



International Federation of Accountants



IFAC-FEE Practitioners Symposium

IAASB Update
With Focus on SMEs and SMPs

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Agenda



- IFAC Policy on Single Set of Audit Standards
- SMP Perspectives on Recent IAASB Standards
- Implementation Challenges and Support
- Alternative Assurance Services
- Other IFAC / IAASB Support for SMPs
- Staying Engaged

IFAC Policy – Single Set of Audit Standards



- IFAC policy statement issued Sept 2008 in context of:
 - Questions of applicability and relevance of ISAs to SME audits
 - Concerns on cost effectiveness of ISA audits for SMEs
 - Increased pressure for exemption from statutory audit
- IFAC view: ISAs apply to audits of all sizes
 - This is in the public interest
 - Users need common understanding of meaning of 'audit'
 - Differential standards = confusion, and increased cost and risk to users

Single Set of Audit Standards (cont'd)



- Audit approach may differ but not standards or level of assurance
- How are IFAC and IAASB responding to concerns?
 - IAASB members with SMP background
 - IFAC SMP Committee input into IAASB standards
 - Specific SMP considerations in IAASB standards
 - IAASB implementation support initiatives
 - Standards for alternative assurance services
 - IFAC's Guide to ISAs and other initiatives

Clarity Project – Specific SMP Considerations in IAASB Standards



- Clarity project successfully completed Dec 2008
 - One of the most important developments in auditing standards internationally for many years
 - Key motivation: to make standards easier to understand and apply
 - Thus particularly helping SMPs apply ISAs
- Application material in relevant clarified standards
 - Includes considerations specific to smaller entities
 - Guidance drawn from IAPS 1005 where appropriate

SMP Perspectives on Revised ISA 200



- Defines fundamental premise on which an audit is conducted
- Specifies authority attaching to ISAs
- Specifies obligations of the auditor
 - Overall objectives of the auditor
 - Consequence of failure to achieve them
 - Requirement to comply with all ISAs relevant to the audit
- Explains approach to considerations specific to smaller audits in ISAs, with reference to specific qualitative characteristics of “smaller entity”

SMP Perspectives on Revised ISA 260



- ISA applies regardless of entity's governance structure or size
- Particular considerations where those charged with governance and management are the same
- Requires that communication process be established with those charged with governance
 - Communicate form, timing and expected general content of communications
- Requires communication of significant findings in writing
 - Provided auditor judges oral communication would be inadequate

SMP Perspectives on New ISA 265



- Requires communication of significant deficiencies in internal control to those charged with governance
 - Those deficiencies judged of sufficient importance to merit attention of those charged with governance
 - Communication to be in writing
- Communicate other deficiencies to management
 - Those deficiencies judged of sufficient importance to merit management's attention
 - Communication need not be in writing
 - Minimizes documentation burden for SMPs
 - Promotes constructive dialogue between auditor and management

SMP Perspectives on Revised ISA 320



- Materiality applies both in planning and performing audit, and in evaluating misstatements
- Requires determination of 3 materiality levels
 - For financial statements as a whole
 - For particular classes of transactions, account balances or disclosures
 - When performing the audit: performance materiality
- Requires revision of these materiality levels as audit progresses
- Requires documentation of the materiality levels and any changes thereto

SMP Perspectives on Revised ISA 550



- Rigorous risk-based approach
 - Expanded linkage to fraud ISA
 - Fraud risks associated with related parties with dominant influence
- Requirement to understand controls over related party transactions
- Requirement to inspect specific documents, and other records or documents considered necessary
- Significant RPTs outside normal course of business
 - Treated as significant risks

SMP Perspectives on Redrafted ISQC 1



- Requirements for firms:
 - Compliance with each ISQC 1 requirement unless not relevant
 - Documentation of policies and procedures, and communication to firm personnel
 - Firm's policies to focus on ensuring sufficient number of qualified personnel
 - Establishment of consultation policies and procedures
 - Maintenance of objectivity of engagement quality control reviewer
 - Establishment of monitoring process for QC system
 - Documentation of operation of QC system

Implementation Challenges



- Significant challenges in implementing suite of Clarity ISAs
 - Technical challenges greater for SMPs
- Key challenge: consistent application of ISAs
 - Particular difficulties in areas of risk assessment; understanding and testing of internal control; audit documentation; engagement quality control reviews
 - Lack of emphasis on, or understanding of, key concepts such as
 - Professional skepticism and judgment
 - Tone at the top
- IFAC and IAASB committed to assisting in implementation support

Preparing for Clarity ISAs



- Do not underestimate implementation challenges
- Keep up to date with all recent changes
 - Make use of resources from IAASB website and support provided by your Institutes
- Appoint change leader or team in your firms
- Make necessary preparations **now** for clarified ISAs
 - Training and education
 - Methodology and systems changes
- Discuss potential impact with clients

Implementation Support



- IAASB staff developing implementation support for Clarity ISAs
 - Specific commitment in IAASB's 2009-2011 strategy
 - Specific initiative approved by IAASB in Dec 2008 – ISA implementation support modules
 - 6 expected to be released in 2009
 - To be developed by IAASB staff
 - To be released on IAASB website in batches by Q2 2009
 - Focusing mainly on recently revised ISAs

Effectiveness Review



- Commitment in IAASB's 2009-2011 strategy
- Purpose of developing process
 - To assess effectiveness of implementation of new IAASB standards
- Will involve consultation with stakeholders
 - How can participants be involved?
- Task Force appointed
- Project proposal Q2 2009; issues paper Q4 2009
- Timing of effectiveness reviews
- Expected to become standing part of IAASB's process of continuous improvement in its standards

Alternative Assurance Services – Recent National Developments



- Increasing thresholds for exemption from statutory audit
- National standard setters exploring, developing or have developed various alternatives to audit
 - 3 different types of compilation services in Germany
 - Work on “limited audit services” for SMEs in Denmark
 - ICAEW alternative assurance service in UK
 - Discussions on “limited audit” proposals for SMEs within EC
 - Consideration of alternative assurance services in Australia and New Zealand
 - AICPA Reliability Project in the U.S.

IAASB Initiatives on Alternative Assurance Services



- Revision of review & compilation standards in IAASB strategy
 - Responds to national developments and calls from stakeholders
- Broad remit for project
 - Explore concept of alternative assurance service for SMEs
 - Consider standards for services that are acceptable alternatives to audit
- NSS consultation paper commissioned by IAASB
 - Issued September 2008
 - Number of key issues raised, e.g. whether a risk-based approach should be adopted; nature and extent of review procedures
- Project proposal for approval at March 2009 IAASB meeting

Other IFAC/IAASB Support – SMP Committee's Guide to ISAs



- Published Dec 2007, based on 2007 IFAC Handbook
- Non-authoritative implementation guide
- Objective of Guide
 - To help SMPs efficiently, effectively and consistently apply ISAs to SME audits
- Provides integrated case study and practice aids
- High demand
 - ~13,500 downloads to Dec 2008
- Several translations & reproductions in progress
- Next version expected to be issued Dec 2009

Other IFAC/IAASB Support – Going Concern Audit Practice Alert



- IAASB Staff Alert issued January 2009
- Going concern a matter for consideration in *every* audit
- Recognizes challenge of evaluating effects of credit crisis on going concern
 - Smaller entities may not historically have detailed assessments
- Important considerations
 - Limited credit availability
 - Entity's ongoing forecasts and budgeting
- Material uncertainties to be judged in context of entity circumstances

Staying Engaged



- Respond to IAASB EDs and consultation papers
- Stay informed with IFAC, IAASB and Institute developments
 - Clarity updates and other info on IAASB website
 - Institutes' newsletters, journals and conferences
 - Subscribe to free quarterly IAASB and SMP e-News
 - <http://www.ifac.org/E-news/>
 - IFAC International Center for SMPs
 - <http://www.ifac.org/SMP/>

Thank You



- Questions?
- Comments?