

International Auditing Practice Statements (IAPSS) Proposals—Summary of Significant Comments on Exposure and Working Group Recommendations**I. Introduction**

1. In October 2010, the IAASB released an exposure draft containing proposals relative to amending the Preface¹ to clarify the status and authority of new IAPSS, and on related matters (ED-IAPS). The IAASB's deliberations noted divergent views on the intent of the current Preface, particularly with regard to the strength of the obligation implied for auditors to use IAPSS. The IAASB's discussions focused on expectations regarding reading the IAPSS and the relationship between IAPSS and the application material in the ISAs. ED-IAPS also contained proposals regarding withdrawing the existing IAPS and the factors to be considered in the development of new IAPSS.
2. This paper sets out significant issues, in the view of the Working Group, that were raised by respondents on ED-IAPS. The 41 respondents to the ED are listed in Appendix 1. This paper also presents the Working Group's proposals on:
 - Status and authority of IAPSS – The Working Group proposes that the IAPSS create no obligations on auditors and, accordingly, are not part of the ISAs.
 - Withdrawal of IAPSS – The Working Group proposes that the extant IAPSS be withdrawn.
 - Factors to be considered in developing IAPSS – The Working Group proposes to further consider the factors to be considered in developing IAPS after the June 2011 IAASB meeting to reflect the IAASB's decision regarding the status and authority of IAPSS.

II. Proposals to Clarify the Status and Authority of New IAPSS

3. ED-IAPS included a proposal to clarify the status and authority of IAPS by amending the Preface. The proposed amendment noted that IAPSS do not impose additional requirements beyond those in the ISAs, and do not change the obligation to comply with all the requirements in an ISA. Further, the proposal noted that “auditors should determine whether any IAPS is relevant to the circumstances of the audit and, if so, obtain an understanding of its content.” The IAASB's intention was to make clear that the IAPSS are issued to promote good practice and provide practical assistance to auditors in implementing the ISAs. As such, when an IAPS is relevant in the circumstances of the audit, auditors should understand the material in that IAPS.

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

4. The majority² of the 41 respondents did not believe the proposals met the objective of clarifying the status and authority of the IAPS and believe further clarification is necessary. However, there were divergent views expressed about the course of action that should be taken. Some respondents, including regulators, believed that the IAPSs should have stronger authority. On the other hand, others supported a lesser level of authority.
5. It was also noted that an unclear status of IAPSs may harm ISA adoption efforts. Three respondents³ suggested that, because the Statutory Audit Directive in Europe defines the general term “international auditing standards” as “ISAs and related Statements and Standards, insofar as relevant to the statutory audit,” it is important to clearly state the level of authority attaching to all IAASB pronouncements.⁴ A respondent⁵ was of the view that IAPSs should be excluded from this definition.
6. The Working Group strongly believes that the IAASB must clarify its intent in issuing IAPSs to ensure that the status and authority of these documents is clear before issuing any new IAPSs, including proposed IAPS 1000. As noted by a respondent, the proposed status and authority may be seen to be ambiguous, and further clarification is needed, regardless of the level of authority given to IAPSs. The Task Force developing IAPS 1000 has also expressed the view that it will not be possible to finalize that IAPS in the absence of a final decision on the status and authority of the suite of IAPSs.
7. The following section presents the Working Group’s proposals on the authority of IAPSs. An analysis of respondents detailed comments then follows, for additional context.

Summary of Working Group Proposals

8. The Working Group recognizes the challenges posed by the comments made by respondents. In response, the Working Group deliberated the relative merits of giving IAPSs a higher or lower authority than that contained in ED-IAPS. The Working Group concluded that the preferred response is to give the IAPSs the objective of providing auditors with practical assistance, including background or education material where relevant, on particular matters (Option A). In its deliberations, the Working Group focused on the confusion that may arise from having application material, if IAPSs were to be treated as such, spread over more than one type of pronouncement, the challenges in providing educational and background material in text deemed to be application material, and the need to have a vehicle for providing assistance to auditors on a timely basis. Further explanation of proposed Option A is presented below.

² AAP, ACAG, ACCA, AIU&APB, AOB, AUASB, BCBS, C.Barnard, CAASB, CICPA, CIPFA, CPAB, DTT, FACPCE, GT, HKICPA, IAIS, ICAEW, ICAI, ICAP, ICJCE, ICPAS, IDW, IRBA, KPMG, MIA, NZICA, PWC

³ FEE, FSR, ICJCE

⁴ Note that the European Commission has not formally responded to the proposals and has confirmed that it does not intend to do so.

⁵ FSR

9. The Working Group also discussed the merits of giving the IAPSs the same level of authority as the application material in the ISAs (Option B). The Working Group's reasoning in respect of Option B is discussed below.
10. At the April 2011 IAASB-National Standard Setters (NSS) meeting, the NSS participants contributed their perspectives on the relative merits of Options A and B. The participants expressed a clear preference for Option A, noting that it would be difficult to have two different types of pronouncements with the same level of authority, and that it would reduce the IAPSs as a practical option for the IAASB. It was noted during the discussion that some NSS prefer flexibility to use or tailor IAPSs depending on their national circumstances, such as domestic law, regulation or existing equivalent practice statements.

Option A

11. Under this Option, new IAPSs would create no obligations and would be aimed at sharing with auditors material that may be of practical assistance in dealing with particular matters, including relevant background and educational material as appropriate. There would be no obligation for adoption or use of the IAPSs relative to the ISAs. However, firms and NSS would be strongly encouraged to promulgate the IAPSs.
12. In developing material for an IAPS under Option A, there may be cases where it becomes apparent that additional application material providing further explanation of the requirements of an ISA (which may explain more precisely what a requirement means or is intended to cover)⁶ is needed within an ISA(s) itself. Under this option, the IAASB would be asked to consider the need to amend the application material of the ISAs directly, rather than using an IAPS to introduce such guidance. In the context of IAPS 1000, the IAPS 1000 Task Force is of a preliminary view that guidance dealing with audit evidence implications of broker quotes and pricing services may warrant this consideration (i.e., as new application material in an ISA(s) which provides further explanation of the requirements of the ISAs).
13. More generally, Option A would permit IAPSs to be more flexible in how they address matters. If this option is pursued, it would also suggest that a different, more expeditious due process could be pursued for purposes of developing new IAPSs. Unlike Option B (discussed below), this option also has the benefit of keeping all application material within the ISAs, which may assist in adoption efforts as well as general comprehension of the ISAs.
14. The drawbacks associated with Option A are that adoption and use of the IAPSs would not be required, either by jurisdictions claiming to have adopted the ISAs or by firms claiming to have done an audit in accordance with ISAs.

Implications for IAPS 1000 and ISAs

⁶ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A59

15. Option A has the merit of allowing proposed IAPS 1000 to retain broadly the same structure and content that it has currently. This means that IAPS 1000 could continue to have educational/background material as proposed in ED-IAPS 1000.⁷
16. Under this Option, the IAASB would be asked to consider the need for amendments to the ISAs for changes to the application material, for example to further clarify application of the ISA requirements in the circumstance of the use of broker quotes and pricing services. However, this would require consideration of whether extensive, topic-specific material may unbalance the ISAs.

Option B

17. Under this Option, the IAPSs would have the same status as application material in the ISAs and would effectively be part of the ISAs' application material. This would address some respondents' calls for stronger authority for the IAPSs. To effect this option, ISA 200 would need to be amended to subsume IAPSs into the ISAs and make clear the status of the IAPSs as equivalent to application material.
18. Option B has the benefit of allowing additional application material to be promulgated without the need to directly amend the existing text of an ISA. It would allow further application material on a specific topic, which may cut-across several ISAs, to be contained in a single document. It may also enable the IAASB to include both educational and application material in a single document if that is seen as desirable. A drawback of Option B is the confusion that may result, both for auditors and jurisdictions adopting the ISAs, with having application material spread across two types of documents.

Implications for IAPS 1000 and ISAs

19. As indicated above, the IAPS 1000 Task Force has tentatively identified some aspects of IAPS 1000 that, in effect, could be viewed as application material to ISA requirements. Under Option B, such material could continue to be included in IAPS 1000 given that the IAPS would have the same status as the application material in the ISAs.
20. IAPS 1000 could possibly continue to retain the educational and background material as shown in the ED. However, it is likely the question will arise whether such material is appropriate for an international document intended to form part of the application material of the ISAs. If such background/educational material were to be removed from the IAPS, it could nevertheless be issued as a staff publication. The utility of a separate publication containing some education material on complex financial instruments, however, may be limited.

⁷ Exposure Draft of Proposed IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments*

21. The table below illustrates the two proposed Options.

Option A	Option B
Location of Statement of Authority	
Preface	ISA 200
Placement of Further Explanation of the Requirements of ISAs	
In the ISAs	In an IAPS or an ISA as appropriate
Disposition of Educational Material from IAPS 1000	
Remains in IAPS 1000	May be able to be retained in IAPS 1000, but may need to be placed in another document, e.g. a staff alert, if at all.
Possible Language to Describe the Authority of IAPSs	
<p>Preface, paragraph 23:⁸</p> <p>International Auditing Practice Statements (IAPSs) are issued to provide practical assistance to auditors in implementing ISAs and to promote good practice. IAPSs do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor’s responsibility to comply with the requirements of all ISAs relevant to the audit. Auditors should determine whether any IAPS is relevant to the circumstances of the audit and, if so, obtain an understanding of its content. Accordingly, IAPSs are not part of the ISAs. The IAASB strongly encourages firms and those responsible for national standards and guidance promulgate IAPSs for use by auditors in their jurisdictions, or develop national pronouncements that incorporate related IAPSs or provide similar guidance tailored to address particular national circumstances. Depending on the nature of the</p>	<p>ISA 200, paragraph 19:</p> <p>The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material <u>and any relevant IAPSs</u>, to understand its objectives and to apply its requirements properly. (Ref: Para. A58–A66)</p> <p>ISA 200, paragraph A59:</p> <p>A59. Where necessary, the application and other explanatory material in ISAs <u>and IAPSs</u> provide further explanation of the requirements of an ISA and guidance for carrying them out. In particular, it may:</p> <p>---</p> <p>While such guidance does not in itself impose a requirement, it is relevant to the proper application of the requirements of an ISA. The application and other</p>

⁸ Marked from the ED proposal.

Option A	Option B
<p>topic(s) covered, an IAPS may assist the auditor in:</p> <p>(a) Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;</p> <p>(b) Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or</p> <p>(c) Addressing reporting considerations, including forming an opinion on the financial statements and communicating with those charged with governance.</p>	<p>explanatory material may also provide background information on matters addressed in an ISA. <u>IAPSs have the equivalent status as application material in the ISAs.</u></p>

Responses Regarding the Status and Authority of IAPSs

22. The following highlights respondents’ main concerns relating to the ED proposals:

- The status of the obligation to read and consider the IAPS;
- The relationship between application material in the ISAs and guidance in an IAPS; and
- The inconsistency in having an obligation to consider the IAPS but not responsibility to demonstrate achievement of that obligation.

Each of these matters is described in more detail below.

Status and Obligation to Read and Consider the IAPS

23. A number of respondents suggested editorial changes to the way in which the status and authority was described as follows. A number of these suggested changes are interrelated with the respondent’s views as to the strength of the authority:

Of those who supported the proposed authority and obligation:

- Respondents⁹ suggested the word “should” be replaced with “shall.”
- One respondent¹⁰ suggested that if it is intended that the auditor is expected to make a determination of whether the IAPS is relevant, then replacing “should” with the

⁹ AOB, CICPA, HKICPA, ICAEW, PWC

¹⁰ IRBA

phrase “is aware of and considers relevant guidance in the IAPS in the conduct of the audit” would be appropriate.

- A respondent¹¹ noted that deleting (or lessening) this obligation eliminates the authority of the IAPS and would therefore then suggest that the IAASB should not issue IAPSs at all (because material issued following the IAASB’s stated due process should have a clear level of authority.)
- A respondent¹² suggested the phrase “provides interpretive guidance” should not be used, and also suggested that the IAASB should clarify how the auditor determines whether any IAPS is relevant – for example, if such determination is made on the basis of the Scope section of the IAPS, reading the title of the IAPS, or a thorough reading of the entire text. In addition, this respondent felt it was necessary for the Preface to highlight that auditors applying IAPSs are expected to have knowledge of the ISAs and applicable financial reporting framework and, because IAPSs contain background and educational material, auditors who have significant experience of the subject matter need not obtain an understanding of this type of material.

Of those who supported a lesser authority and obligation:

- Respondents¹³ thought the use of the word “should” (or the alternate, “shall”) incorrectly implied that IAPSs imposed requirements on auditors and suggested it be replaced by “may” or an alternative less forceful term (phrases such as “auditors exercise professional judgment in determining whether any IAPS is relevant,” or “auditors are encouraged to determine...” were also suggested) or the phrase removed entirely.
- A respondent,¹⁴ while agreeing to retain the language that the auditor should determine whether any IAPS is relevant, suggested the requirement to “obtain an understanding” should be lessened to “When an IAPS is relevant, obtaining an understanding of its content may assist the auditor...”

Of those who supported a stronger authority and obligation:

- Respondents¹⁵ thought wording based on paragraph 19 of ISA 200 (“to assist understanding the related ISA objectives and applying the ISA requirements” or alternately, to assess the impact on the audit) was needed to further explain why the auditor needs to obtain an understanding of an IAPS’ content.

¹¹ DTT

¹² IDW

¹³ AAP, BDO, ICAI, JICPA, NYSSCPA

¹⁴ EYG

¹⁵ ACCA, AIU&APB, CPAB, EBA, EYG

The Relationship between Application Material in the ISAs and Guidance in an IAPS

24. Respondents¹⁶ thought the obligation should be stronger, and needed to be better explained if the IAASB has concluded that guidance of an authoritative nature is needed. These respondents equate the status of IAPSs to that of application material in an ISA, noting that IAPSs follow the same due process that has to be followed for an ISA and are intended to be used to promote consistent application of the ISAs and promote high-quality auditing practice. A respondent¹⁷ noted this was problematic in the European Union and the United Kingdom and suggested a “comply or explain” model would be more appropriate.
25. Another respondent¹⁸ recognized, however, that while both are expected to be understood by auditors, the fact that IAPSs contain educational and background material may require IAPSs to have a unique status and authority. This respondent was also of the view that the proposed obligation was less obligatory than the current “comply or explain” model for IAPSs. Two respondents¹⁹ explicitly noted in the context of proposed IAPS 1000 that, in their view, the inclusion of educational material within an authoritative document such as an IAPS may not be appropriate, and suggested that such material may be better placed in a separate staff publication. Staff notes that one member of the Working Group also supports this view.

Inconsistency in Having an Obligation to Consider the IAPS but Not Responsibility to Demonstrate Achievement of that Obligation

26. Respondents²⁰, primarily regulators, also believed there should be a requirement for the auditor to document how the auditor has considered the IAPS that is relevant to the audit. Two of these regulators²¹ suggested that the auditor should read and understand all IAPSs, determine which are relevant, and consider those. It was further suggested that when an auditor decides not to consider the guidance in an IAPS, the auditor should be required to document how the requirements in the ISAs have been proposed applied without considering the guidance in the IAPS. This was in part driven by the view that certain IAPSs such as proposed IAPS 1000 would always be relevant in audits of financial institutions and should therefore be used by auditors.
27. Another regulatory respondent²² was of the view that not having a documentation requirement seemed to imply there was no obligation with respect to the IAPSs, that is, that knowledge and use of the contents of proposed IAPS 1000 can be satisfactorily demonstrated through the auditor’s record of audit procedures and judgments that comply

¹⁶ BCBS, CPAB, EBA, IAIS

¹⁷ ICAEW

¹⁸ IOSCO

¹⁹ ICAEW, IDW

²⁰ BCBS, CPAB, EBA, FACPCE, IAIS

²¹ BCBS, IAIS

²² IOSCO

with the objectives and requirements in ISAs with no mention of IAPSs. This respondent suggested that a statement explaining that, while the auditor's record need not refer specifically to the IAPS, the documentation of the auditor's work in the audit file should make it evident that the appropriate considerations, judgments and procedures were carried out to achieve the objectives and requirements of ISAs and to demonstrate an understanding of the relevant content of the IAPS, would be useful.

28. Others²³ believe that the auditor always needs to document how he or she complied with the requirements of the ISAs so a documentation requirement related to IAPSs is redundant, and including suggesting that it should be specified that IAPSs do not impose additional performance and documentation requirements beyond those included in the ISAs.

Placement of the Description of the Authority of IAPSs

29. The majority²⁴ of the 41 respondents either explicitly supported the placement of the wording in the Preface or did not raise specific concerns to the contrary. However, as noted previously, inclusion in the Preface does not require jurisdictions to promulgate the IAPSs.
30. A few of these respondents,²⁵ in particular regulators, recognized the challenges in revising ISA 200 at this time, but noted that the IAASB should amend the ISA in due course in order to make the description of the authority of IAPSs in relation to IAPSs more clear. Two respondents²⁶ were of the view that the description of the authority of IAPSs should be described in ISA 200 in order to appropriately convey the authority of IAPSs.
31. The Working Group notes that the placement of the description of the authority of IAPSs is largely a function of the authority the IAASB chooses to give to IAPSs.

Related Consideration – Future IAPSs

32. While the IAASB's debates on the status and authority are currently linked to proposed IAPS 1000 and the material therein, it is also helpful to consider the nature of material that may be requested going forward in concluding on the matter. Previous IAASB discussions have indicated two possible sources of further IAPSs, (a) the *Proposed Strategy and Work Program 2012-2014*, and (b) the finding of the Clarity ISA implementation monitoring project.
33. The Proposed Strategy and Work Program 2012-2014 notes that there were two possible projects related to IAPS which are in regard to IAPS 1004, *The Relationship between*

²³ CAASB, EYG, IDW

²⁴ AAP, ACAG, ACCA, AOB, AIU&APB, AUASB, BCBS, BDO, C.Barnard, CICPA, CIPFA, D.Juvenal, DTT, EBA, EYG, FACPCE, FEE, FSR, GT, HKICPA, IAIS, ICAEW, ICAI, ICAP, ICJCE, ICPAS, IDW, IOSCO, IRBA, JICPA, KPMG, MIA, NIVRA, NYSSCPA, NZICA, PWC

²⁵ ACCA, AIU&APB, BCBS, EBA, IAIS, IOSCO

²⁶ CAASB, CPAB

Banking Supervisors and Banks' External Auditors, and IAPS 1006, *Audits of the Financial Statements of Banks*.

34. The findings of the ISA Implementation Monitoring Project are likely to identify areas for improvement in the ISAs. In some cases, the need for additional or modified requirements within one or more ISAs may be identified – likely resulting in the IAASB deciding to revise the ISA(s). However, when additional guidance is warranted or when illustrations of how particular issues are addressed in practice are requested, the IAASB may not believe it is desirable to open the ISAs solely to add additional application material, or may conclude that the material to be developed extends beyond what is considered for inclusion in the ISAs as application material (for example, educational material, or the sharing of approaches in practice to resolving a particular issue). Accordingly, the form that such material might take is likely to vary depending on the issue and consideration of the tools currently available to the IAASB (staff publications, IAPSs and ISAs, or a combination of these), and having flexibility in the approach that can be taken when the IAASB finds it needs to address particular circumstances will be important.

Related Consideration – Effective Dates

35. Another consideration related to the authority of IAPSs is whether IAPSs should have an effective date. This decision depends on the authority IAASB chooses to give IAPSs. Respondents comments on ED-IAPS 1000 are included in paragraph 56-59 of Agenda Item 4-A.
36. The Working Group will provide a recommendation on the matter of effective dates for IAPSs at the September 2011 IAASB meeting based on the direction the IAASB provides on the authority of IAPSs.

Matter for IAASB Consideration

1. Does the IAASB support the Working Group's preferred approach (Option A)?
2. The proposed wording of the preface under Option A states "The IAASB *strongly encourages* firms and those responsible for national standards and guidance to promulgate IAPSs for use by auditors in their jurisdictions...". Is the term "strongly encourages" sufficient, or would "strongly recommends" or some other term more appropriately reflect the IAASB's expectations?

III. Proposed Treatment of the Extant IAPSs

37. As explained in ED-IAPS, the IAASB agreed in principle to withdraw the six existing IAPSs, subject to the views on consultation. This was seen as necessary to create a clean slate approach to any new IAPS in relation to the issue of status and authority, and would allow the IAASB to determine what new IAPSs should be developed for the future.

38. The proposed treatment of the existing IAPSs was as follows:
- IAPS 1000,²⁷ 1010,²⁸ and 1013²⁹—Withdrawal with no further action.
 - IAPS 1004³⁰—Withdrawal and explore how the relevant material in the IAPS may be maintained in some form.
 - IAPS 1006³¹—Withdrawal with consideration of the need for a future project to address the topic.
 - IAPS 1012³²—Withdrawal and replace with the proposed new IAPS 1000 in the accompanying exposure draft.
39. The majority³³ of the respondents who commented on the proposed treatment of the extant IAPSs supported the IAASB’s proposal to withdrawal the outstanding IAPSs, effective immediately. A number of these³⁴ explicitly agreed with the proposal to determine whether IAPS 1004 should be maintained in some form and whether a future project is needed to address IAPS 1006. The consideration of these two IAPSs was addressed in the IAASB’s consultation paper on its future strategy and work program, issued in January 2011.³⁵ Two³⁶ respondents suggested that, if revised, the scope of IAPS 1004 and IAPS 1006 could be expanded to financial institutions in general (for example, banks, insurance companies, and securities companies).
40. In relation to the three IAPSs for which no further action would be contemplated, two³⁷ respondents suggested that IAPS 1010 may still be relevant and its content should be considered in light of other possible projects on greenhouse gases (GHG), sustainability and integrated reporting. Two³⁸ respondents also noted the wide application of IAPS 1013 and suggested it should be retained and updated due to the continuing and increasing impact of technology on audits. No respondents made reference to extant IAPS 1000.

²⁷ Extant IAPS 1000, *Inter-bank Confirmation Procedures*

²⁸ Extant IAPS 1010, *The Consideration of Environmental Matters in the Audit of Financial Statements*

²⁹ Extant IAPS 1013, *Electronic Commerce—Effect on the Audit of Financial Statements*

³⁰ Extant IAPS 1004, *The Relationship Between Banking Supervisors and Banks’ External Auditors*

³¹ Extant IAPS 1006, *Audits of the Financial Statements of Banks*

³² Extant IAPS 1012, *Auditing Derivative Financial Instruments*

³³ AAP, ACAG, ACCA, AIU&APB, AOB, AUASB, BDO, C.Barnard, CAASB, CICPA, CIPFA, CPAB, D.Juvenal, DTT, EYG, GT, HKICPA, ICAEW, ICAI, ICAP, ICPAS, IDW, IRBA, JICPA, KPMG, MIA, NIVRA, NYSSCPA, NZICA, PWC

³⁴ ACCA, AUASB, CPAB, DTT, EBA, EYG, FEE, HKICPA, ICAEW, IOSCO, IRBA, NIVRA, PWC

³⁵ The *Proposed IAASB Strategy and Work Program for 2012–2014*, available at www.ifac.org/Guidance/EXD-Details.php?EDID=0151, highlights the suggestion for addition project C.1 as follows: “In consultation with banking regulators and supervisors, consider undertaking a project with regard to IAPS 1004 and IAPS 1006 for the audit of banks.”

³⁶ HKICPA, IOSCO

³⁷ FEE, ICAEW

³⁸ ICAEW, IOSCO

41. Two respondents³⁹ suggested a careful review of guidance in existing IAPSs was needed to identify provisions of continued applicability before deciding to withdraw. One⁴⁰ in particular believed there was a public interest need to do so because the various IAPSs were developed and issued to fill a need that existed at one time, and no argument has been presented that the need no longer exists. In their view, it is important not to lose useful guidance that might contribute to audit quality. It was suggested that relevant guidance could either be carried forward to another IAPS when developed or included in an ISA – in one respondent’s view,⁴¹ doing so would be important for identifying future improvements that could be made in ISAs.

Working Group Recommendations

42. During the Clarity Project, the IAASB reviewed two IAPSs and incorporated the relevant guidance therein in the clarified ISAs – IAPS 1005⁴² and IAPS 1014.⁴³ These IAPSs were withdrawn when the clarified ISAs became effective. While the point raised by IOSCO about undertaking a review of guidance in the remaining existing IAPSs before withdrawal may have merit, previous discussions with NSS and others have indicated that material within the IAPSs is not reflective of the current environment and may actually be misleading. Some NSS have also noted concerns that it could be misleading to imply, for example, that a practitioner inexperienced in the audit of a bank could use IAPS 1006 as the basis for obtaining the competency required to undertake such an engagement, believing that the nature and extent of guidance appropriate for such engagements goes well beyond that which is conveyed in the extant IAPS or could be conveyed in a revised IAPS in light of national requirements that are likely better addressed by NSS. In addition, due to the current status and authority of the IAPSs, which is seen to be ambiguous, the Working Group does not believe that these IAPSs are being used on a widespread basis.
43. The Working Group is of the view that allowing these IAPSs to remain effective without updating references to the clarified ISAs or amending present tenses would not be in the public interest. Performing a detailed review as suggested would not be possible during 2011 in light of the IAASB’s resources, a matter highlighted in its consultation paper on the future work program. In addition, in finalizing the clarified ISAs, the IAASB sought to ensure that the ISAs remained principles-based while setting requirements to be applied in virtually all engagements. This principle implies that material within these IAPSs was not fundamental to applying the ISAs themselves.
44. There may be merit in developing future IAPSs on these topics and the proposals allow for the possibility of doing so by establishing factors to be considered in their development.

³⁹ BDO, IOSCO

⁴⁰ IOSCO

⁴¹ IOSCO

⁴² Extant IAPS 1005, *The Special Considerations in the Audit of Small Entities*

⁴³ Extant IAPS 1014, *Reporting by Auditors on Compliance with International Financial Reporting Standards*

However, the Working Group is of the view that, in light of the IAASB's current priorities, it is not possible to do so at this time.

45. Given the support for withdrawal, the widespread acknowledgement that the IAPSs are out-of-date and in light of the Board's deliberations on these matters previously, the Working Group proposes that the IAASB be asked to approve the withdrawal of the six extant IAPSs at its September 2011 meeting. In relation to any future IAASB decision about whether to undertake revision or retention of the material in IAPS 1004 and IAPS 1006, the Working Group proposes the following in relation to this decision:
- It would need to be taken in the context of the IAASB's discussions of its future work program, including relative priority and resource considerations (and would not be anticipated to begin before 2013 at the earliest);⁴⁴
 - It would be subject to the approval of a project proposal(s) in accordance with the IAASB's due process;
 - It would be made in the context of the factors to be considered to be considered in the development of new IAPSs; and
 - It would consider the ongoing work of the Basel Committee on Banking Supervision (BCBS) to revise IAPS 1004.⁴⁵ At present, BCBS does not have plans to revise IAPS 1006 or issue guidance in this area.

The material contained in the extant IAPS(s) would be used in any revision to ensure that relevant material is maintained as suggested by one respondent.⁴⁶

Matters for Working Group Consideration

2. Does the IAASB agree with the Working Group's recommendation to withdraw all extant IAPSs effective immediately and consider IAPS 1004 and 1006 in the context of the strategy, without prejudging that the IAASB will take action with regard to these two IAPSs?
3. Does the IAASB agree not to perform a detailed review of all IAPSs prior to the decision to withdrawal?
4. Does the IAASB have a view as to whether the extant IAPSs should be retained in some form after withdrawal?

⁴⁴ The current project timetable indicates that the IAASB will discuss the comments received on the consultation paper at its September 2011 meeting, with the intent to finalize the future work program at its December 2011 meeting.

⁴⁵ The BCBS submission on the *Proposed 2012-2014 Strategy and Work Program* noted that the BCBS is currently planning the work to revise IAPS 1004, and invites the IAASB to participate in this project.

⁴⁶ IOSCO

IV. Development of IAPSs and Due Process

46. ED-IAPS noted that the IAASB's *Terms of Reference* define Practice Statements as "pronouncements" and explains Practice Statements are developed and issued "as appropriate to provide interpretive guidance and practical assistance in implementing the Standards of the IAASB and to promote good practice." The IAASB's *Due Process and Working Procedures* explain that the term "international pronouncements" refers to the IAASB's authoritative documents that are indicated in its Terms of Reference as being subject to due process for their development. It is not anticipated that changes to either the *Terms of Reference* or *Due Process and Working Procedures* could be effected in the near term. However, should the IAASB's debate result in a change to the status and authority of IAPSs, there may be opportunity to recommend that the Public Interest Oversight Board (PIOB) review the due process to reflect the revised status and authority.
47. Respondents⁴⁷ specifically supported the intention to develop a hierarchy explaining the relationship of the ISAs, IAPSs, and non-authoritative staff publications. However, respondents⁴⁸ also expressed a concern about referring to IAPSs as authoritative pronouncements, in particular from a translation perspective. In their view, the idea that IAPSs do not set requirements but are nonetheless "authoritative" is contradictory, as "authoritative" means that the pronouncement sets requirements. These respondents recommended that the IAASB only use authoritative in a single sense or clearly state the difference, for example, by clarifying the "degree of obligation" or noting IAPSs are "formal" pronouncements. The hierarchy would then be used by lawmakers, regulators and users of the pronouncements to assess which documents contain provisions that are to be complied with.

Factors to Consider in Developing IAPSs

48. ED-IAPS contained proposals regarding factors to be considered in the development of new IAPSs to mitigate concerns relating to a possible future proliferation of IAPSs and the development of an IAPS when a new ISA or revision to existing ISA would be more appropriate.
49. The majority⁴⁹ of the respondents supported the concept of having factors to be considered in the development of new IAPSs. A respondent,⁵⁰ while agreeing an effort should be made to avoid proliferation of IAPSs, believed the factors are likely too restrictive and may result in no new IAPSs being developed when, in their view, an IAPS that combines information and educational material and expanded audit guidance in a particular subject area could help improve auditor awareness and contribute to the quality of audits.

⁴⁷ ACCA, AUASB, CAASB, CIPFA, CPAB, FEE, ICAI, ICJCE, IRBA, JICPA, KPMG

⁴⁸ FEE, FSR, IDW, JICPA, KPMG, NIVRA

⁴⁹ ACAG, ACCA, AOB, AIU&APB, AUAASB, C. Barnard, CAASB, CIPFA, CPAB, EBA, FACPCE, FEE, ICAEW, ICAI, ICAP, ICJCE, IDW, KPMG, NIVRA

⁵⁰ IOSCO

50. In addition, in relation to proposed IAPS 1000, respondents generally agreed that (i) the material included in the proposed IAPS is appropriate in light of the proposed status and authority of new IAPSs and (ii) the balance of material included in the proposed IAPS is appropriate in light of its purpose of assisting a wide range of auditors on an international basis. Most respondents supported the need for background and educational material within the IAPS, and supported segregating this material into two sections so that auditors who are already familiar with the topic could more easily access the auditing guidance.
51. Some respondents⁵¹ were of the view that these factors should be detailed in the *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services* (the Preface), perhaps in the context of what IAPSs are intended to achieve.
52. The Working Group recommends further refinement of the factors to be considered in the development of new IAPSs after the IAASB's initial discussions of the status and authority of IAPSs. In light of any tentative decision by the IAASB on the status and authority of IAPSs, the Working Group has discussed, at a preliminary level, possible improvements to the factors as follows:

The IAASB may consider the following factors in determining whether to develop an IAPS:

1. Research and discussions with stakeholders who may have recommended the project for the IAASB's consideration have indicated that:

~~1.1 There is divergent practice in the application of the ISAs internationally, or a need to raise awareness of issues being encountered in practice in particular areas, and therefore promulgating an IAPS would promote high-quality auditing practice, contributing to improved financial reporting;~~

~~[Deleted] 1.2 Background and informational material is needed or the issue extends across a number of ISAs but does not necessitate the development of new requirements, and therefore promulgating an IAPS will be effective in promoting good practice; and~~

~~1.3-2 Such guidance would provide practical assistance to auditors in particular circumstances or industries, and would be expected to be applicable-relevant internationally; and~~

2. ~~The need for guidance is widely acknowledged by stakeholders and the~~ The guidance would be 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 IAPSs.

53. The Working Group will reconsider the wording as well as concerns raised regarding the interaction of the factors, the need for the factors to address whether plans for maintenance of IAPSs should be developed, and possible proliferation of Staff publications.⁵²

⁵¹ FEE, IDW

⁵² ACCA, CIPFA, CPAB, ICAEW, IRBA

Matter for IAASB Consideration

5. In light of the IAASB's discussion on the status and authority of IAPs, are there further considerations that the Working Group should have in mind when considering the factors before the September 2011 IAASB meeting?

Appendix

LIST OF RESPONDENTS-EXPOSURE DRAFT OF PROPOSALS RELATING TO IAPSs		
#	Abbrev.	Respondent (41)
Member Body (18)		
1.	AAP	Joint Response from Australian Accounting Profession - CPA Au, ICAA, NIA
2.	ACCA	The Association of Chartered Certified Accountants
3.	CICPA	Chinese Institute of Certified Public Accountants
4.	CIPFA	Chartered Institute of Public Finance and Accountancy
5.	FACPCE	Federación Argentina de Consejos Profesionales de Ciencias Económicas
6.	FEE	Federation des Experts Comptables Europeens
7.	FSR	Foreningen af Statsautoriserede Revisorer
8.	HKICPA	Hong Kong Institute of Certified Public Accountants
9.	ICAEW	The Institute of Chartered Accountants in England and Wales
10.	ICAI	The Institute of Chartered Accountants in Ireland
11.	ICAP	Institute of Chartered Accountants of Pakistan
12.	ICJCE	Instituto de Censores Jurados de Cuentas de España
13.	ICPAS	Institute of Certified Public Accountants of Singapore
14.	IDW	Institut der Wirtschaftsprüfer
15.	JICPA	The Japanese Institute of Certified Public Accountants
16.	MIA	Malaysian Institute of Accountants
17.	NIVRA	Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)- Comment letter sent in by NBA
18.	SAICA	The South African Institute of Chartered Accountants
Regulators and Oversight Authorities (8)		
19.	AIU & APB	Audit Inspection Unit & Auditing Practices Board (Financial Reporting Council, United Kingdom)
20.	AOB	Audit Oversight Board (Malaysia)
21.	BCBS	Basel Committee on Banking Supervision
22.	CPAB	Canadian Public Accountability Board
23.	EBA	European Banking Authority
24.	IAIS	International Association of Insurance Supervisors
25.	IOSCO	International Organization of Securities Commissions
26.	IRBA	Independent Regulatory Board for Auditors, South Africa
National Auditing Standard Setters (3)		
27.	AuAASB	Australian Auditing and Assurance Standards Board
28.	CAASB	Canadian Auditing and Assurance Standards Board
29.	NZICA	New Zealand Institute of Chartered Accountants

Public Sector Organizations (1)		
30.	ACAG	Australasian Council of Auditors-General
Accounting Firms (8)		
31.	BDO	BDO Global Coordination B.V.
32.	DTT	Deloitte Touche Tohmatsu
33.	EYG	Ernst & Young Global
34.	GT	Grant Thornton International
35.	KPMG	KPMG
36.	PwC	PricewaterhouseCoopers
37.	RACOPK	Riaz Ahmad and Company, Chartered Accounts
38.	RSM	RSM International Limited
Other Professional Organizations (1)		
39.	NYSSCPA	New York State Society of Certified Public Accountants
Individuals and Others (2)		
40.	C. Barnard	Chris Barnard
41.	D. Juvenal	Denise Silva Ferreira Juvenal