



International Federation of Accountants

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Agenda Item

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Committee: IAASB Consultative Advisory Group

Meeting Location: Dubai

Meeting Date: March 9-10, 2009

Effectiveness Review

Objectives of Agenda Item

1. To receive an update on the IAASB's initiative to develop and implement a process for review of the effectiveness of the implementation of its standards, and to consider draft Terms of Reference for the task force established for this purpose.

Background

2. One of the initiatives that the IAASB committed to in its *Strategy and Work Program, 2009-2011* is the development and implementation of a process for assessing the effectiveness of the implementation of its standards. The purpose of such a process is to assist the IAASB in determining whether there is any need for further refinement in its standards in order to achieve their intended objectives. In the longer term, the process would become a standing part of the IAASB's effort to seek continuous improvement in its standards.
3. An important element of this process will be to seek the involvement of the oversight bodies that monitor audit quality, regulators, and national standard setters, as their collective experience should provide an important source of information to the IAASB about how standards are being implemented in practice. Equally, the audit firms should represent an important source of relevant data through the lessons they have learned in their own quality control reviews and inspections. The sources of input will not be limited to parties who have published data but will include any party who may be able to provide relevant input, subject to any data privacy or confidentiality law or regulation.
4. At its December 2008 meeting, the IAASB approved draft Terms of Reference for the task force established for this purpose, subject to any further refinement considered necessary by the task force. The draft Terms of Reference for the Effectiveness Review Task Force is shown in the Appendix to this Paper.
5. In supporting this proposal, the IAASB made the following points:
 - It might be worthwhile for the review to consider whether certain extant standards have been properly implemented, such as the fraud, risk assessment and quality control standards. This would be of particular relevance to the small and medium practices community. However, it was cautioned that the view expressed could well be that these standards need to be clarified, which of course has now been done. The Task Force will

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therefore have to make recommendations about when to begin the effectiveness review and on which particular standards.

- Since not every jurisdiction has an audit regulator, it may take time to gather the information needed to support this review. Also, the question of whether it is possible to do such a review on an individual standard basis will need to be answered, likely through consultation with regulators as to how their approach is structured.
- Independent practitioners and academics in many countries have expertise in conducting studies on effectiveness and could be consulted during the development of the IAASB's process.
- Findings from this process could be integrated with the IAASB's medium-term strategy, including the determination of whether certain ISAs that were only redrafted should be revised. It will need to be clear in the approach how the IAASB intends to respond to the findings of this review.
- It will be important to consider what is meant by "effectiveness," in order to determine who best to involve in the consultations. For example, one could view this as meaning whether the standards are easy to understand. On the other hand, if the goal of the exercise is to support and enhance audit quality, the focus would need to be on those who are applying the ISAs in practice, as well as investors and other stakeholders.

6. On the basis of the agreed work program for 2009-2011, the anticipated timing of the project is as follows:

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|-----------------------------------|---------------------|
| • Project proposal (if necessary) | Q2 2009 |
| • Issues paper | Q4 2009 |
| • Consultation on process | Q2 2010 and Q3 2010 |
| • Finalization of process | Q4 2010 |

This timetable will depend upon the proposals developed by the Task Force, and the need for and nature of any consultation that may be required.

7. Given that the IAASB's redrafting work on the Clarity project has only just been completed in December 2008, it is anticipated that the earliest opportunity for effectiveness reviews to be carried out would be two years after the effective date of the clarity standards. Notwithstanding this, the Task Force may, as it develops and refines the process, consider field testing the proposals on the implementation of some of the ISAs that were among the first to be redrafted (e.g., the audit risk and fraud ISAs).

Action Requested

8. The Representatives are invited to comment on the attached draft Terms of Reference and on any other matters that they believe would be relevant to the consideration of the Task Force.

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Appendix

EFFECTIVENESS REVIEW TASK FORCE

Draft Terms of Reference

Background

In developing its proposed strategy and work program for 2009-2011, the IAASB received requests from stakeholders that it undertake to assess the effectiveness of the implementation of any new standard to determine the consistency and completeness of such implementation, and to identify any aspects of the standard that could be refined to achieve its intended objectives. These calls arose, in particular, in the context of the anticipated conclusion of the clarity project, given the magnitude of, and expectations in relation to, that project. Accordingly, as part of its 2009-2011 Strategy and Work Program, the IAASB agreed to develop and implement a process for that purpose.

An important part of the project will involve consulting relevant parties such as the Public Interest Oversight Board, oversight bodies that monitor audit quality, regulators, national standard setters, audit firms, the IFAC Small and Medium Practices (SMP) Committee, and INTOSAI, as their experience should provide an important source of information to the IAASB about how its standards are being implemented in practice.

Task Force Roles and Responsibilities

As a result of the above, the IAASB has established a Task Force on effectiveness review, chaired by an IAASB member and comprising interested parties with relevant perspectives and expertise, with the following mandate:

- To consider and make recommendations on the form, scope and timing of such a process, and the due process to be applied, taking account of the need to involve, consult with, and draw upon the experience of, relevant parties. It is not intended that, through this process, the IAASB will extend its activities to monitor the implementation of its standards, as this is the role of the regulators and oversight bodies that monitor audit quality. It is, however, expected that any proposed process should take account of their findings to the extent that it is practicable to obtain sufficient relevant detail. It is envisaged that, once finalized, the process would become a standing part of the IAASB's process of continuous improvement of its standards.
- If necessary, to develop a project proposal for the development of the process.
- To consider and make recommendations as to the implementation of the process, including:
 - In consultation with national standard setters and others as appropriate, the development of a systematic process for collecting relevant input at the jurisdictional level to ensure a uniform approach to data collection internationally; and
 - The structure and composition of the Task Force on an ongoing basis.

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- To identify priority topics for the effectiveness review, taking account of the needs of users of the ISAs.
- Subject to approval of the project proposal, if any, to develop the proposed process and the form, extent and timing of any public consultation thereon for consideration by the IAASB.
- To proceed with the implementation of the process once it has been approved by the IAASB.

It is not intended that any process that is developed should envisage re-opening an approved standard, and accordingly any such process should not include general consultation on the content of a standard whose effectiveness is being reviewed. The intention is that the process should be clearly focused on matters arising from the experience of using a standard in practice, and the resolution of practical issues arising from its implementation.

The Task Force will report its recommendations on the form, scope, timing and due process for such process to the IAASB for approval.

The IAASB is responsible for final approval of any project proposal.

Other Matters

Any implications for budgetary or due process considerations will be communicated by the Chair and staff of IAASB to the IFAC Board and PIOB as appropriate.

The Task Force members' travel expenses will be reimbursed in accordance with IFAC policies.

Task Force Membership

Chair

Jon Grant, IAASB

Members

Phil Cowperthwaite, IAASB

Dan Montgomery, IAASB

Tomokazu Sekiguchi, IAASB

Abdullah Yusuf, IAASB

Other Involvement

IAASB staff will provide staff support to the Task Force.