that the proposed revision of ISAs be delayed until the IAASB has developed a process for assessing the effectiveness of the implementation of new standards (see paragraph 57), as the assessments may identify ISAs that should be revised.

27. The IAASB CAG was consulted on this matter. The IAASB CAG members were generally of the view that, over time, the ISAs that had not been revised since 2002 (see Appendix 1) should be considered for revision in order to maintain a set of up-to-date high quality standards for the audit of financial statements. They were of the view that, at this time, it is not necessary to revise all the ISAs, in particular at the expense of other actions.

28. The IAASB concurred with this view. In developing the timetable for the Clarity project, the IAASB had determined that, based on the existing content of those ISAs and minimal new developments in certain areas, redrafting rather than revising them was appropriate.

29. Based on the general and specific support for the proposal to revise proposed ISA 610 (Redrafted) and proposed ISA 720 (Redrafted), *The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements*, the IAASB concluded to include their revision in the work program. In addition, the work program provides for another project to develop or revise an ISA, should this prove to be necessary. Any project to revise an ISA would take into account comments on the exposure draft issued as part of the Clarity project that went beyond the scope of the Clarity project.
International Standards on Auditing – Reporting Standards

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

30. Respondents to the Consultation Paper were very supportive of this proposal, assigning it the highest priority. Some respondents believed that the reluctance of certain jurisdictions to adopt ISA 700 represents a significant impediment to global convergence. A few respondents were particularly concerned about the possible development by the EC of an auditor’s report for use in the European Union (EU), if the auditor’s report to be issued in accordance with ISA 700 is not modified to meet the needs of the EC. Others respondents cited concerns that investor groups have with the auditor’s report to be issued in accordance with ISA 700.

31. Some respondents explicitly supported research to evaluate how well users believe the current form of auditor’s report communicates the procedures performed in response to assessed risks of material misstatement, and the conclusions reached about whether the financial statements are fairly presented. They were of the view that such research will be an appropriate first step to determine whether to revise the auditor’s report to be issued in accordance with ISA 700, and whether more radical changes in auditor communications are necessary over the longer term. They emphasized the importance of involving both national standard setters and other stakeholders in the research.

32. The Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) and the IAASB have commissioned research aimed at identifying and providing information about users’ perceptions of the financial statement audit in connection with reading and considering the auditor’s report. Once the initial research projects are completed, the IAASB anticipates further work to identify possible modifications to the auditor’s report that might improve the clarity of the auditor’s intended communications to financial statement users. Others have also undertaken research in this area, including the Committee of European Securities Regulators (CESR), IOSCO, and the UK Auditing Practices Board (APB).

33. Based on the significant support indicated by respondents for this action, the IAASB agreed to include it in its work program, and allocated it a high priority.

New Technologies and Reporting Models

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

A.1.4 Monitor developments in continuous auditing and the continuous availability of information to assess whether to develop guidance.

34. In general, respondents to the Consultation Paper believed that developments in XBRL will have a significant effect on the reporting environment in the future. Many respondents
supported the proposal that the IAASB develop guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with the auditor’s report.

35. One respondent was of the view that there is an urgent need for the IAASB to develop assurance protocols for XBRL reporting that relate not only to the auditing of data but also to the process by which data is prepared. Another respondent noted that, while it is not entirely clear how a more fundamental transformation in financial reporting as a result of XBRL might affect the audit model, auditors can play a role in providing assurance on the translation of financial statements into XBRL format.

36. One respondent was of the view that, as the IAASB already has a standard dealing with the auditor’s obligations in connection with other information in documents containing audited financial statements (i.e., proposed ISA 720 (Redrafted)), an early step in considering matters relating to XBRL would be to explore whether there are investor needs for assurance beyond what is already provided in an audit. Another respondent was of the view that it would not be practical to develop guidance in this area before a suitable reporting framework or criteria have been developed. Another respondent suggested that the IAASB’s actions be limited to developing an improved understanding of XBRL. A few respondents did not believe that, at present, a need for guidance existed.

37. Respondents noted that the topics of continuous auditing and the continuous availability of information have been around for a while. Although they supported the proposal to monitor developments in this regard, they did not deem the action to be of a high priority.

38. Based on the support indicated by respondents for the development of guidance for auditors on the approach to be followed when XBRL financial statements are to be filed together with an auditor’s report, the IAASB agreed to include it on its work program. In addition, the IAASB agreed to:

(a) Monitor developments with regard to XBRL to determine whether there is a demand for related assurance services;

(b) Monitor developments in continuous auditing and the continuous availability of information to assess whether to develop guidance; and

(c) Monitor other technology-related matters that may affect the audit of financial statements and therefore require the attention of the IAASB, for example, the effect of technology on audit evidence (also see paragraph 84).

Actions with regard to XBRL will be undertaken in consultation with national standard setters and relevant XBRL groups, as necessary.
Assurance Services Relevant to Raising International Capital

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

39. There was no clear consensus among respondents that commented on these proposals. While many respondents were of the view that the professional accountant’s involvement in prospectuses is an important matter, they were uncertain as to whether it could be addressed at an international level. It was suggested that the IAASB perform a feasibility study to determine what could be achieved before embarking on a project.

40. A few respondents cautioned against focusing efforts on developing pronouncements relevant to a single jurisdiction, such as the EU; while a few other respondents were of the view that pronouncements were particularly necessary in light of the EU Prospectus Directive.

41. One respondent suggested that the revision of ISAE 3400 form part of the project to develop a new pronouncement addressing aspects of the professional accountant’s involvement in prospectuses; while a few other respondents thought that the IAASB had discussed possibly withdrawing ISAE 3400 as it predates the assurance framework. A few respondents suggested that the project also include comfort letters and solvency tests.

42. The IAASB discussed a project proposal to develop an ISAE on assurance reports on prospectus information. The project proposal was developed by a group comprising representatives from audit firms and chaired by an IAASB member. That group believes that this project will resolve a number of issues that are common to pro forma financial information and prospective financial information, and that the revision of ISAE 3400 should follow the development of the proposed ISAE. After considering the project proposal, the IAASB agreed that:

(a) The objective of the project should be to develop an internationally acceptable ISAE on assurance reports on pro forma financial information included in prospectuses; and

(b) The project in (a) should be followed by a project to revise ISAE 3400.

Assurance on Sustainability Reports

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

43. Overall, there was significant support from respondents to the Consultation Paper for these proposals. Generally, respondents noted that sustainability reporting is an emerging global trend that will become increasingly influential in shaping perceptions about an entity’s broader corporate performance, and that a growing demand for assurance on these reports will
inevitably follow. As a result, many respondents believed that the IAASB should establish itself as the leader in developing pronouncements for assurance services in the field of sustainability reporting.

44. More specifically, respondents identified a need for topic-specific pronouncements that go beyond the general requirements and guidance of ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Some respondents encouraged the IAASB to take account of existing pronouncements, such as that of Royal NVvRA, and the work of other organizations, such as AccountAbility, Global Reporting Initiative (GRI) and the International Organization for Standardization (ISO). A few respondents suggested that the pronouncements be developed jointly with such organizations.

45. A few respondents, however, did not support the development of a pronouncement addressing assurance engagements on carbon emissions information. Some of them did not believe that there is a clear user demand for the service or a consistent international basis on which the professional accountant could report. Another was of the view that general guidance already exists on non-audit assurance services.

46. Based on the significant support indicated by respondents, the IAASB:

(a) In December 2007, approved a proposal to commence a project to develop a standard on reporting on carbon emissions information; and

(b) Agreed to review Royal NVvRA’s recently issued assurance standard on sustainability reporting to determine whether it provides an appropriate basis for an international standard.

International Standard on Assurance Engagements 3000

47. The IAASB’s discussion of proposed ISAE 3402, *Assurance Reports on Controls at a Third Party Service Organization* highlighted a need to revise ISAE 3000 to include matters of a general nature dealt with in the ISAs that also apply to assurance engagements. At the time, the view was expressed that any topic-specific ISAEs would need to include such material if ISAE 3000 is not revised. This may result in considerable duplication.

48. A few respondents to the Consultation Paper also suggested that the revision of ISAE 3000 be a high priority. This is not only so that it will be in the clarity style, but to ensure that all the concepts from the clarity redrafted ISAs relevant to other assurance engagements are embedded in the ISAE. Given the number and nature of assurance engagements that professional accountants perform, these respondents believed that a more robust assurance standard would assist in the harmonization of practices around the world and improve the consistency and comparability of reporting. One respondent cited the need to provide more guidance in the areas of materiality, engagement risk, the use of experts, and documentation; and to explore the concept of joint assurance engagements.

49. In considering the above, the IAASB agreed that, as a first step, it should determine how ISAE 3000 is being used at national level and what the identified shortcomings are. This should be done by way of consultation with audit firms, national standard setters and other interested parties. Future actions should be determined based on the outcome of these consultations.
However, these actions should not entail revisiting conceptual matters settled at the time of revising the *International Framework for Assurance Engagements* (which was done in conjunction with the last revision of ISAE 3000).

**Other Topic-Specific Pronouncements**

50. Some respondents to the Consultation Paper suggested topic-specific assurance pronouncements, including reporting on internal control, corporate governance statements, performance information, and anti-bribery programs. A few IAASB members supported a project on reporting on internal control, citing demand from regulators and new requirements in certain jurisdictions. Other IAASB members were concerned that jurisdictional matters may complicate such a project.

51. Based on the limited requests for any topic-specific pronouncement, the IAASB agreed not to include any of them in its work program at this time. However, the IAASB will monitor developments in this regard to determine whether a pronouncement should be developed for one or more specific assurance engagements. This may include the development of illustrative reports for specific assurance engagements after the revision of ISAE 3000 (see paragraph 49). These reports could be appended to ISAE 3000 (Revised).

**The Implementation of Standards**

*Implementation Assistance*

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<td>B.1.1</td>
<td>Provide auditors and national standard setters (and other adopting authorities) with a period of at least two years after the effective date of the ISAs redrafted under the Clarity project during which no new auditing standards will take effect, unless there is an urgent need to respond to unforeseen circumstances.</td>
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<td>B.1.2</td>
<td>Develop a process for assessing the effectiveness of the implementation of new standards, in order to determine whether there is any necessity for further refinement to achieve the intended effect of new standards.</td>
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<td>B.1.3</td>
<td>Publish with each new standard a short note of the key changes introduced and the intended effect on the engagement.</td>
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<td>B.1.4</td>
<td>Consider whether IAASB eNews communications and a summary of the most important matters in IAASB press releases and the IAASB annual report should be translated in the five languages of the United Nations.</td>
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52. Many respondents to the Consultation Paper explicitly supported the proposal to provide a period of stability during which no new auditing standards will take effect. Responses from audit firms confirmed that it will enable the firms to update their methodologies and training programs. IFAC member bodies and national standard setters referred to the need for them to develop implementation guidance during this period. A few respondents noted that a period of stability will promote swift endorsement for application of ISAs throughout the profession and by regulators, in particular the EC.
53. Some respondents explicitly supported the development of a process for assessing the effectiveness of the implementation of new standards. A few respondents cautioned against the development of such a process in isolation. They suggested that the IAASB involve oversight bodies that monitor audit quality, regulators, national standard setters and audit firms to develop a process that is transparent and justifiable to all stakeholders. The continued involvement of these stakeholders will assist in determining whether new standards have been implemented completely and consistently, and to identify any areas that require improvement. One respondent noted that ISAs are integrated and, as such, any process to assess the effectiveness of the implementation of a new standard needs to be holistic in nature. A few respondents were of the view that the process may be best paired with impact assessments (see paragraphs 68-71).

54. A few respondents urged the IAASB to conduct a post-implementation review of the clarity redrafted ISAs to determine whether the objectives of the Clarity project have been achieved, given the magnitude of, and expectations in relation to, the project. They suggested that the review include a survey of the practical implementation experience of audit firms, and the effect that audit firms, oversight bodies that monitor audit quality, regulators, investors and other stakeholders believe the clarity redrafted ISAs have in practice.

55. Few respondents explicitly commented on the proposals in B.1.3 and B.1.4 in the table above. Those that commented were generally supportive.

56. Based on the support indicated by respondents, the IAASB agreed to take the actions in B.1.1-B.1.4. The possibility of translating IAASB eNews communications and a summary of the most important matters in IAASB press releases and the IAASB annual report in the five languages of the United Nations will be discussed with the IFAC Communication Department.

57. The IAASB is of the view that the quality of the implementation of new standards is a matter for oversight bodies that monitor audit quality, and regulators. The assessment in B.1.2 will therefore focus on the consistency with which auditors have implemented new standards in practice. It will be developed in consultation with the IAASB CAG, oversight bodies that monitor audit quality, regulators, national standard setters and audit firms. The first assessments are likely to include the implementation of the ISAs that deal with the auditor’s identification, assessment and responses to risks of material misstatement, including fraud.

58. The IAASB was concerned that a review that focuses on the overall Clarity project (see paragraph 54) may raise the question as to whether the IAASB will start another project of that nature. The IAASB is of the view that the assessment in B1.2 signifies continuing improvement and will contribute to consistency in application of the standards.
Implementation Guidance

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<th>B.2.1</th>
<th>Review the existing International Auditing Practice Statements (IAPSs) and determine whether they should be withdrawn or revised.</th>
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<td>B.2.2</td>
<td>In consultation with relevant parties, develop guidance for auditors on the audit of complex valuation models.</td>
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<tr>
<td>B.2.3</td>
<td>Identify and develop implementation guidance for an additional topic if it is clear that IAASB is the appropriate body to do so.</td>
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International Auditing Practice Statements

59. Some respondents to the Consultation Paper supported the review of the IAPSs to determine whether they should be withdrawn or revised. One respondent suggested that the IAASB develop criteria for determining whether to withdraw or revise an IAPS. This respondent also believed that the authority of IAPSs should be addressed before the IAASB developed implementation guidance. Another respondent was of the view that the IAASB should review the IAPSs with the presumptive view that they contain useful content that could be updated, if necessary, and incorporated in the application and other explanatory material in the ISAs.

60. One respondent noted that the ISAs and IAPSs may not be the best vehicles for implementation guidance. This respondent encouraged the IAASB to consider other options such as Questions & Answers, interpretations, and a periodic improvements project. (These types of output could also be a way in which to address matters identified during the assessment of the effectiveness of the implementation of new standards.)

61. Based on the comments, the IAASB agreed to: (a) review the appropriateness of the content of the IAPSs and determine whether they should be withdrawn or revised; and (b) review the authority of the IAPSs and any other implementation guidance that the IAASB may develop.

Guidance on the Audit of Fair Values

62. Some respondents, in particular regulators, assigned a high priority to the development of guidance for auditors on the audit of complex valuation models. They referred to recent market developments and the increase in requirements for fair value measurements and disclosures in certain financial reporting frameworks. An audit firm respondent, however, was of the view that, if the accounting models are clear and consistent, there may not be a need for specific guidance for auditors. A few other respondents, representing professional organizations and national standard setters, also did not support the proposal to develop such guidance. They were of the view that the use of complex valuation models is pertinent to specific industries, such as banking and insurance, and therefore not relevant in a considerable number of audits. They were also concerned that such guidance may undermine the principles-based, framework-neutral nature of ISA 540 (Revised and Redrafted), Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.

63. In December 2007, the IAASB formed a Task Force to determine whether to develop additional guidance on the audit of fair values. This initiative is supported by the IAASB CAG
Representatives, who are of the view that any action taken by the IAASB in this regard should be based on the needs expressed by its stakeholders.

Implementation Guidance for an Additional Topic

64. A few respondents did not believe that the IAASB should limit the proposal to develop additional guidance to one topic, if a need for guidance on more than one topic is identified. Their responses, however, did not identify any additional topics.

65. One respondent suggested that IAPS 1006, *Audits of the Financial Statements of Banks* be revised. Another respondent suggested that the IAASB explore whether to develop guidance for auditors on the audit of revenue recognition, stock-based compensation and variable interest entities. Another respondent suggested that the IAASB develop guidance on the use of internal shared service centers.

66. A few respondents encouraged the IAASB to consider carefully whether it is the appropriate body to develop implementation guidance, before identifying and developing such guidance for any additional topic. They suggested that the IAASB analyze the implementation guidance developed by national standard setters to determine whether it may be applicable in an international context. The IAASB supported this view. The IAASB believes that actions to address practical implementation challenges experienced by those that have adopted, or are adopting, the ISAs require a joint effort by the IAASB, other IFAC boards and committees, regional and national professional accountancy organization, the Forum of firms, national standard setters, regulators and development agencies. Identifying and facilitating access to implementation guidance that is appropriate in an international context will enable the IAASB to contribute to this joint effort in an effective and efficient manner. The IAASB therefore agreed to do so.

67. If the need arises, the IAASB may also develop implementation guidance for one or more topics that are of international relevance (also see paragraph 84).

**Impact Assessment**

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

68. Some respondents to the Consultation Paper explicitly supported this proposal. One respondent noted that impact assessments are key to global acceptance of and convergence with ISAs. Another respondent suggested that the IAASB use existing tools (such as discussion papers and field testing, which are provided for in the IAASB’s due process) as part of assessing the impact of proposed new standards.

69. One regulatory respondent cautioned against an inordinate focus on the costs to auditors and reporting companies only. This respondent was of the view that, while enhanced auditing standard may generate additional costs for both implementation and ongoing application by auditors and preparers, it should be balanced against the benefits to investors and the capital markets in general. Another respondent was not convinced that impact assessments, such as
those conducted by regulators when proposing new legislation, are an appropriate mechanism in a standard-setting context. The respondent did not explain why this was the case.

70. A few respondents explicitly did not support the proposal. They were of the view that it is more appropriate to emphasize the principles of cost vs. benefits, rather than adopting the proposed approach. They noted that the matter of cost vs. benefits varies from firm to firm and changes over time and across jurisdictions. As a result, continuous revision may be necessary. Some respondents were of the view that such an approach will always be imprecise, particularly on the benefit side.

71. The IAASB is of the view that this is an important strategic action, which is supported by the IAASB CAG and IFAC Board. It therefore plans to determine how to implement any proposals that IFAC might adopt in this regard.

The Needs of SMEs

<table>
<thead>
<tr>
<th>C.1</th>
<th>Consider whether to revise ISRE 2400, Engagements to Review Financial Statements.</th>
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<tbody>
<tr>
<td>C.2</td>
<td>Consider whether to revise ISRS 4410, Engagements to Compile Financial Statements.</td>
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<tr>
<td>C.3</td>
<td>Explore, in consultation with other interested parties, the concept of an alternative assurance service for SMEs and, if considered appropriate, commence a project to develop a standard for such a service if different from ISRE 2400 and ISRS 4410.</td>
</tr>
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</table>

72. The responses to the Consultation Paper indicated little support for any possibility that the audits of SMEs might be carried out to limited auditing standards. Respondents endorsed the efforts of the IAASB and the IFAC Small and Medium Practices Committee to provide guidance for audits of SMEs in applying the ISAs, and encouraged them to continue to do so. One respondent indicated that, although this work is warranted, it should coexist with the work necessary to address audits of the financial statements of listed companies and the needs of debt and equity investors in the world’s capital markets.

73. Respondents, however, had diverse views with regard to the possible actions. A few respondents suggested that the IAASB provide a description of the type of organization that would qualify as an SME. One respondent was of the view that the description should clarify that it does not include listed companies, if that was the IAASB’s intent.

74. Many respondents were of the view that ISRE 2400 and ISRS 4410 should be revised. Some respondents were of the view that it was necessary for users of SME financial statements to fully understand the nature of a compilation and a review before exploring an alternative assurance service for SMEs. Some respondents noted that many jurisdictions were electing a review as an alternative to an audit; however, some were concerned that ISRE 2400 was outdated. A few respondents were of the view that, for their jurisdictions, a revision of ISRE 2400 and ISRS 4410 would not be meaningful. Their preference was for the IAASB to revisit the question whether auditing standards might not be designed to be more readily applied to smaller entities; a thought that was shared by a few other respondents.

75. Some respondents supported the proposal to explore the concept of an alternative assurance service for SMEs. Some respondents emphasized that such a service should be clearly
distinguished from an audit and designed to meet the needs of stakeholders of SMEs, while matching costs with benefits. One respondent urged the IAASB to consult with regulators and other users of SME financial statements as to the perceived needs for a new assurance service.

76. Some respondents did not support the proposal to explore the concept of an alternative assurance service for SMEs. They were of the view that the financial reporting expectations of SME stakeholders did not differ from those of large-entity stakeholders and, as such, an audit is the means of meeting those expectations. Some respondents were concerned that the concept of an alternative assurance service for SMEs may introduce an element of confusion in the market, and jeopardize the public interest. A few respondents were of the view that standards for an alternative service for SMEs may be more appropriately developed at a national level.

77. The IAASB agreed to revise and redraft ISRE 2400 and ISRS 4410. While there was no clear consensus in this regard, these standards are currently applied in many jurisdictions and, as indicated during the consultations, in need of revision. The IAASB is of the view that these revisions may alleviate the demand for an alternative assurance service for SMEs. However, the IAASB intends to continue to monitor the developments of national standard setters and others with regard to such a service. The IAASB CAG expressed support for this approach.

Other Matters Arising from the Consultations

Clarity Redrafting of Standards Other than International Standards on Auditing

78. The IAASB has issued relatively few standards other than ISAs and in general they do not overlap (i.e., for any engagement only one such standard is likely to be relevant). The Consultation Paper explained that possible actions included redrafting all in the clarity style as a separate exercise; drafting new standards in the clarity style, but not redrafting the older ones until such times as they require their own substantive revision; or retaining the existing style for all non-ISA standards. To promote efficient and effective utilization of the IAASB’s limited resources, the Consultation Paper proposed that new standards be drafted in the clarity style, while existing standards be redrafted when they require their own substantive revision. The responses to the Consultation Paper did not oppose this proposal. The analysis in Appendix 2 shows that, except for ISRE 2410, Review of Interim Financial Information Performed by the Independent Audit of the Entity and ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information, the other standards in this category will be revised during 2009-2011.

A Conceptual Framework

79. The Consultation Paper noted that it was unlikely that the IAASB would develop a conceptual framework as a whole. It noted that it may, however, develop parts of such a framework. One respondent to the consultation paper explicitly supported this view, noting that proposed ISA 200 (Revised and Redrafted), Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing could be expanded to address topics embedded in a conceptual framework. This respondent also suggested that a pronouncement on professional judgment be developed.
80. Some respondents, mainly professional organizations, however, believed a project to develop a conceptual framework should be a priority for the IAASB. A few respondents were of the view that many of the issues encountered by oversight bodies that monitor audit quality, regulators and auditors arise from a lack of a conceptual framework. A few respondents were of the view that such a framework may assist in meeting the needs of SMEs, and in developing new standards.

81. A few respondents suggested that the work of others on conceptual aspects such as inherent limitations of an audit, professional judgment and reasonable assurance form the basis for a conceptual framework developed by the IAASB. Another respondent suggested that the IAASB develop an over-arching principles-based structure, and then perhaps sub-contract component parts to others to develop the detail.

82. One respondent suggested that, as a starting point, the IAASB – in consultation with stakeholders – determine what a conceptual framework is for and what it should encompass.

83. The IAASB CAG Representatives and IAASB members held diverse views with regard to the development of a conceptual framework, and what was meant by the notion. Some IAASB members were of the view that the conceptual aspects of the standards are addressed sufficiently in proposed ISA 200 (Revised and Redrafted), *The Overall Objectives of the Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing* and the *International Framework for Assurance Engagements*, while others were of the view that they should rather be separately addressed, or could be expanded on, in a conceptual framework or some variant or subset of such a framework. While some IAASB members questioned how a conceptual framework would be used by auditors in practice, others noted that it will assist the IAASB in developing principles-based standards. Some IAASB members agreed that a conceptual framework may have advantages; however, in light of the many demands on the resources of the IAASB, they were of the view that it should not be a priority.

84. The majority of IAASB members agreed that the IAASB should consider whether to develop further certain key conceptual aspects of the ISAs, such as materiality, audit evidence and professional judgment. It is possible that the output of such an exercise may also include further implementation guidance.

**Global Acceptance, Convergence and Partnership**

85. The Consultation Paper indicated that the IAASB intends to continue its ongoing actions with regard to global acceptance, convergence and partnership. Those actions are listed in Appendix 3.

86. One respondent to the Consultation Paper was of the view that working towards increased global acceptance of the IAASB’s new stable platform of ISAs should be an important next phase for the IAASB. This should include consultation with national standard setters and regulators and other users of financial statements to determine the challenges with regard to the acceptance of ISAs for global use, and how they could be overcome. This respondent also emphasized the importance of translations of and education in the ISAs (see paragraph 5).
87. A few respondents indicated that the strategy and work program should highlight the ongoing relationship between the IAASB and INTOSAI that promotes the use of ISAs as the basis for audits in the public sector. A few respondents cited the need to work more closely with others; in particular, the U.S. Public Company Accounting Oversight Board (PCAOB) to ensure, in the short term, that differences between ISAs and the U.S. auditing standards for listed companies are minimized and, over the longer term, that endorsement of ISAs for use in the U.S is encouraged. A few respondents also identified a need to increase interaction with the International Accounting Standards Board (IASB) to ensure that auditing considerations are part of the input to the development of International Financial Reporting Standards (IFRSs) by the IASB. The IAASB CAG also supported increased liaison with the IASB.

88. There have been a number of important developments relating to the global acceptance of ISAs and their adoption in many jurisdictions. These reflect widespread acceptance of the principle of convergence, and of the role of ISAs in that context. The IAASB agreed that its next task is to identify and address barriers to the further adoption of ISAs, whether as a whole in those few jurisdictions that have not yet chosen to adopt them or in respect of specific standards, and to agree on the content and breadth of proposed new standards in order to facilitate their global acceptance and adoption. Also of interest to the IAASB will be aspects of standards, if any, that some jurisdictions may think it necessary to supplement with further requirements.

89. For this purpose, the IAASB will pursue active discussions with the IAASB CAG, and national standard setters, public authorities (in particular the EC), international regulators (including IOSCO) and oversight bodies that monitor audit quality (including the International Forum of International Audit Regulators (IFIAR)). In these activities, the IAASB will continue to make the case for the acceptance of ISAs by market regulators for use in cross-border offerings and the continuing reporting obligations of foreign issuers. The IAASB will also continue its liaison with INTOSAI.

Communications

90. The Consultation Paper indicated that the IAASB intends to continue its ongoing actions with regard to communications. Those actions are listed in Appendix 3.

91. One respondent to the Consultation Paper was of the view that the importance of communicating the IAASB’s role as a global standard setter should not be underestimated, and suggested that this be reflected in the work program. This respondent suggested that the IAASB develop a communication strategy, if it has sufficient resources available to do so.

92. A few respondents noted that there is no common definition of “audit quality” and that this contributes to the expectations gap. They believed that the IAASB has an important role in developing a common global definition of audit quality and gaining its acceptance by corporates, investors, regulators and the auditing profession.

93. The IAASB recognizes that the term “audit quality” is widely used in the communications of the IAASB and its stakeholders, and that the lack of a common definition of the term may contribute to the expectations gap. Although ISAs are an important contributor to audit quality, the IAASB is of the view that there is considerably more to audit quality than auditing standards – some aspects of which are addressed in the Financial Reporting Supply Chain.
initiative of IFAC. To address this matter, the IAASB agreed to consider whether to develop a consultation paper on audit quality.

94. In considering the responses relating to the development of a conceptual framework (see paragraphs 79-84) and the use of the term “audit quality,” the IAASB concluded that a communication to users of financial statements and the related auditors’ reports on the meaning of an audit may increase their understanding of subjective matters such as the inherent limitations of an audit and professional judgment. The IAASB therefore may develop such a communication.

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Appendix 1

**ISAs Redrafted as Part of the Clarity Project; Not Revised Since 2002**

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

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

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

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

ISA 520, Analytical Procedures (Issued June 1993)

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

ISA 560, Subsequent Events (Issued November 1993)

ISA 570, Going Concern (Issued June 1999)

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

ISA 710, Comparatives (Issued March 1996)

ISA 720, The Auditor’s Responsibility in Relation to Other Information in Documents Containing Audited Financial Statements (Issued November 1993)
## Appendix 2

### Other International Standards

<table>
<thead>
<tr>
<th>Standard</th>
<th>Proposed Action</th>
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<tbody>
<tr>
<td><strong>International Standards on Review Engagements (ISREs)</strong></td>
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<tr>
<td>ISRE 2400, Engagements to Review Financial Statements</td>
<td><strong>To be revised.</strong> See paragraph 77.</td>
</tr>
<tr>
<td>ISRE 2410, Review of Interim Financial Information</td>
<td><strong>No action planned.</strong></td>
</tr>
<tr>
<td><strong>International Standards on Assurance Engagements (ISAEs)</strong></td>
<td></td>
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<tr>
<td>ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information</td>
<td><strong>To be revised.</strong> See paragraph 49.</td>
</tr>
<tr>
<td>ISAE 3400, The Examination of Prospective Financial Information</td>
<td><strong>To be revised.</strong> See paragraph 42.</td>
</tr>
<tr>
<td><strong>International Standards on Related Services (ISRSs)</strong></td>
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<tr>
<td>ISRS 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information</td>
<td><strong>No action planned.</strong></td>
</tr>
<tr>
<td>ISRS 4410, Engagements to Compile Financial Information</td>
<td><strong>To be revised.</strong> See paragraph 77.</td>
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## Appendix 3

### Ongoing Actions the IAASB

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<tr>
<td><strong>D. Global Acceptance, Convergence and Partnership</strong></td>
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<tr>
<td>D.1</td>
<td>Actively discuss with the IAASB CAG, national auditing standard setters (including the U.S. Public Company Accounting Oversight Board), public authorities (in particular the European Commission), oversight bodies that monitor audit quality (including the International Forum of International Audit Regulators), and international regulators (including International Organization of Securities Commissions) to identify and address barriers to the further adoption and implementation of ISAs, whether as a whole in a few jurisdictions or in respect of specific standards, and to agree on the content and breadth of proposed new standards in order to facilitate their global acceptance and adoption.</td>
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<tr>
<td>D.2</td>
<td>Cooperate with the International Organization of Supreme Audit Institutions, promoting the use of ISAs as the basis for audits in the public sector.</td>
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<tr>
<td>D.3</td>
<td>Consult as necessary with the IFAC Small and Medium Practices Committee on issues of relevance to small- and medium-sized entities and practices regarding audit and quality control standards.</td>
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<tr>
<td>D.4</td>
<td>Consult as necessary with the IFAC Developing Nations Committee on issues of relevance to developing nations regarding audit and quality control standards.</td>
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<tr>
<td>D.5</td>
<td>Consult as necessary with the International Accounting Standards Board on financial reporting developments that may affect the pronouncements of the IAASB or create a need for new pronouncements.</td>
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<tr>
<td>D.6</td>
<td>Take steps to address the issues of translation; the frequency, volume and complexity of changes; and the setting of effective dates.</td>
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<tr>
<td><strong>E. Communication</strong></td>
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<tr>
<td>E.1</td>
<td>Issue a press release, communicating the approval of each proposed or final IAASB pronouncement and any other major activity of the IAASB.</td>
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<td>E.2</td>
<td>Issue IAASB eNews communications.</td>
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<td>E.3</td>
<td>Publish an annual report written to a broad interested audience on the performance of the IAASB, including a report on progress against this action plan and on how IAASB has complied with its stated due process.</td>
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<tr>
<td>E.4</td>
<td>Promote the activities and publications of the IAASB through the IAASB website (this include agenda material, audio records of meetings, meeting highlights, proposed pronouncements and related comment letters, final pronouncements and bases for conclusions).</td>
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