



**INTERNATIONAL FEDERATION  
OF ACCOUNTANTS**

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**Agenda Item**  
**11**

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**DATE:** August 31, 2009  
**MEMO TO:** Members, Technical Advisors, and Observers of the IPSASB  
**FROM:** Linda Lach and Alta Prinsloo  
**SUBJECT:** Impact Analysis

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**ACTION REQUIRED**

1. Members, Technical Advisors and Observers are asked to consider and provide views on the proposed impact analysis for IFAC.

**OBJECTIVES OF THIS AGENDA ITEM**

2. The objectives of this agenda item are:
  - (a) To report on progress made in developing an impact analysis for IFAC; and
  - (b) To obtain the views of the participants on the development of the impact analysis.

**BACKGROUND**

3. IFAC staff have commenced a project to develop an impact analysis for IFAC. The project is undertaken in consultation with an International Auditing and Assurance Standards Board (IAASB) task force and an IFAC staff group. The IFAC staff group includes staff representing the various IFAC boards and committees (including the IPSASB), the Compliance Advisory Panel and the Communications department.
4. An impact analysis contributes to the development of high-quality standards by providing a systematic and structured approach to obtain information about the potential impacts of a proposed new standard on key stakeholders and to document and communicate this information.
5. In developing the proposed impact analysis, IFAC staff have been guided by the following criteria:
  - (a) The need to incorporate the analysis into the due process.
  - (b) The need to make the analysis scalable. In other words, its scope and depth depend on the nature of the problem being addressed.
  - (c) The importance of developing an approach that is practical and can be applied by IFAC staff responsible for managing projects of their respective boards.

*Proposed Impact Analysis for IFAC*

6. The following steps, which are conducted as part of the due process, are important to the development of an impact analysis:<sup>1</sup>
  - (a) Determining the nature and magnitude of the problem and the need for action by the board.
  - (b) Determining the objective(s) of the board in addressing the problem.
  - (c) Identifying the primary options to achieve the objective.
  - (d) Consulting relevant stakeholders.
  - (e) Conducting an overall assessment and drawing a conclusion.
7. The impact analysis provides a tool to analyze the impact of the preferred option for each key issue ((c) above) and the overall impact of the proposed new standard ((e) above). This tool may also be referred to as a “cost-benefit analysis” or an “effect analysis.”

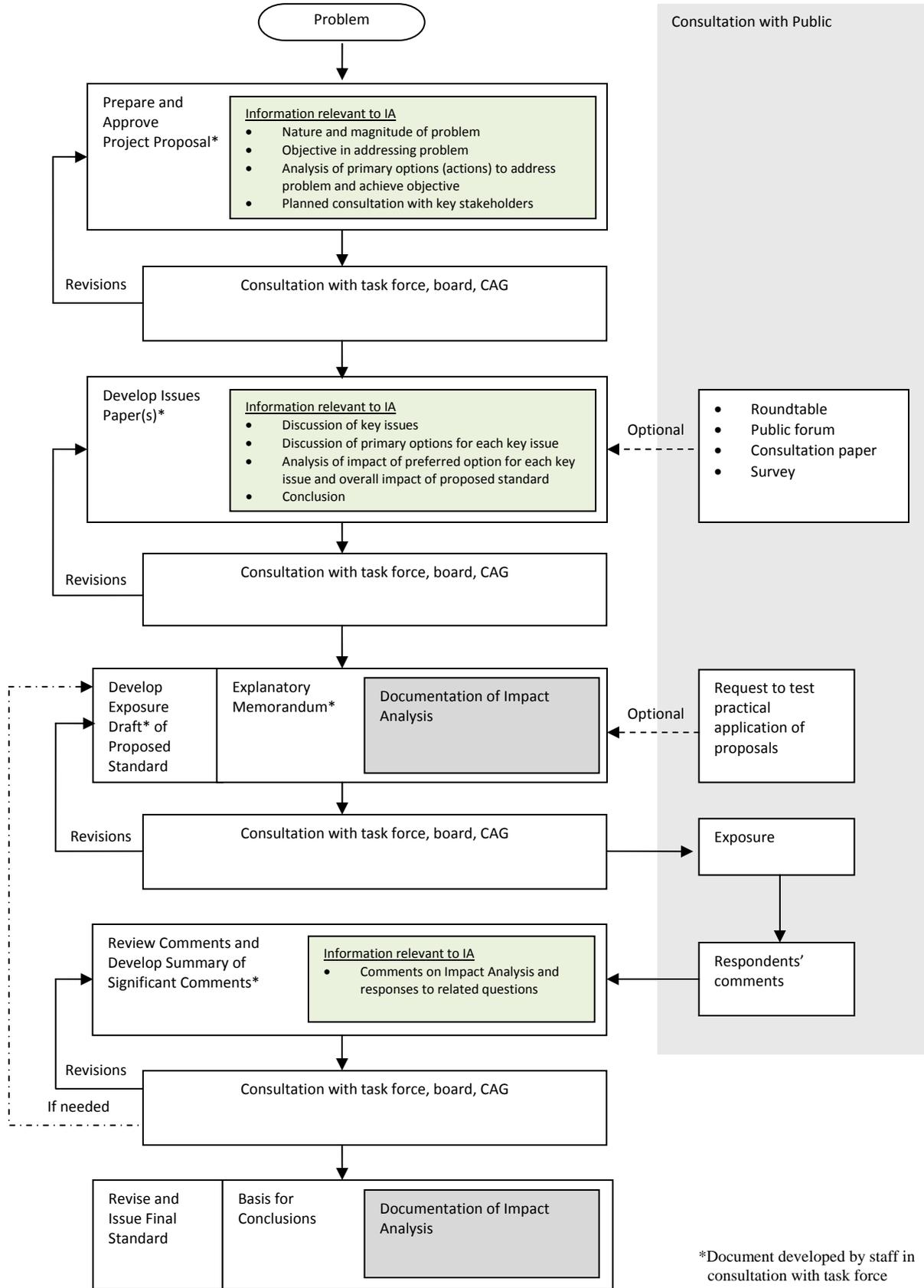
*Informing the Impact Analysis*

8. The impact analysis is informed throughout the development of the proposed new standard and documented in the explanatory memorandum that accompanies the exposure draft. The final impact analysis is documented in the basis for conclusions.
9. The impact analysis, in the first instance, is developed by staff for discussion with and further development by the task force. The outcome of this discussion is included in the documents presented to the board or its consultative advisory group. This takes place throughout the development of the proposed new standard, and the impact analysis is modified accordingly.
10. Documenting the impact analysis in the explanatory memorandum is particularly important for obtaining feedback from stakeholders other than those represented on the board or its consultative advisory group. Selected respondents to the exposure draft may be requested to test the practical application of the proposals to inform further the impact analysis.
11. The following diagram illustrates how the impact analysis will be informed through discussion or consultation at each stage of the development of the proposed new standard.

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<sup>1</sup> The impact analysis steps are adapted from those presented in *Hints & Tips for Writing a Regulatory Impact Statement/Business Compliance Cost Statement (RIS/BCCS)* developed by the Ministry of Economic Development, Wellington, New Zealand. They are also in line with those in the Markt/2007/15/F – Study on International Standards on Auditing, *Evaluation of the Possible Adoption of International Standards on Auditing (ISAs) in the EU – Interim Report (21/08/2008)*. Paragraph 57 of this report notes that the impact assessment reporting format recommended by the European Commission depicts the following major (methodological) steps:

- (a) Procedural issues and consultation of interested parties;
- (b) Problem definition;
- (c) Objectives;
- (d) Policy options;
- (e) Analysis of impact;
- (f) Comparing the options; and
- (g) Monitoring and evaluation.



*Developing the Impact Analysis*

12. When developing a proposed new standard, the board analyzes the impact of both the overall standard and the preferred option for each key issue addressed during the development of the standard. Narrative descriptions of these analyses are included in the explanatory memorandum. These analyses are scalable; that is, their scope and depth depend on the nature and magnitude of the problem being addressed. The template below assists in analyzing the overall impact of a proposed new standard. The template may also assist in analyzing the impact of the preferred option for each key issue, but its use is not required.
13. The template identifies who will be affected by the proposed standard / preferred option, how they will be affected, and to what extent they will be affected. It provides for an analysis of the primary impacts and other impacts, if any. The extent (magnitude) of the impact is measured in qualitative terms, using a simple 5-point directional scale. The scale takes account of the type (increase or decrease) and relative magnitude of the impact (small or large). The template also indicates whether the impact varies by size or nature of the entity, and the duration of the impact. The template has been tested by the IAASB task force on a recently completed project, and modified based on the task force members' experience.

**Note:** Guidance on filling out the template is presented in italics and brackets.

<b>Subject</b> _____			
<i>[Describe the subject being analyzed, which is either the Board's preferred option for dealing with a key issue or the overall impact of the proposal.]</i>			
<b>Primary Impacts</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability by Size / Nature of Entity (Note 1)</b>	<b>Duration of the Impact</b>
<i>[Describe who is affected] [Identify area of impact] increases/decreases because ... [i.e., describe how they are affected]</i>	<i>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
<i>[Describe who is affected] [Identify area of impact] increases/decreases because ... [i.e., describe how they are affected]</i>	<i>[Insert direction and magnitude: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
<b>Other Impacts</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability</b>	<b>Duration of Impact</b>
<i>[Describe who is affected] [Identify area of impact] increases/decreases because ... [i.e., describe how they are affected]</i>	<i>[Insert direction and magnitude: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
<i>[Describe who is affected] [Identify area of impact] increases/decreases because ... [i.e., describe how they are affected]</i>	<i>[Insert direction and magnitude: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>

- Note 1: Indicate whether the impact is for all entities or limited to specific industries, particular types of entity, or entities in particular jurisdictions. In particular, the difference between the impact on small and large firms should be considered.
- Note 2: Additional rows should be added as considered necessary. It may be helpful to categorize the area of impact.
14. The appendix contains an example of the template developed by the IAASB task force for IAASB projects.

*Documenting the Impact Analysis*

15. The explanatory memorandum and basis for conclusions include the template analyzing the overall impact of the (proposed) new standard and, if used, the templates analyzing the impact of the preferred option for each key issue. To enhance the flow of the explanatory memorandum / basis for conclusions, brief descriptions of the analyses and related questions for respondents are included in the body of the document, and the completed template(s) are presented in an appendix.

*Proposed Guidance*

16. IFAC staff are developing a proposed guide that provides background to the impact analysis for IFAC, guidance on how to incorporate the impact analysis steps into the due process, and guidance on completing the impact analysis template.

**CONSULTATION TO DATE AND PLANNED CONSULTATION**

17. The IFAC staff group is being consulted as the project progresses.
18. Staff presented the principles of the proposed impact analysis to the Consultative Advisory Group of the International Accounting Education Standards Board (IAESB) on February 6, to the International Ethics Standards Board for Accountants (IESBA) on April 28, the Small and Medium Practices Committee on May 22, and to the IAESB on June 22. Staff also presented an update to the IFAC Board at their meeting on June 4-5. Other presentations are planned during 2009.
19. IAASB task force chairman, John Fogarty, presented the proposed impact analysis at the IAASB-National Standards Setters meeting on April 23-24, 2009.
20. The IAASB task force presented the proposed impact analysis to the IAASB at their meeting on June 15. The IAASB approved the proposed guidance for pilot testing.

*Testing the Impact Analysis*

21. The IAASB will begin pilot testing the impact analysis on one or more IAASB projects in the third or fourth quarter of 2009. It is proposed that this is followed by pilot tests on projects of the IESBA, the IPSASB, and the IAESB.
22. The results of the pilot tests will be used to modify the proposed impact analysis. In addition, they will become examples to be appended to the proposed guide.

**APPENDIX: IMPACT ANALYSIS TEMPLATE DEVELOPED FOR THE IAASB**

**Note:** Guidance on filling out the template is presented in italics and brackets.

<b>Subject</b> _____ <i>[Describe the subject being analyzed, which is either the overall impact of the proposed new standard or the preferred option for a key issue.]</i>			
<b>Audit Effectiveness</b>	<b>Direction and Magnitude of Impact (Note 1)</b>	<b>Variability by Size / Nature of Entity Subject to Audit (Note 2)</b>	<b>Duration of Impact</b>
Audit effectiveness increases/decreases because ... <i>[Narrative description of impact, including the reasons for the increase in audit effectiveness and, where applicable, who is affected and how they are affected]</i>	<i>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
<b>Work Effort</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability</b>	<b>Duration of Impact</b>
Auditors (Note 3) Work effort increases/decreases because ... <i>[Narrative description of impact, including the reasons for the change in work effort and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
Management or, where appropriate, those charged with governance (audit client) (Note 4) Work effort increases/decreases because ... <i>[Narrative description of impact, including the reasons for the change in work effort and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
Other stakeholders (such as audit oversight bodies) Work effort increases/decreases because ... <i>[Narrative description of impact, including the reasons for the change in work effort and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
<b>Other Impacts</b>	<b>Direction and Magnitude of Impact</b>	<b>Variability</b>	<b>Duration of Impact</b>
Auditors (Note 3) Other impact occurs because ... <i>[Narrative description of other impact and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude of the impact: Large increase, Small increase, None, Small decrease, Large decrease]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>

Management or, where appropriate, those charged with governance Other impact occurs because... <i>[Narrative description of other impact and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
Investors (Note 5) Other impact occurs because... <i>[Narrative description of other impact and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>
Other stakeholders (such as audit oversight bodies) Other impact occurs because... <i>[Narrative description of other impact and how this stakeholder is affected]</i>	<i>[Insert direction and magnitude]</i>	<i>[If appropriate, describe variability]</i>	<i>[Insert One-off or Recurring]</i>

Note 1: The extent (magnitude) of the impact on audit effectiveness is measured in qualitative terms, using a simple 5-point directional scale. The scale takes account of the direction (increase or decrease) and relative magnitude of the impact (small or large).

Note 2: Indicate whether audit effectiveness, work effort, or other impact is affected for all entities or is limited to specific industries, particular types of entities, or entities in particular jurisdictions. In particular, the difference between the impact on small and large firms should be considered. For example, in the case of the IAASB, the impact of a new requirement for audit planning may have a larger impact on small firms than large firms, while a new requirement relating to the work of internal auditors may have little or no impact on smaller firms. Any difference in the impact for public sector entities should also be considered

Note 3: The references to Auditors are assumed to include Supreme Audit Institutions.

Note 4: For example, a new requirement for management to use an expert may create additional effort (and costs) for management to interact with the expert, and for management's expert to interact with the auditor's expert.

Note 5: Investors are considered to be a representative subset of users. The "Framework for the Preparation and Presentation of Financial Statements," adopted by the IASB in April 2001, indicates that, for a profit-oriented entity, as investors are providers of risk capital to the enterprise, the provision of financial statements that meet their needs will also meet most of the needs of other users that financial statements can satisfy.