

**International Auditing Practice Statements (IAPs)—
Issues and Working Group Recommendations****Background**

1. At its June 2011 meeting the IAASB discussed significant comments received on exposure of proposed amendments to the Preface¹ to clarify the status and authority of new IAPs (ED-IAPs). The IAASB also heard the views expressed on the topic by participants at the April 2011 IAASB-National Standard Setters (NSS) meeting.
2. The IAASB asked the Working Group to consider further refinements to its proposals, including re-consideration of the title 'IAPs.' However, the IAASB broadly supported the Working Group's recommendations that new IAPs should be non-authoritative in nature, and that matters requiring authoritative guidance (that is, guidance that is needed to enhance the consistent understanding and application of a requirement(s)) should be addressed through amendment to ISAs.

Significant Issues for IAASB Consideration**Status and Authority**

3. The Working Group's proposed changes to the Preface are presented in Agenda Item 2-B (marked showing changes from the ED). The key paragraphs relating to status and authority are reproduced below:

Non-Authoritative Material

20. Non-authoritative material includes International Auditing Practice Notes (IAPNs) issued by the IAASB and staff publications. Non-authoritative material is not part of the ISAs and does not impose additional requirements on auditors beyond those included in the ISAs, nor does it change the auditor's responsibility to comply with all ISAs relevant to the audit. The IAASB issues non-authoritative material for the following purposes:
 - IAPNs provide practical assistance to auditors and firms and are intended to be disseminated by those responsible for national standards, or used in developing corresponding national practice statements tailored to address particular national standards. The IAPNs provide material that firms can use in developing their training programs and internal guidance.
 - Staff publications are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of IAASB pronouncements.

¹ *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Service Pronouncements*

International Auditing Practice Notes

21. Depending on the nature of the topic(s) covered, an IAPN may assist the auditor in:
- Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
 - Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or
 - Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.

Discussion

4. Notwithstanding the direction given by the IAASB to the Working Group to clarify new IAPSs (hereafter referred to as IAPNs, for purpose of consistency with the above) as non-authoritative, the issue of status and authority continues to be contentious.
5. On one hand, there is the view that a response by the IAASB to an identified need(s) or issue(s) should take into account what is most effective in light of their nature. That is:
- If there is a need to *influence* practice – and recognizing that there are a number of ways to do so such as through educational-type material, more illustrative procedures, and highlighting of good practices under specific scenarios – then a timely and flexible response is needed.
 - If there is a need to *change* practice (for example because of inconsistent interpretation or lack of clarity of the standards, or because of deficiencies in audit behavior/performance) and interested parties wish to monitor how this is being taken-up in practice, then, in the case of audit, the ISAs are the instrument to be used to achieve that purpose.

The proposal above (see paragraph 3) would seem to appropriately address the former, and the proposal discussed in Agenda Item 3-C on ISAs 500 and 540 the latter.²

6. On the other hand, there is a view that it is important that the IAASB be able to issue ‘authoritative guidance’ that has the effect of changing practice where that is needed, and that it is conceivable a separate type of authoritative document beyond the ISAs could serve that purpose. Having such a document is seen as strategically important, and that converting IAPSs (authoritative) into IAPNs (non-authoritative) is short-sighted.

² In deliberating the way forward on status and authority of IAPSs and in the context of proposed IAPS 1000 in particular, the IAASB recognized that amendments to the application material of ISAs 500 and 540 may be appropriate in light of the need for authoritative guidance on specific issues noted during the development of IAPS 1000. See Agenda Item 3-A for further discussion.

7. In this regard however, the response to ED-IAPS was clear:
 - The IAASB cannot be ambiguous about the status, obligation for/expectation of use, and authority of the documents it issues. A compromise solution somewhere between obligatory and non-obligatory is unacceptable.
 - Having authoritative guidance outside of the ISAs is problematic and prone to differing interpretations. If such authoritative guidance is not linked directly to the ISAs, any so-called obligation to read and consider has been viewed as ineffective and illogical unless accompanied by some obligation to demonstrate achievement of the obligation (for example, through documentation); others note however that this would give IAPs a higher level of obligation than that for ISA application material.
8. Further, the option of having a document outside the ISAs but which has an authority equivalent to that of ISA application material (so-called ‘Option B’ discussed at the June 2011 IAASB meeting) has received strong negative reactions from both the IAASB and the NSS. Concerns included having ISA application material no longer contained only in the ISAs but spread over a number of documents, the implication that that may have in jurisdictions that have adopted, or are considering the adoption of, the ISAs, and the potential for additional, highly-specific application material to inadvertently and fundamentally change the global applicability of the ISAs.
9. The direction on status and authority must also take into account the only illustrative model currently available – IAPN 1000. Its form and content have developed based on feedback received on exposure, in view of what would be helpful to practice, and cannot be easily adapted in its entirety to suit a document that would otherwise have status equivalent to that of a standard. Revising IAPN 1000 now for that purpose would also result in the IAASB failing to respond to calls for timely material on the subject of auditing financial instruments.
10. The Working Group is therefore of the view that the proposed status and authority for new IAPNs has merit, particularly in responding to the need to be able to provide auditors with a source of timely and useful material and in making clear that all future authoritative guidance to be issued by the IAASB would be contained in the ISAs.

Changes to Title and Wording

11. The other revisions to the proposed statement of the status and authority of new IAPs (shown in paragraph 3 above and Agenda Item 2-B) also reflect the Working Group’s response to the Board’s various comments at its June 2011 meeting.
12. Regarding the title, it was noted that some may be confused by the IAASB issuing non-authoritative “Practice Statements,” particularly given that other IFAC boards, notably the International Accounting Education Standard Board, issue authoritative Practice Statements. The Working Group agrees that a change in the title would better highlight the change in the authority of the IAPs. Accordingly, it proposes that IAPs be re-titled “International Auditing Practice Notes” (IAPNs).

13. Regarding the wording used in the proposed Preface, the Working Group has made the following changes in response to the IAASB's comments:
- Grouping both categories of non-authoritative guidance, IAPNs and Staff Alerts, together, with a common statement regarding their relationship with the ISAs. **[See paragraph 20 in Agenda Item 2-B]**
 - As shown in the two bullets under paragraph 20 of the Preface, further refinement of the IAASB purposes in issuing IAPNs, as well as a more comprehensive redrafting of the bullet on staff alerts, to ensure that the line between IAPNs and staff alerts is clear. **[See paragraph 20 in Agenda Item 2-B]**

Matter for IAASB consideration

1. Does the IAASB agree with the proposed Preface, in particular the proposed establishment of IAPNs in place of IAPSs?

Re-exposure

14. Subsequent to voting on approval, the IAASB is required to vote on whether there has been substantial change to an exposed document such that re-exposure is necessary. 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 substantial change to the substance of a proposed international pronouncement.
15. Subject to the IAASB's approval of the proposed amended Preface and thereby to re-characterize and re-name the former IAPS vehicle as non-authoritative IAPNs, the Working Group believes it is helpful for the IAASB to consider the question of re-exposure in the context of the substance of that decision – which is, in effect, to remove IAPSs and issue IAPNs.
16. Regarding IAPNs, the Working Group does not believe re-exposure is necessary. The decision to establish IAPNs is in direct response to calls for the IAASB to find a solution to issuing timely and helpful guidance to practitioners, and to do so in a way that clearly distinguishes the material from the standards themselves. In principle, nothing should preclude the IAASB from issuing new non-authoritative guidance as it sees fits. The Working Group's recommendation also reflects the views received on exposure that further delay in issuing IAPN 1000 would not be in the public interest. The IAASB's deliberation on the need to re-expose IAPN 1000, however, is a separate matter that is addressed in Agenda Item 3-A.)
17. Regarding the removal of IAPSs, varying viewpoints have arisen in the Working Group's deliberations on the question of re-exposure. A decision to replace IAPSs by IAPNs could be seen as a significant change as it eliminates the IAASB's ability to issue authoritative guidance outside of the ISAs. This may be seen by some as a major departure from the

proposal contained in ED-IAPS, which sought to clarify authority. There may also be stakeholders who supported a stronger authority for IAPSs that may wish to have the opportunity to comment on the Board's decision. On the other hand, it may be argued that the IAASB has already adequately consulted on the question of status and authority and that its decision to issue, if and as appropriate, IAPNs for useful but non-authoritative guidance, or to amend the ISAs for new authoritative guidance, is responsive to the feedback received on exposure.

18. On balance, the Working Group recommends re-exposure of the proposal to remove IAPSs as an IAASB pronouncement for two reasons. Firstly, ED-IAPS did not contemplate the notion that the Board will not have a vehicle for authoritative guidance outside of the ISAs. It is therefore possible that there are views and considerations which the IAASB is not aware. Secondly, in light of the interest and divergence of views on the topic, re-exposure would allow the IAASB to inform stakeholders about its deliberations on the topic, the breadth and nature of the options the Board considered, and the Board's reasoning for its decisions. This in turn may assist the IAASB in ascertaining whether it has heard and weighed all relevant arguments in making its final decision.
19. Agenda Item 2-B illustrates the proposed amendments to the Preface that would be subject to re-exposure consultation. The IAASB would be provided the opportunity to comment on the explanatory memorandum accompanying the re-exposure draft in advance of its release.

Related Issues

Inclusion in the Handbook

20. The Working Group notes that the Handbook³ currently contains only the Board's authoritative pronouncements. Given the proposed status and authority to attach to IAPNs, the Working Group has considered whether inclusion of IAPNs in the Handbook is appropriate.
21. Excluding from the Handbook non-authoritative material approved by the Board would be consistent with the treatment afforded to non-authoritative material developed by the other Public Interest Activity Committees (PIAC) of IFAC. This reinforces the distinction between IAASB's authoritative pronouncements (the Standards) and the non-authoritative IAPNs.
22. The Working Group recommends, however, that IAPNs should be included in the Handbook. It believes that doing so would provide sufficient visibility to the documents and would be appropriate in light of their intended contribution to influencing practice. It would also assist in ensuring that such documents are not over-looked. However, as the current title is "Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements", some thought will need to be given to an appropriate title to incorporate the inclusion of non-authoritative material.

³ *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (Handbook)

Development Process

23. The Steering Committee will consider and recommend proposals for the IAASB's consideration in due course.

Communicating the Importance of IAPNs

24. At the June 2011 meeting, the IAASB asked the Working Group to explore other avenues to communicate the Board's messages about IAPs, such as in the IAASB's Terms of Reference or the Statement of Membership Obligations (SMOs) for IFAC member bodies.
25. The IAASB's Terms of Reference are set by the Public Interest Oversight Board and the IFAC Board and concern the scope and operation of the IAASB. The Working Group recommends that the Terms of Reference would not be an appropriate place for statements of encouragement to disseminate the IAASB's pronouncements as it is not an IAASB document, and the inclusion of this type of material would not be in keeping with the character of a document which is aimed at setting the IAASB's scope and processes. It is also unlikely that those seeking to understand the authority of the IAASB's pronouncements would refer to the Terms of Reference.
26. IFAC's Statement of Membership Obligations (SMOs) are intended to provide clear benchmarks to current and potential IFAC members to assist them in ensuring high quality performance by professional accountants. The SMOs apply only to IFAC member bodies who, in some cases, are not responsible for the setting of standards in their jurisdiction. The SMOs are set by IFAC and are currently under revision,⁴ and as input to that revision the IAASB's final decision regarding the authority of IAPs/IAPNs will be communicated accordingly to IFAC.
27. The Working Group acknowledges that, subsequent to the IAASB's approval of a revised Preface, the Terms of Reference and SMOs may need minor editorial amendment to reflect the language the IAASB adopts.

Factors in Developing new IAPNs

28. ED-IAPS proposed a number of factors that the IAASB should consider in developing new IAPs and asked where these factors should reside. Given the proposed status of IAPs, and previous concerns about proliferation of authoritative IAPs, the need for factors to consider in deciding to develop IAPs may have diminished.
29. The Working Group has considered the possibility of adding the factors to other documents, such as the IAASB's Terms of Reference. However, the nature of the factors did not lend themselves to such documents.
30. Nevertheless, the Working Group believes that the factors developed (shown below) represent useful guidance in decisions about future IAPs. Accordingly, subject to the

⁴ The latest draft revised SMOs state, "IFAC member bodies shall notify their members of all new, proposed, and revised international standards, related practice statements, and other papers issued by the IAASB" and "the use of IAASB Practice Statements and other papers to provide interpretive guidance and practical assistance shall be promoted."

IAASB's agreement on the proposed factors, the Working Group recommends that the IAASB instruct staff to retain the factors on file and that they accompany any project proposals for new IAPNs that are submitted by staff to the Steering Committee for its consideration.

31. The proposed factors to consider in developing new IAPNs are:

Factors that the IAASB may consider in determining whether to develop an IAPN include:

1. The IAASB believes, on the basis of research or discussion with stakeholders, that developing an IAPN would provide practical assistance to auditors and firms in these particular circumstances;
3. The proposed IAPN is expected to be relevant internationally; and
4. The guidance is expected to remain useful for the foreseeable future.

Clarifications of requirements in the ISAs, for example, to address divergent practices in applying the ISAs, would be addressed by changes to the ISAs and not be means of IAPN. However, if the IAASB believes that the awareness of auditors needs to be raised regarding a particular issue, a staff publication would be more appropriate.

Matter for IAASB consideration

2. The IAASB is asked whether it agrees with the recommendations of the Working Group in relation to:
 - (a) Inclusion of IAPNs in the Handbook; and
 - (b) The factors to consider in developing new IAPNs.

Withdrawal of Existing IAPSs

32. At its June 2011 meeting the IAASB considered responses to ED-IAPS on the proposal to withdraw the existing IAPS. The IAASB indicated general support for proposal to withdrawal and the widespread acknowledgement that the IAPSs are out-of-date.
33. The Working Group proposes that the IAASB approves the withdrawal of the six extant IAPSs. It is acknowledged that future decisions regarding developing new standards or IAPNs on topics addressed by the extant IAPSs, such as those addressing banking, will be made in the context of the IAASB's *Strategy and Work Program 2012–2014*.

Matter for IAASB consideration

3. Does the IAASB agree to withdraw all extant IAPSs?