

Proposal to Withdraw IT-Related IAPSs

Introduction

1. The IAASB staff has considered the continued relevance of the four IT-related International Auditing Practice Statements (IAPSs) (i.e., IAPS, 1001, 1002, 1003 and 1009) in light of following initiatives:
 - IAASB project on improving the clarity of its pronouncements
 - IFAC Policy Statement on Translation of Standards and Guidance Issued by the International Federation of Accountants
 - Issuance of ISAs relevant to the new audit risk model
 - Proposed EU Eighth Directive

Relevance of the Four IT-Related IAPSs

2. The four IT-related IAPSs, originally issued in the 1980s, were re-issued by the International Auditing Practices Committee (IAPC) in June 2001 (after exposure in March 2000) and have not been reviewed or updated since that time. IT has progressed significantly since that date. In developing the *Audit Risk Standards* in 2003, the Audit Risk Joint Task Force indicated to the IAASB that extant ISAs and IAPSs contain IT concepts and terminology that are not in line with the latest developments. Consequently, there is serious concern that the guidance in these IAPSs has been superseded by time and technology.
3. Further, the current *Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services*, in the 2004 edition of the Handbook of International Auditing, Assurance, and Ethics Pronouncements, describes the authority attaching to Practice Statements issued by the IAASB in paragraphs 20 and 21. The Preface states that “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 ...”
4. The four IT-related IAPSs do not provide interpretive guidance to existing ISAs. Many national standard setters see them as educational material that does not form part of a set of practice statements interpreting auditing standards.

Initiatives that Affect the Extant IAPSs

IAASB PROJECT ON IMPROVING THE CLARITY OF ITS PRONOUNCEMENTS

5. The IAASB Consultative Paper issued in September 2004 recognizes that three main types of IAPSs currently exist:
 - IAPSs that provide detailed guidance on information technology. These are not closely related to any specific ISA.
 - IAPSs that deal with particular issues such as derivatives, electronic commerce and reporting on compliance with International Financial Reporting Standards.

- IAPSs that seek to interpret the application of ISAs across groups of auditors (e.g., the auditors of banks, auditors of small entities, and, under exposure, auditors of groups).
6. Paragraph 46 of the Consultation Paper states: “The IAASB recognizes that adopting the proposals contained in the accompanying exposure draft or in this consultation paper may affect future Practice Statements issued by the IAASB (in particular, IAPSs which cover a broad range of topics). The IAASB may therefore need to reconsider the purposes, authority, drafting conventions (and in particular, the use of the present tense in describing actions or procedures of the professional accountant), and future use of these Statements. The IAASB has concluded, however, that it must first focus on improving ISAs. Once a direction is clear, the IAASB can undertake a more systematic review of Practice Statements.”
 7. The questions in the Consultation Paper are based on the presumption that any future IAPSs are intended to provide additional guidance on ISAs.

IFAC POLICY STATEMENT ON TRANSLATION OF STANDARDS AND GUIDANCE ISSUED BY THE INTERNATIONAL FEDERATION ACCOUNTANTS

8. In July 2004, the IFAC Board approved a Policy Statement titled *Translation of Standards and Guidance Issued by the International Federation of Accountants*. In accordance with paragraph 9 of the Policy Statement, the complete text of all the standards and guidance in a selected group of standards and guidance should be translated.
9. Based on the above, a Translating Body will have to translate all the IAPSs. A number of countries seeking to adopt ISAs and relevant IAPSs have raised questions whether it is necessary to translate the IT-related IAPS in order to meet criteria for adoption of ISAs.

ISSUANCE OF ISAS RELEVANT TO THE NEW AUDIT RISK MODEL

10. In responding to the fact that computer systems are generally the rule rather than the exception, their use was assumed in the *Audit Risk Standards*. As a result, ISA 401, *Auditing in a Computer Information Systems Environment*, and IAPS 1008, *Risk Assessments and Internal Control – CIS Characteristics and Considerations*, will be withdrawn when the *Audit Risk Standards* become effective. This is clearly stated in the *Changes of Substance from the 2003 Edition of the Handbook and Recent Developments* page in the 2004 edition of the Handbook, as well as in the headings of ISA 401 and IAPS 1008, which remain part of the standards and guidance until December 2004.

PROPOSED EU EIGHTH DIRECTIVE

11. The Proposal EU Eighth Directive on statutory audit in the EU discusses, in Articles 26 to 28, proposed auditing standards. In accordance with Article 26, Member States should require statutory auditors and audit firms to carry out statutory audits in accordance with international auditing standards adopted by the European Commission (EC). Article 2 defines “international auditing standards” as International Standards on Auditing (ISAs) and related IAPSs, in so far as relevant to the statutory audit.

What to Do with the Four IT-Related IAPSs?

12. There is an argument that the four IT-related IAPSs still provide some helpful guidance – especially to audit practitioners who have not been widely exposed to IT. As such, some would urge that IAASB continue to endorse the content in some fashion – or leave them posted somewhere for those who wish to use them.
13. Recent experience with the paper on *First Time Adoption of International Financial Reporting Standards— Guidance for Auditors on Reporting Issues* raises concerns over this course of action. While IAASB wished to make available to auditors helpful non-authoritative guidance on how reporting issues around first time adoption might be addressed, the reactions to such non-authoritative guidance found on the IFAC website have been mixed. Some seem to be attributing greater authority to the document than was intended. Others have expressed concern that there appears to have been no public consultation before the document was issued. It is therefore suggested that there should not be another category of unofficial guidance included on the website.
14. The IAASB staff recommend that these four IT-related IAPSs simply be withdrawn. This is consistent with the treatment that was accorded to IAPS 1011, *Implications for Management and Auditors of the Year 2000 Issue*, and is intended for IAPS 1008.

IAASB Staff Proposal

15. Since the content of the four IT-related IAPSs is out of date and not related to specific ISAs, and therefore not providing interpretive guidance, it is proposed that they be withdrawn effective December 31, 2004.
16. IAASB staff proposes that a press release be issued to explain this action. A copy of the draft press release is provided in Appendix 2. It is not intended to debate the content of this document during the meeting. If members have suggestions for wording changes they can be provided to staff off-line.

Action Required by the IAASB**Does the IAASB support the proposed withdrawal of the four IT-related IAPSs? That is:**

- IAPS 1001, IT Environments—Stand-Alone Computers
- IAPS 1002, IT Environments—On-Line Computer Systems
- IAPS 1003, Environments—Database Systems
- IAPS 1009, Computer-Assisted Audit Techniques

Appendix 1

Proposed IAPSs as of January 2005

IAPS 1000, Inter-Bank Confirmation Procedures

IAPS 1004, The Relationship Between Banking Supervisors and Banks' External Auditors

IAPS 1005, The Special Considerations in the Audit of Small Entities

IAPS 1006, Audits of the Financial Statements of Banks

IAPS 1010, The Consideration of Environmental Matters in the Audit of Financial Statements

IAPS 1012, Auditing Derivative Financial Instruments

IAPS 1013, Electronic Commerce—Effect on the Audit of Financial Statements

IAPS 1014, Reporting by Auditors on Compliance with International Financial Reporting
Standards

Appendix 2

Draft Press Release—IAASB Withdraws IT-Related International Auditing Practice Statements (IAPSs)

(New York/December XX, 2004) The International Auditing and Assurance Standards Board (IAASB) announced the withdrawal of the following four International Auditing Practice Statements (IAPSs):

- IAPS 1001, *IT Environments—Stand-Alone Computers*
- IAPS 1002, *IT Environments—On-Line Computer Systems*
- IAPS 1003, *Environments—Database Systems*
- IAPS 1009, *Computer-Assisted Audit Techniques*

At its December meeting, the IAASB concluded that the need for these IAPSs has been superseded by the assumption of computer processing in the revised standards on understanding the business and assessing the risks of misstatement. They have also been outdated by the continuing pace of innovation in information technology. These IAPSs will be withdrawn effective December 31, 2004.

The IAASB, in a September 2004 Consultation Paper titled *Improving the Clarity and Structure of IAASB Standards and Related Considerations for Practice Statements*, describes the present role of IAPSs, identifies matters for further consideration, and asks for respondents' views on the future role of IAPSs. The comment period on that Consultation Paper ends December 31, 2004 and can be downloaded from the IFAC website at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0033>.

IAASB, an independent standard-setting body under the auspices of IFAC, issues International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPSs), which serve as the worldwide benchmark for high quality auditing standards and related guidelines. An important IAASB goal is to achieve convergence to international standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

IFAC is the worldwide organization for the accountancy profession. It is comprised of 157 professional accountancy bodies in 118 countries, representing 2.5 million accountants in public practice, education, government service, industry and commerce. IFAC's mission is to develop and enhance the profession to enable it to provide services of consistently high quality in the public. In addition to developing auditing standards through the IAASB, IFAC also develops education, ethics, and public sector accounting standards.

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