

## Proposed Conforming Changes to Handbook and Preface

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### II. Proposed Conforming Changes to Preface (shown in mark-up)

#### PREFACE TO THE INTERNATIONAL STANDARDS ON QUALITY CONTROL, AUDITING, REVIEW, OTHER ASSURANCE AND RELATED SERVICES

#### Introduction

1. This preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (International Standards or IAASB's Standards) is issued to facilitate understanding of ~~the objectives and operating procedures of the International Auditing and Assurance Standards Board (IAASB) and~~ the scope and authority of the pronouncements the International Auditing and Assurance Standards Board (IAASB) # issues, as set forth in the IAASB's ~~Interim~~ Terms of Reference.
2. The IAASB is committed to the goal of developing a set of International Standards generally accepted worldwide. IAASB members act in the common interest of the public at large and the worldwide accountancy profession. This could result in their taking a position on a matter that is not in accordance with current practice in their country or firm or not in accordance with the position taken by those who put them forward for membership of the IAASB.
2. ~~The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is "the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest." In pursuing this mission, the IFAC Board has established the IAASB to develop and issue, under its own authority, high quality standards on auditing, assurance and related services engagements (IAASB's Engagement Standards, as defined in paragraph 14), related Practice Statements and quality control standards for use around the world.~~

#### The IAASB's Pronouncements

3. The IAASB's pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historical financial statements

or assurance engagements on other information in a particular country required to be followed in accordance with that country's national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards~~them~~. A professional accountant should not represent compliance with the IAASB's ~~Engagement~~ Standards unless the professional accountant has complied fully with all of those relevant to the engagement.

4. ~~The IAASB is committed to the goal of developing a set of International Standards generally accepted worldwide. To further this goal, the IAASB works cooperatively with national standard setters, and takes a lead role in joint projects with them, to promote convergence between national and international standards and achieve acceptance of IAASB's Standards.~~

### ~~The International Auditing and Assurance Standards Board~~

5. ~~The IAASB is a Board established by IFAC.~~
6. ~~The members of the IAASB are appointed by the IFAC Board to serve on the IAASB. The IAASB comprises eighteen members, ten of whom are put forward by member bodies of IFAC, five of whom are put forward by the Forum of Firms,<sup>+</sup> and three public members who may be members of IFAC member bodies but shall not be members in public practice. Candidates for appointment as public members may be put forward by any individual or organization. In addition, a limited number of observers, from bodies that have an appropriate interest in issuing or endorsing standards, may be appointed who will have the privilege of the floor but will not be entitled to vote. These observers would be expected to possess the technical skills to participate fully in IAASB debates and attend IAASB meetings regularly to maintain an understanding of current issues. Candidates put forward, including the Chair of the IAASB, are considered for appointment by IFAC's Nominating Committee. The selection process is based on the principle of "the best person for the job." IAASB members serve for three years, with one third of the IAASB membership rotating every year. Continuous service by a member on the IAASB is limited to two (2) consecutive three (3) year terms, unless that member is appointed to serve as Chair for a further period of not more than three years. IAASB members act in the common interest of the public at large and the worldwide accountancy profession. This could result in their taking a position on a matter that is not in accordance with current practice in their country or firm or not in accordance with the position taken by those who put them forward for membership of the IAASB. Each IAASB member has the right to appoint one technical advisor who may participate in the discussions at IAASB meetings.~~
7. ~~IAASB members who absent themselves from two meetings in any twelve month period may be requested to resign from the IAASB.~~
8. ~~The IAASB may appoint task forces to assist it in the development of materials. These task forces may include individuals who are not members of the IAASB.~~

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<sup>+</sup> ~~The Forum of Firms is a collaboration of public accounting firms that share the common objective to promote consistently high standards of financial reporting and auditing worldwide in the interest of users of the profession's services and the general public.~~

- ~~9. IAASB meetings to discuss the development and to approve the issuance of International Standards, Practice Statements or other papers are open to the public. Agenda papers, including minutes of the meetings of the IAASB, are published on the IAASB's website.~~

### **The Authority Attaching to International Standards Issued by the International Auditing and Assurance Standards Board**

- ~~410.~~ International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information.
- ~~511.~~ International Standards on Review Engagements (ISREs) are to be applied in the review of historical financial information.
- ~~612.~~ International Standards on Assurance Engagements (ISAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information.
- ~~713.~~ International Standards on Related Services (ISRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the IAASB.
- ~~814.~~ ISAs, ISREs, ISAEs and ISRSs are collectively referred to as the IAASB's Engagement Standards.
- ~~915.~~ International Standards on Quality Control (ISQCs) are to be applied for all services falling under the IAASB's Engagement Standards.
- ~~1016.~~ 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.
- ~~1117.~~ The nature of the IAASB's Standards requires professional accountants to exercise professional judgment in applying them. In exceptional circumstances, a professional accountant may judge it necessary to depart from a basic principle or essential procedure of an Engagement Standard to achieve ~~more effectively~~ the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.
- ~~1218.~~ Any limitation of the applicability of a specific International Standard is made clear in the standard.
- ~~1319.~~ International Standards are applicable to engagements in the public sector. In circumstances where specific International Standards or guidance contained in an International Standard are not applicable in a public sector environment, or wWhen additional guidance is appropriate

~~for the public sector in such an environment, such guidance is included within the body of an International Standard. International Standards issued prior to January 2005 provided additional guidance for the public sector by means of a IFAC's Public Sector Committee<sup>2</sup> so states in a Public Sector Perspective (PSP), where considered necessary, appearing at the end of the International Standard. When no PSP is added, the International Standard is to be applied as written to engagements in the public sector.~~

### **The Authority Attaching to Practice Statements Issued by the International Auditing and Assurance Standards Board**

- ~~1420.~~ 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. International Review Engagement Practice Statements (IREPSs), International Assurance Engagement Practice Statements (IAEPSs) and International Related Services Practice Statements (IRSPSs) are issued to serve the same purpose for implementation of ISREs, ISAEs and ISRSs respectively.
- ~~1521.~~ Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how the basic principles and essential procedures in the IAASB's Engagement Standard(s) addressed by the Practice Statement have been complied with.

### **Other Papers Published by the International Auditing and Assurance Standards Board**

- ~~1622.~~ Other papers, for example Discussion Papers, are published<sup>3</sup> to promote discussion or debate on auditing, assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, assurance or related services engagements.
- ~~25.~~ ~~The IAASB Chair will appoint a review group of four IAASB members to consider whether a draft paper has sufficient merit to be added to the IAASB's assurance and auditing literature. The draft paper may come from any source and the IAASB need not have specifically commissioned it. If the review group believes that the paper has sufficient merit it recommends to the IAASB that the paper be published and added to its literature.~~

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<sup>2</sup> ~~In November 2004 the Public Sector Committee's name was changed to the International Public Sector Accounting Standards Board.~~

<sup>3</sup> ~~The IAASB Chair will appoint a review group of four IAASB members to consider whether a draft paper has sufficient merit to be added to the IAASB's assurance and auditing literature. The draft paper may come from any source and the IAASB need not have specifically commissioned it. If the review group believes that the paper has sufficient merit it recommends to the IAASB that the paper be published and added to its literature. [Note: repositioned from extant paragraph 25.]~~

## **Working Procedures**

### **IAASB's Standards and Practice Statements**

23. For IAASB's Standards and Practice Statements, project proposals are developed and approved by the IAASB. As part of this process, input is sought, where practicable, from the IAASB Consultative Advisory Group,<sup>4</sup> national standard setters and others so as to obtain a broad spectrum of views. After approval, the IAASB assigns responsibility for the project to a task force established for that purpose. The task force will ordinarily be chaired by a member of the IAASB and may contain participants, who have experience relevant to the subject matter being addressed by the task force, but are not members of the IAASB. The task force has the initial responsibility for the preparation of the International Standard or Practice Statement. The task force develops its positions based on appropriate research and consultation, which may include, depending on the circumstances: commissioning research, consulting with practitioners, regulators and other interested parties, as well as reviewing professional pronouncements issued by IFAC member bodies and other parties. The task force prepares an exposure draft for the IAASB's review and debate during deliberations in meetings open to the public. When approved, the IAASB exposes proposed International Standards for public comment. It also ordinarily exposes proposed Practice Statements for public comment. The exposure draft is placed on the IAASB's website and is widely distributed for comment by member bodies of IFAC, organizations that have an interest in auditing, assurance, related services and quality control standards and practice statements, and the general public. Adequate time is allowed for each exposure draft to be considered by the persons and organizations to whom it is sent for comment and the exposure period will ordinarily be no shorter than 90 days.
24. The comments and suggestions received as a result of this exposure are considered and the exposure draft is revised as appropriate. When the revised draft is approved, it is issued as a definitive International Standard or Practice Statement. If the changes made after exposure are considered by the IAASB to be substantive, the IAASB will consider the need to reexpose the document for comment. The IAASB will set an effective date for the application of its International Standards. The IAASB will set a date from which professional accountants should be aware of and consider a relevant Practice Statement.

### **Other Papers**

25. For other papers, the IAASB Chair will appoint a review group of four IAASB members to consider whether a draft paper has sufficient merit to be added to the IAASB's assurance and auditing literature. The draft paper may come from any source and the IAASB need not have specifically commissioned it. If the review group believes that the paper has sufficient merit it recommends to the IAASB that the paper be published and added to its literature.

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<sup>4</sup>—The objective of the IAASB Consultative Advisory Group (CAG) is to provide a forum where the IAASB can consult with representatives of organizations representing different groups of constituents to obtain input on its work program, project priorities and due process on major technical issues, and to receive feedback on its activities. The current membership of the CAG is set out on the IAASB website and in the IAASB Annual Report.

### **Voting**

26. ~~Each IAASB meeting requires the presence, in person or by simultaneous telecommunication link, of at least twelve members.~~
27. ~~The affirmative votes of at least two thirds of the members present at a meeting in person or by simultaneous telecommunications link or by proxy, but not less than twelve, is required to approve exposure drafts, re-exposure drafts, International Standards and Practice Statements. Dissenting opinions will not be included in the exposure drafts or pronouncements issued by the IAASB but will be included in the minutes of the meeting.~~
28. ~~Each member of the IAASB has the right to one vote. A member has the right to appoint a proxy in writing. The proxy may be the member's technical advisor or another IAASB member. The appointment of a proxy is disclosed at an IAASB meeting and recorded in the minutes of the meeting.~~

### **Language**

1729. 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.