International Federation of Accountants

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Agenda Item

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Committee: IAASB Consultative Advisory Group

Meeting Location: Prague

Meeting Date: September 12–13, 2011

ISA Implementation Monitoring — Proposed Plan for Post-Implementation Review of the Clarified ISAs

Objectives of Agenda Item

1.   To update Representatives on this project, and discuss with Representatives the IAASB Task Force's proposed plan for the post-implementation review of the clarified International Standards on Auditing (clarified ISAs).

Papers to Be Referred to during Discussion

2.   The IAASB Task Force Chair will present this Agenda Item. The discussion will follow the structure of this CAG paper.

Background

3.   In March 2009, the IAASB completed its Clarity Project. This project involved a comprehensive review and redrafting of the ISAs and ISQC 1[1] to improve their clarity and understandability and thereby facilitate their consistent application.[2] In addition to improving clarity, the IAASB substantively revised approximately half of the ISAs.

4.   One of the initiatives that the IAASB committed to undertake in its *Strategy and Work Program, 2009–2011*, was the development of a process for assessing the effectiveness of the implementation of the clarified ISAs.[3]

5.   At its June 2009 meeting the IAASB agreed that this project would be undertaken in two phases:

Phase 1	Obtaining pre-implementation information from a number of countries and firms about their experiences in introducing the clarified ISAs into their

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[1]   ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

[2]   The clarified ISAs became effective for audits of financial statements for periods beginning on or after December 15, 2009.

[3]   See IAASB's *Strategy and Work Program, 2009-2011* available at: web.ifac.org/download/IAASB_Strategy_and_Work_Program_2009-2011.pdf.

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	national standards or firm audit methodologies.
Phase 2	A post-implementation review of the clarified ISAs, and certain recently revised ISAs, to determine whether there is any need for further refinement of those standards, including in order to achieve the IAASB's goals for the ISAs that were revised.

6. Work on Phase 1 was undertaken in 2009 and 2010 and resulted in a report back to IAASB at its June 2010 meeting followed by a public report, which was published in October 2010.[4]

7. The project Task Force will present the plan for undertaking Phase 2 (post-implementation review of the clarified ISAs) at the IAASB's September 2011 meeting, for consideration and approval.

Dialogue with Stakeholders

8. The IAASB has been discussing how best to undertake the post-implementation review since December 2008. Since that date there have been many interactions, formal and informal, with a variety of stakeholder groups. The Appendix sets out a chronology of the project and includes the main interactions with different stakeholder groups.

9. Based on this dialogue, the IAASB believes that:

    (a) There is reasonable support for the plan for the post-implementation review; and

    (b) There is no need for a formal consultation of the plan.

Matters for CAG Consideration

Phase 2: Overall Approach

10. The CAG Representatives' views are invited on the plan that will be presented to the IAASB for approval. The plan is set out in **Agenda Item D.1**.

11. The main features of the plan are:

    (a) Information would be gathered in 2012, notwithstanding that not all countries would have implemented the ISAs at that time;

    (b) The review would focus on the consistency of practitioners' understanding of the ISAs and, for the revised ISAs, whether the IAASB's goals in revising those ISAs are being achieved;

    (c) To assist stakeholders contributing to the review, the IAASB would publish a number of high-level attributes that the IAASB is particularly interested in, regarding the clarified ISAs;

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[4] The Report is available at web.ifac.org/download/IAASB-Implementation-Monitoring-Clarified-ISAs.pdf.

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(d)   The review would cover all the clarified ISAs, and also certain other ISAs, that have overarching effects on the audit that were recently revised ahead of the Clarity Project).

(e)   The findings of the review would be expected to be available in 2013.

Wider Stakeholder Involvement

12.   The IAASB's intention is to follow an inclusive approach that will involve a wide communication of the objectives of the review through the IAASB website, setting a timetable to obtain feedback, and inviting comments from any interested parties who may wish to provide input to the review.

13.   The IAASB recognizes that the focus of the review is necessarily on stakeholders that are most directly involved with the audit process. However, the IAASB also recognizes that there is a range of other stakeholders (e.g., market regulators, etc.) that may be interested in providing feedback to the IAASB about the clarified ISAs and their implementation, and that such feedback may vary in nature, including not necessarily being focussed on the key attributes identified in Table 1 of **Agenda Item D.1**. The IAASB encourages and welcomes feedback from all stakeholders for the purpose of the post-implementation review.

14.   Accordingly, the Task Force will primarily seek feedback specifically from stakeholders that are most directly involved with the audit process (i.e., primarily audit firms (large and small), public sector auditing bodies, professional bodies, national auditing standard setters and national audit inspection groups).

15.   The IAASB also plans to obtain information about how the ISAs addressing communications with those charged with governance (as required by ISA 260[5] and ISA 265[6]) are perceived by audit committees.

16.   As noted above, other stakeholders may be interested in providing feedback to the IAASB about the clarified ISAs and their implementation. Discussion of the project within the IAASB CAG will bring it to the attention of a number of important stakeholders among those not directly affected by the clarified ISAs.

17.   Accordingly, the project Task Force would like the CAG Representatives' views about whether more needs to be done to achieve a good balance of feedback from stakeholders other than those stakeholders most directly involved with the audit process, beyond the primary target audience who might be interested in providing feedback to the IAASB for the review.

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[5]   ISA 260, *Communication with Those Charged with Governance*

[6]   ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

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Matters for CAG Consideration

1. Do the Representatives believe the approach outlined in the proposed plan for Phase 2 (see **Agenda Item D.1**) is appropriate, in light of the objectives of the post-implementation review?

2. Do the Representatives have views about whether more needs to be done to achieve a good balance of feedback for the review?

Material Presented – IAASB CAG PAPER

Agenda Item D.1   Proposed IAASB Plan for a Post-Implementation Review of the Clarified International Standards on Auditing

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Appendix

ISA Implementation Monitoring Project—Main Discussions and Meetings with Stakeholder Groups and Other Activities (2008–June 2011)

2008	
Dec	**IAASB** – Discussed objectives for an effectiveness review of the clarified ISAs
2009	
March	**IAASB CAG** – Briefed on the project by the IAASB Technical Director. Representatives advised on obtaining an understanding the International Accounting Standards Board's thinking on undertaking post-implementation reviews
April	**National Auditing Standard Setters (NSS)** – Discussion and support for Phase 1 (gathering information about the NSS countries' pre-implementation experiences) and Phase 2 (reviewing whether the clarified ISAs are achieving the IAASB's goals, for those ISAs that were revised) • Participants noted that different user groups would have different views on what the objectives of post-implementation review should be.
June	**IAASB** – Discussed scope and directional matters, and agreed: Proceed with Phase 1 • Tentative support for carrying out Phase 2 in 2012/2013, although noted that not all countries will be using the clarified ISAs at that time • Favored focusing on consistency but noted the need for more consultation with stakeholders about objectives and design of Phase 2 • Concern about the IAASB being seen as concluding on the "effectiveness" of the ISAs
June	IAASB Clarity website expanded to include an area devoted to communicating with IAASB stakeholders on matters relating to ISA Implementation Monitoring (web.ifac.org/clarity-center/isa-implementation-monitoring)
September	**IAASB CAG** – Discussed and provided views for consideration. • Views on Phase 2 were influenced by uncertainties about future events and questions asked about the value of developing an overly structured approach. • Several CAG representatives thought more emphasis was needed on evaluating

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	effectiveness.
	• Several representatives thought the IAASB needed to evaluate whether ISAs are sufficiently "scalable" for small audits.
	• The importance of the link with the **International Forum of Independent Audit Regulators** (IFIAR) was emphasized.
October	Presentation to the **IFAC Small and Medium Practices (SMP) Committee** on the broad project plan and approach, including regarding the participation of SMPs in the review
	Presentation to the **International Organisation of Supreme Audit Institutions** (INTOSAI)
2010	
March	Presentation to the **Forum of Firms** and the **IFAC SMP Committee** on the preliminary findings of Phase 1
June	**NSS** – Discussed status report on Phase 1
	IAASB – Received a report on the results obtained from Phase 1, and agreed to:
	• Publish a report highlighting the key findings from Phase 1;
	• Plan the design of and the process for Phase 2 of the project in the second half of 2010 and first half of 2011; and
	• Undertake a separate survey of small- and medium-sized practices (SMPs).
September	Presentation to **IFIAR** and discussion about how IFIAR might contribute to the IAASB's review. Extent of IAASB review of inspection reports discussed.
October	• Published project progress report, *Implementation of the Clarified International Standards on Auditing (ISAs)*, highlighting key findings from Phase 1
	• SMP survey commenced with 14 countries invited to participate (13 countries are confirmed participants)
2011	
March	**IAASB** – Discussed the preliminary plan for Phase 2:
	• Supported the overall direction of the plan and suggested further discussion with NSS and the Forum of Firms
	• Concluded that it would not be necessary to consult formally on the details of

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	the plan
	• Asked for consideration to be given to obtaining information directly from users – especially audit committees
	• Suggested consideration of the legal status of ISAs
	• Recognized that analysis of the results would be judgmental, and that it will be difficult to establish benchmarks in advance to evaluate information that will be obtained from the review.
April	Presentation to the **Forum of Firms**
	Discussion with **IFIAR's Standards Co-ordination Working Group (SCWG)**
	NSS – Considered the draft plan for Phase 2: • Suggested that the NSS can play a role in obtaining feedback from national market regulators, including the national audit regulators • Recognized that the objectives of the review need to be narrowly defined, or else the project's purpose would not be distinguishable from the IAASB's consultation on its future strategy • Asked that the review cover as many of the revised ISAs as possible, including those that were recently revised ahead of the Clarity Project
May	Discussion with the **World Bank**
June	Presentation to the **European Audit Inspection Group (EAIG)**
	Discussion with the **International Organization of Securities Commissions (IOSCO) Auditing Sub-Committee**
	IAASB – Considered, and provided feedback on the draft plan for Phase 2. • Recognized need for consultation with the IAASB CAG to obtain the Representatives' views about whether more needs to be done to achieve a good balance of feedback for the review, from (a) the "target audience" of the review, i.e., those stakeholders who use the ISAs (practitioners and firms) and those most directly involved with the audit process (such as audit committees, in the case of ISA 260 and ISA 265) and (b) other stakeholders that might be interested in providing feedback to the IAASB for the review (e.g., regulators and other stakeholders beyond the primary target audience).