



**INTERNATIONAL FEDERATION  
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## Agenda Item

# 11

**Committee:** IAASB

**Meeting Location:** Berlin

**Meeting Date:** December 8-12, 2003

## Convergence

### Objectives of Agenda Item

1. To consider IAASB Staff's proposal with regard to international convergence.
2. To review and, if considered appropriate, approve for exposure proposed amendments to the "Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services" that reflect IAASB Staff's proposal.

### Activities Since Last IAASB Discussions and IAASB Staff's Proposal

At the October 2003 IAASB meeting IAASB Staff was requested to finalize the proposed policy statement on international convergence for approval as an exposure draft at the December 2003 IAASB meeting.

IAASB Staff revised the proposed policy statement considered by the IAASB at the July 2003 IAASB meeting, taking account of the comments received from the IAASB at that meeting.

IAASB Staff debated the revised policy statement and highlighted the following issues:

- Whether it is possible to cover all the methods and stages of convergence in one policy statement and to draft convergence principles that are applicable to all of them and acceptable to national standard setters that have decided to converge their standards with the IAASB's International Standards and Practice Statements?
- Whether IAASB could be prescriptive as to how national standard setters should go about converging their standards with the IAASB's International Standards and Practice Statements, if there are still many countries that have not taken a firm decision in this regard?
- Linking the proposed policy statement to the proposed SMO 3. The IAASB Chair has submitted a comment letter to the IFAC Staff responsible for the proposed SMO 3, highlighting inconsistencies between the SMO and the Preface. These have not yet been resolved.
- Proposing a policy statement that merely "encourages" national standard setters to take certain actions, as the IAASB did not want to be too prescriptive.

IAASB Staff concluded that it was necessary to reconfirm the objective of the proposed policy statement. Staff believes the objective is:

- To establish policies that will ensure that a national standard setter that claims convergence of its standards with the IAASB's International Standards and Practice Statements, has incorporated all the basic principles, essential procedures and explanatory text in its national standards and that differences between the national standards and the IAASB's International Standards and Practice Statements can be identified.
- To establish policies that will ensure that a professional accountant who states in his/her report that an engagement was conducted in accordance with ISAs or ISAs and national standards, has complied with all the IAASB's International Standards and Practice Statements effective at the date of the report.

IAASB Staff is of the opinion that this objective is best achieved by an amendment to the Preface. It is proposed that the following section is added after paragraph 27 of the Preface:

### **Convergence**

28. The IAASB acknowledges that convergence of national standards with International Standards and Practice Statements could be achieved by alternative methods, and different national standard setters could be at different stages of convergence. Accordingly, there is a need to establish policies for convergence that could be applied by national standard setters irrespective of its method or stage of convergence.
29. The IAASB expects national standard setters that state that their standards are converged with the IAASB's International Standards and Practice Statements, irrespective of the method or stage of convergence and of the terminology used, to comply with the following:
  - (a) National standards that have been converged with the IAASB's International Standards and Practice Statements should incorporate all the basic principles, essential procedures and explanatory text (see paragraph 15)<sup>1</sup> of all the International Standards and Practice Statements.
  - (b) Each national standard should contain the following:
    - i. A statement that the national standard is identical to the equivalent International Standard or Practice Statement; or
    - ii. Where the national standard is not identical to the equivalent International Standard or Practice Statement, a statement that:
      - a. The national standard does not contain requirements in addition to those contained in the equivalent International Standard or Practice Statement; or
      - b. An indication of requirements in addition to those contained in the equivalent International Standard or Practice Statement, either by clearly separating them from or highlighting them in the text of the standard or by explaining them in a separate section in the standard; or

<sup>1</sup> Paragraph 15 of the Preface reads as follows:

15. The IAASB's Standards contain basic principles and essential procedures (identified in bold type lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.

- iii. A statement that no equivalent International Standard or Practice Statement exist; and
  - iv. Its effective date and, where different, the effective date of the equivalent International Standard or Practice Statement.
30. A professional accountant applying national standards, which have been converged with the IAASB's International Standards and Practice Statements, should not indicate compliance with the IAASB's Engagement Standards in the professional accountant's reports unless:
- (a) The national standards have been converged with all the IAASB's International Standards on Quality Control, the relevant Engagement Standards and related Practice Statements effective at the date of the professional accountant's report, and
  - (b) The national standard setter has indicated in the preface to its national standards, or equivalent document, that:
    - i. The national standards incorporate all the basic principles, essential procedures and explanatory text (see paragraph 15)<sup>2</sup> of the IAASB's International Standards on Quality Control, the relevant Engagement Standards and the related Practice Statements, and
    - ii. Compliance with the national standards will constitute compliance with those International Standards and Practice Statements.

In addition, it is suggested that paragraph 28 of the Preface (now paragraph 31) is amended as follows:

### **Language**

31. The sole authoritative text of an exposure draft, International Standard, Practice Statement or other paper is that published by the IAASB in the English language. Translation of the IAASB's International Standards and Practice Statements should be conducted in accordance with the relevant IFAC policy.

### **Action Requested**

To consider IAASB Staff's proposal with regard to international convergence and, if considered appropriate, approve for exposure proposed amendments to the Preface.

<sup>2</sup> See footnote 1.

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