

### ISA Post-implementation Review Plan [Draft]

#### I. Background

1. In March 2009, the IAASB completed its Clarity Project. This project involved a comprehensive review and redrafting of all 36 International Standards on Auditing (ISAs), and ISQC 1<sup>1</sup> to improve their clarity and understandability and, thereby, facilitate their consistent application.<sup>2</sup> In addition to improving the clarity of the ISAs, the IAASB substantively revised approximately half of the ISAs.
2. One of the initiatives that the IAASB committed to undertake in its *2009-2011 Strategy and Work Program* was the development of a process for assessing the effectiveness of the implementation of the new standards to determine whether there is any need for further refinement to achieve the intended objectives of those standards.
3. At its June 2009 meeting the IAASB agreed that this project would be undertaken in two phases:

<b>Phase 1</b>	Obtaining pre-implementation information from a number of countries and firms about their experiences in introducing the clarified ISAs into their national standards or firm audit methodologies.
<b>Phase 2</b>	A post-implementation review of the ISAs to determine whether there is any need for further refinement to achieve the intended objectives of those standards.

4. Work on Phase 1 was undertaken in 2009/10 and resulted in a report back to IAASB at its June 2010 meeting, followed by a public report which was published in October 2010. This paper sets out IAASB's plans for undertaking Phase 2.

#### II. Objective of Phase 2 of the Review

5. The primary objective of Phase 2 of the review is to gather information about the use of the clarified ISAs to assist the IAASB to determine what, if any, changes to them are needed:
  - (a) In order to increase the consistency of practitioners' understanding of the ISAs; and
  - (b) For the recently revised ISAs to achieve the goals the IAASB set in revising them in an efficient and effective manner.
6. The review is therefore focussed on whether the clarified ISAs are being implemented in the way that IAASB had hoped, rather than revisiting whether the clarified ISAs need to be

<sup>1</sup> International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

<sup>2</sup> The clarified ISAs became effective for audits of financial statements for periods beginning on or after December 15, 2009.

further enhanced to achieve audit quality. The primary objective is not therefore to consider matters such as whether:

- There are additional matters that need to be addressed in the overall ISAs package to improve audit quality;
- The requirements of individual ISAs are sufficiently robust to achieve audit quality;
- Reconsidering contentious issues debated during the development of the ISAs; and
- Whether the clarified ISAs are “cost effective”.

However, if in the course of the review, issues come to the IAASB’s attention that would help to improve standards, the IAASB will analyse them and determine whether changes to the ISAs would be appropriate in promoting audit quality in the public interest.

7. To assist stakeholders to contribute to the review, the IAASB will publish a number of attributes in which it has a particular interest. These attributes are set out in Table 1 below.

**Table 1: Attributes of interest for evaluation of the clarified ISAs**

<b>Consistency</b>	<ul style="list-style-type: none"> <li>• Are the requirements in the clarified ISAs clear and understandable <ul style="list-style-type: none"> <li>◦ Within an audit firm?</li> <li>◦ Between audit firms in the same country?</li> <li>◦ Between countries?</li> </ul> </li> <li>• Is the role and purpose of, and the relationship between (i) the objectives, (ii) the requirements and (iii) the application and other explanatory material clear?</li> <li>• How is the application material used in practice? Is the extent and nature of the application and other explanatory material sufficient to provide a basis for a consistent understanding of the requirements?</li> </ul>
<b>Effectiveness</b>	<ul style="list-style-type: none"> <li>• Are the objectives set out in the clarified ISAs helpful? Do they assist in: <ul style="list-style-type: none"> <li>◦ Determining whether additional procedures are needed?</li> <li>◦ Evaluating whether sufficient appropriate audit evidence has been obtained?</li> </ul> </li> <li>• Are the IAASB’s goals in recently revising ISAs being achieved, in particular: <ul style="list-style-type: none"> <li>◦ Is work effort properly focused on areas of risk?</li> <li>◦ Is the audit of accounting estimates, including fair</li> </ul> </li> </ul>

	<p>values, sufficiently rigorous?</p> <ul style="list-style-type: none"> <li>○ Are experts and specialists appropriately involved in audits?</li> <li>○ Is the group auditor appropriately involved in the audit of components?</li> <li>○ Is sufficient work performed on related parties and related party transactions?</li> <li>○ Do audit firms have appropriate quality control policies and procedures?</li> <li>○ Is the communication between the auditor and those charged with governance (or management, as appropriate) appropriate and timely?</li> </ul>
<b>Efficiency</b>	<ul style="list-style-type: none"> <li>• Are there any requirements in a clarified ISA that do not seem necessary to meet the relevant ISA's objective?</li> <li>• Do the requirements in the clarified ISAs result in an appropriate amount of documentation?</li> </ul>

8. In relation to part (b) of the objective of the review (i.e., to achieve the goals the IAASB set in revising the ISAs in an efficient and effective manner), consideration will be focused on the 14 ISAs that were revised as well as clarified in the Clarity Project, and also other “recently revised” ISAs. The “recently revised” ISAs are:

- The audit risk ISAs (ISAs 240,300,315 and 330);<sup>3</sup>
- ISA220<sup>4</sup> and ISQC 1; and
- ISA 230.<sup>5</sup>

A list of the ISAs that it is proposed would be covered in the review appears in Appendix 1. Given the separate consultation that has taken place on the need for changes in auditor reporting,<sup>6</sup> it is not planned to include the auditor reporting ISAs (ISAs 700, 705 and 706)<sup>7</sup> within the scope of the review.

<sup>3</sup> ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; ISA 300, *Planning an Audit of Financial Statements*; ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; and ISA 330, *The Auditor's Responses to Assessed Risks*

<sup>4</sup> ISA 220, *Quality Control for an Audit of Financial Statements*

<sup>5</sup> ISA 230, *Audit Documentation*

<sup>6</sup> See background materials for the IAASB project on Auditor Reporting for the March IAASB meeting, available at: <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0244&ViewCat=1486>, and IAASB Consultation Paper, *Enhancing the Value of Auditor Reporting: Exploring Options for Change* available at: <http://www.ifac.org/Guidance/EXD-Download.php?EDFID=00377>.

<sup>7</sup> ISA 700, *Forming an Opinion and Reporting on Financial Statements*; ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*; and ISA 706, *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

### **III. Timing of the Review**

9. The aim of the post-implementation review is to gather information during 2012, summarise the information in early 2013 and present the findings at the June 2013 IAASB meeting for discussion. This timing fits reasonably well with the IAASB's three year planning cycle.
10. While not all countries will have introduced the clarified ISAs in line with the effective date set by the IAASB, the IAASB intends to undertake information gathering in 2012 as:
  - (a) External expectations seem to support an early review;<sup>8</sup>
  - (b) All members of the Forum of Firms should have implemented these standards for 2010 audits; and
  - (c) A sufficient number of countries will have implemented the standards in order to obtain useful information. Furthermore the timetables for countries that are implementing the clarified ISAs after the effective date set by the IAASB are unclear, in some cases.
11. Gathering information in 2012 allows consideration of audits of entities for 2011 calendar year ends (focusing on the second audits<sup>9</sup> undertaken under the clarified ISAs avoids results being "coloured" by any "Year One" learning curve).
12. After 2012 it is planned that implementation issues should be a standing item for the agenda for the IAASB's annual meeting with the National Auditing Standard Setters liaison group (NSS). This will allow for consideration of issues identified by countries adopting the clarified ISAs after the IAASB's effective date.

### **IV. Approach to be Followed**

13. The Task Force proposes an inclusive approach to the post-implementation review that would involve a wide communication of the objectives of the review through the IAASB website, setting a timetable and inviting comments from any interested party.
14. In addition, the Task Force proposes to work through the following stakeholder groups to get specific feedback:
  - Larger firms
  - Smaller firms
  - Professional bodies
  - NSS

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<sup>8</sup> The planned timing will mean that the shortest period in which the IAASB will have completed its review, analyzed the findings and made any consequential changes to the ISAs will be about six years from the date that the new standards became effective. In practice a period in excess of 6 years is likely to be needed if it is concluded that major changes to the ISAs are needed.

<sup>9</sup> This assumes that the December 15, 2009 effective date is used as a base.

- Public sector auditors
- Audit inspection groups

### **Larger Firms**

15. It is proposed that the IAASB write to all members of the Forum of Firms describing the objective of the review and requesting responses by August 31, 2012. This will allow aggregation and discussion, on a preliminary basis, with the Forum of Firms at its October 2012 meeting.
16. While each firm will develop its own approach to gathering information to respond to the IAASB, this will hopefully involve gathering input from both the firm's technical personnel and audit engagement teams and include:
  - Considering the results of the firm's internal quality control reviews.
  - Holding focus group sessions

### **Smaller Firms**

17. A survey of small and medium practices (SMP survey) has already been initiated, seeking feedback from a sample of actual audits in 13 different countries (see Appendix 2). Countries have been requested to aggregate and summarise the responses in two phases: Initial Reactions (by September 30, 2011) and Final Responses (by October 31, 2012). A discussion with the IFAC SMP Committee is planned to consider both the Initial Reactions and the Final Responses.

### **Professional Bodies**

18. Using the Initial Reactions from the SMP survey, the professional bodies in relevant countries will be requested for views on the implementation of the clarified ISAs from an audit monitoring perspective by December 31, 2012.

### **National Auditing Standard Setters**

19. It is proposed that the focus of the NSS should be on the changes they have made to the clarified ISAs when implementing them as national standards. This will provide valuable information to the IAASB about the consistency with which the standards have been implemented internationally, and will also assist with identifying difficulties that may exist in applying the standards in practice.
20. It is hoped that the NSS will provide an analysis of national additions ("pluses") made to the ISAs (by December 31, 2012), and that they will also:
  - Liaise locally with audit regulators and members of the International Organisation of Supreme Audit Institutions (INTOSAI); and

- Assist with obtaining information about how the ISAs addressing communications with those charged with governance (ISAs 260 and 265)<sup>10</sup> are perceived by audit committees.

### **Public Sector Auditors**

21. It is proposed that the IAASB write to INTOSAI describing the objective of the review asking a number of specific questions and requesting responses by August 31, 2012.

### **Audit inspection groups**

22. It is proposed that the IAASB write to the International Forum of Independent Audit Regulators (IFIAR) describing the objective of the review and inviting comments, either from IFIAR itself or from individual IFIAR member bodies, by August 31, 2012. The Task Force plans that the preliminary findings of the Phase 2 work should be discussed at the IFIAR Plenary meeting in April 2013.
23. In addition three IFIAR member bodies (Canada, South Africa and the UK) will be undertaking a “root cause” analysis of deficiencies identified during their audit inspections, which may result in information of interest to IAASB for this review.

## **V. IAASB Response to the Results of the Review (Phase III)**

24. It is premature to decide in detail how the IAASB will analyse the information that will be obtained to evaluate results of the review, and determine the nature of changes to the ISAs, if any, that are likely to be required. That said it is worth anticipating some of the issues that are likely to arise.

### **Analysis of Responses**

25. A system of ranking of the comments will be needed in order to help determine actions that might be taken. One possible approach might be to categorise the different comments among:
  - Effectiveness,
  - Consistency, and
  - Efficiency

and, on a judgemental basis, to assess each comment on a three-point scale (perhaps ‘critical’, ‘important’ and ‘less important’).

### **Likely Actions**

26. IAASB has a number of possible actions to respond to comments received. These include:
  - (a) Issuing additional guidance (in either International Auditing Practice Statements or staff documents);

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<sup>10</sup> ISA 260, *Communication with Those Charged with Governance*, and ISA 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

- (b) Making significant changes to the ISAs (including structural changes or changes to requirements); and
  - (c) Making relatively minor changes to the ISAs.
27. The Task Force has not, at this stage, established criteria for such actions. While some of the comments may be relatively easy to address, others may be more demanding. In order to address the more demanding comments, it may be necessary to make changes to a number of the ISAs (changes to the risk ISAs, for example, are likely to have implications for a number of other ISAs).<sup>11</sup>

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<sup>11</sup> The Clarity Project recognized the interrelationships that exist between individual ISAs and the benefit, from an implementation standpoint, of releasing revised standards as a package (the “big bang” approach).

## Appendix 1

### Revised ISAs to be Covered in the Post-Implementation Review

ISAs revised as well as clarified as part of the Clarity Project      Other 'recently revised' ISAs and ISQC 1

Objectives and Overarching Responsibilities	Audit Risk ISAs
ISA 200 <sup>12</sup>	ISA 240
ISA 320 <sup>13</sup>	ISA 300
ISA 450 <sup>14</sup>	ISA 315
Risk Assessment and Evidence Gathering	ISA 330
ISA 402 <sup>15</sup>	Quality Control
ISA 540 <sup>16</sup>	ISQC1
ISA 550 <sup>17</sup>	ISA 220
Quality of Audit Evidence/Reliance on Others	Documentation
ISA 505 <sup>18</sup>	ISA 230
ISA 580 <sup>19</sup>	
ISA 600 <sup>20</sup>	
ISA 620 <sup>21</sup>	
Auditor Communications	
ISA 260	
ISA 265	
ISA 705 <sup>22</sup>	
ISA 706	
Special Purpose Frameworks	
ISA 800 <sup>23</sup>	
ISA 805 <sup>24</sup>	
ISA 810 <sup>25</sup>	

<sup>12</sup> ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

<sup>13</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>14</sup> ISA 450, *Evaluation of Misstatements Identified during the Audit*

<sup>15</sup> ISA 402, *Audit Considerations Relating to an Entity Using a Service Organization*

<sup>16</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

<sup>17</sup> ISA 550, *Related Parties*

<sup>18</sup> ISA 505, *External Confirmations*

<sup>19</sup> ISA 580, *Written Representations*

<sup>20</sup> ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

<sup>21</sup> ISA 620, *Using the Work of an Auditor's Expert*

<sup>22</sup> As is noted in paragraph 8 of this paper, given the separate consultation that is being undertaken on the need for changes in auditor reporting, it is not planned to include the reporting ISAs (ISAs 700, 705 and 706) in the scope of the post-implementation review.

<sup>23</sup> ISA 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

<sup>24</sup> ISA 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

<sup>25</sup> ISA 810, *Engagements to Report on Summary Financial Statements*

**For Illustration: Main Goals for Revised ISAs**  
(Examples below for a selection of ISAs revised ISAs under the Clarity Project)

<b>ISA 260</b>	<ul style="list-style-type: none"> <li>- To provide a framework for communication with those charged with governance (TCWG).</li> <li>- To promote effective two-way communications, and a constructive working relationship, between the auditor and TCWG.</li> <li>- To establish clear expectations between the auditor and TCWG regarding communication of matters of audit relevance, recognizing that TCWG: <ul style="list-style-type: none"> <li>- Are an important element of the control environment of the entity, and that auditor communications are important to assist TCWG in fulfilling their oversight responsibility for the entity's financial reporting process; and</li> <li>- Are an important source of information for conduct of an effective audit.</li> </ul> </li> </ul>
<b>ISA 540</b>	<ul style="list-style-type: none"> <li>- To increase the rigor and skepticism to be applied in auditing accounting estimates.</li> <li>- To provide enhanced guidance on estimation uncertainty and management bias.</li> <li>- To conform with the risk-based approach reflected in ISA 315 and ISA 330.</li> </ul>
<b>ISA 580</b>	<ul style="list-style-type: none"> <li>- To make clear the role of management representations as part of the auditor's evidence-gathering process, thereby helping to prevent undue reliance on representations from management.</li> <li>- To make clear the required representations from management in an audit of financial statements.</li> </ul>
<b>etc... For the other revised ISAs</b>	

## Appendix 2

### Summary of Planned Involvement of Countries Implementing the Clarified ISAs for 2010 financial statement audits

Country	NSS	SMP Survey	IFIAR members
Australia	Y	Y	
Brazil	Y	Y	
Canada	Y	Y	Y
Hong Kong		Y	
Hungary		Y	
Malta		Y	
New Zealand	Y	Y	
Netherlands	Y	Y	
Norway		Y	
Singapore		Y	
Slovenia		Y	
South Africa	Y	Y	Y
UK	Y	Y	Y