

Proposed Policy Statement – International Convergence

Background

1. An initiative of the International Auditing and Assurance Standards Board (IAASB) is to promote the global acceptance of International Standards on Auditing (ISAs) and to bring about convergence on an international basis. “Convergence” in this context means the combining of efforts by the IAASB and national standard setters in order to develop a single set of auditing standards (i.e. ISAs) for worldwide use.

Purpose

2. The purpose of this document is to outline the IAASB’s policy with regard to international convergence.

Benefits of Convergence

3. The benefits of international convergence include the following:
 - Ensuring that the audits of the financial statements of multinational companies and foreign companies operating in a country but reporting elsewhere are performed in accordance with a common set of high quality auditing standards.
 - Improving the quality of auditor’s performance and reporting in a country to best international practice.
 - Increasing the comparability of auditor’s reports on financial statements prepared in different countries, thereby providing participants in international capital markets with a benchmark for accepting audits and auditor’s reports.

Strategies for National Standard Setters

4. National standard setters are encouraged to develop an overall strategy for adoption of ISAs. More specific, national standard setters are encouraged to adopt work program strategies and international liaison and monitoring strategies that enable them to:
 - Participate in an contribute to the development of new or revised ISAs, and
 - To increase the comparability of national standards with ISAs.

WORK PROGRAM STRATEGIES

5. In relation to their work programs, national standard setters are encouraged to:
 - Align their work programs with that of the IAASB, subject to the work program of the IAASB being reflective of the issues identified as priorities by national standard setters,
 - Allocate staff and other resources so that the national standard setters can, as agreed with the IAASB, lead projects on certain issues on the agenda of the IAASB and provide support on others (referred to as joint projects),
 - Fully consider the views of the IAASB in their deliberations on issues,
 - Issue, where relevant, IAASB discussion papers and exposure drafts, with minimum modifications dealing with national issues, for input from the constituents of the national standard setters,

- Work with the IAASB to remove incompatibilities between an existing or proposed ISA and the corresponding existing or proposed national standard, in situations where a national standard setter is of the view that the ISA is inappropriate in the national context, and
- Accept the views of the IAASB, and the majority of other national standard setters, on an issue in question, where such acceptance will lead to international convergence on an issue, even though that view is not the preferred position of the national standard setter, unless such acceptance is considered not to be in the best interests of the national economy.

INTERNATIONAL LIAISON AND MONITORING STRATEGIES

6. National standard setters are encouraged to:

- Routinely and closely monitor international developments in auditing and assurance, and
- Maintain and enhance relationships with the IAASB and other national standard setters.

Implementation Issues

SUPPLEMENTS TO ISAS

7. Although national standard setters are encouraged to adopt ISAs without modification, the IAASB acknowledges that it may be necessary to supplement an ISA in order to reflect the following:
- *National law and regulations*
National law and regulations may provide for additional audit and reporting responsibilities.
 - *Additional audit requirements*
A national standard setter may be of the opinion that, based on circumstances specific to its jurisdictions, it is necessary to include additional audit requirements.
8. It should be noted that compliance with national standards (i.e. supplemented ISAs) should always constitute compliance with ISAs. As a result, supplements cannot “lower” a requirement in an ISA, it can only “strengthen” it. In addition, supplements should be subject to the national standard setter’s due process.
9. National standard setters are encouraged to establish criteria for supplementing ISAs, as departures by national standard setters from ISAs could rapidly erode the advantages of a single set of auditing standards for worldwide use.
10. Where a national standard setter considers it necessary to supplement an ISA, it is proposed that the supplementary text is reflected in one or a combination of the following ways:
- Printing the ISA verbatim, with the additional national requirements clearly separated from the body of the ISA (e.g. included at the end of the ISA, as endnotes, or in an appendix).
 - Including the additional national requirements as separate paragraphs in the body of the ISA. The supplementary text should be shown as highlighted text so as to distinguish the additional national requirements. For example, underlined or shaded paragraphs

numbered with the suffix a, b, c, etc. Additional national requirements should not be inserted in the text of an existing paragraph of an ISA.

11. Existing national standards, which do not have ISA counterparts, may be retained by national standard setters until ISAs are developed. In this case, it is proposed that the national standard indicate that no ISA on the subject matter exists and that the content of the national standard is not contrary to any of the ISAs.
12. National standard setters should consider the impact of supplements to ISAs on the auditor's report on financial statements. As compliance with national standards (i.e. supplemented ISAs) should always constitute compliance with ISAs, it is anticipated that the audit opinion indicate that the audit was conducted in accordance with ISAs and national requirements.
13. National standard setters are encouraged to note in the preface to its national standards that the standards are the ISAs supplemented by additional national requirements, providing an indication as to how supplementary text has been reflected.

EFFECTIVE DATE

14. National standard setters are encouraged to adopt ISAs for reporting periods beginning on or after January 1, 2005. This will include all ISAs issued and effective on or before that date. ISAs with effective dates after January 1, 2005, should come into effect in the national standard setters' jurisdictions on its effective date.
15. The IAASB acknowledges that national standard setters' consideration as to whether an ISA should be supplemented and, where necessary, the translation of an ISA may take time. As a result, the IAASB endeavors to set effective dates sufficiently in advance to enable national standard setters to consider the ISA in a national context and, where necessary prepare a translation thereof.

INTERNATIONAL AUDITING PRACTICE STATEMENTS

16. To ensure consistent application of ISAs across countries, national standard setters are encouraged to also adopt, from 2005, International Auditing Practice Statements (IAPSS).

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