

Scope of Conforming Changes

(For information only: Extract from March 2003 Audit Risk Agenda Paper 4-A)

“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.