Meeting: IAASB
Meeting Location: Beijing
Meeting Date: September 19-23, 2011

Status and Authority of International Auditing Practice Statements and Special Considerations in Auditing Financial Instruments

Objective of Agenda Items

1. To approve the following:
   • Proposed final amendments to the Preface\(^1\), including the recommendation that the IAASB re-expose the implication of the amended Preface to eliminate International Auditing Practice Statements (IAPSs). (Agenda Item 2)
   • Proposed final International Auditing Practice Note (IAPN) 1000.\(^2\) (Agenda Item 3)
   • For exposure, proposed amendments to ISAs 500 and 540.\(^3\) (Agenda Item 3)

2. The issues and proposals in Agenda Items 2 and 3 are interrelated. Accordingly, this covering memo introduces both items.

Status and Authority Working Group (Authority Working Group)

3. Members:
   • John Fogarty, Chairman, Former IAASB Member
   • Jon Grant, IAASB Member
   • David Swanney, IAASB Member
   • Marc Pickeur, IAASB CAG Representative for the Basel Committee on Banking Supervision
   • Greg Shields, IAASB Technical Advisor

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\(^1\) Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Service Pronouncements

\(^2\) IAPN 1000, Special Considerations in Auditing Financial Instruments

\(^3\) ISA 500, Audit Evidence and ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures
Complex Financial Instruments Task Force (1000 Task Force)

4. Members:
   - John Fogarty, Chairman, Former IAASB Member
   - Jon Grant, IAASB Member
   - Tomokazu Sekiguchi, IAASB Member
   - Gregory Fletcher, Staff of US Public Company Accounting Oversight Board
   - John Hughes, KPMG and Chair of UK Auditing Practices Board’s Working Party on Complex Financial Instrument
   - Marc Pickeur, IAASB CAG Representative for the Basel Committee on Banking Supervision

In addition to the input provided by John Hughes, an expert in the audit of financial instruments from the UK, the Task Force has been aided by Tom Omberg, Deloitte, an expert in financial instruments from the US. These experts have primarily assisted the Task Force in understanding the practical issues around auditing financial instruments.

Activities Since Last IAASB Discussion

5. At its June 2011 meeting, the IAASB considered significant comments received on the October 2010 exposure drafts of proposed IAPS 1000 (ED-1000) and proposed clarification of the status and authority of new IAPSs (ED-IAPS), together with recommendations on the way forward in response to the issues. The comments received on exposure are available on the IAASB website at http://www.ifac.org/Guidance/EXD-Details.php?EDID=0143.

6. Under common chairmanship, the Authority Working Group and 1000 Task Force met separately throughout July and August 2011 to consider issues, including the IAASB’s comments from its June 2011 meeting, and to develop the accompanying proposals.

Overview of Proposals

7. In brief and broadly speaking, the comments on ED-1000 and ED-IAPS reflected a wide range of views on the role such documents should play and how the IAASB can be responsive to varying needs. It was also clear that many stakeholders did not find ED-IAPS to clarify the status and authority of new IAPSs had achieved its objective.

8. The proposals in Agenda Items 2 and 3 represent a multi-pronged response to the views received on exposure. The nature of those views has been such that they cannot be satisfactorily addressed by a single response alone. The proposals seek to achieve the following:

   (i) To establish a clear distinction between the authoritative standards of the Board (such as the ISAs) and non-authoritative material approved by the Board intended to assist practitioners.
(ii) To provide a timely authoritative standard-setting response to specific issues identified during deliberations on the topic auditing financial instruments.

(iii) To provide a timely non-authoritative response to calls for additional material on auditing financial instruments that serves to deliver practical assistance to auditors.

9. Agenda Item 2 addresses (i) above through the proposal to re-name and re-characterize the former category of authoritative pronouncements known as IAPS to a new category of non-authoritative documents—International Auditing Practice Notes (IAPNs). This responds to the need to be able to provide auditors with a source of timely and useful material and the flexibility the IAASB needs to do so. The proposal would in effect eliminate the current category of authoritative pronouncements known as IAPS, thereby making clear that all future authoritative guidance to be issued by the IAASB would be contained in the ISAs themselves. The elimination of a vehicle for authoritative guidance outside of the ISAs, however, is a matter that the Working Group believes should warrant re-exposure.

10. Agenda Item 3 addresses (ii) and (iii) above. In particular, the proposed amendments to ISAs 500 and 540 in relation to additional guidance on auditing considerations relevant to the use of third party pricing sources are intended to assist in the consistent and appropriate application of the ISA requirements. Proposed IAPN 1000, on the other hand, serves to provide practical assistance to auditors for which there is a continuing sense of urgency.

11. In respect of Agenda Item 3, including the text of proposed IAPN 1000 and amendments to ISAs 500 and 540, the IAASB is asked to note that the 1000 Task Force did not have the opportunity to read the final version of the material presented. This was due to the significant weather conditions experienced late August 2011 in the eastern corridor of North America which adversely affected the timing of the Task Force’s planned final review. Nevertheless, the Task Force supported release of the material to the IAASB in the interest of progressing Board discussions.

12. While the Task Force Chairman and Staff believe the material presented appropriately responds to the inputs that were already received from the Task Force, individual Task Force members may have observations on the material from their subsequent review in advance of the September 2011 IAASB meeting that may inform their view on the need for further minor or significant refinement of content.

Materials Presented

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Agenda Item 2-C  Proposed Final Amendments to Preface dated September 2011 – (Clean)

Agenda Item 2-D  Preface – Matter Proposed for Re-exposure dated September 2011

Agenda Item 3-A  Special Considerations in Auditing Financial Instruments – Summary of Remaining Significant Comments on Exposure and IAASB Task Force Recommendations dated September 2011

Agenda Item 3-B  IAPN 1000 – Special Considerations in Auditing Financial Instruments dated September 2011 (Clean)

Agenda Item 3-C  Proposed Amendments to ISAs 500 and 540 dated September 2011 (Marked from Extant ISAs)

Agenda Item 3-D  Proposed Amendments to ISAs 500 and 540 dated September 2011 (Marked from June 2011 IAASB Meeting)

Actions Requested

13. The IAASB is asked to consider the significant issues and proposals presented in Agenda Item 2-A and Agenda Item 3-A, to approve the Preface and IAPN 1000, and to approve for the exposure the proposed amendments to ISAs 500 and 540.

14. IAASB members are also asked whether there are issues raised by respondents, in addition to those addressed by the Authority Working Group and 1000 Task Force, that they consider should be discussed by the IAASB.