

IAASB CAG PAPER



International Federation of Accountants

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Agenda Item

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Committee: IAASB Consultative Advisory Group

Meeting Location: Toronto

Meeting Date: September 4-5, 2008

IAASB Future Projects

Objective of Agenda Item

1. To obtain CAG Representatives' input with regard to the projects to be commenced by the IAASB in early 2009.

Background

2. The CAG will note that the IAASB finalized its *Strategy and Work Program, 2009-2011* at its June meeting. The PIOB confirmed that due process was followed in developing the document and the final *Strategy and Work Program, 2009-2011* was issued in July 2008. See Agenda Item C.3 for the Report Back – IAASB Strategy and Work Program.
3. In finalizing the strategy and work program, the IAASB has considered the relative priorities and importance of its activities for the period 2009-2011 based on the strategy review consultations, and has determined its work program for that period. The work program is subject to periodic revision and change by the IAASB. 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 utilization of resources, the likely output of the project and its timescale. In the future, this decision may also be informed by an assessment of the impact of the proposed new standard.
4. The IAASB anticipates continuing further work on its fair value initiatives and developing impact assessment processes. The Representatives will be afforded the opportunity to comment on these matters during the discussions of Agenda Item K, Fair Value Auditing Guidance Task Force Update, and Agenda Item E, Impact Assessments, respectively.

In addition, in planning for the first half of 2009, the IAASB has prioritized a number of projects, including:

- Auditors' Reports – Research
- Revisions to the Review and Compilation Standards (ISRE 2400 and ISRS 4410)
- Revision to the standard governing assurance engagements¹ (ISAE 3000)

¹ An assurance engagement is defined as an engagement in which a practitioner expresses a conclusion designed to enhance the confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The "International Framework for Assurance Engagements" permits practitioners to perform reasonable assurance engagements or limited assurance engagements.

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- XBRL
 - Revisions to the ISA dealing with the use of the work of internal audit (ISA 610)
5. Further discussion of each project is laid out below.

Matters for IAASB CAG Consideration

For each project, the Representatives are asked for their views as to whether:

- There are any issues in the Representative's jurisdiction or industry that may be particularly relevant for the IAASB to consider in developing its project proposals; and
- The Representatives have any other points developed in consultation with their member organization that they wish to bring to the attention of the IAASB.

Auditors' Reports – Research

6. The IAASB agreed to add a project to its agenda to 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." As part of the Clarity project, the IAASB is also in the process of redrafting proposed ISA 700 (Redrafted), "Forming an Opinion on the Financial Statements," and intends to finalize the ISA at its upcoming meeting.²
7. Respondents to the Consultation Paper³ were very supportive of this project, 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 European Commission (EC) of an auditor's report for use in the European Union, if the auditor's report to be issued in accordance with ISA 700 is not modified to meet the needs of the EC. Other respondents cited concerns that investor groups have with the auditor's report to be issued in accordance with ISA 700.
8. 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

² Further discussion of proposed ISA 700 (Redrafted) can be found in Agenda Item D.3, Report Back—Clarity-Auditor's Reports and also in Agenda Item J, Financial Reporting Frameworks Described by Reference to IFRS.

³ Consultation Paper, *Proposed Strategy 2009-2011*.

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national standard setters and other stakeholders in the research. Comments of this nature were also raised by respondents to the exposure draft of proposed ISA 700 (Redrafted).

9. 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, the UK Auditing Practices Board (APB) and the US Securities and Exchange Commission (SEC).
10. A number of participants at the IAASB's National Standard Setters (NSS) meeting, held in March 2008, confirmed that either ISA 700 had not been adopted in their jurisdiction, or had been adopted with modifications; for example, amendments to the wording of management's responsibilities with respect to internal control. Many noted that their jurisdictions express difficulty with the description of management's responsibilities.

Revisions to the Review and Compilation Standards – ISRE 2400⁴ and ISRS 4410⁵

11. As a result of its strategy consultations, the IAASB agreed to revise ISRE 2400 and ISRS 4410, recognizing that these revisions, if undertaken with a sufficiently broad remit, should establish standards for services that provide acceptable alternatives to an audit. It was noted during these consultations that it is necessary for users of SME financial statements to fully understand the nature of a compilation and a review before the IAASB could explore an alternative assurance service for SMEs.
12. The review and compilation standards are currently applied in many jurisdictions. The IAASB consulted with national standard setters to understand to what extent review engagements are accepted and understood in their jurisdictions. As a result of that meeting, standard setters from Canada, New Zealand and South Africa agreed to collaborate to develop an issues paper in relation to a revision of ISRE 2400. This is scheduled to be published in September 2008.
13. One key issue that needs to be considered is whether a project to revise the IAASB's review and compilation standards should address more flexible forms of assurance services. Currently, the range of services that are covered by IAASB engagement standards are compartmentalized into four categories only, i.e., audits, reviews, compilations and agreed-upon procedures. This may appear to some to be unduly

⁴ International Standard on Review Engagements (ISRE) 2400, "Engagements to Review Financial Statements."

⁵ International Standard on Related Services (ISRS) 4410, "Engagements to Compile Financial Statements."

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restrictive, and may inhibit progress in those countries where one or more of these options are unattractive (as seems to be the case for reviews in some countries). It might be that for some users, an agreed-upon combination of services would work better than any single one of the currently available options. For a small entity, for example, a full audit might not be needed to meet the assurance needs of its owners. They might, instead, be satisfied with a combination of the practitioner performing audit tests on the accounting records and preparing the financial statements.

14. In relation to a revision of ISRE 2400, a key issue that needs to be considered is whether the standard should adopt a risk-based approach. In some countries where review engagements have been performed for many years, there is a longstanding controversy among practitioners about whether or not review engagements should be risk-based, and if so, how the risk model can be effectively applied to such engagements. Some practitioners who are opposed to a risk-based model fear that such an approach would result in significantly greater work effort and consequently higher costs to their clients. They believe that this outcome would significantly weaken market incentives that drive the performance of reviews in preference to audits (primarily in the small private business sector where audits are not required). On the other hand, other practitioners hold the view that a risk-based review engagement can be implemented effectively without undue cost escalation, and that choosing this approach will increase the quality of reviews.
15. The extant ISRE 2400 currently takes a procedural approach to review engagements by specifying the limited procedures (primarily inquiries and analytical procedures) that the practitioner should perform. It makes no reference to risk assessment procedures, although, implicitly, some form of risk assessment does appear to be necessary to fulfill the requirement that the practitioner apply judgment in determining the specific nature, timing and extent of review procedures. This question will need to be explored further in the project.

Revision to the Standard Governing Assurance Engagements (ISAE 3000)⁶

16. The strategy consultations identified a need for new assurance standards for those services most relevant to the world's capital markets, for example assurance standards relating to pro forma information included in prospectuses. The IAASB has also approved a project proposal to develop an assurance standard on reporting on carbon emissions information, and in 2009 anticipates finalizing an assurance standard on assurance reports on controls at a third-party service organization.⁷
17. The development of such specific assurance standards is likely to indicate a need for revisions to ISAE 3000 to provide more generic standards for matters common to all such

⁶ International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Financial Information."

⁷ See the discussion regarding this project at CAG Agenda Item H.2.

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engagements. In discussing the need to revise ISAE 3000, the IAASB considered the following areas:

- Whether relevant material from ISAs that had recently been clarified, such as documentation and using the work of an auditor's expert, should be incorporated in ISAE 3000; and
 - Whether revisions to ISAE 3000 could result it in being more widely used as a basis for other assurance engagements. The thought here was that if this were the case, it may not be necessary for the IAASB to develop many complete specialized ISAEs but rather the IAASB could seek to develop illustrative assurance reports for specific topics
18. The IAASB plans to determine actions to be taken based on the outcome of consultation with audit firms, national standard setters and other interested parties as to how ISAE 3000 is being used at the national level, and what the identified shortcomings are.
19. At the NSS meeting in March 2008, participants agreed that the revision of ISAE 3000 is a key standard-setting initiative, as many NSS use the standard either on its own or a basis for developing topic-specific standards. They suggested that matters of relevance to the revision include the structure of the standard and how it should relate to ISAs, guidance relating to using the work of an expert, and work effort and reporting matters in relation to limited assurance engagements.

XBRL

20. Regulators are beginning to permit or require the submission of financial statements and other information to be filed electronically using XBRL. It is thought that developments in XBRL will have a significant effect on the reporting environment in the future. Respondents to the survey issued during the IAASB's strategy consultations and participants at its strategy forums suggested there is a need for 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 add a project to its work program to develop such guidance in consultation with national standard setters and relevant XBRL groups.
21. The IAASB also agreed to monitor other technology-related matters that may affect the audit of financial statements and therefore require the attention of the AIASB, for example, the effect of technology on audit evidence.
22. XBRL offers further possibilities, including entities making detailed information, tagged using XBRL, available on a real-time basis to third parties. These possibilities could include assurance on such detailed information, possibly including assurance services designed to reassure third party users of entities' data bases. At this stage, these possibilities go beyond current practice and may in fact never be made available or, if made available, may never be something in relation to which assurance is sought by users. In finalizing its strategy, the IAASB did not think that pronouncements for such potential

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services are yet required, but agreed to monitor developments with regard to XBRL to determine whether there is a demand for related assurance services, in order to be able to identify if and when such projects become necessary.

Revisions to the ISA dealing with the use of the work of internal audit – ISA 610

23. The IAASB agreed to revise ISA 610 (Redrafted), “Using the Work of Internal Auditors,” as a result of comments received during the strategy consultations and on the exposure draft of proposed ISA 610 (Redrafted).
24. Areas which could be revisited when the ISA is revised include:
 - Expanding the scope of the ISA to cover circumstances where internal auditors are used to provide direct assistance to the external auditor.
 - Reducing duplication of procedures by relying on procedures performed by the internal function.
 - Aligning the ISA with developments in internal audit functions.
 - Describing how internal and external auditors cooperate, and arrangements to share information and documentation.
 - Conforming the ISA to current pronouncements of the Institute of Internal Auditors (IIA).

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Note: Participants are asked to note that, while links have been given for this Agenda Item, these linked documents will not be referred to in any detail during the session. Rather, they have been provided as background to the discussion of their future review.

International Standard on Review Engagements (ISRE) 2400, “Engagements to Review Financial Statements,” as published in the 2008 *Handbook of International Standards on Auditing, Assurance, and Ethics Pronouncements* (the Handbook)

http://web.ifac.org/download/2008_Auditing_Handbook_A260_ISRE_2400.pdf

International Standard on Related Services (ISRS) 4410, “Engagements to Compile Financial Statements,” as published in the 2008 Handbook

http://web.ifac.org/download/2008_Auditing_Handbook_A285_ISRS_4410.pdf

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International Standard on Assurance Engagements (ISAE) 3000, “Assurance Engagements Other than Audits or Reviews of Financial Information.”

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4110>

Final wording of ISA 610 (Redrafted) as approved by the IAASB in June 2008

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4073>

Action Requested

The IAASB CAG is asked to provide input with regard to the projects to be commenced by the IAASB in early 2009.