



Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valore

October 14, 2004

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

Re: Proposed Amendments: “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services—IAASB Due Process and Working Procedures”

Dear Mr. Sylph:

IOSCO’s Standing Committee No. 1 on Multinational Disclosure and Accounting appreciates the opportunity to comment on the Exposure Draft (“ED”), “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services—IAASB Due Process and Working Procedures”. As securities regulators representing the public interest, we are committed to enhancing the integrity of international markets through promotion of high quality accounting, auditing, and professional standards. Our comments herein reflect those matters on which we have achieved a consensus among members of Standing Committee No. 1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions in the future.

We note that the IAASB has made a number of significant enhancements in its transparency and due process over the last two years and want to acknowledge this progress. It has been very useful to have the Board Agenda papers posted on the IAASB website, and to have Board meetings open to the public. We are pleased to see further efforts to aid transparency and improve the Board’s due process as evidenced in this ED, and we encourage ongoing improvement. We have a number of comments about how the process and procedures described in this ED might be further improved, as outlined in the remainder of this letter.

Mix of information on “due process” and “working procedures”

We understand that the intent of this ED is to expand the information presently provided, in order to increase a reader’s understanding about operations of the IAASB. This transparency is desirable; however, the mix of different types of information in this document raises the

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: (34.91) 417.55.49 • Fax:
(34.91) 555.93.68
mail@oicv.iosco.org
• www.iosco.org

question of whether all information included should be presented in the same way and should appear to have the same weight.

For example, in paragraph 33, it is stated that “an acknowledgement of receipt will be sent to every respondent.” This is an example of a desirable operating procedure which, because it is included in this preface may be considered to be part of the principles or elements of due process. As such, one could argue that a failure to send an acknowledgment is a violation of due process, but, it would seem disproportionate to suggest that the failure to acknowledge one receipt from one correspondent is a failure of due process.

Paragraphs in the preface which are more in the nature of detailed administrative information and day-to-day working procedures might be more appropriately placed in an operations document, one that could be more easily modified as the need arises. Such a document could be posted on the IFAC website to provide the necessary transparency. Much of the remainder of this section (paragraphs 34-36) might more appropriately be placed in a working procedures document.

Broad statements of policy, principles, and elements of due process, are the types of matters that should be included in the Preface, if it is intended to be an overarching part of all the auditing standards. Detailed working procedures could be presented in another way that provides more flexibility for change when the need arises, while retaining the benefit of transparency

Clarity of standards, including the Preface

Paragraphs 2 – 22 of the Preface, addressing the format and typeface of the standards and other matters, will be significantly affected by the outcome of the Clarity project that is underway. As we have previously commented, the Board needs to address and resolve the issues of bold and grey lettering, use of language and other aspects of the clarity of standards as soon as possible. The clarity of standards is a fundamental issue for all of the guidance issued by the Board, including the Preface to the international standards, and we strongly encourage the Board to move forward as rapidly as possible on this project. Meanwhile, care should be taken to be clear about requirements for due process that are included in the Preface.

Project identification, prioritization and approval

Though the heading for this section, as noted above, states that there is information on project prioritization, there is little coverage in this section on how prioritization would be made. Paragraphs 23 and 24 would be improved by including some reference to criteria that are considered in establishing priorities for selection of Board projects. We believe that the Chair should not solely determine the project priorities and that, in particular, the Consultative Advisory Group (“CAG”) should have an opportunity to provide input before Board project priorities are finalized. This process should be clearly stated in the operating procedures guidance.

Research, consultation, public exposure

It would aid transparency for paragraph 26 to explain fully how project task forces are constituted and how experts may be brought on to a task force. Information on who is

serving on and assisting the task forces should be public information that is posted on the IFAC website.

In paragraph 29, we are pleased to see discussion of the need to hold a public forum or roundtable, whether before or after the drafting of an ISA or practice statement. We encourage such roundtables for significant projects, especially when responses to an Exposure Draft show a significant and controversial divergence of views.

Responses to Exposure Drafts and Consideration of Respondents' Comments

There is an unclear sentence in Paragraph 34 that states "...IAASB members make themselves aware of key points made by respondents within the context of the response letters."

The standards should state what the expectations are for board members, rather than making a rather general statement like this.

Standards setting in the public interest is an important activity that carries with it the obligation to do whatever is required to develop standards of high quality. We believe that such work includes the obligation to be aware of, and consider fully, comment letters that have been developed by outside parties to provide views about proposed standards.

In our view, it is essential that Board members thoroughly familiarize themselves with the issues raised in comment letters on proposed standards, so that they are able to make well informed decisions as they finalize the standards. The description now contained in the ED does not adequately describe the responsibilities and commitments involved. Furthermore, saying only what the Board and its members "do" as opposed to stating clearly what they "should do" could make it difficult to confirm that due process was in fact followed.

Paragraph 41 states that a basis for conclusions is not published as a part of the standards because the Board's discussion papers throughout a project will make the Board's decisions clear without such an explanation. We believe that some form of explanation of how the Board has reached its conclusions is very important to have when a final standard is issued.

It would often be difficult for the broad base of users, and successive generations of users, to trace the path of discussions and conclusions that have occurred over the course of a project. It is unlikely that such information would be sought or accessed after some time has passed since issuance of a standard. As such, interested parties may not receive a clear understanding of how the IAASB reached its conclusions. We believe the Board should identify a way to provide clear and adequate explanation of the basis for its conclusions when a final standard is issued, so that each standard can stand fully on its own and be clearly understandable.

Confirming Due Process

As we considered this section of the ED, the view arose that it would be more appropriate for the full-time IAASB Chairman to confirm that the IAASB's stated due process has been followed. We would see proper execution of the Board's due process to be a fundamental part of the Chairman's responsibility.

Prior to focusing on this as the Chairman's responsibility, we had observed that Paragraph 39 should be strengthened to state the responsibilities of the IAASB Technical Director more fully. For example, it might say "The IAASB Technical Director is responsible for ensuring that the steps and elements of due process are followed throughout the development of a standard, and for confirming that required procedures have been followed before the final standard is approved for issuance."

Regardless of whether it is the Chairman or the Technical Director that confirms that due process has been followed, we believe that it is the Chairman who is ultimately responsible. We note that the requirement to confirm is very interactive with whatever steps and elements are defined as part of due process. If something is included as a requirement of due process and a person must certify that due process has been followed, that person must have the means to determine that each requirement has been satisfied.

Voting

Paragraph 44 deals both with voting requirements for passage of a standard and with the ability of an absent Board member to use either the member's Technical Advisor or another IAASB member as a proxy for voting purposes. We believe these two topics should be separated. One statement should deal clearly with a meeting quorum requirement and the minimum votes needed to approve an ED or a standard. Another should address the use of proxies. Combining the two subjects has produced a sentence which is unclear as it seems to allow for passage of a standard with only eight votes.

We are aware that the IAASB has previously made use of proxies, but our discussion of this subject within Standing Committee No. 1 produced some concern about allowing another member to cast a vote without the absentee member having the benefit of hearing the latest deliberations and making a final decision. This has the potential effect of giving the attending member with the proxy two votes. Some of our members suggested that the Technical Advisor of a member should be the only person authorized to hold a proxy. The reason was two-fold: the Technical Advisor would likely be more thoroughly familiar with the nuances of the absent Board member's views on the subject, and would often be closer to the details of technical issues and/or task force activities. We encourage the Board to examine the use of proxies and determine if a greater restriction would be desirable.

Alleged Breaches of Due Process

Paragraph 48 should be revised to require that the resolution of alleged breaches of due process be reported to the PIOB or its staff as well as the party raising the matter. The guidance should be expanded to cover what steps are taken when the IAASB Chairman, Steering Committee, or Technical staff receive a complaint, who investigates and how, what happens when the IAASB Steering Committee decides that a complaint has no basis and is further challenged, what alternatives exist for resolution of a complaint (e.g., from denial of a complaint to finding that a complaint is valid and taking remedial action, and how a resolution is documented.)

As this is information of a detailed working procedures nature, it would seem most appropriate to include the description in an operations document rather than in a Preface to the standards.

Consideration of Differences between IASB and IAASB Processes

We do not know if an IAASB analysis has been performed to compare the processes of the IASB and the IAASB. If this has not been done, we believe it would be useful to do so, and to consider whether the experience of the IASB suggests any further improvements that might also be appropriate for the IAASB.

Thank you for the opportunity to comment on this ED. If you have any questions or need additional information regarding the comments of Standing Committee No. 1, please do not hesitate to contact me or Susan Koski-Grafer at (202) 942-4400.

Sincerely,

A handwritten signature in black ink that reads "Scott A. Taub". The signature is written in a cursive style with a large initial 'S'.

Scott Taub
Chairman
IOSCO Standing Committee No. 1