

**IAASB Future Strategy and Work Program
Information Gathering Forum
Brussels, Belgium
June 28, 2007**



**International Federation
of Accountants**

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PROGRAM

Time	Presentation	
08:00-08:30	Coffee	
08:30-08:45	Opening Remarks	John Kellas (Chairman, IAASB)
Session 1: IAASB Strategy Review		
08:45-09:30	Views of National Standard Setters and National Consultative Advisory Groups	Presented by Panel Members
09:30-09:40	Questions for Clarification	<i>Session chaired by Denise Esdon (Deputy Chair, IAASB)</i>
09:40-10:10	Views of Public Authorities, Oversight Bodies and Regulators	Presented by Panel Members
10:10-10:20	Questions for Clarification	<i>Session chaired by Denise Esdon</i>
10:20-10:40	Coffee	
10:40-11:10	Views of Preparers and Users of Financial Statements	Presented by Panel Members
11:10-11:20	Questions for Clarification	<i>Session chaired by Denise Esdon</i>
11:20-11:50	Other Assurance Services	Presented by Panel Members
11:50-12:00	Questions for Clarification	<i>Session chaired by Denise Esdon</i>
12:00-13:00	Open Discussion (Participants will have the opportunity to speak on matters raised during the morning or other matters they believe should be considered.)	<i>Session chaired by Denise Esdon</i>
13:00-14:00	Lunch	

PROGRAM

Session 2: Other Assurance Services for Small Enterprises		
14:00-14:45	Views of Professional Accountancy Bodies	Presented by Panel Members
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14:55-15:25	Views of Preparers and Users of Financial Statements of Small Enterprises	Presented by Panel Members
15:25-15:35	Questions for Clarification	<i>Session chaired by Jim Sylph</i>
15:35-16:00	Coffee	
16:00-16:50	Open Discussion	<i>Session chaired by Jim Sylph</i>
16:50-17:00	Closing Remarks	John Kellas

IAASB STRATEGY REVIEW

Section 1 Objective and Background

Objective

- 1.1 This paper has been prepared to assist discussion of the IAASB's future strategy and work program. In particular, it summarizes the findings of the IAASB Strategy Review Survey (Section 3) and the results of a review of reports recently issued by audit oversight and other relevant bodies (Section 4).
- 1.2 Section 2 contains matters for consideration by participants in the IAASB strategy review consultations. It also indicates the responses received through other consultations to date.

Background

- 1.3 The IAASB undertook a review of its drafting conventions in 2003 to identify ways to improve the clarity of its standards and the consistency of their application (the Clarity project). Taking account of all the advice given to the IAASB, it agreed on new drafting conventions and an aggressive timetable to redraft as many International Standards on Auditing (ISAs) as practicable in the shortest possible time, without compromising quality or due process. The majority of IAASB resources are currently focused on completing the Clarity and other current projects towards the end of 2008.
- 1.4 To prepare for the period after 2008, the IAASB has agreed to consult those affected by its activities in order to develop a strategic plan for 2009-2011. It is envisaged that an exposure draft of the proposed strategic plan will be issued for public comment in October 2007.
- 1.5 The IAASB plans to use the following in developing the proposed strategic plan:
 - The findings of a survey, which was developed to solicit the preliminary views of those affected by the IAASB's activities. The survey questionnaire was made available through an on-line survey tool in January, with a comment date of February 23, 2007.
 - Consultation with the IAASB Consultative Advisory Group (CAG).
 - Consultation at:
 - Identified meetings, such as that of the IAASB-National Auditing Standard Setters, European Auditing Standard Setters, Latin American Audit Standard Setters, the Executive Council of the Inter-American Accounting Association, the IFAC Small and Medium Practices Committee, the Steering Committee of the Professional Standards Committee of the International Organization of Supreme Audit Institutions (INTOSAI), and the Transnational Auditors Committee; and
 - Invited forums. Two forums are being held: one took place in Sydney on April 13, and this one in Brussels on June 28 is the second. The programs for the forums are similar – see pages 2 and 3.
 - The results of a review of reports recently issued by audit oversight and other relevant bodies.

- In addition, the IAASB received presentations on relevant matters from certain standard setters and regulators at the October and December 2006 IAASB meetings.

Section 2 Matters for Consideration by Participants in the IAASB Strategy Review Consultations

- 2.1 This section contains matters for consideration by participants in the IAASB strategy review consultations. They are based on the findings of the IAASB Strategy Review Survey (Section 3) and the results of a review of reports recently issued by audit oversight and other relevant bodies (Section 4). They also indicate the responses received through other consultations to date.

Initiatives of the IAASB

- 2.2 The findings of the strategy review survey, and other consultations to date, confirm the continued appropriateness of the IAASB's initiatives, i.e.: (a) development of standards; (b) global acceptance, convergence and partnership; and (c) communication. Within these activities, however, participants in the consultations have expressed a desire for a change of focus away from the development of auditing standards to activities intended to assist in their implementation. This include support for the establishment of a period (after the completion of the Clarity project) in which no new auditing standards will become effective (a 'stable platform' or 'quiet period'), and for further efforts towards the international acceptance and adoption of the auditing standards.
- 2.3 Many participants in the consultations have indicated that it is critical that the completion date for the Clarity project is achieved. Some, however, would like the IAASB to consider introducing the completed standards using a later effective date in order to allow more time for implementation. The provisional effective date¹ and the IAASB work program take account of the fact that ISAs that are subject to substantive revision may require change in practice when they are implemented. Those ISAs, therefore, are planned to be completed earlier than the ISAs that are merely being redrafted. The IAASB is aware that the indicated effective date is being taken as the likely date, and is conscious of the need to take a decision on the matter as soon as progress on the project allows a definitive view to be taken.

Development of Standards

- 2.4 Within the initiative of standard setting, the IAASB is encouraged to:
- (a) Assist with the implementation of the International Standards on Auditing (ISAs);
 - (b) Revise those clarity redrafted standards not revised during the Clarity project; and
 - (c) Develop standards other than ISAs.

Do you agree that the IAASB should focus on the activities described in 2.4(a)-(c)? If yes, how should they be prioritized? If no, what activities should the IAASB focus on during the period 2009-2011?

Assist with Implementation of ISAs

¹ The complete set of ISAs will be effective for audits of financial statements for periods beginning on or after a date to be agreed. Exposure drafts issued to date have indicated that this date will be no earlier than December 15, 2008, and this is the date provisionally inserted in the finalised ISAs.

2.4.1 With regard to the implementation of ISAs:

- (a) **Do you support a later effective date for the clarity redrafted ISAs? If yes, when should that date be?**
- (b) **Do you support the establishment of a period (after the completion of the clarity project) in which no new ISAs will become effective? If yes, how long should that period be?**
- (c) **The IAASB is inserting Considerations Specific to Smaller Entities in the clarity redrafted ISAs, and the IFAC Small and Medium Practices (SMP) Committee is developing a guide to assist SMPs in applying the ISAs in audits of SMEs. The SMP Committee is also considering developing a guide to assist with the implementation of the quality control standards. What additional actions should be taken by the IAASB? How should such actions be prioritized?**
- (d) **Should the IAASB develop guidance for the audits of entities operating in specialized industries? If yes, which industries (e.g., banks and insurance companies)? In what form should such guidance be issued? How should the development of such guidance be prioritized?**
- (e) **Is implementation an issue that others can or should contribute to? For example, national standard setters or professional accountancy organizations may be in a better position to provide guidance best suited to local circumstances.**
- (f) **What other activities can the IAASB undertake that will contribute to the implementation of the ISAs? How should such activities be prioritized?**

2.4.2 Many survey responses referred to projects currently being undertaken by the IAASB, confirming that the IAASB is currently addressing the right topics. Consultations to date indicate support for a review of matters arising from the *implementation* of the clarity redrafted ISAs. **Do you agree? What should such a review entail? For example, is there a role for international and national audit oversight bodies, other regulators or the Forum of Firms? When should such a review be undertaken?**

Revise Clarity Redrafted Standards

2.4.3 Eleven ISAs are being redrafted, but not revised, as part of the Clarity project.² Those standards are listed in Appendix 1 under “ISAs not revised since 2002.” Specific standards referred to in the survey responses as possibly being in need of substantive revision include ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* and ISA 720, *Other Information in Documents Containing Audited Financial Statements*. The report *Audit Quality Fundamentals – Making*

² This list does not include those ISAs that had been substantively revised shortly before the start of the Clarity project and which were therefore completely up to date at that point (see Appendix 1, “ISAs revised since 2002”).

Global Standards Local indicate that in the United Kingdom additional requirements have been identified, inter alia, for ISA 570, *Going Concern*.

- 2.4.4 Other consultations to date indicate that it may not be necessary to revise all eleven ISAs; rather they should be considered for substantive revision on an ‘as-needed basis.’ **Should these ISAs be revised? If yes, which of the individual ISAs in Appendix 1 are in need of revision and how should the revision be prioritized?**
- 2.4.5 Few participants in the consultations have indicated a need to revise some of the ISAs that were revised and issued not long before the Clarity project commenced (see Appendix 1, “ISAs revised since 2002”). These ISAs are also being redrafted under the Clarity conventions but without substantive revision in other respects. Reference was made to ISA 220, *Quality Control for Audits of Historical Financial Information* and ISA 240 (Redrafted), *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*. **Do you believe that some of the ISAs issued since 2002 need to be revised (see Appendix 1)? If yes, in what respects? How should such projects be prioritized?**

Redraft or Develop Standards Other than ISAs

- 2.4.6 At present, only the ISAs are being redrafted as part of the Clarity project. Some participants in the consultations have indicated a need to redraft the other standards in the clarity style. Those standards are listed in Appendix 2. There are relatively few such standards and in general they do not overlap (i.e., for any engagement only one such standard is likely to be relevant). Possible responses to these recommendations include 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 time as they require their own substantive revision; or retaining the existing style for all non-ISA standards.
- (a) **Should the International Standards on Review Engagements (ISREs) be redrafted in the clarity style and, if so, under which approach?**
 - (b) **Should the International Standards on Assurance Engagements (ISAEs) be redrafted in the clarity style and, if so, under which approach?**
 - (c) **Should the International Standards on Related Services (ISRSs) be redrafted in the clarity style and, if so, under which approach?**
 - (d) **If yes to more than one of the above categories, how should their redrafting be prioritized?**
- 2.4.7 Consultations to date also indicate that it may be necessary to revise some of the other standards (see Appendix 2) to reflect international best practice. In particular, reference was made to ISRE 2400, *Engagements to Review Financial Statements*, ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, ISAE 3400, *The Examination of Prospective Financial Information* and ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*. **Do you believe that some of the other standards**

need to be revised? If yes, which of the standards listed in Appendix 2 should be revised? How should the revision of the selected standards be prioritized?

2.4.8 Various recommendations were made for topics for new ISAEs. They included:

- Reporting on internal control and risk management;
- Reporting on sustainability reports, including corporate social responsibility reports; and
- Reporting on budgets and key performance indicators;
- Compliance auditing;
- Performance auditing; and
- The auditor's involvement in prospectuses, including prospective and pro forma financial information and comfort letters.

Is this list complete? How should the recommended projects be prioritized?

Other Matters Relevant to the Development of Standards

2.4.9 Although respondents to the survey questionnaire referred to new technologies and new reporting models, these topics did not get strong support for new standards. This may be because their implications are not yet understood fully or accepted, or because they are not regarded as high priority at this particular moment. However, some of the reports reviewed seemed to place more emphasis on such new developments. Reference was made to:

- The effect that XBRL may have on the audit;
- Continuous auditing and the continuous availability of information on which assurance will be sought; and
- The effect of a new reporting model on the auditor's report (such as more informative reporting about accounting policies and areas of accounting risk).

Panelists in the Information Gathering Forum in Sydney confirmed that the area of XBRL is a matter that should receive further attention from the IAASB.

- (a) **How and when will such new reporting models affect the standards? Are there related projects on which IAASB should focus and with what priority?**
- (b) **Are these matters on which research might be appropriate in the first instance?**

2.4.10 Consultations to date indicate some support for the possibility of IAASB developing a conceptual framework for assurance services, including audit. Previous experience has indicated that this might be very time consuming. It is also something that a single standard setter might be well advised to consider along with other standard setters. If it is considered an important project, it may be suited to academic research. **Should the IAASB develop a conceptual framework for assurance engagements?**

Should this, or another project, further develop the meaning of “reasonable assurance,” including the inherent limitations of an audit? Would it make an appropriate research project that might be commissioned?

- 2.4.11 The survey questionnaire acknowledged the importance of behavioral aspects of the auditor’s work on audit quality – for example, judgment. There was not much support for the IAASB to give further guidance in these areas; however, it appeared that some respondents recommending the development of a conceptual framework had an interest in these areas. **Is there a role for the IAASB to provide standards or guidance that may help to promote better auditor “behavior?”**

Global Acceptance, Convergence and Partnership

- 2.5 As part of its global acceptance, convergence and partnership initiative, the IAASB promotes the acceptance and adoption of its standards throughout the world, and supports a strong and cohesive international accountancy profession by coordinating with IFAC member bodies, regional professional accountancy organizations, and national standard setters to achieve its objective. The survey responses called for greater emphasis on the initiative of global acceptance, convergence and partnership.
- 2.6 Continued dialogue with those groups affected by the IAASB’s activities, in particular with national standard setters, was a common theme in consultations to date. It was noted that future improvements to the ISAs will promote convergence. The IAASB was also encouraged to build acceptance of its standards across various audit and other assurance providers and, in particular, the SME / SMP environment.
- 2.6.1 **What additional activities should the IAASB undertake in this regard? How should they be prioritized in comparison to the initiatives to develop standards and to communicate?**
- 2.6.2 **What are the roles of the national standard setters, IFAC member bodies, regional professional accounting organizations, and the Forum of Firms in this regard?**
- 2.6.3 Some of the reports reviewed, as well as participants in the consultations to date, cautioned against the development of standards that are over-prescriptive. **What, if anything, should the IAASB do to address the perception of some that the ISAs are becoming over-prescriptive?**

Communication

- 2.7 As part of its communication initiative, the IAASB aims to 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 to increase the public image and awareness of the IAASB’s activities. Many respondents to the survey questionnaire recommended increased and targeted communication with those affected by the IAASB’s activities. Examples of such communication varied. Other consultations indicate that the IAASB should take a leadership role in significant international debates affecting audit and assurance standards in the areas of alternative assurance engagements and

sharing of best practice guidance, and build on the success of meetings with national standard setters as a productive means of communication.

2.7.1 What additional activities should the IAASB undertake in this regard? How should they be prioritized in comparison to the initiatives to develop standards and of global acceptance, convergence and partnership?

2.7.2 What are the roles of the national standard setters, IFAC member bodies, regional professional accounting organizations, and the Forum of Firms in this regard?

Reports Reviewed

2.8 Appendix 4 contains a list of reports reviewed. Are there any other reports that the staff of the IAASB should review?

Section 3 Findings of the Strategy Review Survey

- 3.1 The survey questionnaire was developed by staff of the IAASB in consultation with the IAASB and the IAASB CAG. Staff of the IAASB prepared this summary of the findings based on an analysis of the responses to the questionnaire. The IAASB received 138 responses to the questionnaire.

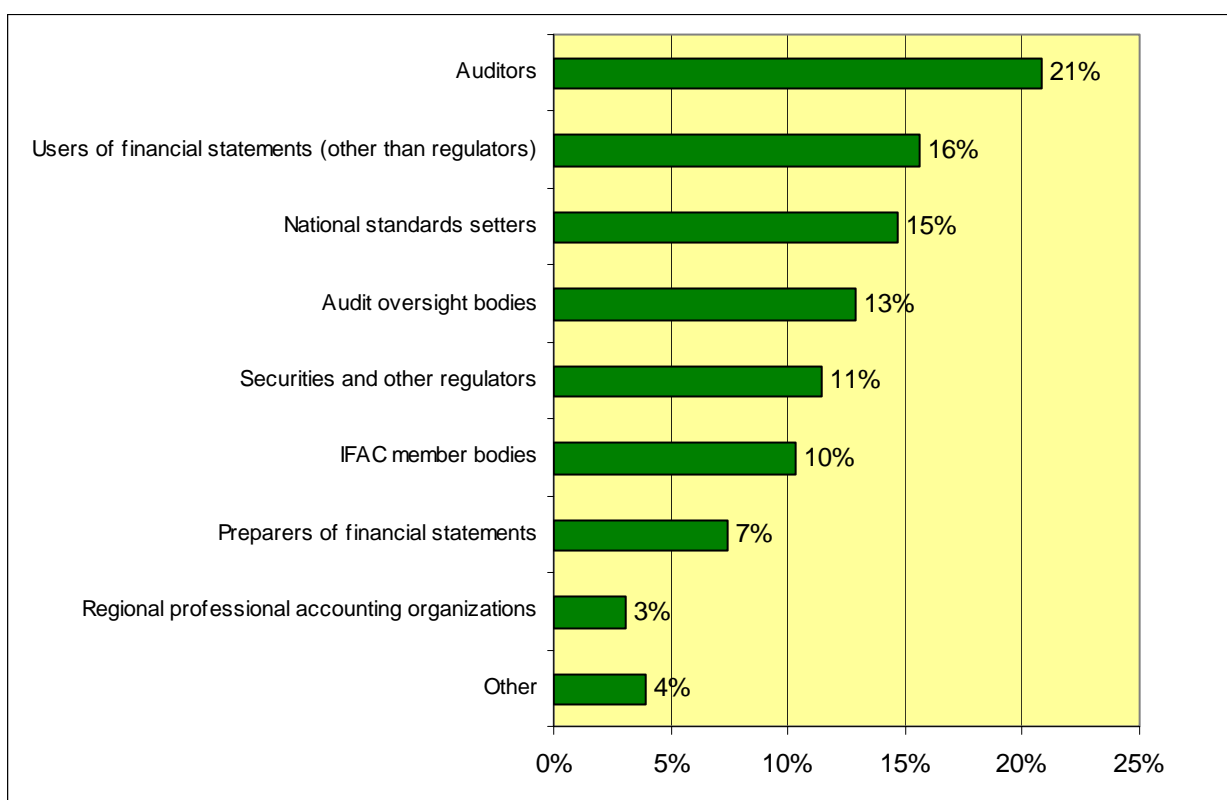
Respondents

- 3.2 Respondents were asked to indicate the capacity in which they were responding to the questionnaire. They were able to indicate more than one category. The table below indicates the percentage of respondents that indicated a particular category.

IFAC Member Body	29%
Standards Setter	18%
Professional Accountant in Public Practice	18%
Member or Technical Advisor of IFAC Board or Committee	14%
Academia	11%
IAASB CAG Member Organization / Representative	11%
Public Sector	11%
IAASB Member	10%
User of Financial Statements	8%
Small and Medium Sized Practice	8%
Preparer of Financial Statements	8%
Private Sector	8%
Regulator	6%
Governmental or Legislative Body	6%
Developing / Emerging Economy	6%
IAASB Technical Advisor	5%
Audit Oversight Body	3%
Small and Medium Sized Entity	2%
Donor Agency or Similar Body	1%
Other	1%

Groups Most Affected by the IAASB's Activities

- 3.3 The questionnaire included a list of groups affected by the IAASB's activities. Respondents were asked to identify additional groups, and to rank the groups in the order of importance. 33% of those that responded to the question ranked users of financial statements as the most important group, followed by auditors (29%), IFAC member bodies (13%) and national standards setters (12%).
- 3.4 When the groups ranked 1 to 5 were analyzed on a weighted basis, auditors were regarded as those most affected by the IAASB's activities, followed by users of financial statements and national standards setters. This finding confirms that the principal purpose of the standards, in particular the ISAs, remains the improvement of audit practice and the encouragement of consistency, in the public interest. The chart below shows the results of the analysis:



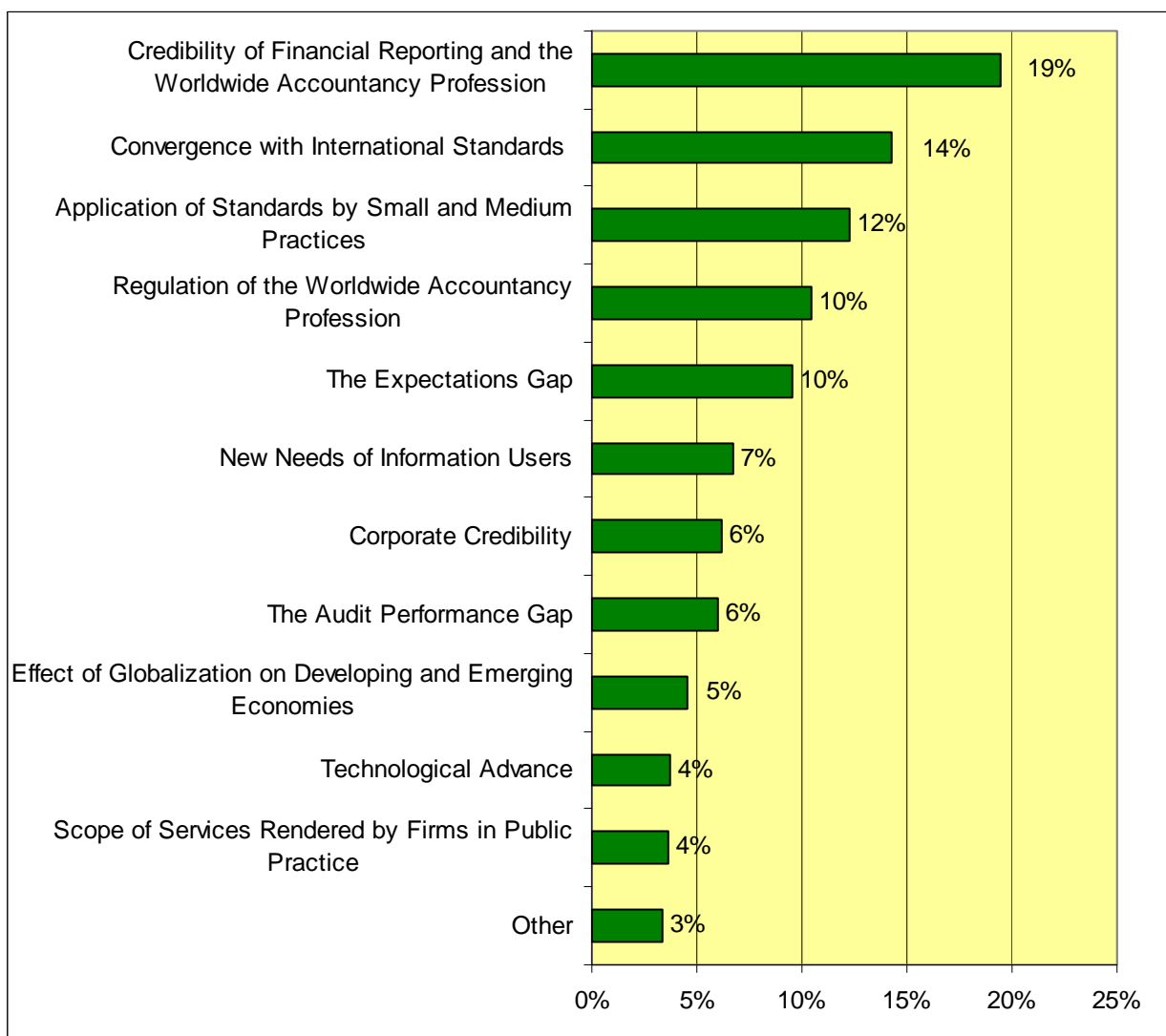
- 3.5 Groups identified in addition to those falling in the broad categories listed in the questionnaire included academia (such as educational institutions, educators, students and researchers), public sector related groups (such as governments, tax authorities and politicians), and legislators and courts.

Environment Facing the IAASB

- 3.6 In developing its 2007-2010 Strategic Plan the Board of IFAC identified environmental factors that affect IFAC and the wider accountancy profession. The staff of the IAASB identified those factors most likely to affect the IAASB's activities and listed them in the

questionnaire. They are described in Appendix 3 of this paper. Respondents were asked to rank the environmental factors that may affect the IAASB's activities in order of importance.

- 3.7 A weighted analysis of the ranked environmental factors showed that respondents are most concerned about the credibility of financial reporting and the worldwide accountancy profession; followed by convergence of national and international standards, application of standards by SMPs and the regulation of the worldwide accountancy profession. The chart below shows the results of the analysis.



Initiatives of the IAASB

- 3.8 The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high quality auditing, assurance, quality control and related services standards, and by facilitating the convergence of national and international standards. This objective contributes to enhancing the quality and uniformity of practice throughout the

world and strengthening public confidence in the global auditing profession. To achieve its objective, the IAASB currently focuses on three initiatives:

- *Development of Standards* – Establish high quality auditing, assurance, quality control and related services standards (with a current focus on auditing standards).
- *Global Acceptance, Convergence and Partnership* – Promote the acceptance and adoption of IAASB pronouncements throughout the world; 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.
- *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 IAASB’s activities.

3.9 Respondents were asked whether the IAASB should continue to focus on these three initiatives. They were also provided with an opportunity to identify new initiatives. Approximately 99% of those that responded to this question confirmed that the current focus of the IAASB is appropriate. No significant new initiatives were identified.

Activities of the IAASB

3.10 Respondents were asked to recommend activities for each of the initiatives. They were also asked to identify and rank specific projects that would best contribute to the initiatives.

Development of Standards

3.11 A weighted analysis of the ranked projects recommends that the IAASB focus on:

1.	Assisting with the implementation of the ISAs	26%
2.	Developing standards for assurance engagements other than audits or reviews of historical financial information	21%
3.	Completing current projects / considering matters relating to recently completed projects	14%
4.	Redrafting the standards other than the ISAs in the clarity style	10%
5.	Revising ISAs there were redrafted but not revised as part of the Clarity project	9%
6.	Developing a conceptual framework for assurance services	6%
7.	Developing the meaning of “reasonable assurance,” including the inherent limitations of an audit	5%
8.	Considering aspects relating to the qualitative characteristics or behavior of an auditor, e.g., professional judgment	4%
9.	On-line business reporting / XBRL	2%
10.	Other	3%

International Standards on Auditing

- 3.12 Many respondents were of the view that the implementation of the 36 clarity redrafted ISAs will be challenging. They indicated that the establishment of a period (after the completion of the Clarity project) in which no new auditing standards will become effective will assist in this regard. Some respondents recommended a review of matters arising from the implementation of the clarity redrafted ISAs (e.g., based on consultations with audit oversight bodies or regulators, or by conducting a survey two to three years after their effective date). It was recommended that the reports of audit oversight bodies, in particular, would enable the IAASB to obtain practical input on any areas where the standards might be improved to enhance audit quality.
- 3.13 Many respondents indicated a need for guidance on how to implement the ISAs, in particular in audits of the financial statements of SMEs and entities operating in emerging economies. Other recommendations included guidance on audits of the financial statements of entities operating in specialized industries, such as banks and insurance companies.
- 3.14 Some respondents noted the importance of revising certain of those ISAs that were redrafted as part of the Clarity project, but not revised. Specific standards mentioned included ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* and ISA 720, *Other Information in Documents Containing Audited Financial Statements*. These respondents encouraged the IAASB to focus on the development of a complete set of current ISAs that are aligned with the audit risk model.
- 3.15 A respondent recommended that the IAASB strive to reduce the expectations gap through reconsidering the information conveyed in the auditor's report. In this regard, the respondent recommended that the IAASB perform regular reviews or surveys on the perception of auditors' reports by users and other stakeholders in order to "measure" the gap and act accordingly.

Other Standards

- 3.16 Many respondents recommended the development of standards for assurance engagements other than audits or reviews of historical financial information. Such recommendations included: reporting on internal control and risk management; reporting on sustainability reports, including corporate social responsibility reports; and the auditor's involvement in prospectuses, including prospective and pro forma financial information and comfort letters.
- 3.17 Some respondents also recommended that the ISREs, ISAEs and ISRSs be redrafted in the clarity style.

Global Acceptance, Convergence and Partnership

- 3.18 Continued dialogue with those groups affected by the IAASB's activities was a common theme in the responses. Dialogue with international regulators and audit oversight bodies was cited as a means to achieve consensus on the adoption and enforceability of the standards; while dialogue with SMPs, SMEs and emerging economies was cited as a means to develop standards that are capable of consistent application in all circumstances. Some respondents recommended a greater focus on those jurisdictions that have not yet indicated an intention to adopt the ISAs.

- 3.19 A number of respondents were concerned about the development of standards with a focus on enforceability. On the other hand, the changing regulatory environment was reflected in the recommendation of one respondent that the IAASB consider the specific needs and difficulties facing legislative bodies envisaging the adoption of its standards. This respondent was of the view that the IAASB should adapt ISAs so that they remain professional standards of reference, while being designed to facilitate their adoption within a jurisdiction's regulatory environment.
- 3.20 Many respondents recommended enhanced interaction with national standards setters, including the use of relevant work already undertaken by them and cooperation on projects of mutual interest. Respondents also recommended that the IAASB utilize regional professional accountancy organizations, IFAC member bodies and national standards setters to facilitate adoption and implementation of the ISAs, including communicating the IAASB's activities and providing training and other implementation support.
- 3.21 The IAASB was encouraged to "drive" implementation of the standards, for example by facilitating translations and interacting with bodies such as the IFAC member bodies, the Forum of Firms and the International Organization of Supreme Audit Institutions. Other recommendations included: providing training through conferences, seminars and workshops; facilitating the exchange of experiences; and responding to enquiries about the implementation of the standards.

Communication

- 3.22 Many respondents were of the view that increased and targeted communication with those affected by the IAASB's activities is the key to promoting adoption and implementation of the standards. In general, respondents were of the view that the IAASB should develop a communication strategy, given its level of activity and the need to keep those affected by its activities abreast of new developments. Other recommendations included: project updates; summaries of the key points and implications of revised and new standards; and web casts.
- 3.23 Some respondents encouraged the IAASB to create awareness amongst investors and the wider public as to what an audit is.

Section 4 Review of Reports Issued by National Audit Oversight and Other Bodies

- 4.1 Staff of the IAASB reviewed a selection of reports issued by audit oversight bodies and regulators,³ professional accountancy organizations,⁴ national standards setters,⁵ and others⁶ (see Appendix 4). The majority of reports were issued between October 2006 and January 2007.
- 4.2 This section summarizes matters identified from the reports that may affect the IAASB's activities. The reports provided useful information about the audit or regulatory environment, and in some cases specific information about aspects of auditing that deserve the attention of standard setters.

International Convergence

- 4.3 Many reports note the importance of convergence of national and international standards, and highlight matters for consideration. Differences in legal and regulatory environments and governance structures amongst jurisdictions, for example, are highlighted as an important matter for consideration. The *Strategic Plan* of the Auditing and Assurance Standards Board in Canada, issued in February 2007, for example, notes that modifications to the ISAs (when adopted in Canada) may be necessary “to reflect the Canadian legal or regulatory environment, or for consistency with Canadian accounting standards.”
- 4.4 The report *Audit Quality Fundamentals – Making Global Standards Local*, issued in November 2006 by the Audit Quality Forum sponsored by the Institute of Chartered Accountants in England and Wales, shares the experience of the United Kingdom in adopting and implementing the ISAs, and highlights matters relevant to adoption of the standards in the Europe Union. Such matters include:
- The status of the application and other explanatory material in the clarity redrafted ISAs, and the possibility that it may not be adopted by the European Commission along with the requirements; and
 - The fact that the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, which contains important statements about the authority of the standards, may not be adopted by the European Commission.⁷

³ For example, Canadian Public Accountability Board (CPAB), Certified Public Accountants and Auditing Oversight Board of Japan (CPAAOB) and UK independent regulator for corporate reporting and governance Financial Reporting Council (FRC)

⁴ For example, Chartered Accountants of Canada (CICA), Chartered Institute of Management Accountants (CIMA), Institute of Chartered Accountants in England & Wales (ICAEW), Institute of Chartered Accountants of Scotland (ICAS)

⁵ Public Company Accounting Oversight Board (PCAOB)

⁶ The US Government Accountability Office (GAO), the Six Largest Audit Networks

⁷ In order to embed relevant provisions of the Preface within the ISAs, the IAASB intends to revise ISA 200, *Objective and General Principles Governing an Audit of Financial Statements*, to incorporate them.

- 4.5 The report *Sustaining New York's and the US' Global Financial Services Leadership*, prepared by McKinsey & Company⁸ in conjunction with the New York City Economic Development Corporation in January 2007, states that “reliance on principles and judgment over rules and the elimination of unnecessary differences in standards (provided that the integrity of the standards is not diminished) are two of the themes that should underpin the call for change for many aspects of the US regulatory environment.” The report recommends a single set of global auditing standards, noting that this will allow firms to standardize guidelines and processes across countries. Apart from making firms more efficient, it will lead to lower audit costs for the business community at large. The report expresses the view that the standardization of world-wide auditing standards is not as advanced as the convergence of US GAAP and International Financial Reporting Standards.
- 4.6 The report *Modernizing Accounting and Auditing Standards for the 21st Century*, issued by the US Government Accountability Office in November 2006, also discusses “...the need to ultimately go global in connection with all major accounting and audit matters.”

Standards that are Over-Prescriptive

- 4.7 Many of the reports reviewed recognize efforts to develop high-quality standards that are capable of application in global and domestic capital markets. The *Strategic Plan* of the Auditing and Assurance Standards Board in Canada, issued in February 2007, for example, states that “ISAs are increasingly being accepted as global auditing standards ... because of the rigour of the IAASB's due process and the quality of the standards it produces.” Some reports, however, caution against standards that are over-prescriptive.
- 4.8 The report *Promoting Audit Quality*,⁹ issued by the Financial Reporting Council in the United Kingdom in November 2006, for example, notes that over-prescriptive auditing standards encourage auditors to adhere strictly to the letter of the applicable standards and detract from the proper application of professional judgment necessary in a thinking audit. It also expresses the view that pressure from regulators internationally for standards that can be more easily enforced has led to greater emphasis on the procedural aspects of an audit.
- 4.9 The report *Principles Not Rules: The Question of Judgment*, issued by the Institute of Chartered Accountants of Scotland in April 2006, explains that a principles-based approach to standard setting is not only desirable but essential to serve the needs of business and the public interest. The report expresses the view that convergence of auditing standards cannot be achieved by a detailed rules-driven approach. Developing principles-based standards, both for financial reporting and for auditing, will lead to a change in the global accountancy

⁸ McKinsey & Company's report was sponsored by New York City Mayor Michael R. Bloomberg and US Senator Charles E. Schumer (NY). The report identifies some of the external forces that challenge the preeminence of New York and the nation as financial service centers in a global economy. It also identifies domestic drivers of competitiveness that policy makers can influence and offers a series of recommendations to sustain New York's and the nation global financial services leadership.

⁹ The report addresses the issue of audit quality, through identifying the drivers that directly affect audit quality and assessing the way in which audit firms and audit teams perform against them. It examines the principal indicators for each driver, that enhance audit quality and the related threats that undermine their effectiveness.

profession, with preparers and auditors assuming more responsibility for their judgments and documentation, and regulators accepting a range of judgment-based outcomes.

- 4.10 The report *Audit Quality Fundamentals – Making Global Standards Local* notes that the auditing standards of the United States are widely perceived as prescriptive. Much of the criticism of the ISAs derives from a perception that they are too heavily influenced by the United States. However, in the United States the ISAs are perceived as “looking like” European standards.

Improving Existing ISAs

- 4.11 Some of the reports contain specific recommendations for improving the existing ISAs. The report *Audit Quality Fundamentals – Making Global Standards Local*, for example, describes certain clearly defined additions included in ISAs adopted in the UK and Ireland for situations in which the previous local standards were perceived to be more advanced than international practice, or where ISAs have not been recently revised. In the United Kingdom, non-compliance pluses have been identified for ISA 260, *Communications of Audit Matters with Those Charged with Governance*, ISA 570, *Going Concern*, ISA 402, *Audit Considerations Relevant to Entities Using Service Organizations*, and ISA 550, *Related Parties*.¹⁰

The Auditor’s Report

- 4.12 The report *Promoting Audit Quality* encourages its readers to call for greater transparency in the financial reporting and audit process. It refers to debates whether auditors’ reports should be more informative about the key audit issues and how they were resolved. The report notes that some institutional investors in the United Kingdom believe that there may be merit in requiring disclosure in the auditors’ reports of the basis of their conclusions, i.e., similar to that required by French legislation, and recommends consultation involving all affected constituencies.

Continuous Auditing

- 4.13 The report *Global Capital Markets and the Global Economy, A Vision from the CEOs of the International Audit Networks*,¹¹ issued in November 2006, indicates that leading audit practitioners are of the view that the marketplace will soon demand a shift from the traditional year-end audit model to a continuous audit model. They are of the view that this move will be evolutionary rather than revolutionary. They stress that continuous assurance requires a fundamental change in how data are collected and reported. Reports that are subject to assurance will be available in real-time. This will require information to be collected in real-time. This will require commitment by all parties to implement technology that allows for collecting, verifying and reporting on real-time information.

¹⁰ These ISAs are at various stages of revision, which is likely to remove the need for such additions in the UK except where they respond to specific local legal or regulatory requirements.

¹¹ The CEOs of the six leading global audit networks issued this essay to initiate a dialogue with many stakeholders in the system of financial reporting: investors, companies, analysts and auditors.

Reporting on Interim Financial Statements and Other Disclosures

- 4.14 The report *Maintaining Quality Capital Markets through Quality Information* considers steps to clarify the degree of auditor involvement with information such as interim financial statements and other disclosures. The report recommends, for example, that all public companies that are required to file interim financial statements with regulatory authorities be required to have a formal review engagement (which would include extended review procedures on material transactions and events that go beyond the enquiry, discussion and analysis required by current reviews, and include specific audit procedures) performed on those interim financial statements by their auditor of record.

A New Reporting Model

- 4.15 The report *Global Capital Markets and the Global Economy, A Vision from the CEOs of the International Audit Networks* discusses the need to create a new reporting model and the effect this may have for auditing and audit firm networks. These CEOs are of the view that the new reporting model should be driven by the needs and wants of investors and other users of company information, and that the information produced should be forward-looking, even though it may be historical in fact. The users of the new reporting model may not be particularly interested in the financial reporting conventions toward which the world is converging; they may prefer to place greater weight on non-financial information or to generate their own financial reports. In such a world, the tagging process – or the system used to put information in different categories (i.e., XBRL) – becomes paramount, and so does audit of that process.
- 4.16 The CEOs are of the view that users of financial information will be accustomed to making fine distinctions, and to deciding what level of “granularity” they are willing to pay for. In this environment, such users may demand from public companies the ability to receive more finely nuanced opinions from auditors about the degree of a company’s compliance with a given set of standards, or the relative conservatism of judgments compared to peer groups. Or more boldly, investors even may want the auditor’s views about the overall health and future prospects of the companies they audit.
- 4.17 The report *Modernizing Accounting and Auditing Standards for the 21st Century* also refers to the future financial and audit reporting model. Recommendations include: linking the existing audit reporting model to the new financial reporting model, and providing for appropriate degrees of assurance for each type of information to improve value and reduce risk; expanding the auditor’s report to include key value and risk-based performance and projection information over time and as appropriate; moving beyond “going concern opinions” to providing timely and meaningful information to users of financial statements in appropriate circumstances.

Findings of Audit Oversight Bodies and Regulators

- 4.18 A review of reports or other information published by the Certified Public Accountants and Auditing Oversight Board of Japan, the Canadian Public Accountability Board, the Financial Reporting Council in the United Kingdom, the Independent Regulatory Board for Auditors in South Africa, the Quality Control Committee of the Japanese Institute of Certified Public

Accountants, and the Public Company Accounting Oversight Board (PCAOB) in the United States highlight deficiencies in current audit practice. Those of relevance to the standards of the IAASB are summarized below.

- Deficiencies relating to audit evidence included the following:
 - Risks identified at group level not appropriately addressed at component level
 - Over-reliance on results of analytical procedures
 - Insufficient work in respect of material provisions
 - Insufficient work in relation to completeness of related parties
 - Over-reliance on management representations
- Deficiencies relating to engagement performance included the following:
 - Non-compliance with auditing standards
 - Insufficient planning
 - Substantive procedures not undertaken when required
 - Analytical procedures not performed at planning / overall review stage
 - Inappropriate audit sampling methods and sample sizes
 - Insufficient assessment of competence and objectivity of experts
 - Insufficient work in relation to going concern status and post balance sheet events
 - Insufficient work in relation to laws and regulations

4.19 The report *Observations on Auditors' Implementation of PCAOB Standards Relating to Auditors' Responsibilities with Respect to Fraud*,¹² issued by the PCAOB in January 2007, presents a collection of observations by various inspection teams in relation to detection of fraud. In brief, the report identified common deficiencies to detect fraud in six different areas:

- The auditor's overall approach to the detection of financial fraud – Inspectors found that auditors often document their consideration of fraud merely by checking off items on standard audit programs and checklists.
- Brainstorming sessions and fraud related inquiries – Audits were identified in which (a) the audit team was unable to demonstrate that brainstorming sessions were held; (b) the audit team's brainstorming sessions occurred after planning and after substantive

¹² PCAOB Release No. 2007-001 January 22, 2007. This report focuses on aspects of the Board's interim auditing standards that address the auditor's responsibility with respect to fraud, principally AU § 316, Consideration of Fraud in a Financial Statement Audit, which is similar to the IAASB's corresponding standard, ISA 240. The inspection observations described in this report reflect information reported to the Board by its inspection staff and do not reflect or constitute any determinations by the Board as to whether any firms or persons have engaged in any conduct for which the Board could sanction them through the Board's disciplinary process.

fieldwork had begun; and (c) key members of the audit team did not attend the brainstorming sessions.

- Auditor's response to fraud risk factors – Inspectors found instances in which auditors failed to respond appropriately to identified fraud risk factors. They also found instances in which auditors examined transactions warranting further fraud risk consideration, but for which there was no evidence that the auditors had considered any associated fraud risk factors.
- Financial statement misstatements – Inspectors found instances in which auditors failed to properly determine planning materiality. They also found instances where certain uncorrected misstatements were not evaluated, or evaluated inappropriately, both individually and in the aggregate, with other misstatements because the summary schedule was incomplete. Some auditors did investigate identified departures from generally accepted accounting principles to determine whether such departures were indicative of fraud.
- Risk of management override of controls – Inspectors found instances where the auditor did not appropriately address the risk of management override of controls with respect to journal entries and accounting estimates. Some auditors have failed to test, or failed to document their testing of, management's assumptions and other aspects of accounting estimates.
- Other areas to improve fraud detection – Inspectors also found deficiencies in other important audit areas that might help detect fraud, such as confirmations and analytical procedures.

Appendix 1 – ISAs Redrafted But Not Revised

ISAs 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)

ISAs revised since 2002

ISA 220, Quality Control for Audits of Historical Financial Information (Issued February 2004)
ISA 230, Audit Documentation (Issued September 2005)
ISA 240, The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements (Issued February 2004)
ISA 300, Planning an Audit of Financial Statements (Issued June 2004)
ISA 315, Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement (Issued October 2003)
ISA 330, The Auditor’s Procedures in Response to Assessed Risks (Issued October 2003)
ISA 500, Audit Evidence (Issued October 2003)
ISA 700, The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements (Issued December 2004)

Appendix 2 – Other International Standards

International Standards on Review Engagements (ISREs)

ISRE 2400, Engagements to Review Financial Statements

ISRE 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity

International Standards on Assurance Engagements (ISAEs)

ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information

ISAE 3400, The Examination of Prospective Financial Information

International Standards on Related Services (ISRSs)

ISRS 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information

ISRS 4410, Engagements to Compile Financial Information

Appendix 3 – Environmental Factors

The factors identified by the Board of IFAC affect the profession, and to a varying degree, have implications for the IAASB, particularly in terms of the strategic direction it adopts and the services it provides. While the list of factors below does not reflect a level of significance of impact or priority, they strongly influence the nature of services provided by the IAASB and the allocation of resources to those activities. The IAASB is also aware that there are other organizations and stakeholders of the IAASB that have an active interest in addressing these factors and that the IAASB's role will vary between leader, facilitator and collaborator.

- Application of Standards by Small and Medium Practices: The increasing acceptance of international standards, particularly in the areas of accounting, auditing and ethical standards presents both knowledge and relevancy issues for small- and medium- sized practices (SMPs). The increase in volume and complexity of international standards is providing an ever growing challenge to SMPs in maintaining a high level of competency in the provision of services to their clients. Further, the nature and content of the international standards that SMPs are increasingly required to comply with or apply in servicing their clients are increasingly considered less relevant.
- Convergence with International Standards in the areas of education, ethics, accounting, auditing: The importance of global convergence in standards to users, preparers and auditors of financial information, regulators and others continues to be extremely high. Many jurisdictions are in the process of implementing processes to convergence of international standards or have made commitments to convergence on a relatively short timeframe. However, varying definitions of convergence continue to affect this progress.
- Corporate Credibility: Over the past few years corporations have been required to comply with increasing regulatory requirements in many jurisdictions. These requirements have been implemented in an effort to address issues of corporate credibility, such as governance and management practices, specifically in relation to financial reporting, internal control and financial management, and corporate ethics. This has resulted in an increase in compliance costs in many of the world's major economies and has had a dramatic impact on professional accountants operating in business and in practice. This is leading to assessments of the impact of this increased regulation on global markets. The inevitability of another public scandal underscores the importance of planning the profession's responses to governance failures and the public and political repercussions of such an event.
- Credibility of Financial Reporting and the Worldwide Accountancy Profession: Recent business failures around the globe and inaccuracies in financial reporting have undermined the perceived value of the information provided by financial reporting and those that have a role in determining its content, including the worldwide accountancy profession. The credibility of the profession in turn influences the level and strictness of regulation, the ability of the profession to self-regulate, public confidence and the viability/sustainability of the profession, as well as the independence of standard setters.
- Effect of Globalization on Developing and Emerging Economies: The development of cross-border markets has had significant implications for developing and emerging economies as

well as for developed economies. It is increasingly important for developing and emerging economies to have in place strong regulatory and enforcement processes, institutions, standards and overall educational levels to meet the demands of donor agencies, encourage foreign investment and aid in the implementation of social and economic improvements within the wider domestic environment. In many of these economies the profession is often less developed than in other countries. This directly impacts on the operation of the capital and labor markets in these economies and therefore the level of economic growth and stability. Development banks and other international funders, however, could require that governments in these economies properly implement accepted international accounting and financial reporting standards.

- New Needs of Information Users: New forms of information to enhance business reporting as a whole continue to be identified in order to meet the needs of organizations, investors, capital markets, governments, the wider public and others. For example, many of these groups seek a better understanding of wider organizational performance through the provision of information on sustainable development, management of organizational risks and narrative reporting, governance practices and structures, performance indicators and other value drivers, and compliance with regulations, which is not always provided by the conventional accounting and financial reporting model. Call for these new tools and data can also blur the lines between areas of expertise traditionally reserved for accountants and other business professionals, allowing encroachment into products and services previously only provided by accountants and auditors.
- Regulation of the Worldwide Accountancy Profession: There continues to be an increasing regulation of the accountancy profession by government and others. In many jurisdictions, this has resulted in a change from self-regulation by the local accountancy profession to one of the following: monitored self-regulation; joint regulation shared between the local accountancy profession and government agencies; or regulation by entities completely outside the local accountancy profession.
- Scope of Services Rendered by Firms in Public Practice: Firms in public practice are increasingly under pressure from regulators, investors, corporations and others to ensure that their independence, perceived and actual, is not compromised by the scope of services they provide.
- Technological Advance: Technologies, in particular business-enabling technologies and electronic commerce, are fundamentally reshaping the timing and content of reporting operating and financial performance, the ability and methods used to provide assurance over that performance, and the availability of information. These technology advances have had a dramatic effect on the way the worldwide accountancy profession operates, the competencies required by professional accountants and the expectations of the public. Many of these advances have prompted the marketplace to increase pressure on audit committees, management, auditors and others to deliver information more quickly, which may ultimately affect the quality of the job performed. There are also pressures for those sectors of the profession that at times find it difficult to meet the challenge of keeping pace with technological advances, including, for example, many small- and medium- sized practices and enterprises. Advances in technology have also allowed non-accountants to encroach upon the

traditional role of the accountant by automating previously complex processes which required specialized knowledge or skills. As automation allows broadening of the services offered by professional accountants, it becomes more important to maintain public confidence and clearly define the skills unique to the professional accountant.

- The Audit Performance Gap: The profession has a role to address instances where there has been a clear failure to deliver against realistic expectations. Here again, the relationship between regulators and standard setters becomes crucial, as coordinated responses to failures and proper planning for certain inevitabilities can temper the backlash to such events.
- The Expectations Gap: In many jurisdictions, a gap continues to exist between what regulators, preparers and investors expect to receive as the result of the assurance process and what auditors believe can be realistically provided by assurance services, especially audits. The need to educate those parties as to the realistic expectations of an assurance engagement continues to be an issue. Care needs to be taken, however, to distinguish this from instances of audit performance failure.

Appendix 4 – Reports Reviewed

Assurance: The Front Line Against Global Warming, Prof. Roger Simnett presentation, 2006

Audit Quality Fundamentals – Auditor Reporting, ICAEW, 2007

Audit Quality Fundamentals – Making Global Standards Local, ICAEW, November 2006

Enhancing Quality Through Practice Review Operations, Hong Kong, 2005

Inspection Report for 233 auditing firms in the US PCAOB, 2007

Interim Report of the Committee on Capital Markets Regulation, US Committee on Capital Markets Regulation, November 2006

Maintaining Quality Capital Markets through Quality Information, Canadian Capital Markets Leadership Task Force, September 2005

Modernizing Accounting and Auditing Standards for the 21st Century, GAO-07-124CG, 2006.

Observations on Auditors' Implementation of PCAOB Standards relating to Auditors' Responsibilities with Respect to Fraud, PCAOB, 2007

Principles Not Rules: The Question of Judgment, ICAS, April 2006

Promoting Audit Quality, UK FRC, November 2006

Quality Control of Audits of the Four Largest Japanese Audit Firms, CPAAOB, 2006

Report Leadership: Tomorrow's Reporting Today, CIMA, October 2006

Sustaining New York's and the US' Global Financial Services Leadership, McKinsey & Company and the New York City Economic Development Corporation (NYCEDC), January 2007

Serving Global Capital Markets and the Global Economy, published by the leaders of the six largest global auditor networks, November 2006

Strategic Plan, Auditing and Assurance Standards Board, Canada, February 2007

The Audit Inspection Public Report, FRC UK, 2006

The Australian Inspection Program Second Report to FRC, 2006

The Fourth Public Report on Inspection of the Quality of Audits, CPAB, 2007

AN ALTERNATIVE ASSURANCE SERVICE FOR SMALL AND MEDIUM ENTERPRISES (SMEs)

Background

1. In some countries, regulators have introduced exemptions from audit (e.g., based on the type of entity, its size, or other public interest considerations) for entities that would otherwise be required to have an audit. Often, there is no requirement for these entities to have any form of third party involvement with their financial statements. Nevertheless, they often request their professional accountants to conduct a compilation or review engagement.
2. Other countries are currently considering the audit of SMEs and the concept of an alternative assurance service. In Australia, for example, the Institute of Chartered Accountants in Australia has issued the *Report on Differential Auditing Standards* written by Professor Ken Trotman, and the Auditing and Assurance Standards Board has issued *AUASB Discussion Paper: Auditing Small and Medium Sized Entities*. In the United Kingdom, the Institute of Chartered Accountants in England and Wales (ICAEW) has issued *Audit-Exempt Companies: Beyond the Threshold* and *The ICAEW Assurance Service on Unaudited Financial Statements*.
3. The strategy review survey conducted by the IAASB indicated that many respondents want the IAASB to consider aspects relating to SMEs, including the concept of an alternative assurance service.
4. There seems to be a call for the IAASB to consider an alternative assurance service, clearly distinguished from an audit, that would be sufficient for stakeholders of SMEs. Review engagements, for example, are undertaken in certain jurisdictions, but there may be other possibilities that should be explored. The IAASB is therefore testing the water.
5. As the IAASB develops its future strategy and work program, it will determine whether there is a demand for an alternative assurance service for SMEs.

Issues to be Addressed

6. An important issue to be addressed is whether an alternative assurance service should be for SMEs only. It is likely that countries providing exemptions from audit do so based on the type of entity (e.g., whether it is incorporated or a partnership); its size; or other public interest considerations (e.g., whether it is listed, or raises money from the public at large). The result is that the market for an alternative assurance service may be as varied as the audit market. If the alternative assurance service is indeed for SMEs only, then the lack of a consistent definition of a SME may be a major obstacle. What is a small business in a large country may be a large business in a small country.
7. From an audit perspective, there are certain factors that separate SMEs from other entities. The factors are not expressed in monetary terms, but are nevertheless important for the planning and execution of an audit. In this sense, International Auditing Practice Statement (IAPS) 1005, “The Special Considerations in the Audit of Small Entities” describes a small entity as any entity in which:

- (a) There is a concentration of ownership and management in a small number of individuals (often a single individual); and
 - (b) One or more of the following are also found:
 - (i) Few sources of income;
 - (ii) Unsophisticated record-keeping; and
 - (iii) Limited internal controls together with the potential for management override of controls.
8. Other issues to be addressed include the following:
- (a) If the public's understanding of the assurance obtained in an audit of financial statements, and expressed in the auditor's report, is subject to different perceptions, is it appropriate to develop another service providing a different level of assurance? Can such assurance be explained to the users either in the professional accountants' report or promotional material in a manner that will meet the need of the public, while not undermining the current audit model?
 - (b) Do users of the financial statements, including lenders and tax authorities, want a professional accountant to report on the complete set of financial statements, or only on specific elements in the financial statements?
 - (c) What is the required work effort for an alternative assurance service? For example, is it a review engagement (as described in the International Standard on Review Engagements), or a combination of a compilation engagement (as described in the International Standard on Compilation Engagements) and a review engagement? Should the work be procedures based or risk based?
 - (d) Will it be possible to develop a standard that is capable of consistent application in all relevant circumstances, thus ensuring that the reports of different professional accountants are supported by equivalent work efforts?
 - (e) Which ethical requirements should apply to an alternative assurance service? Should all the assurance based ethical requirements apply?

Matters for Consideration by Participants in the IAASB Consultations

9. Participants are asked to discuss the topic of an alternative assurance service. In particular:
- (a) **Is an audit the right model for SMEs?**
 - (b) **What are the options? Are there any alternatives being proposed of which participants are aware?**
 - (c) **Participants' views on the issues highlighted in paragraph 8. Are there other issues that need to be addressed?**
 - (d) **If the appropriate alternative service is deemed to be a review of financial statements, what should it entail?**



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