

Due Process – Summary of Significant Comments and Recommended Dispositions

Introduction

1. A total of 19 comment letters were received on the exposure draft (ED) of the proposed revised Preface – *IAASB Due Process and Working Procedures*, issued in July 2004. A list of respondents is included in Appendix 1.
2. This Issues Paper summarizes significant comments received for consideration by the IAASB during its March 2005 meeting.
3. Sections I and II of this Paper discuss respondents' comments pertaining to the proposed elements of IAASB's due process and working as described in the ED. Section III, *Due Process versus Working Procedures, and IFAC Board's "Common Due Process" Initiative*, of this Paper highlights the recommendation for the IAASB to consider presenting matters of "due process" separately from matters of "working procedures" (see paragraph 58). This recommendation is discussed separately due to the significance of its effect on the presentation of IAASB's due process and working procedures.
4. Agenda Item 3-B presents the proposed revised IAASB Due Process and Working Procedures document, reworded and restructured in response to comments received. *The IAASB is asked to focus on the material presented in that agenda item (Agenda Item 3-B) as it discusses the proposed dispositions of the comments received on the ED.* The changes reflect the IAASB Steering Committee's views on the comments received, as well as staff's disposition of other editorial suggestions made by respondents (as analyzed in Agenda Item 3-E).
5. For reference purposes, Agenda Item 3-C shows in mark-up revisions to the wording of the ED.
6. A proposed timetable for the IAASB's approval of its revised due process and working procedures, having regard to the IFAC initiative to have a common due process and working procedures amongst IFAC's Public Interest Activity Committees (see paragraph 60), is outlined at the end of this Paper.

Overall Comments

7. The vast majority of respondents were supportive of the initiative and related proposals to enhance IAASB's due process and working procedures:

"...we support the proposals...on the basis that the enhancements will strengthen public interest in the global auditing profession and serve the public interest." – ICPAS

"...we welcome the proposals which should serve to enhance the transparency of IAASB processes and the perception thereof. The perceived quality of due process at IAASB is particularly important at this time in the UK and elsewhere in Europe as the adoption of ISAs is being considered...we support the proposals which are largely unobjectionable and reflect common sense and current best practice in standard setting." – ICAEW

"...the amendments are an improvement in comparison with the existing preface and will

increase the transparency in the IAASB standard setting process which we consider in the public interest...” – FEE

“...IAASB has made a number of significant enhancements in its transparency and due process over the last two years and [we] want to acknowledge this progress...We are pleased to see further efforts to aid transparency and improve the Board’s due process as evidenced in this ED, and we encourage ongoing improvement.” – IOSCO

“...we strongly support IAASB’s decision to make improvements to its due process and working procedures and, subject to comments [provided], broadly support the proposed amendments...On balance, we believe the proposed amendments are both important and helpful to practitioners.” – PwC

8. A number of respondents urged the IAASB to consider the possibility of taking some of the proposals further, both in the core area of due process and transparency and in the degree of detail provided in the working procedures. Other respondents, however, advised on the need to ensure rigor and transparency are well-balanced with the IAASB’s need for timely decision-making, and on the impact of the proposals on IAASB’s timetable and resources.

Significant Comments

9. Significant comments have been analyzed on the following basis:

- I. Matters that Significantly Affect the Operations of the IAASB
- II. Other Significant Comments
- III. Due Process versus Working Procedures, and IFAC Board’s Common Due Process Initiative

I. Matters that Significantly Affect the Operations of the IAASB

BASIS OF CONCLUSIONS

10. Six respondents (ACCA, CPA Aus, FEE, ICAEW, INCPC, IOSCO) strongly urged the IAASB to identify a way to provide clear and adequate explanation of the basis for its conclusions when a final standard is issued. The respondents recommended that the IAASB issue a basis of conclusions document accompanying all new final pronouncements, so that each standard can stand fully on its own and be clearly understandable. This recommendation was made with the acknowledgement that IAASB’s agenda papers (including Issues Papers dealing with the disposition of comments and minutes) are available publicly. The following points were made:
 - Many of those outside IAASB and its task forces remain unclear as to how their comments have been dealt with, particularly where comments are many and varied. A basis of conclusions document avoids lack of transparency and makes it possible for respondents to determine the reasons behind acceptance or rejection of suggestions or whether they have been accorded consideration in terms of their validity or importance.
 - A basis of conclusions document is an increasingly common practice at many standard setters. It imposes a necessary discipline which helps avoid criticism, hasty or confused decision making and focuses clarity of thought regarding the need for re-exposure.

- It cannot be assumed that all relevant information regarding the basis for conclusions (through minutes and agenda papers) will be retained on the IFAC website over a longer period. Reliance on these papers makes it difficult for the broad base of users, and successive generations of users, to trace the path of discussions and conclusions that have occurred over the course of a project.
- The publication of a formal document at the time of issue of a pronouncement is qualitatively different from, and superior to, making working documentation available on a website. A centralized document would be a better source of information.
- The issue of a basis of conclusions document is a more efficient and effective method of assuring respondents that their comments have been duly considered. This is particularly true when compared to the updating of a detailed analysis of comment letters (Agenda Item 3-E, for example) or discussing with respondents why their suggestions have not been accepted.

Discussion and Recommended Disposition

11. The main decisions to be made are: (a) whether the transparency of the IAASB needs to be supplemented by the issue of a document that explains how the IAASB has dealt with comments received on exposure drafts; (b) whether such practice will significantly enhance the rigor of IAASB's due process; and (c) whether the IAASB should, or is able to, commit to the issue of a such a document in light of the impact it would have on its timetable and resources.
12. The arguments for the issue of a document setting out a basis of conclusions are strong. There are some instances where additional communication through such a document may be warranted; in other cases, however, it can be argued that the IAASB's transparency is fully sufficient. In considering this matter, three alternative exist:
 - (i) Retain the extant proposal in the ED for the IAASB to issue a separate document explaining its basis of conclusions on an exception basis (that is, in rare circumstances where the IAASB decides that such additional explanation is necessary).
 - (ii) Retain the extant proposal in the ED, but expand on it to require the IAASB to vote on the need for such additional communication.

In making the determination, criteria or factors could be identified for consideration, including (i) the significance of the standard and the complexity of the issues involved; (ii) the length of the project development period; and (iii) whether there was a significant and controversial divergence of views.
 - (iii) Issue a separate document explaining the IAASB's basis of conclusions for all final International Standards.
13. In light of the comments received, option (i) above does not appear to be an adequate solution. Option (ii) has merit in terms of affording the IAASB some measure of discretion. It is also consistent with how the IAASB has approached the decision whether to hold a public forum/roundtable or issue a consultation paper. It can be criticized, however, since the criteria are relative in nature; an issue, for example, may be significant and complex to one group of users but not to another.

14. It is therefore recommended that option (iii) be pursued, and that the IAASB issue a separate document explaining its basis of conclusions for all final International Standards. Doing so may obviate the need for the IAASB to hold separate discussions with respondents to explain to them the reason(s) for not having accepted their proposals (as proposed in the ED) and to make public Staff's detailed analysis of comments, both of which would add – potentially quite significantly – to the time and effort needed to finalize a new standard.
15. In considering this recommendation, the Steering Committee was of the view that it is important to focus on the concerns raised by respondents – that is, demonstration of how the IAASB has responded to comments on exposure drafts – and not to attempt to create a document that summarizes the entirety of the debates of the IAASB over the course of a project. Accordingly, the following parameters are recommended with respect to the issue of a separate document explaining IAASB's basis of conclusions:
- The document should refer only to the IAASB's basis of conclusions with respect to comments received on an exposure draft of an International Standard. It would not address all decisions that have been made in the development of an exposure draft, as these matters are evident in the publicly available agenda material and highlighted in the explanatory memorandum issued with an exposure draft. To the extent they were controversial, it is likely that they would lead to sufficient comment as to require explanation under this test.
 - Similar to the IASB's use of basis of conclusions documents, the IAASB document should not constitute part of a standard and should be non-authoritative.
 - The document should be issued with the final standard as a separate document to be retained for an indefinite period on the IAASB website. It should not be retained in the Handbook.
 - The results of IAASB votes and dissenting opinions should not be included as part of the document. This recommendation takes account of the fact that such information is available in the minutes of the IAASB meeting and the view of one respondent that the inclusion of dissenting views with a standard might weaken the authority of the standard.
 - The document should be circulated to the IAASB for comment and be issued after clearance by the IAASB Chair and Technical Director. To retain its non-authoritative status, the document would not be subject to voting approval by the IAASB. With good discipline, the issue of such documents should not result in a delay in the issue of the final standard.
 - To reflect the nature of the document, the title "IAASB Basis of Conclusions in Response to Comments Received on the Exposure Draft" or similar would be adopted.

Action: Does the IAASB agree with the proposal for the issue of a separate document explaining IAASB's basis of conclusions with each final International Standard?

EXPOSURE MATTERS

Exposure Period

16. Six respondents (ACCA, APB, CPA Aus, FEE, ICAEW, ICAR) questioned the stated exposure period of “ordinarily being 90 days.” Three of the respondents recommended that the exposure period should be a minimum of 120 days on the basis that it would: (i) better accommodate convergence by allowing the issue of EDs of ISAs nationally in parallel with the IAASB exposure process; (ii) allow for comment from jurisdictions where translation is necessary; and (iii) allow representative bodies to consult and achieve consensus on their comments within their due process. It was noted that a 120 day exposure period has been afforded the ISA 230 (Revised) ED.
17. Three of the respondents were of the view that if the modifier “ordinarily” is to be retained, then an explanation of the circumstances requiring, or the establishment of criteria for, a shorter or longer exposure period is needed.

Discussion and Recommended Disposition

18. The modifier “ordinarily” was added to the stated exposure period to provide the IAASB with the necessary flexibility in responding to circumstance that drive a need for a longer or shorter exposure period. The need for this flexibility will continue to exist whether a 90 or 120 day period is established.
19. In light of translation requirements and to accommodate different convergence strategies, a 120 day exposure period may be necessary as the norm. Accordingly, it is recommended that the exposure period should be extended to being “ordinarily 120 days,” supplemented by an explanation of when a longer or shorter exposure period may be needed. In considering this matter, the Steering Committee was conscious of the need for the IAASB not to be subject to additional delay and therefore recommended that a statement should be added to the proposed working procedures of the IAASB that exposure drafts will indicate that the IAASB cannot undertake to consider comment letters received after the close of the exposure period (this recommendation is premised on the view that the extension to 120 days should provide sufficient time for respondents to comment within the stated exposure period).
20. The IAASB is asked to note that, while the IAASB’s project timetable may not be significantly affected by the proposed extension to 120 days given its meeting frequency, it may significantly affect the timetable of the other PIACs if the extended period is commonly applied to all PIACs (see discussion on IFAC Board’s common due process initiative in paragraph 60).

Exposure of Practice Statement

21. Four respondents (ACCA, CPA Aus, FEE, ICAEW) questioned the continued provision for IAASB to “ordinarily expose” Practice Statements. Two of the respondents recommended that the IAASB should explain the limited circumstance, or set out criteria, where it is possible or likely that IAPSs will not be exposed. It was noted that without such criteria a decision not to expose an IAPS may attract unwarranted criticism from those who believe that the subject matter should have been dealt with as an ISA. Two of the respondents recommended that, in

the interest of a robust and transparent due process, the IAASB should always expose Practice Statements.

Discussion and Recommended Disposition

22. The need to expose Practice Statements was deliberated when the Preface was last exposed in November 2002. The IAASB concluded at that time that flexibility was required to allow for quick issue of an IAPS as the circumstance warrants. With one exception (re: Year 2000), however, this flexibility has not been needed.
23. The IAASB is being asked to approve the proposal for an IAASB urgent issues and interpretations committee (or similar) to consider further the issuance of interpretations on an expedited basis (see Agenda Item 8). This development would provide a different avenue for a rapid response to developments, and may, therefore, argue against the practice of the possible issue of a Practice Statement without exposure. It should be noted also that the Clarity project may lead to further consideration of the future role of Practice Statements, including the issue of whether a different due process (in relation to voting as opposed to exposure) should be afforded to their development. Finally, comments have been made about the lack of consultation prior to issue of the non-authoritative guidance on first time application of IFRS; this suggests that a move away from consultation in an area where we generally do consult, would be badly received.
24. It is therefore recommended that Practice Statements should always be exposed, with this decision subject to establishment of an IAASB urgent issues and interpretations committee (or similar) and pending the outcome of the Clarity project.

Action: Does the IAASB agree with the proposal to extend the exposure period to ordinarily 120 days and always to expose Practice Statements?

PROJECT IDENTIFICATION, PRIORITIZATION AND APPROVAL

25. Six respondents (FEE, IOSCO, ACCA, CPA Aus, ICAR, GT) commented on the project identification, prioritization and approval process in relation to transparency and input.¹
26. One of the respondents (IOSCO) recommended that some reference be made to criteria that are considered in establishing priorities for selection of Board projects. Three of the respondents suggested further that the IAASB make the project proposal process more transparent by extending the process for dealing with comments on exposure drafts to project origination. It was also suggested that the procedures explain how projects are selected from the pool of project identified, that those recommending a project for consideration be identified, and that they be told whether the project was accepted, and if not, the reason(s) for rejection. One respondent noted also that there should be some means for standard setters, their oversight bodies and the broader community to comment on IAASB's priorities and other matters of general interest.
27. Two of the respondents (ICAR, GT) noted, however, that it is important to consider whether projects may become too reactive if too great an emphasis is given to recommendations from

¹ Comments on the interrelationship of the role and responsibilities of the IAASB, IAASB Chair and Steering Committee and other IFAC groups are discussed in Section II "Other Significant Comments."

certain interested parties. It was also noted that it is important for the IAASB to balance wide research and consultation at the initial stages with the advancement of projects on a timely basis.

Discussion and Recommended Disposition

28. Establishing a fully rigorous and transparent process for project identification and prioritization carries the greatest potential for adversely affecting the timeliness of IAASB's project activities. It needs to be recognized that the identification and prioritization of projects is an inherently difficult process, and that the IAASB has established consultative mechanisms for input from the IAASB CAG, national standard setters and others. In terms of the transparency of IAASB's project planning, the IAASB publishes an Action Plan, and public comment on the Plan is welcome.
29. While it may be possible to establish criteria for use in determining project priorities, the relative importance of certain matters changes over time. It is also difficult to do without inadvertently giving undue weight to the needs or views of a particular constituency. It should be recognized, however, that the IAASB operates to serve the public interest and accordingly, the identification and prioritization of projects is made having regard to the public interest.
30. In seeking to achieve an appropriate balance, it is therefore recommended that the proposed description of the process for project identification and prioritization not be expanded significantly. It is recommended, however, that: (i) having regard to the public interest be identified in IAASB's due process as an essential determinant in establishing project priorities; and (ii) where applicable, those recommending a project for consideration be identified.²

Action: Does the IAASB agree with the recommended disposition?

PROJECT TASK FORCES AND JOINT PROJECTS

Project Task Forces - Composition

31. Four respondents (ACCA, FEE, IOSCO, IRE) commented on the lack of explanation surrounding the process for establishing a Project Task Force (TF). The following enhancements were recommended:
 - The origination or formation of the TF should be made public. The Preface should explain fully how TFs are to be constituted and how experts may be brought in.
 - The principal criteria for selection of TF members should be 'best person for the job', and that this should be promoted through making the process public with nominations for appointment of suitably expert external candidates.
 - Member Bodies that have decided or will decide shortly to adopt or incorporate ISAs directly into their national standards should be preferred candidates for TFs.
 - Information on who serves on TFs should be posted on IFAC website.

² This proposal has the benefit of increasing the transparency of relations between the IAASB and certain groups where there is continuing dialogue (for example, the TAC/Forum of Firms). It is also, in fact, a necessity if the IAASB is to understand whether a project proposal is based on a recommendation from the PIOB or the CAG.

32. One respondent (KPMG) recommended that the Preface specifically address responsibility for identification of TF members and that this responsibility should be assigned to the Steering Committee.

Discussion and Recommended Disposition

33. Expanding the TF membership identification process to include public nominations would significantly delay commencement of project work. IAASB's practice to date has been relatively informal largely due to the need for quick formation once a project is approved. It is also difficult to prescribe the criteria for TF memberships, as the composition depends on several factors including the nature of the project, the level of interest, the level of expertise on a particular topic within the IAASB, geographical and other considerations.
34. To increase the level of consultation and transparency, however, it is recommended that the IAASB working procedures include the provision for project proposals to address, where appropriate, specific areas of expertise or geographical representation that may be needed on the Project Task Force. The proposed working procedures would also emphasize that the identification of TF members focuses on finding the best person for the job. In addition, as suggested by respondents, it is recommended that information on task force membership be considered as part of the project summaries posted on the IAASB website.

Joint Projects

35. While supportive of the conduct of joint projects, five respondents (CNDC/CSOEC, FEE, GT, IDW, KPMG) raised varying comments and recommendations with regard to the conduct of joint projects, including:
- All joint projects should be on a multilateral basis to ensure that no one standards setting body exercises undue influence.
 - At least one of the national standard setters (NSS) should be from a jurisdiction with a legal framework that differs from the other standard setters directly involved in the project.
 - At least one of the NSSs involved in a joint project should be from a jurisdiction where ISAs have been, or will be, adopted.
 - The chair of the joint project should always be a member of the IAASB, with the practice of joint chairs eliminated or permitted only in rare circumstances.
36. Respondents cautioned on the need to ensure that joint projects do not result in unnecessary delays in finalization of standards and, in particular, that the output of joint project should not be dependent on the progress of the same topic at the national level.

Discussion and Recommended Disposition

37. Respondents' recommendation for joint projects to be conducted only on a multilateral (or multi-national) basis may severely restrict the ability for the IAASB to conduct such projects, as it may not always be possible or practicable for two (or more) national standard setters to participate. It may therefore limit or eliminate options for both the IAASB and a national

standard setter to work together and share resources, an important objective behind the initiative to carry out projects jointly.

38. To respond to respondents' recommendations while not unduly restricting the IAASB, it is recommended that:
- (a) Joint projects always should be chaired by a member of the IAASB, to control the process and to assist in minimizing the potential for undue influence by one of the participating standard setter(s).
 - (b) A statement should be made in IAASB's working procedures to the effect that the IAASB considers the due process of the participant(s) to a joint project to the extent it does not result in unnecessary delay in the finalization of a pronouncement
 - (c) Where practicable, the IAASB should seek to conduct joint projects on a multi-national basis.
39. As a practical matter, the Steering Committee was of the view that the protocol for joint projects needs to be defined more clearly so that there is a common understanding of the expectations and procedures for joint projects. This matter is scheduled for discussion at the IAASB-National Auditing Standard Setters Meeting in February 2005. The IAASB will be briefed in March on the outcome of those discussions.

Action: Does the IAASB agree with the recommended dispositions of the comments pertaining to the determination of the composition of project task forces and the proposed way forward regarding joint projects?

IAASB CONSIDERATION AND DISCUSSION OF RESPONDENTS' COMMENTS

IAASB Consideration of Comment Letters

40. Two respondents (IOSCO, EY) felt the description in paragraph 34 of the ED of "...IAASB members make themselves aware of key points made by respondents within the context of the response letters" was unclear³ and could be strengthened. IOSCO was of the view that the description does not sufficiently state what the expectations are for IAASB members or adequately describe the responsibilities and commitments involved. It was recommended that IAASB members must "thoroughly familiarize themselves with issues raised in comment letters" through an obligation to be aware of, and consider fully, comment letters. It was also suggested that a stronger imperative be used in the language used to describe this responsibility. The other respondent (EY) recommended that the sentence should be modified to state: "In addition to the thorough study of the Issues Paper, IAASB members review the key points made by respondents in their comment letters."

Recommended Disposition

41. The following wording is suggested to communicate the expectation of IAASB members with regard to comment letters:

³ Note: One IAASB member voted against issue of the exposure draft on the grounds *inter alia* that this description was difficult to interpret.

“IAASB members familiarize themselves with the issues raised in comment letters on exposure drafts such that they are able to make well informed decisions as they finalize a pronouncement.”

The last sentence of paragraph 34 of the ED would be unnecessary and therefore has been deleted.

(these changes are illustrated in paragraph 45 below)

IAASB Discussion with Respondents

42. Three respondents (GT, KPMG, RR) were of the view that the proposal in paragraph 35 of the ED (re: for the IAASB to discuss the acceptance or non-acceptance of comments with respondents) should not be part of the IAASB due process explicitly. In particular, concern was expressed that it may be difficult for the IAASB to fulfill the obligation to discuss⁴ (as opposed to explaining the reasons for not adopting specific recommendations in writing) without delaying the finalization of standards. One of the respondent recommended that the IAASB should simply state that the Board does not have the resource to reply to each individual comment letter.
43. The respondents also questioned the appropriateness of favoring members of the Monitoring Group (MG) routinely and not extending the courtesy to all commentators. It was noted that the need for discussion with the MG may possibly disappear over time as the other proposals are implemented.
44. Other respondents (FEE, ICAR) felt that, if the proposed wording were to be retained, the IAASB should be required to consider and decide systematically whether it needs to contact and discuss with respondents or explain the reason for not having accepted their proposals, and the basis on which the IAASB will decide which commentators to favor and the process for discussion of the comments.

Recommended Disposition

45. The following rewording of paragraphs 34 and 35 of the ED is suggested with respect to the intent of the discussion of comment letters with respondents, while retaining responsiveness to the IFAC reform relating to discussion with members of the MG:

Paragraph 34 - ~~“The comments and suggestions received within the exposure period as a result of public exposure are read and considered by the Project Task Force. To facilitate the deliberative process, the Project Task Force provides the IAASB is ordinarily provided, as part of the IAASB’s public agenda papers, with an analysis that a revised proposed International Standard or Practice Statement and an Issues Paper that analyzes the comments received, summarizes the main issues raised by respondents, and outlines their proposed disposition and, as appropriate, explains the recommendations of the Project Task Force. The Issues Paper also includes the rationale of the Project Task Force in arriving at its conclusions and, as considered appropriate by the Task Force, the reason(s) why significant changes recommended by a respondent(s) are, or are not, to be were or were not accepted. In addition to careful study of~~

⁴ In general, respondents viewed IAASB discussion with respondents for purpose of seeking clarification as acceptable.

the Issues Paper, IAASB members make themselves aware of key points made by respondents within the context of the response letters.”

Paragraph 35 – “IAASB members familiarize themselves with the issues raised in comment letters on exposure drafts such that they are able to make well informed decisions as they finalize a pronouncement. Before a final International Standard or Practice Statement is issued, the IAASB gives due consideration to comments received.”⁹ The IAASB deliberates significant matters raised in comment letters received, with significant decisions ~~made by the IAASB~~ recorded in the minutes of the meeting of the IAASB.

The IAASB does not enter into debate or discussion with respondents on individual comment letters. The IAASB may decide, however, to discuss a letter of comment with the respondents to seek clarification on a matter. For comments received from members of the Monitoring Group, if and as requested, the IAASB will their letters of comment or to explain to them the reason(s) for not having accepted their proposals. It is expected that this will be regular practice for comments received from members of the Monitoring Group. The nature and outcome of such discussions are reported and recorded in the minutes of the IAASB meeting at which the related project is discussed.”

This revised wording is presented in paragraphs 14-15 in Agenda Item 3-B.

Action: Does the IAASB agree with the proposed rewording of the provision for IAASB’s consideration of comment letters and for discussion with respondents?

CRITERIA FOR, AND COMMUNICATION OF, RE-EXPOSURE

46. Four respondents (ACCA, FEE, ICAEW, ICAR) strongly urged that the IAASB to make public an explanation of the decision to, and more importantly, the decision not to re-expose a document. One respondent (EY) was of the view that criteria for determining the need for re-exposure should be clearly stated in the Preface, and that these will assist IAASB in its assessment of the need for re-exposure and in its documentation of the process in the IAASB minutes.

Discussion and Recommended Disposition

47. The communication of a decision not to re-exposure, however, is no different from other important decisions made by the IAASB, for example, the decision not to approve an exposure draft or final pronouncement. In any event, it is not unreasonable for there to be a presumption that one exposure is quite enough. The decision on re-exposure is recorded in the publicly available minutes of the IAASB meeting and, subject to the discussions above, within the proposed basis of conclusions document.
48. It is recommended, however, that the proposed revised IAASB due process acknowledge that, in the case where the IAASB decides to re-expose, the accompanying explanatory memorandum would set out the basis for such a decision and provide sufficient information to allow an understanding of the changes made as a result of the earlier exposure.
49. The ED identified certain considerations (as opposed to specific criteria) that the IAASB would take account of when determining the need to re-expose a document. This position was taken in

light of the difficulty in establishing criteria that are sufficiently enduring and not unduly restrictive on the judgments of the IAASB. The essential determinant in the need for re-exposure, however, is whether constituents have had an opportunity to make their views known to the IAASB before it reaches a final conclusion. To strengthen the proposal regarding consideration of the need for re-exposure, it is recommended that this point be emphasized as a main consideration of the IAASB, as follows:

“Situations that constitute potential grounds for a decision to re-expose may include, for example: substantial change to a proposal arising from matters not aired in the exposure draft such that commentators have not had an opportunity to make their views known to the IAASB before it reaches a final conclusion; substantial change arising from matters not previously deliberated by the IAASB ~~or aired in the exposure draft~~; or substantial change to the substance of an International Standard or Practice Statement

Action: Does the IAASB agree with the recommended disposition on matters regarding re-exposure?

II. Other Significant Comments

50. Other significant comments received are summarized below. Each subject matter is followed by the staff’s recommended disposition (shown in italics), as agreed by the Steering Committee.

PROJECT IDENTIFICATION, PRIORITIZATION AND APPROVAL

51. Three respondents (FEE, IDW, PwC) expressed concern that the wording of this section of the ED does not provide a clear description of the respective roles of the IAASB and the Steering Committee. It was suggested that: all documents issued to outside parties be approved by the IAASB; the IAASB be consulted at all stages of the project development process; and the IAASB be consulted on project proposals before circulation to others (such as other IFAC committees). In addition, comments were made over the extent of detail of the descriptions in the Preface on the various constituents to be consulted, and on the need for a better explanation of the role and interrelationship of the oversight bodies with the IAASB.

Response

The section on project identification has been simplified and reworded taking account of respondents’ suggestions. It was apparent, however, that respondents overlooked the fact that the Steering Committee operates to facilitate the working of the IAASB, and that all decisions are based on consultation with, and subject to approval by, the IAASB. Seeking to require IAASB consultation on all matters (e.g., draft project proposals for circulation to other IFAC Committees) may be impractical from an operating point of view. The proposed rewording therefore does not go as far as suggested by some respondents.

The suggestion by three respondents to include a full description of the various bodies and task forces and their interrelationship into the Preface has not been adopted, as the Preface is not the appropriate document for this type of communication. The respondents’ suggestions have been forwarded for consideration as part of the revision of the IAASB website by Staff.

PUBLIC FORUMS OR ROUNDTABLES

52. Six respondents (GT, ICAEW, IOSCO, JICPA, PwC, RR) commented on the proposed use of public forums or roundtables or the issue of a consultation paper, and were generally supportive of the proposal. Three of the respondents noted that more specific criteria will be needed to make such decisions and offered examples such as “the likely level of interest outside the profession,” “the likely level of dissent,” and “for significant projects, especially when responses to an ED show a significant and controversial divergence of views.” One respondent noted that the treatment of comments arising from a public forum/roundtable/consultation paper should be subject to the same transparency and due process applied to comments on exposure drafts.

Response

Respondents’ recommendations have been adopted.

VOTING

53. One respondent (IOSCO) requested that discussion of ballot voting, proxy, meeting quorum and minimum votes be presented separately for clarity. The respondent also raised concern over the ability to allow proxy votes without the absentee member having the benefit of hearing the latest deliberations and making a final decision, and with the potential of giving the attending member with the proxy two votes. The IAASB was encouraged to examine the use of proxies and determine if greater restriction would be desirable, including having the technical advisor (TA) of a member as the only person authorized to hold a proxy.

Response

Not all IAASB members are supported by a TA, and therefore a restriction to limit proxies thereto may not be practicable. It is proposed to continue the practice of permitting a member to appoint his or her TA, the IAASB Chair or another IAASB member as a proxy. However, it is suggested that wording be provided in terms of the duty of the proxy to take account of the outcome of the IAASB’s discussions and any guidance provided by the member in relation to voting, and, where practicable, to consult with the member before voting.

In addition, the section on voting has been restructured to delineate meeting quorum, voting rights, voting at IAASB meetings and voting by ballot, based on respondents’ suggestions.

MATTERS OF DUE PROCESS

54. Respondents (except for one who did not believe an internal investigation is credible) generally supported the inclusion of a process for dealing with issues over due process. Respondents recommended, however, that: (i) issues should be raised with the IAASB and for it (rather than the Steering Committee) to decide on the resolution; and (ii) alleged breaches of due process and their resolution should be communicated or referred to the PIOB. Two respondents (FEE, IOSCO) asked for greater detail of the process: what steps are taken, how the matter is investigated, alternatives, minutes, documentation, etc. It was acknowledged that such detail would best be presented in an operations document.

Response

Respondents' suggestions for communication with the IAASB and the PIOB on matters of due process have been adopted. Specific details in terms of the investigative process, minutes, documentation, etc. have not been added to the proposed revised working procedures as such level of detail appear unwarranted as part of the broader description of IAASB due process and working procedures. The determination of such matters may also need to be done in coordination with any steps established by the PIOB regarding alleged breaches of due process.

SETTING OF EFFECTIVE DATES

55. Two respondents (FEE, IDW) considered it important that the IAASB inform users of the reasoning behind the determination of an effective date or the principles to be followed for determination of the effective date, which should take account of the reasonable expected minimum period for effective and professional implementation and the need for translation into national languages. It was also suggested that it would be beneficial to include a planned effective date in exposure drafts.

Response

The proposed revised working procedures provide an expanded description on the setting of effective dates to include the general consideration by the IAASB of the reasonable expected minimum period for effective implementation, including the need for translation.

DOCUMENTATION – RETENTION AND AUTHORITY

56. Three respondents (CNDC/CSOEC, FEE, RR) commented on the need for the IAASB to clarify its policy on document retention and the authority of working documents. It was recommended that: (i) the Preface clarify the legal status of the material archived which contributed to the development of a standard; (ii) all drafts prepared in the process of developing a standard have no value once the final standard is issued and that they cannot be used subsequently to interpret the meaning of a standard; and (iii) a reasonable website retention period be established.

Response

A statement has been added to the proposed revised working procedures to clarify that only the final pronouncements issued by the IAASB are authoritative. In addition, it has been stated that the agenda papers are retained on the IAASB website for at least three years from the date of the meeting, and that final minutes of IAASB meetings are retained on the website indefinitely.

Broader consideration of IFAC documentation retention policy, including the possibility of seeking legal advice on the legal status of material archived on the website, may be needed. This matter has been referred to the responsible IFAC staff, but is otherwise beyond the immediate scope of this project.

OTHER MATTERS

Statements of Objectives

57. Two respondents (FEE, ICAEW) recommended that the Preface should: (i) include a statement to the effect that IAASB standards are developed in a manner that facilitates their efficient use by practitioners serving SMEs; and (ii) set out a clear policy of the quality of written English IAASB intends to achieve in its output (e.g. that are readily comprehensible to the audience to which they are intended and, wherever possible, are kept as simple as possible in order to facilitate translation).

Response

These matters are outside the scope of the project on due process. These comments however will be considered as part of the work of the Clarity task force.

Action: Does the IAASB agree with the recommended dispositions of respondents' comments on the above matters?

III. Due Process versus Working Procedures, and IFAC Board's Common Due Process Initiative

DUE PROCESS VS WORKING PROCEDURES

58. One respondent (IOSCO) questioned whether the mix of information on “due process” and “working procedures” results in the best presentation. It was noted that broad statements of policy, principles, and elements of due process, are the types of matters that should be included in the preface, if it is intended to be an overarching part of all the auditing standards. Detailed working procedures, however, could be presented in another way that provides more flexibility for change when the need arises. This approach would retain the benefits of transparency while avoiding undue weight being assigned to the working procedures / administrative steps.

59. Two other respondents (CNDC/CSOEC, FEE) also raised concern over the readability and understandability of the revised Preface. It was noted that the proposed presentation runs the risk of failing to meet the objectives of demonstrating to the public the existence of a transparent due process in the IAASB.

IFAC BOARD'S COMMON DUE PROCESS INITIATIVE

60. At its November 2004 meeting, the IFAC Board agreed in principle to the development of a common description of due process for all its standard setting Public Interest Activity Committees (PIACs). It was viewed as important to have consistency between IAASB and other IFAC bodies in terms of the due process and working procedures applied in which international standards are promulgated. This decision has important consequences to the final determination of IAASB's due process, as the IFAC Board may wish to provide input on the nature of the due process to be adopted by the PIACs.

61. The goal of IFAC's initiative was echoed by one respondent (ACCA) to the ED.

Discussion and Recommended Disposition

62. IOSCO's suggestion to split matters of due process from working procedures has merit, particularly from a compliance point of view where the differentiation between these two elements becomes increasingly important. In considering this matter, the IAASB needs to consider very carefully those elements of due process to which it is to be held accountable. As noted in IOSCO's response letter, one could argue (under the current presentation) that a failure to send an acknowledgement letter is a violation of due process. However, it would seem disproportionate to suggest that failure to do so is a failure of due process. A clear differentiation would also allow a certain degree of flexibility with respect to "working procedures" as the IAASB reacts and responds to developments in its environment.
63. Further, it has been commented that the Preface has become the "resting ground" for a variety of matters, including due process. The focus of the Preface on explaining matters pertaining to the nature of the IAASB standards (as opposed to operations) will become increasingly important as the Clarity project is finalized.
64. In light of the discussion above, it is therefore proposed that:
- "Due process" matters be separated from "Working Procedures;"
 - The description of "IAASB Due Process and Working Procedures" be repositioned outside the body of Preface and established as a separate document residing immediately after the IAASB's Terms of Reference in the Handbook.
65. The challenge in this proposal is the determination of whether a procedure or step is "due process" or "working procedure," bearing in mind that IFAC will be seeking a "due process" that is, as far as possible, consistent amongst, and practicable for, all PIAC's.
66. Agenda Item 3-B presents the proposed revised IAASB due process and working procedures. It reflects the proposed rewording based on respondents' comments (as highlighted in Sections I and II of this Paper), and a proposed restructuring in accordance with the proposal outlined above. In considering this presentation, the Steering Committee was of the view that the proposed split significantly aids overall readability and helps to focus on the main aspects of due process. (With the exception of drafting style, the content of Agenda Item 3-B is consistent with Agenda Item 3-C – mark-up changes to the ED – which is presented for reference purposes only.)
67. In terms of discussion with the IFAC Board regarding the development of common due process and working procedures for its PIACs, Agenda Item 3-B has been used as the basis for a due process and working procedures "template" for consideration by the other PIACs. This template, essentially a generic version of Agenda Item 3-B, has been discussed and agreed in principle by the staff and chairs of the other IFAC PIACs, and will be presented for discussion purposes at the February and March meetings of the respective PIACs and the March IFAC Board meeting.
68. IAASB's views on the material presented, along with the findings from the meetings of the PIACs and IFAC Board, will be taken into account in the development of a revised due process and working procedures for review and approval by the IAASB and the PIOB (see timetable below) at their next meetings.

Action: The IAASB is asked to consider the draft material presented in Agenda Item 3-B.

- Does the IAASB agree with those matters that have been identified as “due process” and those identified as “working procedures” (that is, is the split right)?
- Does the IAASB agree with the proposal to remove the description of IAASB due process and working procedures from the body of Preface and to position it as a separate document?

Project Timetable

69. Taking account of the impact of the IFAC Board’s initiative, the following timetable is proposed for the project:

TIME PERIOD	ACTION
March 2005	<ul style="list-style-type: none"> • IAASB review of comments received on ED and proposed dispositions. • PIAC review of the proposed PIAC due process and working procedures “template” (essentially a generic version of Agenda Item 3-B) • IFAC Board review of proposed PIAC due process and working procedures “template”
April 2005	<ul style="list-style-type: none"> • PIOB review of revised proposed PIAC due process and working procedures “template” (revised to take account of the views of the IAASB and the other PIACs)
June 2005	<ul style="list-style-type: none"> • IAASB review and approval of “IAASB Due Process and Working Procedures” (revised taking account of the views of IAASB expressed in March and comments from the IFAC Board and PIOB in March and April, respectively) <p><i>Note: While the IAASB may approve its due process and working procedures, the reform proposals provide the PIOB with the right to “evaluate the due process in standard setting activities to be satisfied that the procedures ensure that the views of all stakeholders are sought and considered and that the PIAC's are accountable for their disposition of those views.”</i></p>

Appendix 1

List of Respondents

Exposure Draft Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services—IAASB Due Process and Working Procedures

Comments Received From:	Category:
Association of Chartered Certified Accountants (ACCA)	Member Body
Auditing Practices Board (APB)	Other
Conseil National de la Compagnie nationale des commissaires aux comptes (CNDC) & Conseil Supérieur de l'Ordre des experts-comptables (CSOEC)	Member Bodies
CPA Australia (CPA Aus)	Member Body
Ernst & Young (E&Y)	Firm
Fédération des Experts Comptables Européens (FEE)	Other
Grant Thornton (GT)	Firm
IBR-IRE Belgium (IRE)	Member Body
International Organization of Securities Commissions (IOSCO)	Regulator
Institut der Wirtschaftsprüfer (IDW)	Member Body
Institute of Certified Public Accountants of Singapore (ICPAS)	Member Body
Institute of Chartered Accountants in England & Wales (ICAEW)	Member Body
Institute of Chartered Accountants in Ireland (ICAR)	Member Body
Institute of Chartered Accountants of New Zealand (ICANZ)	Member Body
Instituto Nacional de Contadores Públicos de Colombia (INCPC)	Member Body
Japanese Institute of Certified Public Accountants (JICPA)	Member Body
KPMG	Firm
PricewaterhouseCoopers (PwC)	Firm
Richard Regal (RR)	Other