

IAASB STRATEGIC REVIEW

Introduction

The International Auditing and Assurance Standards Board (IAASB) is an independent standard-setting body that develops auditing and assurance standards and guidance for use by all professional accountants under the oversight of the Public Interest Oversight Board, and with the advice of the IAASB's Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The objective of the IAASB is to serve the public interest by setting, independently and under its own authority, high-quality standards dealing with auditing, review, other assurance, quality control, and related services, and by facilitating the convergence of national and international standards. This objective contributes to enhanced quality and consistency of practice in these areas throughout the world, and strengthened public confidence in financial reporting.

The year 2009 was the first year of implementation of the *IAASB Strategy and Work Program, 2009-2011*.¹ Developed after extensive consultation, it has provided a framework for the IAASB's focus after completing work to clarify its suite of International Standards on Auditing (ISAs). IAASB's current projects are highlighted later in this questionnaire.

The IAASB is undertaking consultations relating to the development of its strategy for the period 2012-2014, in order to ensure the strategy and related work program are in place by the beginning of that period.

The IAASB is seeking views at an early stage to identify key issues for consideration by the IAASB in developing its future strategy. Public consultation on the proposed IAASB 2012-2014 strategy and work program is planned for December 2010.

¹ The *IAASB Strategy and Work Program, 2009-2011*, can be accessed at web.ifac.org/download/IAASB_Strategy_and_Work_Program_2009-2011.pdf.

We would be grateful if you could complete the following questionnaire by **May 14, 2010**. Individual responses to the questionnaire will not be on public record. They will be summarized for discussion purposes. The summary, which may be made public, will not identify the names or organizations of the respondents. If you have questions, please contact Kathleen Healy, IAASB Senior Technical Manager, at kathleenhealy@ifac.org.

Name or Organization:

Hong Kong Institute of Certified Public Accountants (HKICPA)

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Please indicate whether you wish to receive an electronic copy of the proposed IAASB strategy and work program for 2012-2014 when it is issued for public comment.

- Yes
 No

Please mark the box(es) that best describe the capacity in which you are responding to this questionnaire

- IAASB Member (current or former)
 IAASB Technical Advisor
 IAASB Observer
 IAASB Consultative Advisory Group Member Organization / Representative
 Member, Technical Advisor or Observer of Other Public Interest Activity Committee, IFAC Board or Other IFAC Committee – please specify
 IFAC Member Body
 Preparer of Financial Statements
 Professional Accountant in Public Practice
 Investor
 Analyst
 Other User of the Financial Statements
 Governmental or Legislative Body
 Regulator
 Audit Oversight Body
 Standard Setter
 Academia
 Private Sector

- Public Sector
- Small- and Medium-Sized Entity
- Small and Medium Sized Practice
- Developing / Emerging Economy
- Donor Agency or Similar Body
- Other – please specify _____

The HKICPA is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

SECTION 1—THE PUBLIC INTEREST

1.1 IAASB Stakeholders

The IAASB has identified the following groups that are affected by its activities (i.e., its stakeholders) and, therefore, will be consulted in developing the IAASB's future strategy and work program (they are listed alphabetically):

- Auditors
- Audit oversight bodies
- Governments and non-governmental organizations
- IFAC member bodies
- National standards setters
- Other professional accountants in public practice
- Public sector auditors
- Preparers of financial statements
- Regional professional accounting organizations
- Securities and other regulators
- Users of financial statements (for example, investors, analysts, lenders, etc. other than regulators)

a) Which, if any, stakeholder group do you belong to?

HKICPA belongs to the following stakeholder groups: Auditors, Audit oversight bodies, IFAC member bodies, National standards setters, Preparers of financial statements, Regional professional accounting organizations, Securities and other regulators and Users of financial statements.

b) What, in your view, does the stakeholder group to which you belong expect from the IAASB?

We expect the IAASB to carry out continuing improvement in the scope and quality of pronouncements with reference to developments in the market place. Areas of particular concern are as follows:

(i) International Standards on investment circular reporting

At your IAASB meeting in March 2006 in Hong Kong, the HKICPA discussed briefly with the IAASB that there is a need for international standards on investment circular reporting. We note that the IAASB has currently in its work plan two projects related to this topic: (a) project to develop new International Standard on Assurance Engagements (ISAE) 3420 "Assurance Reports on the Process to Compile Pro Forma Financial Information Included in Prospectuses" and (b) project to revise ISAE 3400 "The Examination of Prospective Financial Information".

Given the developments in the capital markets, we would recommend that the IAASB consider putting additional resources on this important topic.

The scope of professional accountants' work is expanding and developing beyond the traditional "core" work of audits or reviews of statutory financial statements. Amongst the "non-core" work, engagements concerning investment circular reporting and assistance to sponsors/underwriters are becoming more important in many jurisdictions as regulators are increasingly relying on the professional accountants' opinion. In Hong Kong, "sponsor" is referred to any corporation or authorized financial institution, licensed or registered under applicable laws to advise on corporate finance matters and appointed as a sponsor by a new applicant under the Hong Kong Listing Rules / GEM Rules to assist the new applicant with its initial application for listing. The sponsor must be acceptable to the Stock Exchange of Hong Kong Limited.

We are concerned about the inconsistencies in practice internationally and the increasing level of risks that reporting accountants are exposed to because of the increasing complexity of securities transactions and onerous regulatory requirements. We are also aware that some international sponsors are "arbitraging" between different jurisdictions, making jurisdictions with less stringent requirements more vulnerable to risks. A number of more sophisticated jurisdictions, such as the UK, US, Canada and Singapore, have already issued local standards in this area and it is apparent that there is an urgent need for international standards in the light of globalisation and the increasing importance of cross-border offerings.

The HKICPA's Council embarked on a project to develop a series of standards and guidance on investment circular reporting in 2001. We have communicated and negotiated with the regulators and sponsors to get their support for some of our proposals. We have finalised three out of the seven exposure drafts and the relevant exposure drafts and standards issued by the Institute are available at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/accountants-report-project/>

We have received adverse comments on one of the standards issued in relation to the provision of assistance to sponsors. Commentators have claimed that the standard is placing significant limits on the involvement of professional accountants in the due diligence process and that professional accountants are seeking ways to limit their potential liability. These same commentators want professional accountants to both prepare and report independently on the preparation of investment circular materials without fully appreciating the impact on independence.

Given the International Convergence Programme that the HKICPA has adopted, we believe that we would be in a much stronger position to have our professional standards accepted if they are part of our International Convergence Programme, and as adopted from their equivalent international standards.

While we acknowledge the difficulties of developing a global standard that works in every jurisdiction due to differing local legal and listing requirements, we would suggest that the IAASB speak to regulators/ stock exchanges to promote greater global consistency.

(ii) Reporting on internal control

Reporting on internal controls has become a very important assurance service provided by practitioners and some guidance from the IAASB on this subject would be useful. We note that this is included under section 5 – Potential projects identified by or brought to the attention of IAASB staff/IAASB.

- c) What, in your view, is the most important component of the IAASB's work in serving the public interest?

We expect the IAASB to carry out continuing improvement in the scope and quality of pronouncements with reference to developments in the market place.

1.2 Challenges for the Accountancy Profession

The year 2009 was marked by worldwide economic turbulence brought about by the global financial crisis. At times of financial instability, investors and others look to reduce the level of uncertainty in their decisions by seeking information they know to be reliable as a basis for those decisions. This demand for reliable information is at the heart of the IAASB's mandate to strengthen public confidence in financial reporting through audit and other assurance services that enhance the degree of confidence in the information and, thereby, contribute positively to the quality of financial decisions. New challenges, however, have stemmed from the greater uncertainty throughout the financial reporting supply chain as a result of the deterioration of confidence in markets generally.

The IAASB's public interest mandate to set high-quality international auditing and assurance standards, and to facilitate the convergence of national and international standards, positioned the Board well to respond and take action during this challenging time. Through monitoring and supporting the implementation of global standards and embracing innovation where needed, the IAASB has delivered practical guidance and services on a range of standards. It has also undertaken communication and outreach activities aimed at ensuring that the IAASB interacts with others who play a significant role in the financial reporting supply chain. In all its actions, the work of the IAASB, with the contributions by the public through its transparent consultative process, helps to restore and maintain public confidence in information used for decision making.

- a) The assurance profession and the standards that govern its work is a critical element in the financial reporting supply chain. In light of the global financial crisis, are there key issues facing preparers and auditors in the mid- to long-term that should influence the IAASB's strategy?

The key issues include:

- increasing complexity of accounting standards
- managing the professional liability risks

- b) What, if any, single thing might the IAASB do so as to increase the quality of audit or assurance work conducted by professional accountants?
- The IAASB should ensure that its pronouncements are robust for the current economic environment.
 - The IAASB should ensure that the auditing standards are aligned with the accounting standards, e.g. the auditing standards should address auditing issues which may arise from the introduction of new accounting standards.
- c) There continues to be a difference between society's expectations of auditors and auditors' performance (the "expectation gap").

- i) What information needs to be communicated to users of financial statements and the related auditors' reports about the nature of an audit that might help reduce the expectation gap?
 - The auditor's report should explain the purpose and nature of an audit and highlight that an audit is not designed to identify all errors which may exist and to indicate that auditors apply procedures often on a sample basis
 - The users of financial statements should understand the basis of an auditor's opinion and continuing education of the role and responsibilities of auditors as distinct from those of the management to the public can help to narrow the expectation gap.
- ii) What more could be done to address the expectation gap in relation to the audit?
 - Providing information to the public in respect of the supervision of auditors
 - Producing booklets which explain to a lay person what an audit or assurance engagement is, how they are conducted and the conclusions which can be drawn therefrom.
 - The performance gap within the professional industry may as well be a reason which causes the expectation gap.

SECTION 2—ACHIEVING THE IAASB'S OBJECTIVE

2.1 The IAASB's Strategic Focus

At present, the IAASB efforts are on the following three areas of strategic focus to achieve its objective:

1. Development of standards;² with focus on, amongst others, standards that facilitate the effective operation of the world's capital markets, those that respond to demand for other assurance services, and those that address the needs of small- and medium-sized entities (SMEs) and small and medium practices (SMPs);
2. Monitoring and facilitating adoption of those standards; and
3. Responding to concerns about the implementation of the standards by activities designed to improve the consistency with which they are applied in practice.

Development of Standards (Strategic Focus 1)

The IAASB develops financial statement auditing standards that are applicable for all – publicly listed companies, small business and public sector entities. This includes, as appropriate, developing guidance to assist public sector auditors and those auditing SMEs in applying the ISAs. In addition, the IAASB responds to demands for other assurance standards.

The IAASB's current focus on developing standards that facilitate the effective operation of the world's capital markets is rooted in the IAASB's ongoing commitment to maintain a set of up-to-date ISAs that contribute to audit quality. This includes revising existing ISAs and developing new ISAs as needed. It also includes evaluating whether the auditor's report and other communications convey appropriate information in a way that facilitates audit quality, is understandable to users, and meets their information needs, a matter under consideration in IAASB's current work program. The need for high-quality audits is widely acknowledged by policy makers concerned with promoting and maintaining confidence in financial reporting, whether in the context of capital markets, the public sector or reporting by private or non-public entities.

The development of new assurance standards relating to pro forma financial information and greenhouse gas statements demonstrates the IAASB's responsiveness to expanding needs of investors and increased regulatory requirements relating to information outside of that covered by the financial statement audit.

The IAASB has also placed high priority on addressing further the needs of SMEs. The IAASB's current strategic focus acknowledges that the IAASB has a leading role to play in exploring standards for a range of services, including services other than the financial statement audit that may be appropriate for such entities. The IAASB is currently revising its existing standards for review and compilation engagements as a first step in meeting the needs of SMEs and SMPs.

² References to standards include the ISAs as well as the IAASB's pronouncements dealing with reviews of historical financial information, assurance engagements other than audits or reviews of historical financial information, compilation engagements, engagements to apply agreed-upon procedures to information and other related services engagements.

Adoption and Implementation (Strategic Focus 2 and 3)

Activities to support adoption and implementation are described in more detail in Section 3 of this questionnaire.

The IAASB believes it is necessary and appropriate to continue its focus on these three main areas in order to best serve the public interest and its stakeholders. The IAASB recognizes, however, that the changing political and economic environment, and increasing need for public confidence in financial reporting, particularly in light of the global financial crisis, may cause a shift in the balance of its standard-setting activities or how these activities are described in its *Strategy and Work Program, 2012-2014*. Respondents are invited to comment on how these trends may change how the IAASB describes its focus.

- a) Do you agree that the IAASB should continue to focus on these as the top three initiatives over the next three to four years?
- Yes
 No
- b) If you have answered “yes” in a), please indicate how, in your view, the IAASB should balance these three initiatives in terms of its Board time over the next three to four years (total should be 100%). Respondents will have the opportunity to comment on which specific activities would be prioritized to respond to each area of strategic focus later in the questionnaire.
1. What percentage of Board time should be spent on development (or revision) of standards? 30 %
 2. What percentage of Board time should be spent on monitoring and facilitating adoption of those standards? 30 %
 3. What percentage of Board time should be spent on responding to concerns about the implementation of the standards by activities designed to improve the consistency with which they are applied in practice? 40 %
- c) Could these three initiatives be described in a more meaningful way to align with the IAASB’s objective, the nature of the IAASB’s standard-setting activities, and the acknowledgment of auditors’ role in the financial reporting supply chain? Please provide any suggestions you may have.
- d) If you have answered “no” in a), please indicate the three initiatives that, in your view, the IAASB should focus on over the next three to four years. Also indicate how, in your view, the IAASB should balance these three initiatives in terms of its Board time over the next three to four years (total should be 100%).

Initiative	Balance
1.	%

- | | |
|----|---|
| 2. | % |
| 3. | % |
- e) Within the development of standards area of focus, the IAASB's current work program deals with the development and revision of both ISAs and other assurance standards. Please indicate, in your view, how the IAASB should balance its standard-setting agenda over the next three to four years (total should be 100%):
- What percentage of the IAASB's standard-setting agenda should be spent on developing or revising the ISAs? 30 %
 - What percentage of the IAASB's standard-setting agenda should be spent on developing new assurance standards or revising existing standards on assurance and related services? 70 %
- Please provide additional commentary explaining the reason behind your proposed allocation.
- As the IAASB has only completed the ISA Clarity Project in early 2009, there should be a stable time for practitioners to implement the new standards for the coming 2 to 3 years before embarking on another project to review the ISAs. Any revision to the ISAs should arise from implementation issues. In view of the developments in recent years, the scope of professional accountants' work is expanding and hence there should be sufficient guidance on other standards on assurance and related services.
- The recent financial crisis reckoned the needs to have an objective and effective third party assurance in the capital markets.

SECTION 3—ADOPTION AND IMPLEMENTATION

3.1 Adoption of International Standards on Auditing

The ISAs are widely accepted in many jurisdictions and recognized as appropriate for many capital markets. Recent information gathered from the IFAC Member Body Compliance Program has indicated that the ISAs have been adopted or otherwise used as the basis of national standards in 126 jurisdictions around the world.

Further, bodies such as the International Organization for Securities Commissions (IOSCO), the World Bank, the Basel Committee on Banking Supervision, the Financial Stability Board, the World Federation of Exchanges, the United Nations Conference on Trade and Development (UNCTAD) and the Forum of Firms have expressed their support for the IAASB's standard-setting processes and the resulting ISAs.

Nevertheless, in support of global adoption of a single set of auditing standards, it is necessary for the IAASB to identify and address barriers to the further adoption of ISAs, whether as a whole in those few jurisdictions that have not yet chosen to adopt them or in respect to specific standards, and to ensure that the content and breadth of proposed new standards facilitate their global acceptance and adoption.

- a) In your view, what are some of the barriers to adoption of the international standards, including barriers unique to SMPs and others that audit SMEs, and public sector auditors, and how could the IAASB seek to eliminate these barriers?

In Hong Kong, the HKICPA has with effect from 2005 converged with international standards issued by the IAASB, with the exception of ISAE 3400. As you may be aware, there has been resistance in many jurisdictions in adopting ISAE 3400. Diversion from market practices or that the standard increases the risks of issuing an assurance reports may be some of the barriers. The IAASB should before issuing a standard in final should ensure that key issues arising from the Exposure Draft stage are fully understood and resolved.

- b) Are there particular outputs that the IAASB could produce to promote adoption and implementation of its standards?

The publication of the basis of conclusion is a good source of providing insights into understanding IAASB's thought process. A mapping document between the final standard and the extant standard, highlighting the key changes and the expected impact on practitioners of such changes would be helpful.

3.2 Implementation

A number of implementation activities began in 2009 in support of the clarified ISAs. In particular, the IAASB has begun developing new implementation guidance material for audits of complex financial instruments, and the current strategy and work program also allocated resources to develop implementation guidance for one or more topics that are of international relevance.

Staff of the IAASB has also progressed a number of initiatives to support the adoption and implementation of the ISAs. These include:

- Development of the IAASB Clarity Center, which includes the ISAs and related Staff Bases for Conclusions, background information on the Clarity project, implementation support and guidance, frequently asked questions and other communications.
- Development of ISA Modules,³ consisting of a short video presentation focusing on the key messages that auditors and others should understand and bear in mind in implementing the new ISA; and a set of slides and supporting notes that expands on the matters covered in the video presentation and explains the new provisions of the ISA in more detail. Additional modules are planned for development in 2010.
- Development of Staff Audit Practice Alerts and Staff Questions & Answers (Q&As) documents, dealing with the audit of fair value accounting estimates, going concern, external confirmations, XBRL and SME matters.⁴

Recognizing the need to stay informed about the progress in the implementation of the clarified ISAs, the IAASB has begun the development of a process for monitoring the implementation of the clarified ISAs, referred to as the “ISA Implementation Monitoring” project. 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. Early information gathering steps are underway. Liaison with key stakeholder groups will continue throughout 2010 and 2011.

However, because the clarified ISAs have only recently become effective (for audits of financial statements for periods beginning on or after December 15, 2009),⁵ it will be some time before the results of this implementation monitoring project become known. The IAASB will receive updates on the preliminary findings of the project throughout 2010, and intends to evaluate the findings and consider a process to deal with the issues identified in mid-2011. Accordingly, the

³ ISA Modules can be downloaded free of charge at:
<http://web.ifac.org/clarity-center/support-and-guidance>.

⁴ Staff publications are used to help raise practitioners’ awareness in a timely manner of significant new or emerging issues or other noteworthy circumstances relevant to engagements addressed by IAASB pronouncements, to direct their attention to relevant provisions of IAASB pronouncements, or to provide clarification to emerging questions by referring to existing requirements and application material and background information such as that contained in staff Basis for Conclusions documents. Staff publications do not amend or override the standards or other pronouncements to which they relate that are currently effective, the texts of which alone are authoritative.

⁵ For further clarification of the effective date, please visit <http://web.ifac.org/clarity-center/faqs-and-other-clarity-resources>.

IAASB understands that it is possible that responding to findings of this project may constitute a significant part of its work program in the next strategy period.

In addition, the IAASB plans to issue a number of new or revised assurance standards in the next few years to deal with services currently provided by professional accountants in public practice as well as new or emerging services. In accordance with the IAASB's current strategic plan, the Board intends to seek feedback on the application of these standards within a reasonable period following their effective dates. As part of this process, feedback will be sought in 2013 from service organizations, service auditors, user entities, user auditors and others on their experiences with the implementation of ISAE 3402, *Assurance Reports on Controls at a Service Organization*, which was issued in 2009.

- a) Are there topics where further implementation support (i.e., new guidance material) is expected to be relevant and in demand? Which topics would be most relevant in an international context?

Additional guidance on ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" would be helpful to clarify the objective of the standard and examples of how the standard may be applied.

Practical guidance on implementation of ISA 600 "Special Considerations– Audits of Group Financial Statements (Including the Work of Component Auditors)" should be provided on, e.g. how to determine a significant component, how to set component materiality, how to evaluate other auditors, what to do when other auditors do not cooperate (especially auditors of equity method investees), how to deal with situations where jurisdictional issues make it difficult for group auditors to obtain information about component auditors - examples being investments in (listed) associates/joint ventures, etc.^b

Regarding Staff-developed material, are outputs of this nature helpful to auditors and others? Should IAASB continue to direct staff efforts to initiatives such as these?

Yes, staff-developed materials are useful in providing implementation guidance. It would be helpful if the IAASB could issue a document which gives practical tips or examples on implementation of the clarified ISAs with key changes.

As a standard setter, it will be useful for the IAASB to provide guidance on the monitoring of the implementation of the new standards to assist in focusing the practice review process and achieving consistency.

- c) Are there other specific topics on which Staff efforts could be directed that would be particularly relevant in an international context?

We consider that the IAASB should actively seek feedback from practitioners on the application of standards to determine if guidance or revision need to be issued, particularly when the effect of the introduction of all the clarified ISAs has yet to be fully understood. The IAASB should concentrate on the issuance of guidance or implementation examples.

d) Are there issues you feel the IAASB should consider as it conducts the ISA Implementation Monitoring project? In particular, have you identified any preliminary issues with respect to implementing the clarified ISAs? Please write as much as you like in the space below:

- ISA 320 "Materiality in Planning and Performing an Audit" – additional guidance on "performance materiality" and its relation with the overall materiality.
- ISA 805 "Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement"
- ISA 600 "Special Considerations— Audits of Group Financial Statements (Including the Work of Component Auditors)" as highlighted in (a) above.

- **SECTION 4—THE NEEDS OF SMALL AND MEDIUM PRACTICES (SMPs)**

It is the view of the IAASB that ISAs are capable of being applied to all audits and, as such, the IAASB does not support any possibility that the audit of SMEs might be carried out to limited auditing standards. Nevertheless, the IAASB is conscious of the difficulties that practitioners may have in implementing ISAs in the audits of SMEs, and in particular the perception in some quarters that the ISAs have been written primarily with larger entities in mind. An important feature of the IAASB's standard-setting process is to ensure that representations from SMPs are taken into account, by seeking input from those in the SME and SMP communities. In addition, IFAC's Small and Medium Practices Committee⁶⁶ forms a Rapid Response Team to give attention to individual standards at key stages.

In 2009, the IAASB also commissioned a Staff Q&A publication entitled *Applying ISAs Proportionately with the Size and Complexity of an Entity*. This publication is directed at highlighting provisions within the ISAs that help guide auditors in applying the requirements to audits of SMEs in an efficient and effective manner. Conversations with key stakeholders continue to highlight a need for the IAASB to monitor SME and SMP developments in adopting and implementing the clarified ISAs for audits of financial statements and to seek to respond to identified needs.

In some countries, regulators have introduced exemptions from audit for entities that would otherwise be required to have an audit (for example, based on the type of entity, its size, or other consideration). Although there may be no requirement for these entities to have any form of third party assurance report on their financial statements, they often require their professional accountants to conduct a review or compilation engagement. Recognizing the growing use of these services, in 2009, the IAASB commenced a project to revise International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements* and International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*. Revision of these core standards is seen as a necessary first step before the IAASB examines the broader question of whether other alternative assurance standards might be developed to suit any special needs of SME financial statement users and others.

- a) What more, in your view, could the IAASB do to promote the effective implementation of its standards by SMPs?

The IAASB could work closely with the Small and Medium Practices Committee to understand any implementation issues. The IAASB should also consider issuing guidance to provide practical guidance/ examples for SMPs and audits of SMEs.

- b) What specific activities could the IAASB prioritize to work towards meeting the needs of SMPs? Please list up to three activities.

⁶ The SMP Committee represents the interests of professional accountants operating in SMPs and other professional accountants who provide services to SMEs. It develops papers on topics of global concern and provides input in the development of international standards and on the work of various IFAC boards and committees where appropriate. The SMP Committee has also issued a *Guide to Quality Control for Small- and Medium-Sized Practices* and is currently updating its *Guide to Using International Standards on Auditing in the Audit of Small- and Medium-sized Entities* to bring it in line with the clarified ISAs.

IAASB Strategy Questionnaire

Work with the Small and Medium Practices Committee to revise the "Guide to Using International Standards on Auditing in the Audits of Small- and Medium sized Entities"

SECTION 5—IAASB PROJECTS

Current projects of the IAASB include the following:⁷

- Project to revise International Standard on Auditing (ISA) 610, *Using the Work of Internal Auditors*
- Project to revise ISA 720, *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*
- Review of findings from four research studies jointly sponsored with the American Institute of Certified Public Accountants (AICPA) that examined the nature of user perceptions regarding the financial statement audit and the auditor's report among various classes of financial statement and audit report users in international settings. This review may have implications for ISA 700, *Forming an Opinion and Reporting on Financial Statements*.
- Project to develop new International Standard on Assurance Engagements (ISAE) 3420, *Assurance Reports on the Process to Compile Pro Forma Financial Information Included in Prospectuses*
- Project to develop new ISAE 3410, *Assurance on a Greenhouse Gas Statement*
- Project to revise ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*
- Projects to revise International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements* and International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*, as part of IAASB's broader project to develop standards for services that provide suitable alternatives to an audit of financial statements
- Development of guidance on auditing complex financial instruments, through revising International Auditing Practice Statement (IAPS) 1012, *Auditing Derivative Financial Instruments*
- Project to clarify the status and authority of IAPSs, and review the appropriateness and content of the existing IAPSs, including whether they should be revised or withdrawn:
 - IAPS 1000, *Inter-bank Confirmation Procedures*
 - IAPS 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*
 - IAPS 1006, *Audits of the Financial Statements of Banks*
 - IAPS 1010, *The Consideration of Environmental Matters in the Audit of Financial Statements*
 - IAPS 1013, *Electronic Commerce—Effect on the Audit of Financial Statements*
- Project on eXtensible Business Reporting Language (XBRL), the first stage of which is consultation to understand assurance needs

⁷ The anticipated timing related to individual projects currently on the IAASB's agenda can be found in the [IAASB Project Timetable](#). Further information on IAASB's current projects can be found at www.ifac.org/IAASB/Projects.php.

- Consideration of the topic of audit quality and actions that should be taken

In considering future projects and initiatives, the IAASB will look to projects that it has not yet started in its current strategy and work program and take into account findings from other activities, such as those from the Monitoring Group Review,⁸⁸ academic research initiatives, monitoring of International Accounting Standards Board (IASB) developments, and monitoring of national developments. It will also consider findings from the IAASB's project on monitoring of ISA implementation, as described in Section 3.2.

Projects included in the IAASB's *Strategy and Work Program, 2009-2011* that have not yet been started (work on these projects would be expected to carry over into 2012 given the IAASB's typical development cycle):

- Project to revise ISAE 3400, *The Examination of Prospective Financial Information*
- Project to develop a new assurance standard on sustainability reporting (other than ISAE 3410)
- Project to develop further certain conceptual aspects of ISAs, such as materiality, audit evidence and professional judgment

Potential projects identified by or brought to the attention of IAASB staff / IAASB include the following:

Development of ISAs and Related Guidance

- Evaluation of the need to revise those ISAs that were not revised as part of the Clarity project
- New ISA or guidance on auditing financial statement disclosures
- Revision of IAPS 1004, *The Relationship Between Banking Supervisors and Banks' External Auditors*
- Revision of IAPS 1006, *Audits of the Financial Statements of Banks*
- New guidance addressing the relationship between actuaries and external auditors
- New guidance addressing the relationship between insurance supervisors and external auditors
- New guidance addressing the relationship between valuation experts and external auditors
- New ISA or guidance on shared service centers
- Guidance on application of ISAs, for example, materiality or group audits

⁸⁸ The Monitoring Group (MG) includes the International Organization of Securities Commissions, the International Association of Insurance Supervisors, Basel Committee on Banking Supervision, the World Bank, the Financial Stability Board, the European Commission and observers such as the International Forum of Independent Audit Regulators. In 2009 the MG has commenced review of the effectiveness of reforms undertaken by IFAC in 2003, as envisioned in those reforms. The reforms were designed to strengthen international standard-setting processes, achieve convergence to international standards and ensure that the international accountancy profession is responsive to the public interest.

Development or Revision of International Standards on Assurance Engagements (other than audits and reviews of historical financial information)

- Reporting on internal control
- Auditor involvement with comfort letters
- Assurance on corporate governance statements
- Assurance on greenhouse gas emissions information (broader than ISAE 3410, including assurance on offset projects and assurance on the lifecycle emissions of individual products and services)

Development or Revision of Other International Standards (i.e., International Standards on Review Engagements and International Standards on Related Services)

- Redrafting, and substantive revision if considered necessary, of other International Standards on Review Engagements and International Standards on Related Services in the new clarity style:
 - ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*
 - ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

Other Topics

- Auditor association with published financial information
 - a) Please identify the projects (either from the list of potential projects above or other projects that you may have identified) that, in your view, would best contribute to the IAASB's strategy over the next three to four years? Please identify no more than 7 projects, giving reasons for each choice, and rank in order of importance (where 1= most important):
 1. ISAE 3400 "The Examination of Prospective Financial Information"
Reason: Key to standardizing procedures for use in the capital market.
 2. Project to develop further certain conceptual aspects of ISAs, such as materiality, audit evidence and professional judgement.
Reason: Provides additional guidance for SMPs.
 3. Guidance on application of ISAs, for example, materiality or group audits
Reason: Provides implementation guidance.
 4. Develop more guidance on special purpose reporting engagements where a practitioner is requested to undertake an engagement other than an audit or review of a set of financial statements.

Reason: To help clarify to practitioners and users of reports of the principal types of special purpose engagements and the form and content of the related reports.

5.Revision of ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information"

Reason: To clarify the use of the standard

6. Development of ISAE on auditor involvement with comfort letters

Reason: It would be useful for the capital market to have a standard.

7.New ISA or guidance on auditing financial statement disclosures

Reason: Useful for carrying an effective audit given the complexity of accounting standards

- Are there other new projects that should be placed at a higher priority than any of the projects included in the IAASB's *Strategy and Work Program, 2009-2011* that have not yet been started?

Reporting on internal control.

SECTION 6—DEVELOPMENTS IN ACCOUNTING AND FINANCIAL REPORTING

The International Accounting Standards Board (IASB) serves as a Member Organization on the IAASB's Consultative Advisory Group, and IFAC participates in the IASB's Standards Advisory Council.⁹⁹ To further enhance its relationship with the IASB, the IAASB in 2009 initiated a new liaison process specifically aimed at monitoring the development of certain IASB projects and, as appropriate, providing the IASB with timely inputs on aspects of its proposed standards that may have potential verifiability or auditability issues – for example, aspects of proposals where preparers' judgments may be difficult to substantiate. These are matters where the IAASB believes its members' expertise can add value and whose views should be shared with the IASB.

This initiative will bring some important benefits: to the IASB in terms of contribution to the quality of its standards; and to the IAASB in terms of strengthening its ability to identify financial reporting developments that may affect the pronouncements of the IAASB or create a need for new auditing pronouncements.

Based on an assessment of the nature and stage of development of the IASB projects, and their relation to the IAASB current and future work program, eight IASB projects have been identified for monitoring. They are:

- Conceptual Framework
 - Emissions Trading Schemes
 - Fair Value Measurement & Financial Instruments
 - Income Taxes
 - Leases
 - Management Commentary
 - Revenue Recognition
 - Provisions, Contingent Liabilities and Contingent Assets
- a) Are there other projects by accounting standard setters or others that may inform the IAASB's future agenda?
- The work of IAASB should be aligned with that of the IASB.
 - UK Financial Reporting Council has issued a presentation by its Chief Executive on audit reports.
<http://www.frc.org.uk/press/pub2272.html>
- b)

⁹⁹ This group will be renamed the International Financial Reporting Standards (IFRS) Advisory Council.

- b) Are there elements in today's financial reporting trends that may suggest the need for new auditing or assurance standards or guidance?

SECTION 7—COMMUNICATING WITH STAKEHOLDERS

The IAASB's communication activities are aimed at keeping stakeholders informed of its activities, and to promote the adoption and implementation of its standards. They also enable the IAASB to be aware of recent development in practice and regulation and to hear concerns about the standards and their implementation in practice.

The IAASB communicates regularly with the following groups through meetings and liaison activities:

- Academia, through American Accounting Association, International Association for Accounting Education and Research and International Symposium on Audit Research
 - Audit firms, through the Forum for Firms and Transnational Auditors Committee
 - Audit oversight bodies and international regulators – Basel Committee on Banking Supervision, European Group of Auditors' Oversight Bodies, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators and International Organization of Securities Commissions
 - IFAC member bodies
 - International and national standard setters, including the International Accounting Standards Board and Public Company Accounting Oversight Board
 - Members of the Consultative Advisory Group, including investors, preparers and users
 - Public authorities – European Commission and World Bank
 - Public sector auditors – International Organization of Supreme Audit Institutions
- a) While the IAASB recognizes the importance of communicating regularly with the above groups, it is more difficult to interact directly with certain groups than others, such as investors and preparers. In your view, how should the IAASB best go about doing so?

IAASB should have more roundtable discussions around the world and more public relation to bridge the expectation gaps.

The IAASB should also participate in public forums with relevant regulators in all major regional areas to encourage an understanding of the objective and effectiveness of IAASB standards.

The IAASB should start debates and develop papers on a variety of audit and assurance issues and make these readily available on the IAASB website for member's references.

- b) Are there other stakeholders that should be engaged as the IAASB sets its work program?

SECTION 8—OTHER

- a) Are there any other issues you feel the IAASB should consider when it conducts its strategic review in 2010-2011? In particular, do you have any comments and suggestions as to how the IAASB can best ensure it serves the public interest? Please write as much as you like in the space below:

See comments in other Sections.