

## Illustrative Example of a Completed Impact Analysis Template

**NOTE:** The IAASB Impact Assessments Task Force used a recently completed standard, ISA 265, to conduct an ex post test of the template developed for the impact analysis. The following example of a completed impact analysis template was developed to illustrate how the impact analysis might be documented in the appendix to the explanatory memorandum and it does **not** represent the views of the task force on the impact of ISA 265.

<b>Subject: Overall - ISA 265, <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management and Related Conforming Amendments to Other ISAs</i></b>			
<b>Audit Effectiveness</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability by Size / Nature of Entity Subject to Audit</b>	<b>Duration of Impact</b>
<p>Audit effectiveness increases because:</p> <p>Management and those charged with governance will receive appropriate information on control deficiencies that they may not have received prior to this requirement. Management will be in a position to indicate formally to the auditor what they plan to do about those deficiencies, and those charged with governance will be in a better position to discharge their oversight function.</p> <p>Increased consistency in defining a significant deficiency will lead to increased consistency in what is identified by the auditor as a significant deficiency. Furthermore, guidance on the matters that the auditor should take into account when assessing whether an identified deficiency is a significant deficiency will further increase consistency.</p> <p>The definition of significant deficiency:</p> <ul style="list-style-type: none"> <li>• Permits sensible judgments to be made and guidance on the indicators of a significant deficiency will assist the auditor in the application of judgment.</li> <li>• Conforms to the definition applied in the US (both PCAOB and ASB standards), thereby eliminating potential for confusion. Also, there may have been potential confusion if a definition of material weakness had been provided that was different from that of the PCAOB.</li> </ul>	Large increase	<p>All audits, but particularly those audits where control deficiencies, including significant deficiencies, have not previously been communicated in the way proposed in the new standard.</p> <p>ISA audits where reporting in the U.S. is also a feature of the overall engagement will benefit through the avoidance of confusion over the definition of the term “material weakness.”</p>	Recurring

Work Effort	Direction and Magnitude of Impact	Variability	Duration of Impact
<b>Auditors</b>			
<p>Work effort increases because:</p> <p>If the auditor was not previously required to communicate the proposed matters to those charged with governance or management, or if the proposed definition for significant deficiencies is different from that previously applied by the auditor, the auditor will have to develop and implement a “system” for assessing in a consistent way whether identified deficiencies are significant deficiencies. It may also take longer to summarize, describe and discuss these matters.</p>	Small increase	All audits	One-off large increase for initial impact
	Large increase for SME audits	Effort may be greater in the case of SME audits where the approach may be new	Recurring smaller increase for ongoing impact
<p>As explained in paragraph A22, a PAA<sup>1</sup> may be required to communicate deficiencies to a wider extent than that required by the proposed standard. Such a requirement may flow from the PAA’s status and mandate or general provisions or principles of public law. In general, it will require written, rather than oral, communication, which may require additional work effort.</p>	Small increase	PAAs (public sector entities) and other auditors in the public sector that are subject to ISAs	Recurring
<b>Management or, where appropriate, those charged with governance (audit client)</b>			
<p>Work effort increases because:</p> <p>Management or those charged with governance will need to consider (and act on) control deficiencies that may not have previously been reported to them.</p>	Small increase	All audits, but particularly those where control deficiencies or significant deficiencies have not previously been communicated in the proposed manner	Recurring
	Large increase	Work effort may be greater for SME audits	

<sup>1</sup> A PAA is a public authority mandated to audit publicly funded entities, e.g., a Supreme Audit Institution or a state/local level audit office.

<b>Other stakeholders (such as audit oversight bodies)</b>			
Work effort increases because: A new requirement is introduced that audit oversight bodies may elect to make an element of their inspection processes.	Small increase	All audits subject to inspection oversight	One-off large increase for initial impact as audit oversight bodies change inspection processes  Recurring smaller increase for ongoing impact
<b>Other Impacts</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability</b>	<b>Duration of Impact</b>
<b>Auditors</b>			
None identified	-	-	-
<b>Management or, where appropriate, those charged with governance</b>			
“Added value” for management as the communications will help management to identify deficiencies that need correction and thus result in improved financial reporting.	Small increase	None	Recurring
<b>Investors</b>			
None identified	-	-	-
<b>Other stakeholders (such as audit oversight bodies)</b>			
None identified	-	-	-