

Proposed Amendments

**Preface to the International
Standards on Quality Control,
Auditing, Assurance and Related
Services—IAASB Due Process and
Working Procedures**



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REQUEST FOR COMMENTS

This exposure draft of the International Auditing and Assurance Standards Board was approved for publication in July 2004. The proposed amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services may be modified in light of comments received before being issued in final form.

Comments should be submitted so as to be received by **October 15, 2004**, preferably by e-mail or on computer disk, or in writing. All comments will be considered a matter of public record. Comments should be addressed to:

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

Email responses should be sent to: Edcomments@ifac.org

The approved text of this exposure draft is published in the English language. In order to achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

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EXPLANATORY MEMORANDUM

Introduction

The existing Preface to the International Standards on Quality Control, Auditing, Assurances and Related Services (Preface) was approved by the International Auditing and Assurance Standards Board (IAASB) in July 2003 following public exposure of proposed revisions thereto to reflect the reconstitution of the International Auditing Practices Committee into the IAASB. The Preface describes the objectives of the IAASB, the scope and authority of the pronouncements it issues, and the key features of its working procedures.

In November 2003, the International Federation of Accountants (IFAC) issued a comprehensive proposal of reforms designed to increase confidence that the activities of IFAC are properly responsive to the public interest and will lead to the establishment of high quality standards and practices in auditing and assurance. Among other changes, the IFAC reforms proposed certain enhancements to the due process followed by IFAC's Public Interest Activity Committees, including the IAASB. The reforms recognize that, with the establishment of the Public Interest Oversight Board (PIOB), the observance of due process will be a key focus of the PIOB's oversight of the IAASB. In furtherance of this, the reforms propose that a specific description of the due process adopted by the IAASB to promulgate standards be published on the IAASB website and that the IAASB annual report describe the manner in which the IAASB has complied with its due process during the period. The IFAC reform proposal is available on the IFAC website at www.ifac.org/Downloads/ReformProposals.doc.

In light of the IFAC reforms, and as part of IAASB's continuing desire to improve its processes, the IAASB agreed in June 2004 to certain improvements to its due process and working procedures. The IAASB also agreed that the present description of its due process and working procedures, as set out in the Preface, should be expanded to reflect more fully the practices that are being followed by the IAASB.

Proposed Changes

The IAASB recognizes the need to operate with working procedures that are rigorous and transparent. At the same time, the IAASB recognizes the need to balance the nature of its working procedures with the need for timely decision-making and the resources available to the IAASB. In developing the proposed changes to its due process and working procedures, the IAASB has reflected upon its current working procedures and the IFAC reforms, and has drawn upon best practices followed by other standard setters.

IFAC Reforms

In response to the IFAC reforms, it is proposed that the IAASB's due process and working procedures provide for the consideration by the IAASB of the need to hold a public forum or roundtable, or issue a consultation paper, where the subject of the International Standard or Practice Statement, the level of interest, the need for additional information in order to further the IAASB's deliberative process, or some other reason indicates that wider or further consultation would be appropriate.

EXPLANATORY MEMORANDUM

The proposed changes to IAASB's due process also address the IFAC reform's call for enhanced responsiveness to comments made on proposed standards by the Monitoring Group,¹ and for reporting on compliance with due process in the IAASB annual report.

The proposed amendments to the Preface refer to the publication on the IFAC or IAASB website of the membership, terms of reference and operating procedures of certain bodies that have been, or will be, established as part of the IFAC reforms or that already exist. These bodies or groups include the PIOB, the Monitoring Group, the IAASB Consultative Advisory Group (CAG) and other IFAC committees. While such information is not publicly available as of the date of this exposure draft, the IAASB understands that it will be made available and has drafted amendments to the Preface accordingly.

Further Enhancements to IAASB's Due Process and Working Procedures

To further strengthen its deliberative process, the IAASB proposes that its due process and working procedures be enhanced to provide for:

- Enhanced meeting agenda material to assist in its deliberative process. Changes proposed include the provision for project agenda papers to contain a cumulative summary of the significant decisions made by the IAASB on matters relating to the project, including its position on the main points raised in comment letters, and the provision of a summary comparative analysis of a proposed revised final pronouncement to its exposure draft in the circumstances where several iterations of significant changes to an exposure draft have been made.
- Easier access to comment letters by IAASB members, their technical advisers and task force members who are not members of the IAASB.
- An expanded description of the process by which the IAASB considers the need to re-expose a draft International Standard or Practice Statement.
- The confirmation by the IAASB Technical Director to the IAASB at the point of approval of a final International Standard or Practice Statement that the IAASB's stated due process has been followed.
- The issuance of a separate document explaining its basis for conclusions on final International Standards or Practice Statements in the rare circumstance where the IAASB decides that such additional communication is necessary.

In addition, a process is proposed to address circumstances where issues over due process are raised with the IAASB. Provision for further recourse by those who may not be satisfied with a proposed resolution is being considered by IFAC and the IAASB CAG. It will also be a matter for consideration by the PIOB, when it has been established.

¹ The Monitoring Group includes representatives of the International Organization of Securities Commissions, the Basel Committee on Banking Supervision, the Financial Stability Forum, the European Commission, the International Association of Insurance Supervisors and the World Bank. The Monitoring Group will update the PIOB regarding significant events in the regulatory environment, and among other things, act as the vehicle for dialogue between regulators and the international accountancy profession.

Current Practice of the IAASB

The present description of IAASB's due process and working procedures, as set out in the Preface, has been expanded to reflect more fully the practices that are being followed by the IAASB. Details have been provided on IAASB's due process and working procedures surrounding the identification, prioritization and approval of projects, the IAASB's practice of conducting some projects jointly with a national standard setter(s) or others, and its use of Issues Papers to summarize and analyze comments received on exposure drafts.

Other Matters

It is proposed that the title of the Preface be amended to align it with the way in which IAASB pronouncements are structured within the IAASB Handbook. Accordingly, the title of the Preface is to be changed to "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services."

Comments on the Exposure Draft

The IAASB welcomes comments on the proposed description of, and enhancements to, IAASB's due process and working procedures, and on the related amendments to the Preface. In responding to this exposure draft, commentators are requested to refer to the relevant paragraphs within the exposure draft. The responses should include the reasons for the comments, including specific suggestions for any proposed changes to wording.

Response Due Date

The IAASB wishes to give effect to the proposed enhancements as soon as possible. To be considered, comments should be submitted so as to be received by **October 15, 2004**, preferably by e-mail or on computer disk, or in writing. All comments will be considered a matter of public record.

PROPOSED AMENDMENTS TO THE PREFACE TO THE INTERNATIONAL STANDARDS ON QUALITY CONTROL, AUDITING, ASSURANCE AND RELATED SERVICES—IAASB DUE PROCESS AND WORKING PROCEDURES

The following marked text represents proposed amendments to the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services. No amendment to existing paragraphs 2 through 22 is being proposed. Accordingly, these paragraphs have not been reproduced in this exposure draft.

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 it issues, as set forth in the IAASB's Interim Terms of Reference.

[Paragraphs 2 through 22 unchanged]

IAASB Due Process and Working Procedures

IAASB's Standards and Practice Statements

Project Identification, Prioritization and Approval

23. Projects to develop new, or revise existing, International Standards or Practice Statements are identified based on international and national developments, input from IAASB members and their technical advisors, or recommendations received from interested parties including, but not limited to, audit oversight authorities, regulators, national standard setters, the IAASB Consultative Advisory Group² (CAG) and the Public Interest Oversight Board³ (PIOB). For IAASB's Standards and Practice Statements, project proposals are developed

² The objective of the IAASB Consultative Advisory Group (CAG) is to provide a forum where the IAASB can consult with individuals, or representatives of organizations, interested in the development of high quality international standards on quality control, audits, reviews, other assurance and related services designed to serve the public interest in order to obtain: (a) views on the IAASB's agenda and project timetable (work program), including project priorities; (b) technical advice on projects; and (c) the views of CAG on other matters of relevance to the activities of the IAASB, 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 membership, terms of reference and operating procedures of CAG are published on the IAASB website. The current membership of the CAG is set out on the IAASB website and in the IAASB Annual Report

³ The Public Interest Oversight Board (PIOB) oversees IFAC standard setting activities in the areas of audit standards, independence, and other ethical standards for auditors, audit quality control and assurance standards. It also oversees IFAC's proposed Compliance Program. The objective of the PIOB is to increase the confidence of investors and others that the public interest activities of IFAC (including the setting of standards by IFAC boards and committees) are properly responsive to the public interest. The membership, terms of reference and operating procedures of the PIOB are published on the IFAC website.

~~and approved by the IAASB. As part of this process, input is sought, where practicable, from the IAASB Consultative Advisory Group, national standard setters and others so as to obtain a broad spectrum of views.~~

- ~~24. Based on research and appropriate consultation with the IAASB CAG, a project proposal is prepared for consideration by the IAASB Steering Committee.⁴ Project proposals are circulated to other IFAC Committees and Task Forces,⁵ including the IFAC Ethics Committee, the IFAC Transnational Auditors Committee, the IFAC Small- and Medium-Sized Practices Task Force and the IFAC Developing Nations Task Force, to identify matters of possible relevance to the project.~~
- ~~25. The IAASB Steering Committee determines whether to recommend the project proposal for approval by the IAASB. If a project proposal is recommended to the IAASB, the IAASB discusses the proposal in an open meeting and if it accepts the proposal, approves the commencement of the project. The IAASB Chair determines the priorities of approved projects in consultation with the IAASB Steering Committee. Where the IAASB CAG or the PIOB has recommended a project for consideration by the IAASB, the IAASB Chair informs the IAASB CAG and the PIOB of the decisions of the IAASB.~~

Research, Consultation and Debate

- ~~26. After approval of a project proposal and appropriate consultation with the IAASB as necessary, the IAASB Steering Committee assigns responsibility for the project to a Project Task Force established for that purpose. The Project Task Force will ordinarily be chaired by a member of the IAASB and may contain participants, such as external experts who are not members of the IAASB but have experience relevant to the subject matter being addressed by the Project Task Force. who have experience relevant to the subject matter being addressed by the task force, but are not members of the IAASB. In addition, a separate group of experts may be established to advise a Project Task Force. The IAASB may also conduct projects jointly⁶ with a national standard setter(s) or others. In such cases, the joint Project Task Force is ordinarily chaired by a member of the IAASB, or chaired jointly.~~
27. The Project Task Force has the initial responsibility for the preparation of a draft International Standard or Practice Statement. The Project Task Force develops its positions

⁴ ~~The IAASB Steering Committee (Steering Committee) is a standing committee of the IAASB. The purpose of the Steering Committee is to formulate views and advise the IAASB on matters of strategic and operational importance to the IAASB, while also relieving the IAASB of the need to address certain administrative matters that do not necessarily require deliberation by the IAASB. The membership, terms of reference and operating procedures of the Steering Committees are published on the IAASB website.~~

⁵ ~~The membership, terms of reference and operating procedures of IFAC Committees and Task Forces are published on the IFAC website.~~

⁶ ~~Joint projects are subject to the due process described in this paper. If exposed separately both internationally and by the national standard setter with whom the project is being jointly developed, IAASB may additionally have regard to comments received by the national standard setter, where they may be relevant internationally. The final document approved by IAASB becomes an International Standard or Practice Statement in the normal way. It may differ from the corresponding document, if any, approved by the collaborating national standard setter.~~

based on appropriate research and consultation, which may include, depending on the circumstances: commissioning research, consulting with the IAASB CAG practitioners, regulators, national standard setters and other interested parties, as well as reviewing professional pronouncements issued by IFAC member bodies and other parties. Project Task Force meetings are not open to the public.

28. Agenda papers, including issues papers and draft International Standards or Practices Statements prepared by Project Task Forces, for the IAASB’s review and debate are published on the IAASB website in advance of each IAASB meeting.⁷ IAASB meetings to discuss the development, and to approve the issuance, of International Standards and Practice Statements are open to the public.⁸ The meetings and agenda papers are in English which is the official working language of IFAC. Minutes of the immediately preceding meeting of the IAASB are published on the IAASB website in advance of each IAASB meeting. ~~The task force prepares an exposure draft for the IAASB’s review and debate during deliberations in meetings open to the public.~~
29. The Project Task Force recommends, and the IAASB specifically considers, whether there is a need to hold a public forum or roundtable, or issue a consultation paper, soliciting views on a matter under consideration at any stage, whether before or after a draft International Standard or Practice Statement is issued for public exposure. Web cast technology may be used to conduct a public forum or roundtable in an economic and efficient manner. In deciding upon the need to hold a public forum or roundtable or to issue a consultation paper, the IAASB considers whether the subject of the International Standard or Practice Statement, the level of interest, the need for additional information in order to further the IAASB’s deliberative process, or some other reason indicates that wider or further consultation would be appropriate.

Public Exposure

30. When approved, the IAASB exposes proposed International Standards for public comment, and ordinarily exposes proposed Practice Statements for public comment.
31. Each exposure draft is accompanied by an explanatory memorandum that highlights the objective(s) of, and the significant proposals contained in, the draft International Standard or Practice Statement. The explanatory memorandum may also direct respondents to aspects of the draft International Standard or Practice Statement on which specific feedback is sought.
32. ~~The e~~Exposure drafts ~~is~~are placed on the IAASB’s website where they can be accessed free of charge and are widely distributed ~~for comment by~~ to member bodies of IFAC, regulatory bodies, organizations that have an interest in quality control, auditing, review, other assurance and related services ~~and quality control~~ standards and practice statements, and the general public. To allow aAdequate time ~~is allowed~~ for due consideration and comment from all interested parties, the 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.

⁷ Historical copies of agenda papers are retained on the IAASB website and highlights of each meeting and updated project summaries are posted ~~and updated~~ to the website after each meeting.

⁸ Matters of a general administrative nature or with privacy implications may be dealt with in closed sessions.

Responses to Exposure Drafts and Consideration of Respondents' Comments

33. An acknowledgement of receipt is sent to every respondent to an exposure draft. Respondents' comments are considered a matter of public record and are posted in a readily accessible format on the IAASB website after the end of the exposure period. IAASB members, their technical advisers and task force members who are not members of the IAASB are notified when comment letters have been made available on the IAASB website. A number of printed copies of the exposure draft and comment letters are also made available for the reference purpose of IAASB members at the IAASB meeting in which the project is scheduled for discussion. Task Force members may request such printed copies at any time if they prefer to work with this format rather than electronic copies.

34. The comments and suggestions received within the exposure period as a result of public exposure are read and considered by the Project Task Force.⁹ ~~The comments and suggestions received as a result of this exposure are considered and the exposure draft is revised as appropriate. To facilitate the deliberative process the IAASB is ordinarily provided with a revised proposed International Standard or Practice Statement and an Issues Paper that analyzes the comments received, summarizes the main issues raised and outlines the recommendations of the Project Task Force. The Issues Paper also includes the rationale of the Project Task Force in arriving at its conclusions and, as considered appropriate by the Task Force, the reason(s) why significant changes recommended by a respondent(s) were or were not accepted. In addition to careful study of the Issues Paper, IAASB members make themselves aware of key points made by respondents within the context of the response letters.~~

35. Before a final International Standard or Practice Statement is issued, the IAASB gives due consideration to comments received.⁹ The IAASB deliberates significant matters raised in comment letters received, with significant decisions made by the IAASB recorded in the minutes of the meeting of the IAASB. The IAASB may decide to discuss with respondents their letters of comment or to explain to them the reason(s) for not having accepted their proposals. It is expected that this will be regular practice for comments received from members of the Monitoring Group.¹⁰ The nature and outcome of such discussions are reported and recorded in the minutes of the IAASB meeting at which the related project is discussed.

36. Project agenda papers contain a cumulative summary of the significant decisions made by the IAASB on matters relating to the project, including its position on the main points raised in comment letters. In circumstances where several iterations of significant changes to an exposure draft are made, and where practicable, a summary comparative analysis of the

⁹ The Project Task Force, and thereby the IAASB, may not be able to give full consideration to comments received after the end of an exposure period.

¹⁰ The Monitoring Group includes representatives of the International Organization of Securities Commissions, the Basel Committee on Banking Supervision, the Financial Stability Forum, the European Commission, the International Association of Insurance Supervisors and the World Bank. The Monitoring Group's responsibilities include briefing the PIOB regarding significant events in the regulatory environment, and among other things, acting as the vehicle for dialogue between regulators and the international accountancy profession. The membership, terms of reference and operating procedures of the Monitoring Group are published on the IFAC website.

proposed revised final International Standard or Practice Statement to the exposure draft is provided to the IAASB.

Re-exposure

37. The Project Task Force recommends to the IAASB whether re-exposure is necessary, and explains the basis for the recommendation. The IAASB formally votes whether re-exposure is required, subject to the same voting requirements as the publication of an exposure draft or the issuance of a final International Standard or Practice Statement.
38. In determining the need to re-expose an International Standard or Practice Statement, the IAASB assesses whether, as a result of the comments received on exposure, there has been substantial change to the exposed International Standard or Practice Statement and, if so, whether those changes warrant the need to re-expose. Situations that constitute potential grounds for a decision to re-expose may include, for example, substantial change to a proposal arising from matters not previously deliberated by the IAASB or aired in the exposure draft, or substantial change to the substance of an International Standard or Practice Statement.

Final International Standard or Practice Statement

39. At the point of approval of a final International Standard or Practice Statement, the IAASB Technical Director confirms to the IAASB that the IAASB's stated due process has been followed.
40. 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.
41. The features and transparency of IAASB's due process ordinarily obviate the need for the IAASB to issue a separate document explaining its basis for conclusions. In the rare circumstance where the IAASB decides that additional communication is necessary, however, such a document may be issued.

Other Papers Published by the International Auditing and Assurance Standards Board

4225. 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.

Voting

4326. Each IAASB meeting requires the presence, in person or by simultaneous telecommunication link, of at least twelve appointed members.

~~4427.~~ 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 votes, including the reason(s) therefor, ~~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.

~~4528.~~ 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.

~~4623.~~ The IAASB may also use ballots where exposure drafts or final International Standards and Practices Statements are discussed at an IAASB meeting and a final draft is distributed and approved electronically subsequent to the meeting. Ballots may also be used where final discussion of the exposure draft or final International Standard or Practice Statement yields a significant number of changes and additional time for further consideration is considered necessary.

Other Matters

~~47.~~ IAASB's annual report describes the manner in which the IAASB has complied with its due process during the period.

Matters of Due Process

~~48.~~ If an issue over due process is raised with IAASB, whether by a third party or otherwise, the IAASB Steering Committee assesses the matter and, should it agree to pursue it, obtains relevant information from all parties concerned. If, based on the information so obtained, the Steering Committee concludes that there was a breach of the IAASB's stated due process, an appropriate resolution thereof is sought and communicated to the party raising the matter.

Language

~~4929.~~ 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.