

International Auditing Practice Statements (IAPSs) Review of Status and Authority – Issues and IAASB Working Group Proposals**I. Background**

1. There are currently six IAPSs that are effective:
 - Three related to banking (IAPS 1000 (“Inter-bank Confirmation Procedures”), IAPS 1004 (“The Relationship Between Banking Supervisors and Banks’ External Auditors”) and IAPS 1006 (“Audits of the Financial Statements of Banks”)); and
 - Three related to specific auditing topics (IAPS 1010 (“The Consideration of Environmental Matters in the Audit of Financial Statements”); IAPS 1012 (“Auditing Derivative Financial Instruments”); and IAPS 1013 (“Electronic Commerce—Effect on the Audit of Financial Statements”).
2. In general, all of the IAPSs are largely now out-of-date and inconsistent with the text of the clarified ISAs. Of the above, interest in revising and updating has been expressed only in relation to IAPSs 1004,¹ 1006² and 1012 as they are currently being used in practice in some jurisdictions.
3. Over the last few years, numerous external parties have sought clarification about the level of authority, perceived and real, that attaches to IAPSs. Some have indicated that the current description of IAPSs in the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” (Preface) is unsatisfactory in that it does not call for any sort of substantive obligation to consider the material contained in an IAPS; it can be ignored as long as the auditor can describe how requirements have been met. Others have indicated that they expect use of certain of the IAPSs – for example, the IAPSs dealing with banks – and therefore have encouraged their revision, carrying at least the same authority as they have now. On the other hand, some national standard setters have not adopted the IAPSs, choosing instead to issue additional practical guidance, tailored to national circumstances, through their own established vehicles.
4. Existing IAPSs have been developed and approved following the same due process as that afforded ISAs. In light of this, assigning IAPSs and ISAs different authorities is viewed by some as inconsistent and confusing. The application of the same due process certainly suggests, in some quarters, that IAPSs have the same authority as their underlying ISA(s). This issue is compounded by questions about the relationship between the IAPSs and the application and other explanatory material of the clarified ISAs.

¹ IAPS 1004 is a joint document of the International Auditing Practices Committee (IAPC – predecessor of the IAASB) and the Basel Committee on Banking Supervision (the Basel Committee). Both have approved and published the document, which is based on ISAs extant at October 1, 2001.

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.

5. The IAASB Clarity project and the possible adoption of ISAs by the European Commission³ have revived this issue, as have discussions about the way forward for developing implementation guidance as part of the IAASB's ongoing strategy. These developments increase the urgency with which the IAASB needs to address the status and authority of IAPSs.
6. The IAASB last discussed the status and authority of IAPSs at its May 2006 meeting. At that time, the IAASB's views were as follows (as excerpted from the minutes):
 - It is not appropriate to elevate or change the authority of the extant IAPSs as they were developed with reference to a specific level of authority and obligation. There is, accordingly, a need to establish the future purpose of IAPSs, and to reconsider the nature of their existing content, prior to deciding how best to structure them.
 - The desirability of continuing to issue IAPSs is questionable, particularly given that there is some concern over the appropriateness of the issue of authoritative industry-specific guidance in the international environment, and the amount of IAASB resources required to develop them.
 - The clarity of the standards and their structure may be diminished, rather than enhanced, by having material of the same authority and obligation in different form and placement within IFAC's Auditing Handbook.
7. After deliberation, the IAASB agreed that there should be no change in the status of authority of the existing IAPSs at that time, and as few new IAPSs should be issued as possible (no new IAPSs have been deemed necessary since that time). It also agreed:
 - **Where a need arises for specific new guidance in a given area, such material should as far as possible be developed at the level of authority of the application material in ISAs.** Alternatively, a new ISA could be produced to address the topic.
 - With regard to the extant IAPSs, they should be reviewed over time as necessary, with consideration given to withdrawing them, or assigning them a higher status by incorporating their content into the application material in ISAs or converting such content into new ISAs. Specific consideration should be given to the status of IAPS 1014 addressing reporting on compliance with IFRSs, as this material was more in the nature of interpretive guidance than application material, and to those IAPSs addressing the audits of banks and derivative financial instruments [IAPS 1004, IAPS 1006, and IAPS 1012].⁴
8. Using these views as a basis for the discussions, the Working Group determined that the successful resolution of the ongoing question of the status and authority will involve consideration of four components, discussed in more detail in Section II:

³ The European Commission (EC) is considering the adoption of the ISAs for statutory audits required by Community law, and is currently considering the results of a public consultation that ended on October 15, 2009. In its consultation document, the EC noted, "The IAASB emphasises in the ISAs that the application material is an inherent part of the standards. For this reason, the Directorate General Internal Market and Services is considering the inclusion the Application and Other Explanatory Material as part of an EU adoption process." The 8th Directive allows for the EC to adopt any related Statements and Standards, including IAPSs if needed.

⁴ The IAASB subsequently agreed to incorporate the relevant material in IAPS 1014 as application material in ISA 700 (Redrafted), "Forming an Opinion and Reporting on Financial Statements."

- Whether the IAASB should have a vehicle for developing authoritative pronouncements other than ISAs, recognizing that authoritative pronouncements are developed following due process.
- What criteria would be used to determine the appropriateness of developing new authoritative pronouncements other than ISAs.
- How should the authority of these authoritative pronouncements be communicated to ensure their widespread use.
- What actions should be taken with regard to the extant IAPSs.

II. Matters Discussed by the Working Group

Developing Authoritative Pronouncements other than ISAs

9. The fundamental question relating to the IAPSs is whether the IAASB is of the view that it needs tools to develop further guidance relating to its ISAs. The discussion to date on the rapid response mechanism, and the development of three Staff Audit Practice Alerts, seems to indicate that there is merit in having vehicles in place to do so.
10. Regional and national professional accountancy organizations, as well as national standard setters, have an important role to play in developing implementation guidance and arguably may be best suited to do so. In the absence of relevant national guidance, however, it may be necessary for the IAASB to provide further assistance to auditors implementing the ISAs should the need arise.
11. In order not to undermine the authority and requirements of the ISAs, it would be important that such guidance, whether it be in an IAPS or in another form, only be developed when there is a clear need to do so and such guidance would be applicable in an international context. In this regard, criteria could be developed to evaluate whether it is appropriate for the IAASB to develop such guidance. This process at a minimum should include a project proposal be considered in the context of the IAASB's priorities and work program, and consideration at the outset as to the rationale of issuing authoritative vs. non-authoritative material.
12. For example, in approving the project to revise IAPS 1012, the IAASB acknowledged that the final form of such guidance is dependent on the discussion regarding the authority of IAPSs, but also concluded that revised guidance in some form was necessary and in the public interest. However, the additional guidance included in the APB's Practice Note 23,⁵ which will be used in the revision of IAPS 1012, while based on the ISA requirements, interprets them to provide substantive new guidance and, as such, cannot be considered a Staff Audit Practice Alert and is more akin to additional application material for a particular circumstance (i.e., the audits of complex financial instruments).
13. The non-authoritative Staff Audit Practice Alerts that have been issued to date have been generally well-received, and have been reproduced by some national standard setters for use in their jurisdictions. However their use is meant to be limited:
 - Staff Publications are used to help raise practitioners' awareness in a timely manner of

⁵ UK Auditing Practices Board Practice Note 23 (Revised), "Auditing Complex Financial Instruments."

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 and background information such as that contained in Staff Basis for Conclusions documents.

- They are for information purposes only and are, in all cases, descriptive and not prescriptive.
 - Staff Publications are not used for purposes of providing interpretation of, or additional application material to, existing pronouncements, or in cases where a matter is expected to require substantive IAASB involvement because of a significant divergence of views on the issue. Accordingly, they do not amend or override the Standards or other pronouncements to which they relate that are currently effective, the texts of which alone are authoritative.
14. Absent a mechanism like the IAPSs, Staff Publications alone are not likely to meet the needs of auditors. While the IAASB could develop non-authoritative guidance, it does not seem to be meaningful for the IAASB to invest the necessary resources to develop extensive guidance if there is no obligation for auditors to consider it in their audits.
15. Experience with IAPS 1012 to date has shown that there is scope for having a mechanism to allow for the IAASB to issue material that is beyond what would be appropriate in a Staff Publication. A mechanism like the IAPSs allows the IAASB to provide interpretation of, or additional application material to, existing pronouncements, in cases when it would not be considered necessary to revise the ISAs. For this reason, the Working Group supports the IAASB having a means of issuing authoritative guidance material in some form, provided the authority of this is clearly communicated and in response to an international need. The Working Group was also supportive of the need for the IAASB and Staff to have mechanisms whereby non-authoritative guidance could be developed, but stressed the importance of clearly distinguishing the difference between such guidance and the ISAs and IAPSs. Having the flexibility to commission Staff Publications, and develop IAPSs and ISAs, more fully enables the IAASB to respond to the needs of its stakeholders and meet the public interest.

Options Regarding the Use of IAPSs

16. The simplest way to address concerns about the authority of IAPSs is to discontinue their use. The effect of this decision would be twofold:
- (i) Existing IAPSs would need to be evaluated in the content of the IAASB's normal project planning and prioritization to determine whether these should be revised. The IAASB would be limited to developing a new ISA on the topic, expanding guidance within existing ISA(s), or developing new guidance of a non-authoritative nature.
 - (ii) If the IAASB felt it necessary to develop new guidance on a new topic, or a topic not fully covered by the ISAs, such guidance could only be non-authoritative unless the ISA(s) was to be revised.
17. The Working Group did not support eliminating the use of IAPSs because:
- Doing so removes a basic mechanism for the IAASB to issue more detailed authoritative guidance on specific topics. IAPSs provide a reasonable and useful way of doing this as noted above.

- There are likely to be cases where it is neither practical nor desirable to establish guidance as an ISA – because of the fact that there is no need to establish new objectives or requirements beyond those in the ISAs – or as part of an ISA because of the effect it may have on the overall understandability of the ISA. IAPS 1012, for example, demonstrates these points.
 - The nature of the ISAs is such that they do not ordinarily include detailed guidance on a particular topic. Reformulating the IAPS dealing with audits of banks or derivative financial instruments (even if it were thought that there are relevant requirements that ought to be established) would likely result in the loss of some of the more specific guidance in the IAPS that some find helpful. The alternative – to reformulate such guidance as non-authoritative material – would likely be unacceptable to those that at present require the consideration of the IAPSs.
18. Accordingly, it appears to make sense for the IAASB to continue to use IAPSs to provide guidance on the application of an ISA or the body of ISAs to a specific issue. In light of the Working Group’s views that a mechanism such as that intended by IAPSs should remain, the question of their authority allows for two options:
- (i) Continue the use of IAPSs and retain the existing authority (Option 1); or
 - (ii) On a prospective basis, give IAPSs a status equivalent to that of the application material of ISAs, and the obligations of the auditor aligned therewith (Option 2).
19. The Working Group considered advantages and drawbacks of both options, noting the IAASB advanced its views at the May 2006 session and appeared to favor Option 2. It concluded that it is best for the IAASB to take a “clean slate” approach, that is, to clarify the status of any new IAPSs and deal separately with the extant IAPSs.
20. The important consideration in determining the status to be afforded IAPSs⁶ is the intended purpose of the material contained therein. The fact is that both the application material of an ISA and the material within an IAPS serve, in principle, the same purpose. The guidance in IAPS 1006 dealing with audits of banks, for example, could not be interpreted as anything other than application guidance, and some stakeholders make clear that there is an expectation for such guidance to be used. Accordingly, it is logical to align the authority and obligation attaching to similar material. Attempting to distinguish material that relates to the application of ISAs, on the basis of placement, has little merit, and would be artificial at best. For this reason, when considered with the confusion that already exists about the status and authority of the current IAPSs as described in the Preface, Option 1 appears to have little merit.
21. The implication of Option 2 is to strengthen the authority of IAPSs, or more accurately, the obligation of the auditor to consider IAPSs. That is, the auditor would be expected to have an understanding of the entire text of an IAPS that is applicable in the circumstances of an audit to apply the requirements of the ISAs properly in the context of the matter addressed by the IAPS. At the same time, it allows for IAPSs to act as vehicles to help avoid overburdening ISAs with

⁶ The Public Interest Oversight Board has concluded that the development of any new IAPSs is to follow the same due process as the development of an ISA. While the IAPSs would not impose any new requirements on auditors, it will still be necessary for the IAASB to publicly consult on its development through an exposure draft process. It may be possible for the IAASB’s deliberations on new IAPSs to be accelerated but it is not anticipated that the development time for an IAPS would be substantially shorter than for an ISA.

application material that, for example, may be of less than general application. Further, it would resolve any concerns about the relationship between the status of application material in ISAs and the IAPSs.

22. The drafting of any new IAPSs would need to be clear in terms of the scope of the IAPS, and the ISA(s) and requirements to which the guidance relates (accordingly, greater use of cross-referencing would appear necessary that is currently provided in extant IAPSs). Further, IAPSs would need to be unambiguous in its wording when actions or procedures that may be considered by the auditor are identified – that is, these need to be free of imperatives and the present tense. These principles are being undertaken by the Task Force revising IAPS 1012 in the context of the APB’s Practice Note.
23. Option 2 does have several potential drawbacks, for example:
 - It may encourage the IAASB to reduce the amount of application material in ISAs on the grounds that it could subsequently be included in IAPSs, which may of course never be drafted. This raises the need for a basis on which to decide whether material should be included in the application material of an ISA or within an IAPS.
 - There is the question of whether it is appropriate or desirable to allow the relatively self-contained status of ISAs to be broadened to include documents outside the series of ISAs itself. This certainly has implication to those that have made progress toward specific adoption or convergence plans to ISAs.
 - It may ultimately limit the range of choice the IAASB may consider in terms of topics for which such guidance may be developed. For example, while some concern has been expressed in relation to the issue of industry-specific guidance that is authoritative on an international basis if such guidance if it fact not applicable internationally, it is premature to rule out the development of international guidance on the application of ISAs to a specific industry; for example, some stakeholders have suggested the need for guidance in connection with the insurance industry. However, establishing new guidance on the basis of parity with the application material of an ISA may ultimately limit what is acceptable in terms of issued guidance.
24. However, the Working Group believes that the processes currently in place whereby the IAASB determines the nature of extent of application and other explanatory material in the IAASB would not be compromised by the potential to develop IAPSs. The purpose of application material in the ISAs is to assist in consistent interpretation of the objective and requirements of an individual ISA; however, it cannot be expected to provide all the detailed guidance that would be appropriate to meet the needs of specified users.
25. Material that would be excluded on the basis of inclusion in a potential IAPS would, more likely than not, never meet the applicability criteria for inclusion in an ISA. Taking the draft IAPS 1012 in **Agenda Item 6-B**, while such material provides a useful discussion of the application of ISA 315,⁷ ISA 330,⁸ and ISA 540⁹ in relation to complex financial instruments, to include even a

⁷ ISA 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.”

⁸ ISA 330, “The Auditor’s Responses to Assessed Risks.”

portion of this material in the respective ISAs would overburden them and would unfairly highlight these particular circumstances while failing to acknowledge others (for example, valuation considerations with respect to goodwill and intangible assets).

Matters for IAASB Consideration

1. Does the IAASB agree that it is helpful to have a mechanism to allow for issuance of guidance material by the IAASB in addition to Staff Publications?
 - (a) If so, does the IAASB agree that IAPSs could fit this purpose if their status and authority were properly clarified?
2. Does the IAASB support the view of the Working Group that Option 2, as explained in paragraphs 20-25 above, is the best option? If not, why would Option 1, or another new option, be preferable?

Criteria Used to Determine the Appropriateness of Developing a New IAPS

26. The Working Group also observed that, given the proposed authority of future IAPSs under Option 2, the probability of a proliferation of IAPSs was unlikely. To mitigate the concern in bullet 2 of paragraph 23, it recommends that the IAASB establish criteria as to when an IAPS was 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.
27. While the Working Group has not concluded on firm criteria, one suggestion is to allow for the issuance of:
 - 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.

Matter for IAASB Consideration

3. Does the IAASB agree it would be useful to develop criteria for when an IAPS should be developed? Does the IAASB have preliminary views as to the initial suggestion?

Communicating the Authority of Pronouncements and Publications other than ISAs

28. The Working Group is of the view that, in order to alleviate confusion about the status of the authority of the IAPSs and how they relate to the ISAs themselves, it will be necessary to make

⁹ ISA 540, “Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures.”

conforming amendments to the Preface. To further clarify the distinction between the IAASB's authoritative pronouncements (including IAPSs) and non-authoritative pronouncements (including Staff Publications), it is also recommended that a hierarchy be established.

29. The Working Group considered examples of how three national standard setters describe material similar to IAPSs and the obligations that attach to them, as compared to non-authoritative material, and agreed that a hierarchy would be useful. Proposed conforming amendments to the Preface are shown in the Appendix. New paragraphs 3a-3d explain the nature and intent of authoritative and non-authoritative pronouncements, resulting in the proposed deletion of paragraph 20 to avoid duplication.
30. Changes are also needed to reflect the revised authority of IAPSs if Option 2 is agreed. Making changes to the Preface (as proposed in paragraphs 3a, 18 and 19 of the Appendix) allows the IAASB to:
 - Highlight that IAPSs are issued following the IAASB's stated due process;
 - Communicate that IAPSs have a status equivalent to application and other explanatory material in the ISAs;
 - Explain that auditors have a responsibility to have an understanding the entire text of IAPSs that are relevant to the audit – similar to the requirements in paragraphs 18-19 of ISA 200¹⁰ that guide the auditor's responsibilities with respect to application and other explanatory material;
 - Explain that IAPSs themselves do not impose additional requirements on the auditor;
 - Incorporate the concept of the professional judgment needed to achieve the objectives of the ISAs in a manner similar to ISA 200; and
 - Remove references to Practice Statements for other International Standards since none currently exist or are currently contemplated.
31. Making changes to the Preface clarifies the auditor's responsibilities relating to the IAPSs while allowing national standard setters and IFAC member bodies the flexibility they may need to develop national guidance in lieu of applying relevant IAPSs as permitted under the Statements of Membership Obligations (SMOs) (further discussed in paragraphs 36-40 below). It also allows the IAASB to express a position about the interrelationship between its authoritative pronouncements (ISAs and IAPSs) and also the purpose of non-authoritative material in a clear manner in one place.
32. Further consideration may need to be given to whether changes to the ISAs themselves are necessary to give effect to this change in jurisdictions where the ISAs are adopted in legislation, however, the Working Group has not concluded on the matter and believes further experience will need to be gained as the clarified ISAs are adopted and as the IAASB considers whether new IAPSs should be issued.

¹⁰ ISA 200, "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

Matter for IAASB Consideration

4. Does the IAASB support the changes proposed to the Preface? For example,
 - (a) Does the IAASB agree it is necessary to describe the hierarchy of standards and guidance in the Preface? If so, is the suggested wording in the Appendix appropriate?
 - (b) Is the auditor’s responsibility to understand the IAPSs and determine if they are relevant to the audit sufficiently clear based on the changes made to the Preface?

Actions to Be Taken in Respect of the Extant IAPSs

33. The Working Group intends to more fully consider how the six extant IAPSs should be dealt with for discussion at the IAASB’s March 2010 meeting. Without prejudicing that discussion, there may be merit in withdrawing all extant IAPSs effective immediately given the concerns expressed that the IAPSs are out-of-date and potentially misleading, in particular as the clarified ISAs are being adopted. This would support the Working Group’s “clean slate” approach.
34. Regardless of whether the extant IAPSs are immediately withdrawn, further consideration will need to be given to IAPSs that may have continuing relevance to determine an appropriate way forward. Previous discussions have indicated that IAPSs 1004 and 1006 related to banking are currently being used in some jurisdictions and would benefit from revision, though these may not accurately reflect the current state of the banking industry. However, the Working Group is also aware that a number of national standard setters (NSS) have chosen not to adopt these IAPSs and have instead developed national industry-specific guidance based on the regulatory environment. It intends to consult with the IAASB’s NSS group to determine how widely used these are to inform the IAASB’s discussion in March 2010.
35. Revising the relevant extant ISAs would be subject to the approval of a project proposal by the IAASB, including consideration whether such projects would meet the planned criteria for an IAPS. The timing of any new project would be considered in the context of the IAASB’s current strategy and work program and the development of its strategy for 2012-2014.

Other Matters

The Role of IAPSs for National Standard Setters and SMO 3

36. IFAC Statement of Membership Obligation 3 “International Standards, Related Practice Statements and Other Papers Issued by the IAASB” (Amended November 2006¹¹) states that:

Member bodies should use their best endeavors...to assist with the implementation of International Standards or national standards 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.
37. The Working Party believes SMO 3 currently allows for the development and use of national

¹¹ SMO 3 was amended in part to update it for the IAASB’s discussion on IAPSs at its May 2006 meeting.

implementation guidance in lieu of adopting the IAPSs, however, national standard setters should consider whether such guidance at a minimum incorporates the guidance included in the IAPS tailored to national circumstances.

38. Staff has requested information from other NSS participants as to how the extant IAPSs are considered in their national standards and intends to discuss this matter further at the April 2010 NSS meeting.
39. Depending on the views of NSS and the status assigned to IAPSs, changes may need to be made to 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.” This policy position sets out the IAASB’s views on when an NSS that adopts the IAASB’s International Standards (ISs) as their National Standards (NSs) with little or no amendment can assert that their NSs conform to ISs. The changes proposed in this paper may scope the IAPSs into the definition of the ISs, and so the policy position may need to be updated to describe the process by which NSS may be permitted to make change to IAPSs or conclude that guidance in NSs carry the same intention and authority as the IAPSs.
40. Further coordination with IFAC’s Compliance Advisory Panel, which develops the SMOs and monitors member bodies’ compliance with them, may also be necessary to clarify SMO 3. This matter should be raised in consultation and member bodies should be encouraged to comment on how any possible changes in SMO 3 would affect their adoption and convergence activities.

Public Consultation

41. The Working Group is of the view that it will likely be necessary to publicly consult on (a) the proposed prospective change to the status and authority of the IAPSs and (b) its planned treatment of the extant IAPSs. The status and authority of IAPSs has implications in relation to the possible adoption of the ISAs by the European Commission. National standard setters and IFAC member bodies will have differing views depending on how IAPSs are currently being used in their jurisdictions and the extent to which they develop guidance based on national circumstances. Finally, public consultation will assist the IAASB in establishing criteria as to when an IAPS might be developed as compared to non-authoritative guidance.
42. Accordingly, the project timetable plans for a consultation paper to be issued in June 2010, to be followed by a final decision on status and authority after the IAASB has had the opportunity to consider the responses received from consultation. It is envisaged that the final decision should coincide with the finalization of IAPS 1012, and the proposed changes to the Preface would become effective when IAPS 1012 is effective.

Effective Date of the IAPSs

43. The IAPSs that have been issued to date became effective upon issuance. If IAPSs are deemed equivalent to application material, there will likely be implications for the adoption of such material, in particular when jurisdictions adopt the ISAs into law or regulation. Accordingly, it will be necessary for the IAASB to consider whether a discrete effective date should be noted for an individual IAPS. There is some benefit in doing so, not only to allow for auditors to have adequate time to implement the IAPS but also from a translation perspective. The Working Group recommends that this matter be included in the Consultation Paper.

Impact Analysis

44. The IAASB Steering Committee recommended that this project be a test case for the impact analysis framework that IFAC is currently developing, in part because the changes to the status and authority may have discrete cost implications for jurisdictions where the IAPSs may not be currently used. In addition, providing a clearer direction for auditors with regard to IAPSs may also lead to benefits in practice. The Working Group will continue to consider how best to implement the measures suggested in this regard when developing the project proposal for the March 2010 IAASB meeting.

Renaming the IAPSs

45. In agreeing the proposed status and authority of prospective IAPSs, the Working Group considered whether it would be appropriate to rename them to more accurately reflect their contents, for example as International Auditing Application and Explanatory Statements. The Working Group concluded that such a change was not necessary, because of the familiarity with the extant IAPSs and the fact that law and regulation may already refer to IAPS, for example in the EC's 8th Directive.

Matters for IAASB Consideration

5. Recognizing that further discussion will need to take place at the March 2010 meeting with respect to the proposed treatment of the extant IAPSs, does the IAASB have preliminary views on how the extant IAPSs should be treated?
6. Does the IAASB believe that public consultation is necessary and beneficial?
7. Does the IAASB have preliminary views on the need to establish effective dates with respect to any new IAPSs that it may develop? For example, should the revision of IAPS 1012 be immediately effective when finalized?

Appendix

Proposed Changes to the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services”

The text below contains proposed revisions to the Preface to be considered necessary to:

- (a) Illustrate the hierarchy of IAASB pronouncements and other non-authoritative material; and
- (b) Clarify the statement of authority attaching to International Standards and Practice Statements issued by the IAASB.

The IAASB Pronouncements

- 3. The IAASB’s pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information in a particular country required to be followed in accordance with that country’s national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB’s Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB’s Standards. A professional accountant should not represent compliance with the IAASB’s Standards unless the professional accountant has complied fully with all of those relevant to the engagement.

IAASB Authoritative Pronouncements

- 3a. 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 Standards on Auditing, Assurance, and Ethics Pronouncements.
- 3b. The obligations associated with, and further description of, International Standards and Practice Statements issued by the IAASB are provided below.

Non-Authoritative Material

- 3c. 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 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.

- 3d. 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.

The Authority Attaching to International Standards Issued by the International Auditing and Assurance Standards Board

4. International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information.

...

International Standards on Auditing

10. ISAs are written in the context of an audit of financial statements¹² by an independent auditor. They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. The authority of ISAs is set out in ISA 200.¹³

...

The Authority Attaching to Practice Statements Issued by the International Auditing and Assurance Standards Board

18. ~~International Auditing Practice Statements (IAPSs) are issued to provide interpretive guidance and practical assistance to professional accountants in implementing ISAs and to promote good practice contain application and other explanatory material additional to that contained in the ISAs. They provide further explanation and guidance on the requirements of ISAs in the context of a particular topic(s), and include examples of procedures that may be appropriate in the circumstances. International Review Engagement Practice Statements (IREPSs), International Assurance Engagement Practice Statements (IAEPSs) and International Related Services Practice Statements (IRSPSs) are issued to serve the same purpose for implementation of ISREs, ISAEs and ISRSs respectively.~~
19. IAPSs, which are developed following due process, have authoritative status equivalent to that of the application and other explanatory material contained in the ISAs. Accordingly, Professional accountants should be aware of and consider Practice Statements applicable to the engagement auditors have a responsibility to have an understanding of the entire text of a relevant IAPS in order to understand the objectives and to apply the requirement of relevant ISAs properly. An IAPS is relevant to the audit when the IAPS is in effect and the circumstances addressed by the IAPS exist. While IAPSs do not themselves impose requirements, they are relevant to the proper application of the requirements of the ISAs. The use of the material in an IAPS in the context of an audit will depend on the exercise of professional judgment in the circumstances consistent with the objectives stated in the

¹² Unless otherwise stated, “financial statements” mean financial statements comprising historical financial information.

¹³ ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

~~relevant ISA(s). 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 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.~~

~~Other Papers Published by the International Auditing and Assurance Standards Board~~

~~20. Other papers, for example Discussion Papers, are published to promote discussion or debate on auditing, review, other assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, review, other assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, review, other assurance or related services engagements.~~

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