

Staff Paper – Change to an IAASB Authoritative International Standard(s) on a Rapid Response Basis**I. Introduction**

1. For purposes of discussion with the IAASB, this Staff-prepared paper outlines a possible approach for considering whether and, if so, how the Board may make a change to an IAASB authoritative International Standard(s) on a rapid response basis.

II. Background

2. From time to time the IAASB may become aware of the need, or perceived need, for it to address an emerging and urgent issue relating to engagements covered by its International Standards.
3. At present, the IAASB may issue non-authoritative pronouncements (e.g., International Auditing Practice Notes) or commission other non-authoritative material (e.g., a Staff publication such as a “Staff Alert” or “Staff Questions & Answers”) in response to an emerging development or otherwise. The development of such material need not follow the due process that is required for purposes of standard setting. Accordingly, the process for producing non-authoritative material typically offers the potential for a more timely response to a matter than the process for a matter that requires change to the Standards. However, non-authoritative material does not extend or otherwise amend the authoritative Standards of the Board.
4. In some cases, an emerging and urgent issue may relate directly to practice that is governed by the provisions of one or more of the IAASB’s Standards, and users of the IAASB’s Standard would expect that the issue be addressed in an authoritative manner. The IAASB does not, however, have a mechanism to make changes to its authoritative International Standards other than through its normal standard-setting process, which involves adherence to due process as agreed with the Public Interest Oversight Board (PIOB).
5. In light of the Board’s own review of opportunities to increase its efficiency, the question being considered by Staff is whether the IAASB should have a mechanism to make changes to its authoritative International Standards on a basis more rapid than may be achieved under its current process and, if so, what that mechanism may comprise.
6. The following has been developed taking into account proposals previously presented by Staff to the IAASB and IAASB Consultative Advisory Group (CAG) in 2009 and feedback thereon. Those proposals were not finalized due to conflicting views on the balance between making changes to Standards on a rapid basis and the need for appropriate consultations on any such proposed changes. Further, there were no specific issues at hand requiring a rapid authoritative response. Accordingly, the IAASB decided to focus in the first instance on the process for the commissioning and quality control of Staff publications as one means of responding to emerging issues on a rapid basis.
7. In contrast, in the current environment, both practitioners and regulators applying and interpreting the ISAs in a wide range of circumstances are seeking clarification about the intent of particular requirements. In addition, regulators and firms undertake root cause analysis of audit inspection findings, which is raising questions about whether the underlying issue is auditor performance or an

issue with the ISAs themselves. In this environment, it is important that the IAASB has a tool and due process that is responsive to these demands.

8. The suggestions set out in this paper have not yet been discussed with the IAASB Steering Committee or the other standard-setting boards, and have also not been discussed with the PIOB, whose input and approval of any rapid response mechanism is essential.

III. Features of a Possible Rapid Response Mechanism

9. Staff is of the view that the following are the key features to be considered in exploring a basis for making change to an IAASB authoritative International Standard(s) on a rapid response basis:
 - (a) Determining whether a matter requires change to a Standard or another action.
 - (b) Determining whether a change to a Standard should be carried out on an accelerated basis.
 - (c) The process for making an accelerated change.

Each is further discussed below.

Determining Whether a Matter Requires Change to a Standard or Another Action

10. In its initial consideration of a matter, Staff is of the view that the IAASB should consider the same factors relevant to a decision to undertake standard-setting activity following its normal processes. That is:
 - The matter must relate to the remit and strategic objectives and priorities of the IAASB, and have international relevance (e.g., the matter does not relate to national circumstances where a national standard-setting body, rather than the IAASB, is best positioned to address the matter);
 - Consideration of the costs and benefits of the anticipated output of the project; and
 - The nature of the issue must be such that it can only be effectively addressed by making a change to an existing standard. Accordingly, the issue is not of a nature where it would be sufficient to raise practitioners' awareness by issuing non-authoritative material (for example, when the emerging issue is already addressed by IAASB pronouncements, such that directing practitioners' attention to relevant provisions or providing clarification to emerging questions by referring to existing requirements and application material and background information would be sufficient), or through other communication activities of the Board.
11. As an alternative to a rapid response project, the IAASB may choose to issue non-authoritative material, which is addressed by the IAASB's existing processes.
12. The IAASB may also determine that further monitoring of the issue is needed before deciding a course of action.

Alternatives to a Rapid Response Model

13. Unlike the process used by some standard setters, which have a separately composed body with separate membership and staff dealing with the issue of authoritative interpretations, a rapid response would continue to use the IAASB's existing structures. Thus, consultation with the IAASB

CAG and voting by the IAASB would continue to be part of the due process, but other aspects of the due process would be streamlined to arrive at an accelerated due process.

14. Staff is also aware that many jurisdictions using IAASB Standards would prefer that the standards remain self-contained and not be supplemented by material outside the standards that would have the same authority as the standards themselves. This is because, when adopting ISAs into national law or regulation, such adoption is commonly for a class of documents (such as “International Standards on Auditing”), and issuing a second set of authoritative documents (be it “ISA Interpretations” or other nomenclature) would be inconsistent with such law or regulation.

Determining Whether a Change to a Standard Should Be Carried Out on an Accelerated Basis

15. The IAASB adopts the presumption that issues pertaining to its Standards brought to its attention are to be considered following its normal standard-setting prioritization and development process. As such, use of a mechanism to pursue change to the IAASB’s Standards is intended to be rare to avoid an undesirable proliferation of frequent changes to the Standards developed outside of IAASB’s full due process.
16. However, where there is a clear and compelling perceived need for a rapid authoritative response to an issue, Staff is of the view that further criteria would need to be met for the IAASB to decide whether a rapid response is warranted. The following criteria are proposed:

- (a) The set of facts and circumstances of the issue is of such significance and gravity that, in the public interest, a rapid change to a Standard is warranted in advance or in lieu of a project following the IAASB’s full due process.

In this regard, the IAASB would need to also conclude that a rapid response would be an effective and efficient utilization of IAASB resources, recognizing that such a project may redirect resources from the IAASB’s stated priorities.

- (b) The nature of the issue is such that it is reasonably possible for the IAASB to become adequately informed on and appropriately conclude on a matter, with due regard to the public interest, based on an abbreviated deliberation and consultation process.

This consideration would need to take into account whether the issue requires extensive study, the complexity of the issue, and the pervasiveness of the possible change(s) to the Standards.

An issue may therefore not be suitable for a rapid response if, for example, it requires detailed research and deliberation by the IAASB or by its stakeholders in order to adequately respond to the IAASB’s likely proposals; if insufficient time would be available for stakeholders to properly consider the proposals; or if there are indications that the likely proposals would affect many requirements.

The Process for Making an Accelerated Change

Outline of the IAASB’s Approved Due Process

17. The IAASB conducts its standard-setting activities as expeditiously as possible in accordance with its approved due process.¹ In summary, the due process for issuing a new or revised International Standard includes:

¹ www.ifac.org/system/files/uploads/PIAC-Due_Process_and_Working_Procedures.pdf

- (a) Project proposal: The IAASB approves a proposal that sets out the public interest objectives, issues to be considered, output and timetable of a standard-setting project, and the IAASB confirms that it is appropriate to commence the project.

CAG consultation on project proposal: The IAASB CAG is consulted on the project proposal.

- (b) Public forum, roundtable, consultation paper, and field testing: The IAASB considers whether to hold a public forum or roundtable, issue a consultation paper, or conduct field testing.
- (c) Development and approval of an exposure draft (ED): The IAASB develops an ED, which is approved by the IAASB for issuance.
- (d) CAG consultation on significant issues: The IAASB CAG is consulted on significant issues relating to the development of the ED.
- (e) Exposure period: The ED is issued for public comment, usually a 120-day period for the IAASB.
- (f) Consideration of comments received on exposure: The IAASB deliberates significant matters raised in the comment letters.

CAG consultation on comment letters and related responses: The IAASB CAG is consulted on significant issues raised in comment letters on EDs and the IAASB's related response.

- (g) Approval by the IAASB: The IAASB approves the final pronouncement for issuance, subject to approval by the PIOB.
- (h) Approval by PIOB: The PIOB considers whether due process has been followed effectively and with proper regard for the public interest in the IAASB's development of the new or revised Standard, and notifies the IAASB of its decision.

Possible Accelerated Due Process

- 18. In order to achieve an accelerated response to an issue, it is suggested that only certain aspects of the full due process be applied in order to obtain an adequate level of input to the IAASB's decision-making on a matter.
- 19. For discussion, Staff has identified the following possible process for an accelerated process for a matter considered warranting a rapid response which, depending on the nature of the matter, Staff believes could be satisfied in as short a period as ten months:

- (a) Consideration of a rapid response action:

The IAASB provides appropriate advance notification on the IAASB's website and through its regular communication channels (e.g., IAASB eNews) of its intent to discuss at its next public meeting an amended Standard following an accelerated due process.

The decision to develop a rapid response is made in a public meeting and only after the IAASB has concluded that the specified criteria for a rapid response project have been met.

- (b) PIOB approval to commence a rapid response action: The IAASB obtains, on an indicative basis, the approval of the PIOB Chair that a rapid response following an accelerated due process is both essential and appropriate in the circumstances, in light of the specified criteria. The IAASB obtains, as soon as possible, the approval of the PIOB for the rapid response.

- (c) CAG consultation: The IAASB consults with the IAASB CAG on significant issues relating to the development of the rapid response prior to the release of the amended Standard. Such consultation with the IAASB CAG may occur via telephonic means outside of the usual CAG meeting schedule.
- (d) Development and approval of an ED: The IAASB approves the issuance of an amended Standard for exposure at a public meeting. The ED includes material addressing the proposed effective date in light of the need to address the matter on a rapid response basis. The exposure period shall typically be 30 days, but not shorter. The IAASB does not need to consider whether to hold a public forum or roundtable, issue a consultation paper, or conduct field testing.
- (e) Approval by the IAASB: The IAASB deliberates comments received on the ED, and considers the approval of a final amended Standard at a public meeting.

Other generally applicable requirements of due process (such as analysis of respondents' comments, preparation of a basis for conclusions, PIOB approval of due process) would continue to be followed.

- 20. Subject to discussion with relevant parties, the intent would be for the above to be incorporated as part of the due process applicable to the IAASB and other standard-setting boards.
- 21. Clearly, the involvement of the PIOB in any amendment to the IAASB's due process is critical, as they are the oversight body for the IAASB's due process. Past communications with the PIOB have indicated that the PIOB will focus on the due process used to finalize deliberations, and is also critical in confirming that a rapid response project should be initiated. The PIOB's approval of the outcome of applying the rapid response process should not be prejudged.
- 22. Staff again emphasizes that the use of the rapid response mechanism is expected to be rare, and that the above has not yet been discussed with the PIOB or the other standard-setting boards. The views of the PIOB and the other standard-setting board about the appropriateness and acceptability of the above will need to be obtained in due course, as all the standard-setting boards are subject to the same due process. Currently, none of the other boards have any rapid response or interpretations mechanism.

IV. Illustration of How a Rapid Response May Operate

- 23. By using a historical issue as a "test case", the operation of the rapid response mechanism can be better understood. This illustration describes how such a historical issue might have been addressed, had the IAASB had a rapid response mechanism at the time. The section "Background to the Illustrative Issue" describes the issue encountered by the IAASB and its resolution. This is followed by a description of how this issue, or one similar, would be addressed under the proposed accelerated due process.

Background to the Illustrative Issue

- 24. In November 2008, the Steering Committee was alerted that the US Auditing Standards Board (ASB) had encountered an interpretation issue when redrafting its AU Section 317, *Illegal Acts by Clients*, based on the clarified ISA 250.² In broad terms, the ASB was concerned that paragraph 13 of ISA 250 could be misinterpreted as requiring the auditor to obtain sufficient appropriate audit evidence

² ISA 250, *Consideration of Laws and Regulations in an Audit of Financial Statements*

regarding compliance with all provisions of a direct-effect law or regulation, even when some of those provisions do not in fact have a direct effect on the determination of material amounts and disclosures in the financial statements. After debating the issue, the IAASB agreed to amend the application material to paragraph 13 of ISA 250.

25. At the time, as this amendment was related to an issue that had only recently been consulted on and debated by the Board, and as it affected only a single paragraph of application material, the IAASB determined that the amendment did not alter the original intent of the IAASB when it approved ISA 250 (Redrafted) or change what is required under the ISA and, therefore, no further due process considerations were required. The PIOB raised no objection to this decision, but noted that the IAASB should not presume that the PIOB would necessarily find the processes followed in this case acceptable in other future circumstances. Thus, such an issue is illustrative of a circumstance which would require an alternative to the full due process.

Application of the Accelerated Due Process to the Illustrative Issue

26. Using this historical issue as an example, the table below illustrates how such an issue could be addressed using the proposed rapid response mechanism.

Timeline and Description of Actions
<p>February 20X1:</p> <ul style="list-style-type: none"> • The IAASB Chair and staff are alerted to a concern about a possible misinterpretation of ISA 250. • A Steering Committee call is urgently convened and it is agreed to consider use of the rapid response mechanism. • Advance notice that a rapid response project is being considered is placed on the IAASB's website and via other communication channels. Key stakeholders (in this case, national auditing standard setters, firms, and regulators) are informed directly. <p>March 20X1:</p> <ul style="list-style-type: none"> • The IAASB approves a rapid response project to address the issue. • The PIOB Chair gives approval, on an initial basis, that a rapid response project may be commenced.
<p>April/May 20X1:</p> <ul style="list-style-type: none"> • The IAASB CAG is consulted on the significant issues. The meeting is held by teleconference as it falls outside the CAG's usual meeting dates. <p>May 20X1:</p> <ul style="list-style-type: none"> • The PIOB confirms that a rapid response project is appropriate in the circumstances.
<p>June 20X1:</p> <ul style="list-style-type: none"> • The IAASB approves the issuance of a proposed amendment to ISA 250 for an exposure period of 30 days. The ED notes that the IAASB intends the amendment to be effective for audits of financial statements for periods beginning on or after December 15, 20X1.

Timeline and Description of Actions
<p>July 20X1:</p> <ul style="list-style-type: none">• After consultation with the IAASB CAG Chair, a teleconference is held with members of a CAG Working Group as a means of facilitating their Member Organizations' responses.
<p>September 20X1:</p> <ul style="list-style-type: none">• The IAASB considers significant comments received on exposure and approves the final amendment.
<p>November 20X1:</p> <ul style="list-style-type: none">• The PIOB informs the IAASB of its conclusion that the due process applicable to the rapid response project has been followed effectively and with proper regard for the public interest.• The IAASB releases the amendment to the ISA, using its communication channels to inform stakeholders of the amendment and its effective date.
<p>December 20X1:</p> <ul style="list-style-type: none">• The amended ISA 250 becomes effective.

Matters for IAASB Consideration
<p>The IAASB is asked for its views on:</p> <ul style="list-style-type: none">• The advantages or potential drawbacks or risks of the Board making change to its authoritative International Standards on a rapid response basis, and whether the potential benefits outweigh to risks.• The suggested criteria for judging whether a rapid response is warranted.• The suggested accelerated due process.