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11 February 2011

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017

Our reference: 2011/JE/TCSC1/IAASB/27

Subject Line: Proposals Relating to International Practice Statements - Withdrawal of Existing IAPs, Clarification of the Status and Authority of New IAPs, and Proposed Amendments to the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

Dear Technical Director:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (SC 1) appreciates the opportunity to comment on the Exposure Draft (ED) of *Proposals Relating to International Practice Statements - Withdrawal of Existing IAPs, Clarification of the Status and Authority of New IAPs, and Proposed Amendments to the Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*. We also provide detailed comments on the ED of IAPS 1000, *Special Considerations in Auditing Complex Financial Instruments* in a separate letter sent this day.

As an international organization of securities regulators representing the public interest, IOSCO is committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing and professional standards, other pronouncements and statements. Members of SC 1 seek to further IOSCO's mission through thoughtful consideration of accounting, auditing and disclosure concerns, and pursuit of improved global financial reporting. Our comments in this letter are those on which we have achieved consensus in SC 1; however, they are not intended to include all comments that might be provided by individual members on behalf of their respective jurisdictions.



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Proposal to Withdraw Existing IAPSs

As we read these IAPSs, we see a substantial amount of informative content that would seem to still be useful, as well as content that is out-of-date (and places where we recognize that updated content could be added). We do not know how much of the informative and useful content has been included in the Application Material sections of the ISAs developed in recent years, but we believe that prior to making a final decision on this proposal, the Board should examine this issue to determine the extent to which relevant material in the extant IAPSs is retained. The results of such an examination might potentially affect the balance of considerations toward keeping one or more extant IAPSs in force until the content can be incorporated elsewhere.

We make the comment above from a public interest standpoint because the various IAPSs were developed and issued to fill a need that existed at one time, and no argument has been presented in the ED that the need no longer exists. If a need exists, presumably the IAPSs should not be withdrawn without knowing that the needs involved have been met in another way and/or will be met in another way. Even if a judgment for withdrawing the IAPSs is sustained after an examination identifying which content has and has not been placed elsewhere, knowing what other useful audit guidance and background content would otherwise disappear and how similar needs would be met in the future would seem to be important in identifying future improvements that could be made in ISAs.

In particular, the continuing and increasing impact of technology on audits in the years since IAPS 1013, *Electronic Commerce – Effect on Audit of Financial Statements* was developed and issued in 2002 raises the question as to whether a plan should be created to update and expand this IAPS rather than just cancel it. Has the IAASB conducted an inventory of relevant standards and other guidance referring to technology impacts on audits that may have been developed by national standard setters since IAPS 1013 was issued in 2002? If not, we think this would also be a useful analysis. Deciding to withdraw this IAPS without any plan for replacement would seem to create an unnecessary gap in auditor guidance.

As to IAPS 1004, *The Relationship between Banking Supervisors and Banks' External Auditors*, as IOSCO's work does not focus on banking supervision, and further, the IAASB proposes to explore how the continuing relevant material can be maintained in some form, we do not offer an SC 1 comment on the disposition of this IAPS. Where IAPS 1006, *Audits of the Financial Statements of Banks* is concerned, the expertise and responsibilities of all our members is in the area of securities regulation and in this securities regulator role we do carry



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out regulation and review of financial statements of banks that are listed companies. We have the same questions regarding withdrawal of IAPS 1006 that we have regarding IAPS 1013, i.e., whether a plan should be created to update and expand the IAPS rather than just cancel it. It is important not to lose useful guidance that might contribute to audit quality. Further, members have noted that there might be an opportunity to broaden the scope of the banking related IAPSs to provide useful information relating to audits of financial entities other than banks, for example, insurance companies.

Proposal to Clarify the Status and Authority of New IAPSs

The proposed status and authority of any new IAPSs is still ambiguous to many of our members so we suggest that it needs to be further clarified. The IAASB's apparent emphasis that documentation of consideration of content in a relevant IAPS is not needed or not appropriate raises the question of how authoritative an IAPS really is, i.e., is it more like non-authoritative but useful material like staff practice alerts, questions and answers, and similar documents even if it has been subjected to a deliberation process by the IAASB? It would appear that the Board's intent is that knowledge and use of the contents of IAPS 1000 (or any other IAPS) can be satisfactorily demonstrated through the auditor's record of audit procedures and judgments that comply with the objectives and requirements in ISAs, and do not need to include any mention of the relevant IAPS considerations and actions, nor any specific reference to the IAPS. Is this the intent?

We also note that the visibility and prominence of the existing IAPSs today is rather low, having a mention only in the Preface and with unclear authority. The IAASB's proposal appears to essentially continue this situation, and so it is unclear from this perspective whether there is any substantive obligation regarding an auditor's use of IAPSs or whether the new IAPS 1000 is intended to have any enforceability on its own.

Part of what makes this unclear is that the new language proposed for the Preface seems to step back somewhat from the previous language which stated "An accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how requirements in ISAs have been complied with" because no mention is made of any obligation to explain – or to be prepared to explain – in the new Preface language.

Furthermore, the Explanatory Memorandum on page 11 explicitly states "it is not the IAASB's intent to establish a specific documentation requirement (or to suggest that documentation may be appropriate) addressing the auditor's determination as to whether any IAPS was relevant to the audit, and if so, the required understanding of its content." The



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Explanatory Memorandum seems to send a contradictory message. On one hand, it seems reasonable to make no mention of actions and considerations discussed in IAPS 1000 if the auditor's record of work performed focuses on compliance with ISAs, and IAPS 1000 is viewed simply as additional useful information and background material and guidance on possible audit procedures that might (or might not) need to be performed. Under this view, an IAPS serves as a possibly useful audit guide, but without any obligation or enforceability. On the other hand, if the IAASB intends that the auditor is required to read (or should read or should otherwise understand) and consider the content of IAPS 1000 (or that an audit firm methodology should cover the same points) if it is relevant to the audit, then it seems contradictory to have an obligation without including any obligation to demonstrate achievement of the obligation.

If an IAPS is authoritative and carries a definite obligation to consider its content when relevant, then this should be put into effect via a more definitive statement in the Preface or elsewhere. Perhaps such a statement might clarify 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 relevant content in the IAPS.

SC 1 members have mixed views as to which is the better approach, including whether it is acceptable for an IAPS to be considered as non-authoritative guidance. On balance, we do not object if IAPS 1000 (or any other IAPS) is considered to be non-authoritative but useful information and guidance if there is going to be no obligation for an auditor to demonstrate consideration and compliance with it. However, the importance of the content in an IAPS would be strengthened if the auditor has an obligation to demonstrate compliance with ISA requirements in a way that would also make it evident that the content in IAPS 1000 was understood and considered. This would be desirable if some statement to this effect could be included explicitly to emphasize this obligation.

Further on the subject of level of authority, some SC 1 members have also raised the question of the status and authority of IAPSs as compared to the status and authority of Application Material in an ISA. Are the statements in the Explanatory Memorandum and the new Preface language about IAPSs, and the language in ISA 200 regarding Application Material, implicitly indicating that the authoritative status and an auditor's appropriate operational use of both IAPSs and Application Material are the same? If this is what is intended, the IAASB could make this easier to understand by simply saying that the status is the same, as both IAPSs and Application Material sections appear designed to provide additional information



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and guidance to auditors that will contribute to achieving fully the objectives and requirements of ISAs and both are expected to be understood by auditors if they are relevant to the circumstances of the audit.

Alternatively, it can be argued that because the preparation of an IAPS provides an opportunity to include a much greater amount of educational and background material and audit guidance in an IAPS than would typically appear in the Application Material section of an individual ISA, and because an IAPS may contain guidance on numerous matters that would span more than one ISA and its related application material, there is a reason for an IAPS to have a unique status and authority that is not the same as ISA application material. As a result of this added background and information content and more extensive guidance, some SC 1 members do not think that Application Material in ISAs and an IAPS should be considered to have equivalent status and authority.

Placement of the Wording to Describe the Auditor's Considerations

We think it would be helpful to mention the existence of IAPSs in ISA 200 the next time that this standard is opened for revision or updating. Today there is no mention of IAPSs anywhere but in the Preface. Even if the IAASB determines that IAPSs and ISA Application Material should not be stated to have the same authority, making at least a mention of the existence of IAPSs in IAS 200 as well as in the Preface would be an enhancement of the visibility and importance of IAPSs, and could contribute to an auditor's awareness and consideration of the guidance.

Factors to Be Considered in the Development of New IAPSs

The IAASB has proposed that "new IAPSs should only be developed if there is not likely to be a need for new or modified requirements or application material in the ISAs" and if a number of specified additional conditions are met. We believe this proposal is too restrictive as future needs may be difficult to predict or assess. Furthermore, the remaining bullet points in this section, if applied in total, could result in no further IAPSs ever being developed. This is particularly true as it appears that with the use of the word "and" at the end of most points, there may be a perception that each point needs to be present before an IAPS could be undertaken. Further, it may be difficult to quantify if the need for guidance is "widely acknowledged" by stakeholders.

We agree that an effort should be made to avoid a proliferation of IAPSs and that often or even usually the best place for additional auditor guidance would be in an ISA. We also agree



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that careful consideration should be given to a perceived need for an IAPS and the likely duration of such a need should not be perceived to be short, so that IAPS pronouncements would seldom need to be withdrawn. However, we do not believe there should be fixed criteria that, taken in total, might almost always preclude development of an IAPS. While the considerations listed are appropriate as “considerations”, when it appears that a document 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, we think it is reasonable to prepare such a document.

Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding this comment letter, you may contact me or Nigel James at 202-551-5300.

Sincerely,

Julie A. Erhardt

Chair,

IOSCO Standing Committee No. 1

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