



International Federation of Accountants

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Committee: IAASB Consultative Advisory Group

Meeting Location: Prague

Meeting Date: September 12–13, 2011

Status and Authority of International Auditing Practice Statements (IAPSs), and Special Considerations in Auditing Financial Instruments

Objectives of Agenda Item

1. The Objectives of this Agenda Item are:

IAPS 1000

- (a) To provide a report back on proposals of the Representatives on IAASB's projects on proposed IAPS 1000¹ and to obtain any further views of Representatives in this regard.
- (b) To present the main issues arising on the IAASB's exposure of proposed IAPS 1000 and the recommended way forward in response, and obtain the Representatives' views thereon and on key issues to be discussed by the IAASB at its September 2011 meeting.

Status and Authority of IAPSs

- (c) To present the main issues arising on the IAASB's exposure of proposals to amend the Preface² to clarify the status and authority of IAPSs and the recommended way forward in response, and obtain the Representatives' views thereon and on key issues to be discussed by the IAASB at its September 2011 meeting.

2. The issues and proposals in **Agenda Items O.1 and O.2** are interrelated. Accordingly, this covering memo introduces both items. **Agenda Item O.3** is the draft proposed International Auditing Practice Note (IAPN) 1000, *Special Considerations in Auditing Financial Instruments*, as provided to the IAASB for approval at its September 2011 meeting. While the draft IAPS 1000 will not be discussed in detail during the IAASB CAG meeting, and therefore the Representatives are not expected to study the material included therein, it is being provided to give context to the Matters for CAG Consideration included in **Agenda Items O.1 and O.2**.

¹ Proposed revised IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments* (renumbered from IAPS 1012)

² *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Service Pronouncements*

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Project Status and Timeline

3. In October 2010, the IAASB exposed contemporaneously proposals regarding proposed IAPS 1000 and the status and authority of new IAPs (ED-1000 and ED-IAPS). The comment period ended on February 11, 2011. Forty four³ responses were received, as follows: IFAC member bodies (18), national auditing standard standards (3), regulators and oversight authorities (9), firms (8), public sector organizations (2), other professional organizations (2) and individuals and others (2). A list of the respondents is included in Appendix 2. All comments letters can be accessed from the IAASB website at www.ifac.org/Guidance/EXD-Details.php?EDID=0143.
4. At the March 2011 CAG Meeting, the Representatives were provided a brief, high-level overview of key issues and concerns by ED respondents on the IAASB's proposals relating to status and authority. The IAASB received the same presentation at its March 2011 meeting.
5. At its June 2011 meeting, the IAASB considered significant comments received on the EDs and recommendations in response to them.
6. At its September 2011 meeting, the IAASB will be asked to finalize decisions on the Preface in relation to status and authority (ED-IAPS) and on guidance on auditing financial instruments (ED-1000). The approvals that the IAASB will be asked to make are explained below. For reference only, the relevant meeting papers for the June and September 2011 IAASB meetings are included as CAG Reference Papers.
7. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

Overview of Proposals

8. At its September 2011 meeting, the IAASB will be asked to approve the following:
 - Proposed final amendments to the Preface (See **Agenda Item O.1**).
 - Proposed final International Auditing Practice Note (IAPN) 1000.⁴ (See **Agenda Items O.2 and O.3**).
 - For exposure, proposed amendments to ISAs 500 and 540⁵ (See **Agenda Item O.2**).
9. As background and context for the above, in brief, the comments on ED-IAPS and ED-1000 reflected a wide range of views on the role such documents should play and how the IAASB

³ All 44 respondents commented on ED-1000; 38 of the 44 respondents commented on ED-IAPS.

⁴ IAPN 1000, *Special Considerations in Auditing Financial Instruments*

⁵ ISA 500, *Audit Evidence*, and ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

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could 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.

10. The proposals in **Agenda Items O.1 and O.2** 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 IAASB (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 of 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.
11. **Agenda Item O.1** 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 IAPSs, 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.
12. **Agenda Item O.2** 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.

Report Back – September 12-13, 2010 and March 8-9, 2011 CAG Discussions

13. The report back on proposals of the Representatives at the September 2010 and March 2011 CAG meetings is presented in **Agenda Item O.2**.

IAASB Interaction with the IAASB CAG

14. The substantive issues being raised on these proposals for the purposes of the September 2011 IAASB meeting are included in **Agenda Items O.1 and O.2**. Accordingly, this serves as the final discussion of the proposals prior to their anticipated approval by the IAASB. CAG Representatives may wish to take this opportunity to comment on the IAASB's interaction with the CAG during the development and finalization of these proposals,

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including the development and finalization of IAPN 1000. Appendix 1 to this paper provides a project history, including links to the relevant CAG documentation.

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Material Presented – IAASB CAG PAPERS

- Agenda Item O.1 Status and Authority of International Auditing Practice Statements (IAPs)—Summary of Significant Comments on Exposure and IAASB Working Group Recommendations
- Agenda Item O.2 Special Considerations in Auditing Financial Instruments (IAPN 1000)—Summary of Significant Comments on Exposure and IAASB Task Force Recommendations
- Agenda Item O.3 Special Considerations in Auditing Financial Instruments—Draft of Proposed IAPN 1000 dated September 2011

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Related to IAPS Status and Authority (Agenda Item O.1):

Agenda Item 3-A of the June 2011 IAASB Meeting – International Auditing Practice Statements (IAPs) Proposals—Summary of Significant Comments on Exposure and Working Group Recommendations www.ifac.org/IAASB/Meeting-FileDL.php?FID=6249

Agenda Item 2-A of the September 2011 IAASB Meeting – International Auditing Practice Statements (IAPs) Status and Authority—IAASB Working Group Recommendations [Link to follow](#)

Agenda Item 2-D of the September 2011 IAASB Meeting – Preface – Matter Proposed for Re-exposure dated September 2011 [Link to follow](#)

Related to Auditing Financial Instruments (Agenda Item O.2):

Agenda Item 4-A of the June 2011 IAASB Meeting – Special Considerations in Auditing Complex Financial Instruments—Summary of Significant Comments on Exposure and Task Force Recommendations www.ifac.org/IAASB/Meeting-FileDL.php?FID=6244

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

[Link to follow](#)

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Appendix 1

Project History

Projects: Proposed IAPS 1000, *Special Considerations in Auditing Financial Instruments*, and Proposed Status and Authority of IAPs

Summary

	CAG Meeting	IAASB Meeting
Project Commencement	September 2009	June 2009
Development of Proposed International Pronouncement (up to Exposure)	September 2009 March 2010 September 2010	September 2009 December 2009 March 2010 June 2010 September 2010
Exposure – October 2010		
Consideration of Respondents' Comments on Exposure	March 2011 (status and authority only) September 2011	March 2011 (status and authority only) June 2011 September 2011
Final Approval of Proposed Pronouncement	September 2011	Planned for September 2011

CAG Discussions: Detailed References

Project Commencement	<p><u>September 2009</u></p> <p>See IAASB CAG meeting material: http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5006 See CAG meeting minutes (in Agenda Item E of the following): http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305 See report back on September 2009 CAG meeting (in paragraph 6</p>
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	<p>of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5284</p>
Development of Proposed International Pronouncement (Up to Exposure)	<p><u>September 2009</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5006</p> <p>See CAG meeting minutes (in Agenda Item E of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5305</p> <p>See report back on September 2009 CAG meeting (in paragraph 6 of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5284</p> <p><u>March 2010</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5284</p> <p>Note that an oral report on the project to clarify the status and authority of IAPs was given during the March 2010 meeting and the material discussed by the IAASB at its March 2010 meeting was distributed to the CAG following the CAG meeting.</p> <p>See CAG meeting minutes (in Agenda Items E and F of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5882</p> <p>See report back on March 2010 CAG meeting (in paragraph 5 of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5693</p> <p><u>September 2010</u></p> <p>See IAASB CAG meeting material:</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5693</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=5694</p> <p>See CAG meeting minutes (in Agenda Item E of the following):</p> <p>http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=6186</p> <p>See report back on September 2010 CAG meeting in Agenda Item O.2.</p>

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Consideration of Respondents' Comments on Exposure	<p><u>March 2011 (status and authority only)</u></p> <p>The Representatives were orally updated on the IAASB's proposals relating to the status and authority of its IAPs, using a slide presentation that was distributed during the meeting and subsequently discussed at the March 2011 IAASB meeting.⁶</p> <p>See CAG meeting minutes (in Agenda Item J of the following):</p> <p>See draft March 2011 CAG meeting minutes at Agenda Item A.</p> <p>Note that the Representatives did not raise any additional comments during the oral presentation on the status and authority at the March 2011 CAG meeting.</p> <p><u>September 2011 (auditing financial instruments)</u></p> <p>See Agenda Item O.2.</p>
Final Approval of Proposed Pronouncement	<p>This agenda paper serves as the final discussion of the projects prior to their anticipated approval by the IAASB.</p>

⁶ For reference, this presentation can be accessed at www.ifac.org/IAASB/Meeting-FileDL.php?FID=6113.

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Appendix 2

List of Respondents to Joint ED-IAPS and ED-1000 Proposals Issued in October 2010

#	Abbrev.	Respondent (44) ⁺
Member Body (18)		
1.	AAP	Joint Response from Australian Accounting Profession - CPA Au, ICAA, NIA
2.	ACCA	The Association of Chartered Certified Accountants
3.	CICPA	Chinese Institute of Certified Public Accountants
4.	CIPFA	Chartered Institute of Public Finance and Accountancy
5.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas
6.	FEE	Federation des Experts Comptables Europeens
7.	FSR	Foreningen af Statsautoriserede Revisorer
8.	HKICPA	Hong Kong Institute of Certified Public Accountants
9.	ICAEW	The Institute of Chartered Accountants in England and Wales
10.	ICAI	The Institute of Chartered Accountants in Ireland
11.	ICAP	Institute of Chartered Accountants of Pakistan
12.	ICJCE	Instituto de Censores Jurados de Cuentas de España
13.	ICPAS	Institute of Certified Public Accountants of Singapore
14.	IDW	Institut der Wirtschaftsprufer
15.	JICPA	The Japanese Institute of Certified Public Accountants
16.	MIA	Malaysian Institute of Accountants
17.	NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)- Comment letter sent in by NBA
18.	SAICA [*]	The South African Institute of Chartered Accountants

^{*} Responded only to proposals dealing with IAPS 1000.

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Regulators and Oversight Authorities (9)⁺		
19.	AIU & APB ⁺	Audit Inspection Unit (Financial Reporting Council, United Kingdom) & Auditing Practices Board (United Kingdom)
20.	AOB	Audit Oversight Board (Malaysia)
21.	BCBS	Basel Committee on Banking Supervision
22.	CPAB	Canadian Public Accountability Board
23.	DFSA [*]	Dubai Financial Services Authority
24.	EBA	European Banking Authority
25.	IAIS	International Association of Insurance Supervisors
26.	IOSCO ⁺	International Organization of Securities Commissions
27.	IRBA	Independent Regulatory Board for Auditors, South Africa
National Auditing Standard Setters (3)		
28.	AuAASB	Australian Auditing and Assurance Standards Board
29.	CAASB	Canadian Auditing and Assurance Standards Board
30.	NZICA	New Zealand Institute of Chartered Accountants
Public Sector Organizations (2)		
31.	ACAG	Australasian Council of Auditors-General
32.	GAO [*]	United States Government Accountability Office
Accounting Firms (8)⁺		
33.	BDO	BDO Global Coordination B.V.
34.	DTT	Deloitte Touche Tohmatsu
35.	EYG	Ernst & Young Global
36.	GT	Grant Thornton International
37.	KPMG ⁺	KPMG
38.	PwC	PricewaterhouseCoopers

⁺ Certain respondents (AIU&APB, IOSCO, and KPMG) submitted two separate comment letters on the proposals relating to ED-IAPS and ED-1000. Accordingly, the total number of responses on the IAASB's website (47) should be adjusted for these duplicates to arrive at the number of respondents included in paragraph 3 of this paper (44).

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39.	RACOPK*	Riaz Ahmad and Company, Chartered Accounts
40.	RSM*	RSM International Limited
Other Professional Organizations (2)		
41.	FICPA*	Florida Institute of Certified Public Accountants
42.	NYSSCPA	New York State Society of Certified Public Accountants
Individuals and Others (2)		
43.	C. Barnard	Chris Barnard
44.	D. Juvenal	Denise Silva Ferreira Juvenal (Prefeitura da Cidade do Rio de Janeiro)