



**INTERNATIONAL FEDERATION
OF ACCOUNTANTS**

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Agenda Item

4

Committee: IAASB
Meeting Location: Melbourne
Meeting Date: March 17-21, 2003

Audit Risk – Conforming Changes

Objectives of Agenda Item

1. To provide an update to the IAASB of the Audit Risk Conforming Changes Project.
2. To confirm the approach of the work to date and agree the way forward.

Background to and Scope of Conforming Changes

At the December 2002 IAASB meeting, an approach to developing conforming changes was agreed. (Refer draft minutes of that meeting (Agenda Item 1-A) (subject to further discussion)).

ISAs that relate to the audit of financial statements were reviewed and draft conforming changes prepared. The status of other ISAs and IAPs could be summarized as follows:

- Where a project is underway to create or revise an ISA, the relevant project task force is responsible for ensuring conformity and consistency with the proposed Audit Risk Standards. For those projects that are already in place, and not chaired by a member of the Audit Risk Task Force (ARTF), ARTF staff have reviewed the existing ISA or most recent draft thereof. ARTF staff comments have been provided to staff responsible for those projects.
- For those projects that have only just started or are yet to begin, ARTF staff have not provided comments, but are available to assist project task forces on audit risk related issues.
- As agreed in December 2002, the Audit Risk Conforming Changes Project focuses on ISAs, and any revisions required to IAPs are to be considered separately. ISAs in the 800 (Specialized Areas) and 900 (Related Services) series are not related to audits of financial statements and, therefore, have not been considered.

Agenda Item 4-A details those ISAs reviewed by the ARTF, those ISAs to be addressed by other project task forces, and those ISAs and IAPs not considered as part of the Audit Risk Conforming Changes Project.

“Conforming changes” are those required to align the underlying ISA to the principles, requirements, guidance and terminology of the proposed Audit Risk Standards. Changes to modernize an ISA’s requirements and guidance or to align the ISA to other recently issued ISAs and editorial changes not related to the proposed Audit Risk Standards are not conforming changes and, therefore, have not been made.

Each ISA was amended by ARTF staff and considered by the ARTF. As a general rule, the ARTF avoided changes to black lettered paragraphs. Generally, changes included the following:

- Terminological changes necessary for consistency with the proposed Audit Risk Standards were made. The proposed changes to the Glossary highlights those terms that have a defined meaning and were conformed.
- Requirements and guidance premised on separate risk assessments were changed to reflect a combined risk assessment, wherever this made sense. The changes worked well along with the necessary changes to place the guidance in the context of risk assessment procedures, the auditor's assessment of risk, the auditor's response to the assessed risk or the evaluation of audit procedures.

Overall, the conforming changes were found not to be too difficult or numerous. Although the actual number of changes per ISA varied, the extent of required changes did not indicate difficulty in conforming to the new approach, or any significant areas of concern. At first sight, this might seem surprising, but on reflection it should not be unexpected.

The proposed Audit Risk Standards set out the essentials of an audit, and drive the basic audit approach. Many of the other ISAs, however, are dealing with specific techniques (e.g., confirmations, analytical review), or topics (e.g., going concern, representations), which are not so fundamentally affected by the change in approach that they require major conforming changes. On the other hand, some of the current projects (e.g., planning) are more clearly affected.

In a number of cases, where an ISA adopts a procedures-based approach, as opposed to one more clearly based on risk assessments, generally changes were not made to turn the ISA fully onto the latter basis. There are two reasons for this, i.e.:

- Firstly, the ARTF believes that there is in fact no inconsistency between a "required procedures" approach and a risk-based approach. Neither is exclusive of the other. The general approach, however, should be risk-based. This does not preclude the possibility that, in some cases, a procedures-based approach is to be preferred – either because to identify the risks may be too onerous (e.g., compliance with laws and regulations, or related parties), or because it is generally agreed that certain procedures are necessary (e.g., confirmation of bank balances, or management representations).
- Secondly, in some cases the changes necessary to change the underlying approach to a "fuller" risk-based approach, aligned to the proposed Audit Risk Standards, would result in changes outside the scope of conforming changes, requiring consideration by a separate project task force. In any event, the benefits of the revised approach are expected to be obtained throughout the audit.

This is not to say that, in some cases, where an ISA that adopts a procedures-based approach is to be revised, it would not be rewritten to adopt a risk-based approach, but the question is whether such revision is necessary to accommodate the required procedures and guidance of the proposed Audit Risk Standards, and, on the whole, the ARTF has concluded that nothing was identified that would warrant a new project that would take precedence over the IAASB's current work program.

Way Forward

As the final conforming changes are dependant on the final changes to the proposed Audit Risk Standards, the ARTF will next focus on revising the proposed Audit Risk Standards in the light of comments received during the exposure period. It will then revisit the proposed conforming changes with a view to having those changes ready for issue contemporaneously with the final Audit Risk Standards.

As agreed at the December 2002 IAASB meeting:

- The conforming changes will not be discussed in IAASB main meeting time. However, the proposed revised ISAs will be posted to the IFAC Leadership Intranet.
- Conforming changes will not be exposed for public comment.

Material Presented

Agenda Paper 4-A Scope of Audit Risk Conforming Changes Activities
(Pages 137 – 138)

Action Requested

IAASB Members are requested to confirm the approach taken and the way forward.

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