International Auditing Practice Statements (IAPSs) Review of Status and Authority—Issues and IAASB Working Group Proposals

I. Background

Objectives of Agenda Item

1. To recommend actions to the IAASB with respect to the extant IAPSs.

2. To consider a proposal to clarify the status and authority of future IAPSs (including the proposed revised IAPS 1012 under development), and to obtain views on the direction to be taken to further consult on how this clarification might be effected.

Working Group

3. The Working Group comprises:
   - John Fogarty, Chair, former IAASB Deputy Chair
   - 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

4. The Working Group held a teleconference to discuss the matters included in this Issues Paper.

Discussion at the December 2009 IAASB Meeting

5. At its December 2009 meeting, the IAASB discussed a proposal that IAPSs should have a status and authority equivalent to application and other explanatory material in the ISAs. While the IAASB was supportive of having a mechanism for issuing guidance material, there were mixed views on the question of status and authority.

6. Most IAASB members supported retaining the current status and authority of IAPSs as set forth in the amended Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (the Preface). Retaining that authority allows for IAPSs to contain more informational or background material than that which would be appropriate for application material. However, the IAASB asked the Working Group to explore how the IAASB could clarify its position on how auditors should consider this material in performing audits, as previous input has indicated there is inconsistency in practice as to how IAPSs are used. The Working Group was also asked to determine whether it would recommend withdrawing the six current IAPSs, as they are not in line with the clarified ISAs.
II. Matters to Be Discussed by the IAASB

Proposal to Withdraw the Extant IAPSs and Consider Whether Further Action Is Needed

7. The Working Group has considered the six IAPSs that are effective and proposes the following actions:

- IAPS 1000, “Inter-bank Confirmation Procedures” – Withdrawal with no further action.
- IAPS 1004, “The Relationship Between Banking Supervisors and Banks’ External Auditors” – Evaluate how this guidance can be retained and repositioned in coordination with the Basel Committee on Banking Supervision (the Basel Committee) (see further discussion in paragraph 8).
- IAPS 1006, “Audits of the Financial Statements of Banks” – Withdrawal with consideration of the need for a future project to address the topic. The current IAPS is not adequate; for example, material regarding internal control is not based on a suitable internal control framework such as COSO, and is often replaced with national guidance tailored to the domestic regulatory environment.
- IAPS 1012, “Auditing Derivative Financial Instruments” – Withdrawal of extant IAPS and continuance of current project to expand the scope beyond derivative financial instruments.

8. The Working Group’s discussions on IAPS 1004 indicated some unique concerns. IAPS 1004, like the other IAPSs, is out-of-date and not aligned with the clarified ISAs. IAPS 1004 is unique however in that it is a joint document of the International Auditing Practices Committee (IAPC – predecessor of the IAASB) and the Basel Committee. Both have approved and published the document, which is based on ISAs extant at October 1, 2001. Withdrawing it in its entirety may have implications for the Basel Committee; further consultation on this matter is planned. The Working Group intends to explore how the relevant material in the IAPS may be maintained, not as an IAPS but in another form,\(^1\) and will present a proposal for doing so to the IAASB at its June 2010 meeting. The Representative from the Basel Committee on the Task Force specifically expressed a view that such guidance should remain authoritative and should be either be jointly developed by the IAASB and the Basel Committee or endorsed by the IAASB.

\(^1\) For example, in October 2009, the International Association of Insurance Supervisors released an “Issues Paper on the relationship between the actuary and external auditor and in the preparation and audit of financial reports,” which mirrors concepts included in IAPS 1004. While a Working Group of the IAASB provided comments on the proposed paper, the IAASB has not endorsed this document.
9. Subject to the IAASB’s views, the Working Group recommends these proposals be discussed at the upcoming IAASB-National Standards Setters (NSS) meeting and the IAASB formally conclude on the proposals at its June 2010 meeting. An IAASB consultation paper on the topic in June would then communicate these proposals and solicit feedback from respondents as to whether any new IAPs (or authoritative or non-authoritative guidance in some other form) should be developed to replace the extant IAPs that will be withdrawn.

10. Any revision projects would be factored into the strategic planning cycle for the period 2012-2014 and considered in the context of the IAASB’s assessment of its relative priorities. The draft strategy questionnaire (Agenda Item 9) lists the current project to clarify the status and authority of IAPs, and review the appropriateness and content of the existing IAPs, including whether they should be revised or withdrawn. Respondents will be asked for their views on prioritization of potential projects and any new projects that they may identify. The results of the questionnaire (which will be available in late May) may help inform the anticipated IAASB June consultation paper on whether there is a need to revise one or more of the IAPs on a more urgent basis in light of the plan to withdraw the extant IAPs.

11. The draft strategy questionnaire in Agenda Item 9 separately includes potential projects to revise IAPs 1004 and 1006. Previous discussions have indicated that these IAPs related to banking are currently being used in some jurisdictions and would benefit from revision, though these may not be used by NSSs (see paragraphs 41-43). Should the IAASB agree to revise IAPs 1004 and 1006 in the future, expertise in drafting will be needed from the Basel Committee given the specialized nature of the topic.

### Matters for IAASB Consideration

1. Does the IAASB agree with the proposals outlined above?
2. Does the IAASB have preliminary views on how IAP 1004 could be addressed based on the recommendation to retain the guidance in some form? Does the IAASB have preliminary views on whether a project to revise IAP 1006 should be undertaken?

### Clarifying the Status and Authority of IAPs

12. The Preface states “International Auditing Practice Statements (IAPs) are issued to provide interpretive guidance and practical assistance to professional accountants in implementing ISAs and to promote good practice … Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how: (a) the requirements

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2 The IAPC bank audit sub-committee included observers from the Basel Committee; however, the IAPs has not been approved nor published by the Basel Committee. It is based on ISAs extant at October 1, 2001.
in the ISAs; or (b) the basic principles and essential procedures in the IAASB’s other Engagement Standard(s), addressed by the Practice Statement, have been complied with.”

13. At the December 2009 meeting, IAASB members had differing views on the intent of the current language in the Preface. Some believed it to mean that an auditor would have to read and understand the IAPSs and make a determination whether to use the guidance in the IAPS in planning and performing the audit. However, the question arose whether an auditor could claim compliance with the ISAs if the auditor was not aware of or had not read the IAPS. An IAASB member noted that in his particular jurisdiction IAPSs are not translated and it would be nearly impossible to expect that auditors would have read the IAPSs.

14. The IAASB asked the Working Group to consider how best to clarify the IAASB’s views on the status and authority of the IAPSs by supplementing or amending the language in the Preface, and whether any changes would be necessary within ISA 200\(^3\) to acknowledge auditors’ obligations with regard to IAPSs.

15. Discussion among Working Group members noted that the IAASB’s discussions seemed to favor differing levels of obligation attaching to 3 elements of the IAASB’s pronouncements – (1) the requirements in the ISAs; (2) the application and other explanatory material in the ISAs; and (3) guidance contained in IAPSs. However, the wording in the Preface seems to indicate that IAPSs are to be applied in audits, which the Working Group believes may imply a higher level of obligation than that which currently attaches to the application and other explanatory material. This is obviously not what the IAASB intended in establishing the relationship between the requirements and application and other explanatory material, and retaining the current language in the Preface may proliferate this possible misinterpretation.

16. The Working Group therefore believes the wording describing the status and authority of IAPSs will need to be clarified to explain what the auditor is meant to do with this material. Given the Working Group’s recommendations in relation to the six extant IAPSs, any proposed revised wording for authority is primarily meant to explain how auditors should treat the guidance proposed to be included in IAPS 1012 (and any future IAPSs). Accordingly, it is necessary to do this concurrently with the exposure draft of IAPS 1012 to allow respondents to evaluate that guidance in context.

17. The Working Group believes strengthening the current “comply or explain” model will improve the quality of audits and encourage widespread use of material like that in proposed revised IAPS 1012. In that regard, the IAPS 1012 Task Force has taken steps in revising the IAPS 1012 document to make it clearer that such guidance can be applied to entities of all sizes dealing with financial instruments of varying complexities (see Agenda Item 6-C). That Task Force believes it would be unfortunate if auditors chose to ignore IAPS 1012 because they view the Preface (containing material on the status and authority of IAPSs) itself as non-authoritative.

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\(^3\) ISA 200, “Overall Obligations of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing.”
Working Group Recommendation

18. Because IAPSs are international pronouncements of the IAASB and follow the same due process in their development that is afforded ISAs and other standards, a certain level of authority is perceived to attach to them. The Working Group is of the view that, if the IAASB determines it is necessary to develop an IAPS to address particular circumstances and invests the resources to do so (see paragraphs 39-40), it is important that a level of authority attaches to them and their use is promoted among auditors.

19. The Working Group recommends that wording along the following lines be used to describe auditors’ obligations in relation to IAPS 1012 and any other new IAPSs:

   The auditor shall determine whether any International Auditing Practice Statements (IAPSs) are relevant to the circumstances of the audit. If the auditor determines an IAPS is relevant, the auditor shall have an understanding of the IAPS.

   IAPSs are issued to provide interpretive guidance and practical assistance to auditors in implementing ISAs and to promote good practice. They provide further explanation and guidance on the requirements of ISAs in the context of a particular topic, and include examples of procedures that may be appropriate in the circumstances. Having an understanding of any IAPS(s) relevant to the audit assists the auditor to understand the objectives and to apply the requirements of relevant ISAs properly.

20. The Working Group acknowledges that this moves more towards an authority for IAPSs that is similar to application material for particular circumstances. However, it believes the way in which the auditor’s obligations are now described in the above is appropriate in light of what the IAASB is aiming to achieve by having a vehicle such as IAPSs.

21. Once the IAASB agrees on the wording to describe the status and authority of the IAPSs, it is recommended that that wording be included in the anticipated June consultation paper to solicit views from respondents as to how such wording would be interpreted, and whether it is appropriate in light of the content of IAPS 1012 (or indeed, whether the content of IAPS 1012 is appropriate in light of its authority).

Matter for IAASB Consideration

3. Does the IAASB agree with the proposed changes to clarify how material included in an IAPS should be considered by the auditor, in light of the proposed revised IAPS 1012? If not, are there suggestions for how the language could be improved?

Placement of the Wording Describing the Auditor’s Obligation Related to IAPS 1012

22. Should the IAASB support the recommendation to clarify the existing wording describing the authority attaching to IAPSs, the question then is where such wording should be placed. There are a number of options that could be considered, individually or in combination. The options include:
• Continue to use (only) the Preface to describe the authority of IAPSs.
• Rely on the IFAC Statement of Membership Obligation (SMO) 3\(^4\) and the IAASB Policy Position about Modifications to International Standards by National Standard Setters to highlight IAPSs and how they should be considered by IFAC member bodies and used by NSSs.
• Incorporate the auditor’s obligation into ISA 200.
• Describe the IAASB’s views on the hierarchy of its standards and guidance in another manner, such as an IAASB Policy Position.

23. Subject to the IAASB’s views, the Working Group recommends that the various options be put forth in the June consultation paper. This will allow for feedback on how each option might be viewed by different jurisdictions.

24. The above options are discussed below.

\textit{Continue to Use the Preface to Describe the Authority of IAPSs}

25. This option assumes that auditors have been following the Preface in relation to the IAPSs that currently exist today. This may in fact not be the case at present, and is unlikely to be so in the future – as part of the Clarity project, the intent was for auditor’s obligations when conducting an audit in accordance with ISAs to now be wholly contained in ISA 200. In addition, as the Preface itself is meant to be descriptive rather than to establish obligations, some jurisdictions that adopt the ISAs into law or regulation do not reproduce or adopt the Preface. Auditors in those jurisdictions therefore may not look to the Preface to identify additional guidance that may be relevant to their audits.

\textit{Relying on SMO 3 and the IAASB Policy Position about Modifications to International Standards by National Standard Setters}

26. IFAC SMO 3 (Amended November 2006\(^5\)) states that:

\begin{quote}
Member bodies should use their best endeavors …to assist with the implementation of International Standards [ISs] or national standards [NSs] and related other pronouncements that incorporate International Standards. This includes promoting the use of related Practice Statements, or the development of national pronouncements that incorporate related Practice Statements or that provide similar implementation guidance.
\end{quote}

27. The Working Group believes that while SMO 3 places an obligation on member bodies to build awareness of IAPSs, it also allows for the development and use of national implementation guidance in lieu of adopting the IAPSs. Should the IAASB agree the status of IAPSs should be addressed in SMO 3, the current obligation in SMO 3 to “promote the use of Practice Statements” would need to be strengthened to be consistent

\(^4\) SMO 3, “International Standards, Related Practice Statements and Other Papers Issued by the IAASB.”

\(^5\) SMO 3 was amended in part to update it for the IAASB’s discussion on IAPSs at its May 2006 meeting.
with the proposal in paragraph 19. It should be noted that relying solely on the SMOs to convey the status, authority and other key matters relating to adopting the IAPSS would not be effective, since not all NSSs who have adopted, or intend to adopt the ISAs, are members of IFAC and therefore obligated by the SMOs.

28. IFAC’s Compliance Advisory Panel (CAP) develops the SMOs and monitors member bodies’ compliance with them (through a self-reporting process). The CAP has recently commenced a longer-term project to redraft the SMOs, and will consult publicly on whether the proposed changes are appropriate. The Working Group is of the view that the current use of IAPSSs by member bodies should be explored during the IAASB’s consultation and communicated to the CAP to inform possible revision of SMO 3.

29. Related to the SMOs, the IAASB Policy Position (June 2006), Modifications to International Standards of the IAASB—A Guide for National Standard Setters that Adopt IAASB’s International Standards but Find It Necessary to Make Limited Modifications, sets out the IAASB’s views on when a NSSs that adopts the IAASB’s ISs as their NSs with little or no amendment can assert that their NSs conform to ISs. In the view of the Working Group, this Policy Position should be revised to explicitly cover all IAASB pronouncements, including IAPSSs. Also, in light of the obligation proposed in paragraph 19, the Working Group is of the view that the Policy Position could be updated to describe the process by which NSSs may be permitted to make changes to IAPSSs or conclude that equivalent guidance developed by NSSs carries the same intent and authority as the IAPSSs. This would further strengthen the use of new IAPSSs by NSSs.

Incorporating the Auditor’s Obligations into ISA 200

30. The Working Group believes that the IAASB’s intent in commencing a project to revise IAPS 1012 was to provide guidance on how the requirements of the ISAs could be applied in a particular circumstance. Previous IAASB discussions have indicated the need for a vehicle to do so, in particular when such guidance relates to more than one ISA and incorporating the guidance into an ISA in the form of application material would unbalance the ISA or result in the inclusion of material that is not applicable in virtually all engagements.

31. Incorporating the obligation with respect to IAPS 1012 described in paragraph 19 into ISA 200 as a discrete requirement may be most effective in ensuring that auditors are aware of the fact that there may be material in addition to the ISAs that is relevant to the conduct of an audit in particular circumstances. There are implications from this approach however, as discussed below, and therefore the Board’s views on this are particularly important.

32. The Working Group acknowledges that making changes to ISA 200 may affect those that have or are in process of adopting the ISAs, and in particular those adopting or planning to adopt the ISAs in law or regulation such as the European Commission (EC). It was explained at the December 2009 meeting that while the European Union (EU)’s 8th Company Law Directive does contemplate that IAPSSs could be adopted into law on a case-by-case basis the current IAPSSs are not being considered for adoption concurrently with the clarified ISAs.
33. The Working Group nevertheless feels that future IAPSs (which would presumably be developed under clear criteria and kept up to date) are a necessary form of authoritative guidance and therefore should be adopted by those that are adopting the ISAs. It therefore believes that a party could not decide on a case-by-case basis whether to adopt an IAPS if the IAPS is relevant to the audit. This would not be inconsistent with the current obligation on auditors under ISA 200 to address new or revised ISAs to comply with the ISAs.6

Hierarchy of Standards and Guidance, Including IAPS

34. To clarify the status of IAASB’s authoritative pronouncements (ISAs and IAPSs), as well as the distinction between such pronouncements and non-authoritative pronouncements (e.g., Staff Publications), there is the option of establishing a formal hierarchy of pronouncements and guidance. While such hierarchy would be placed in the Preface, there may also be merit in also issuing an IAASB Policy Position as a means to build further awareness by those that do not acknowledge the Preface of how the IAASB views its various outputs. For this purpose, the following modifies the preliminary proposal that was included in the IAASB December 2009 meeting agenda material:

**IAASB Authoritative Pronouncements**

The authoritative pronouncements of the IAASB comprise International Standards and Practice Statements. Both are issued following IAASB’s stated due process and are contained in the IFAC Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

The obligations associated with, and further description of, International Standards and Practice Statements issued by the IAASB are provided below.

[The proposed wording in paragraph 19 would also be incorporated in the Policy Position, along with relevant information from ISA 200 describing the auditor’s obligations in relation to the ISAs.]

**Non-Authoritative Material**

Non-authoritative material may be published on the IAASB website. This may include, for example, IAASB Staff publications, such as Staff Audit Practice Alerts, Staff Questions and Answers, and other types of documents of a similar nature. 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. Other material

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6 Paragraph 18 of ISA 200 states: “The auditor shall comply with all ISAs relevant to the audit. An ISA is relevant to the audit when the ISA is in effect and the circumstances addressed in the ISA exist.”
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may be commissioned to promote discussion or debate on quality control, auditing, review, other assurance and related services issues affecting the accounting profession, or to present findings or describe matters of interest relating thereto.

Non-authoritative material does not form part of the IAASB’s International Standards and Practice Statements. No general or specific obligation is imposed on professional accountants as a result of their publication on the IAASB website.

35. For reference, the International Accounting Standards Board (IASB) includes their International Financial Reporting Interpretations Committee (IFRIC) Interpretations as International Financial Reporting Standards (IFRSs) mandatory pronouncements. Interpretations of IFRSs are prepared by the IFRIC to give authoritative guidance on issues that are likely to receive divergent or unacceptable treatment, in the absence of such guidance. Financial reporting statements must not be described as complying with IFRSs unless they comply with all the requirements of IFRSs (including IFRICs). IAS 8 notes that when a Standard or an Interpretation specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item must be determined by applying the Standard or Interpretation and considering any relevant Implementation Guidance issued by the IASB for the Standard or Interpretation. This appears to give IFRSs developed by the IASB and Interpretations developed by IFRIC equal authority.

**Matter for IAASB Consideration**

4. What, in the IAASB’s view, is the most favourable placement for the language proposed in paragraph 19 to describe the authority attaching to IAPS 1012? In addressing this question, the Board is asked to comment on what it considers to be the main benefits and drawback of each option.

**Effective Date of New IAPSs**

36. In evaluating how auditors should consider material in IAPS 1012, the Working Group also proposes that effective dates for IAPSs be established to allow for time for adoption and translation of any new IAPSs. The IAPSs that have been issued to date became effective upon issuance. This was presumably because IAPSs do not impose new requirements on auditors and therefore should be capable of being applied immediately upon issuance. However, the amended Public Interest Activity Committee (PIAC)’s Due Process and Working Procedures note that “in setting the date for the application of an international pronouncement, the IAASB considers the reasonable expected minimum period for effective implementation, including the need for translation into national languages.”

37. Taking the example of IAPS 1012:

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7 International Accounting Standard (IAS) 8, “Accounting Policies, Changes in Accounting, Estimates and Errors.”
• An exposure draft is planned for June 2010.
• The IAASB will consider comments received on exposure in March 2011.
• The IAASB anticipates finalizing the IAPS in June 2011.

Rather than presuming the IAPS would become immediately effective, setting an effective date such as “for audits of periods beginning on or after December 15, 2011” would allow time for translation, implementation and any legislative processes that need to occur in particular jurisdictions. However, as currently contemplated in the Preface, early adoption would be permitted and, in the Working Group’s view, could be encouraged in light of the demand for the material contained in proposed IAPS 1012.

38. The Working Group is of the view that the issue of the status and authority of the IAPSs should be resolved before IAPS 1012 becomes effective. Any changes to the Preface, ISA 200 or other documents of the IAASB to describe this status and authority should be in place and effective at the same time. The Working Group recommends that this matter be included in the consultation paper about IAPSs and the exposure draft of IAPS 1012.

Criteria Used to Determine the Appropriateness of Developing a New IAPS

39. The Working Group also recommends that the IAASB establish criteria as to when an IAPS is needed as compared to when it would be appropriate to develop non-authoritative guidance such as a Staff Audit Practice Alert or Questions & Answers (Q&A). By clarifying the authority of an IAPS and establishing a relatively high hurdle for when an IAPS would be developed, it will alleviate concerns that the issuance of IAPSs is an indication that the set of ISAs alone is incomplete or not adequate in particular circumstances. This will also require the IAASB to determine whether any proposed new guidance to be addressed in an IAPS is applicable internationally before committing to its development, mitigating the concern expressed by some that:

• It would be undesirable for there to be a proliferation of IAPSs in the future.
• It may not be appropriate for the IAASB to develop and issue authoritative industry-specific guidance that is significantly affected by regulations in a particular jurisdiction, in the absence of globally accepted regulations. The risk would be that the IAASB would spend significant time and effort to develop pronouncements that would not be used by many NSSs, who would instead favor developing guidance tailored to their particular domestic regulatory environment.

40. Proposed criteria for the development could distinguish between the IAASB developing:

• Authoritative guidance, including IAPSs, when such guidance was needed to help achieve the consistent application of the requirements in the ISAs in particular circumstances or industries. Such guidance would be applicable without significant modification for national circumstances.
• Non-authoritative guidance, including Staff Audit Practice Alerts and Q&As, to help achieve best practice on new or emerging issues by highlighting requirements
or guidance in existing ISAs. Such guidance may require significant modification for national circumstances.

In the context of exposure drafts for new IAPSs, respondents would then be asked for views on whether the proposed IAPS meets the criteria for its development in light of the authority that would attach to it.

### Matters for IAASB Consideration

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### Consultation with NSSs

41. Some NSSs have not adopted the IAPSs, choosing instead to issue additional practical guidance, tailored to national circumstances, through their own established vehicles. This is particularly the case relating to the banking industry, where NSSs have indicated that auditors derive more benefit from guidance linking to national law or regulation rather than IAPS 1004 and IAPS 1006, due to their framework neutrality.

42. At the April 2010 NSS meeting, participants will be asked to comment on:

- Whether the extant IAPSs are used in their jurisdictions;
  - Views on the IAASB’s proposals regarding the extant IAPSs; and
  - If IAPSs are not used, the reasons why, for example, because similar national guidance has been developed; and
- Incorporating the IAASB’s March 2010 discussion:
  - How NSSs would see IAPSs relating to material they may develop and how NSSs could incorporate IAPSs into their national guidance to promote its use, in particular relating to revised IAPS 1012; and
  - How the proposed wording in paragraph 19 and the placement of such wording may affect those decisions.

43. In the context of the discussion of IAPS 1004, it was also noted that the relationship between auditors and regulators, including banking supervisors, is increasing in importance, as regulators are seeking to obtain information from auditors that is not provided by audits performed in accordance with ISAs. In some (perhaps many) jurisdictions, there is a misunderstanding by regulators regarding the nature and scope of the financial statement audit. They incorrectly feel that evidence can be derived from the financial statement audit regarding the entity’s compliance with regulations, when in fact obtaining evidence of such compliance would require the auditor to perform procedures in addition to those required to opine on the financial statements. This may warrant IAASB attention in the future to the extent that the ISAs do not address these
circumstances. NSS participants will be asked to share their experiences in this regard.

Consultation Paper

44. Subject to the IAASB’s discussion in March, the Working Group will proceed to draft a consultation paper, for issue alongside the IAPS 1012 exposure draft, for IAASB approval at the June 2010 meeting. The key areas of focus of the consultation paper will be:

- Regarding the extant IAPSs:
  - Communicating the IAASB’s proposals to withdraw five of the six extant IAPSs and its proposed treatment of IAPS 1004;
  - Soliciting views on how the extant IAPSs have been used in practice, in particular as it relates to individual IAPSs, to confirm the appropriateness of the IAASB’s proposals; and
  - Requesting respondents to identify which, if any, of the topics covered by the extant IAPSs should be incorporated into the IAASB’s future work program, the reasons why and the form this may take (e.g., IAPS, ISA, non-authoritative guidance).

- Regarding the status and authority of IAPSs:
  - Clarifying the IAASB’s position as to how IAPSs, in particular proposed IAPS 1012, should be used in practice and exposing the language proposed in paragraph 19 (if agreed by the IAASB);
  - Outlining the various options on how such wording could be positioned by IAASB, including whether within or outside the ISAs themselves (see paragraphs 22-34.) (If possible, the consultation paper may give an indication of IAASB’s preliminary views on the recommended option(s)). Within this context, soliciting feedback on matters such as how the placement of such wording would affect how IAPSs are used in particular jurisdictions and how regulators and audit oversight bodies would view the material in IAPSs in conducting inspections. Related, the consultation paper would request IFAC member bodies to provide feedback as to how they interpret the current IFAC SMO 3 relative to Practice Statements; and
  - Inquiring as to how respondents believe effective dates for IAPSs should be set, to allow for adequate time for translation and incorporation into law or regulation, where relevant, and also incorporation into audit firms’ methodologies.

45. A final decision on status and authority, and the vote to withdraw the extant IAPSs, will

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8 The amended PIAC’s Due Process and Working Procedures allows for the IAASB to withdraw the IAPSs. It states: “The PIAC votes on the withdrawal of an international pronouncement, whether that withdrawal is due to the issue of a new or a revised international pronouncement that incorporates or replaces the subject
be taken after the IAASB has had the opportunity to consider the responses received from consultation. The Working Group is of the view that the consultation paper should have a 90 day comment period, so that responses to it in relation to revising any of the extant IAPSs can be considered by the IAASB at its December 2010 meeting when finalizing its Consultation Paper on the IAASB’s 2012-2014 *Strategy and Work Program*.

**Matter for IAASB Consideration**

7. Does the IAASB agree with the approach to consultation with NSSs and in the June 2010 Consultation Paper?

**Impact Analysis**

46. This project has been selected as a pilot test for the impact analysis framework that IFAC is currently developing. However, given the nature of the project, the Working Group is of the view that the proposed template would not necessarily provide meaningful information to readers because it is geared towards new standards.

47. The Working Group is also of the view that, given the change in direction in the project, the impact of the IAASB’s decision about the status and authority is less measurable because it is merely a clarification of what was intended by the language currently included in the Preface. The Working Group believes these are the key matters to be communicated in the Consultation Paper regarding impact analysis:

- The alternative considered by the IAASB (i.e., to elevate IAPSs to a status and authority equivalent to that of application and other explanatory material) would have discrete cost implications in jurisdictions where the IAPSs are not currently used and national guidance of a similar nature does not exist.

- The actual impact of clarifying the obligation in relation to IAPSs (by expanding on what was already included in the Preface) will vary depending on how national standard setters and auditors had interpreted the Preface.

- Clarifying the auditor’s obligation with regard to IAPSs will lead to increased consistency in practice and increase audit quality, in particular in the context of IAPS 1012 by highlighting issues that are known to be encountered in practice.

The Working Group also recommends that the views of NSSs on the impact analysis be sought at the April NSS meeting.

**Matter for IAASB Consideration**

8. Does the IAASB agree with the preliminary impact analysis discussed above?

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matter of the existing international pronouncement or any other reason, in accordance with the PIAC’s terms of reference.”