



# Board Meeting Summary Paper

AUASB  
AGENDA  
ITEM NO.  
**11(a)(iv)**

Meeting Date:  
**29 November**

**2010**

- Subject:** Submission on IAASB Exposure Drafts:
- Proposals Relating to International Auditing Practice Statements (IAPSs); and
  - IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments*

**Date:** 11 November 2010

**Action Required**

**For Information Purposes Only**

## Agenda Item Objectives

To consider

- the draft submission to the IAASB on its Exposure Drafts on:
  - (a) *Proposals Relating to IAPSs*, including:
    - withdrawal of existing IAPSs;
    - the status and authority of new IAPSs; and
    - proposed amendments to the international *Preface*; and
  - (b) IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments*; and
- the implications, if any, of the IAASB's proposals regarding the IAPSs on the AUASB's Guidance Statements.

## Background

The IAASB has issued joint exposure drafts on *Proposals Relating to International Auditing Practice Statements (IAPSs)* and *Proposed IAPS 1000 Special Considerations in Auditing Complex Financial Instruments*, for comment by 11 February 2011 (see Agenda Item 11(a)(iv).2).

The IAASB's project on complex financial instruments has been in progress since June 2009 and, in January 2010, the AUASB commented on the IAASB Consultation Paper *Auditing Complex Financial Instruments*. The IAASB first considered the project to review the status and authority of IAPSs at its December 2009 meeting. These two projects have now come together in the sense that, if the IAASB proposals regarding IAPSs are approved, all existing IAPSs will be withdrawn and proposed IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments* will be the first IAPS in the new series.

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## **Matters to Consider**

### **1. Status and Authority of IAPSs**

The IAASB is seeking to clarify, rather than change, the existing status and authority of the IAPSs and to incorporate updated wording in the *Preface to the International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements*. In doing this, the IAASB is establishing clear principles for the development of future IAPSs, i.e. that new IAPSs will be developed only where the matter cannot be addressed by new or modified requirements, or application material, in the ISAs.

The main change to the international Preface is proposed new paragraph 23, which introduces the requirement that:

*“auditors should determine whether any IAPS is relevant to the circumstances of the audit and, if so, obtain an understanding of its content”.*

This is more authoritative / directive than the existing Preface which states that:

*“Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how:*

*(a) The requirements of the ISAs; or*

*(b) The basic principles and essential procedures in the IAASB’s other Engagement Standard(s), addressed by the Practice Statement, have been complied with”.*

Other significant proposed changes to the international Preface are:

- use of the words “authoritative” and “non-authoritative” to distinguish IAASB standards and Practice Statements from other, non-authoritative, IAASB pronouncements; and
- inclusion of Staff Audit Practice Alerts and Staff Q&A, which are new types of IAASB publications that have evolved in recent years, in the guidance about non-authoritative IAASB pronouncements.

A draft response to the IAASB exposure draft is included at Agenda Item 11(a)(iv).1, for the Board’s consideration and approval.

### **2. Proposed IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments***

As with the earlier Consultation Paper, the IAASB exposure draft uses the Auditing Practice Board (UK) Practice Note 23 (Revised) as the underlying pronouncement, with additional guidance in key areas and a new format to differentiate background material from auditing considerations (see the Explanatory Memorandum to the exposure draft at Agenda Item 11(a)(iv).2).

The AUASB was broadly in agreement with the proposed content at the Consultation Paper stage, with some concerns relating to the extent of guidance on valuation issues and disclosures for complex financial instruments. These concerns have been addressed in the exposure draft.

The IAASB exposure draft poses a number of questions regarding the content, format and effective date of the proposed IAPS 1000. Suggested responses to these questions are provided in the draft AUASB response, included at Agenda Item 11(a)(iv).1, for the Board’s consideration and approval.

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### 3. Implications for AUASB Guidance Statements

If the IAASB proposals regarding IAPs are approved, the implications for AUASB Guidance Statements are:

- AGS 1036 *The Consideration of Environmental Matters in the Audit of Financial Statements* will need to be withdrawn, or revised.
- AGS 1030 *Auditing Derivative Financial Instruments*, will need to be withdrawn.
- A new Guidance Statement will need to be issued, equivalent to the proposed IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments*.
- It may be appropriate, in light of the proposed changes to the International Preface, to review and amend the *Foreword to AUASB Pronouncements* in relation to the status and authority of AUASB Guidance Statements.
- It may also be appropriate, in light of the IAASB's proposed principles for the development of new IAPs, to review and update the principles for the development of new AUASB Guidance Statements.

The Board is requested to consider these implications, and raise any others, arising from the IAASB proposals.

### Recommendations

It is recommended that the AUASB:

1. approve the draft submission to the IAASB at Agenda Item 11(a)(iv).1; and
2. comment on any implications for AUASB Guidance Statements arising from proposed changes in relation to IAPs.

### Material Presented

Agenda Item 11(a)(iv) Board Meeting Summary Paper

Agenda Item 11(a)(iv).1 Draft AUASB Submission to IAASB Exposure Drafts

Agenda Item 11(a)(iv).2 IAASB Exposure Drafts [**electronic only**]:

- Proposals Relating to International Auditing Practice Statements (IAPs); and
- IAPS 1000 *Special Considerations in Auditing Complex Financial Instruments*

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### Actions Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1	Approve submission	Approval	AUASB Board	29 Nov 10	Pending
2	Implications for AUASB GSs	Consider and comment	AUASB Board	29 Nov 10	Pending

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