

**International Convergence and National Standard Setters (NSSs)—Issues Arising from Proposed IAASB Guidance on Modifications to Adopted International Standards****Issue 1: Does the wording of the proposed guidance give NSSs sufficient flexibility?**

1. The draft guidance effectively assumes that the NSS is using the wording of each IS. (For the purposes of this note, reference is made only to ISAs.) This seems appropriate given the limited application of the guidance – i.e., it is addressed exclusively to those NSSs that are following a policy of adopting the ISAs by picking them up and making only essential modifications. The purpose of the guidance is to define the limits of those modifications if the resulting national standards (NSs) are to be regarded as being in conformity with ISAs.
2. The guidance permits some rearrangement of the content of the ISAs, provided the meaning and effect are unchanged. However, the limitation placed on deletions ‘or other amendments’ precludes further changes being made to the text, including amending guidance so that it may be more clearly understood in the jurisdiction concerned. This is in accordance with the IAASB’s discussion of an earlier version of the guidance (prepared for a different purpose) last year. The IAASB’s primary concern was that amendments to guidance may serve to undermine, perhaps unconsciously, the original intention of the ISA. Further, deletion of guidance may undermine the effectiveness of the requirements by opening the door to differing and inappropriate interpretations.

*Is the above approach appropriate, or is further drafting flexibility desirable?*

**Issue 2: Should NSSs have to adopt IAPs if they are to assert compliance with ISAs?**

3. The draft guidance statement includes reference to practice statements. It may be that some NSSs do not think it necessary to adopt IAPs, and this is known to be the current practice of at least one adopting NSS.
4. The current Preface says that IAPs are issued to ‘provide interpretive guidance and practical assistance’ in implementing ISAs and ‘to promote good practice’. And it continues, ‘Professional accountants should be aware of and consider’ applicable IAPs. An auditor who does not ‘consider and apply’ the guidance should be prepared to explain how he complied with the relevant requirements of ISAs.
5. The Preface is open to differing interpretations, but what it seems to come down to is that an auditor needs to be able to explain how he or she followed ISAs. This obligation is there whether or not there are IAPs. If one took this view literally, one could argue that the consideration of IAPs is entirely voluntary, and so there is no obligation<sup>1</sup> to adopt them

---

<sup>1</sup> This ignores any obligation that may have been separately placed on a NSS (for example, by SMO 3).

placed on NSSs who wish to have national standards that, if followed, would enable an auditor to claim compliance with ISAs.

6. There would seem to be three options for IAASB's attitude to NSSs' adoption of IAPs if IAASB is to allow a national audit to be regarded as an ISA audit:
  - (a) IAASB could insist that, if conformity is to be asserted, the IAPs must be adopted and translated by the NSS (the approach of the draft guidance).
  - (b) IAASB could indicate that the IAPs need not be adopted and translated, but their existence and availability must be communicated to auditors (through, for example, some such medium as the national equivalent of IAASB's Preface); auditors would thereby have no excuse for not being aware of IAPs.
  - (c) IAASB could draw the attention of NSSs to the IAPs, but leave the question of what to do about them entirely up to the NSSs.

Note that if the recommendations on IAPs (see relevant Agenda Item for this IAASB meeting) are adopted by IAASB, (a) would appear to be the only option.

***What are the IAASB's views on this issue, on the assumption that IAPs retain their current status, but were up to date?***