A message from the President of IFAC

Early in 2001, the leadership of the International Federation of Accountants (IFAC) instituted a comprehensive review of the membership, organization and processes of the International Auditing Practices Committee (IAPC).

An international committee of individuals experienced in standard setting at both national and international levels has prepared a report that contains many recommendations that could lead to significant changes in the operations and transparency of the work of IAPC.

The Board of IFAC is looking for reaction to the proposals of the Task Force. We believe that international business entities, various international organizations, national regulators and audit standard setters and transnational audit firms and national firms are all looking for speedy application of a new organizational structure and operating procedures for IAPC.

The Board of IFAC has exposed the recommendations of the Review Task Force for public comment. To be considered by the Task Force in developing its final recommendations, comments must be received by September 21, 2001. Comments are encouraged from all interested parties. Comments will be most helpful if they provide explanations of the rationale for support of recommendations or detailed alternatives where applicable. Comment letters will be posted on the IFAC web site (www.ifac.org) immediately upon receipt. The report may be modified in the light of comments received.

Comments by email would be preferred. They should be sent to Manuel Sanchez y Madrid, Chairman of the IAPC Review Task Force at EDComments@ifac.org. Comments in writing will also be welcomed addressed to:

Manuel Sanchez y Madrid
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Tsuguoki Fujinuma
President
July 18, 2001

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IAPC REVIEW TASK FORCE

Report and Recommendations

30 June 2001

To the Board of the International Federation of Accountants

IFAC has identified endorsement of International Standards on Auditing (ISA) by the International Organisation of Securities Commissions (IOSCO) as a major strategic objective. The leadership of IFAC, therefore, has agreed that it would be appropriate to institute a comprehensive review of the membership, organisation and processes of the International Auditing Practices Committee (IAPC) as a matter of urgency. The IAPC REVIEW TASK FORCE was established in January 2001 with terms of reference as given in the Appendix. The task force is pleased to submit this report to the Board of IFAC.

1. Summary of Principal Recommendations

This report, throughout the sections that follow, contains a number of recommendations to improve the membership, organisation and processes of IAPC. The principal recommendations are summarised as follows:

- IAPC’s objectives should be revised to clearly reflect that its goals are to develop auditing standards of unquestionable quality, and it should operate and be seen as operating in the public interest.
- Membership on IAPC should include five representatives from international audit firms, proposed by the Transnational Auditors Committee (TAC) of the Forum of Firms, seven from IFAC member bodies with a majority of those from countries with strong national standard-setters, and three non-auditor representatives. The Nominating Committee of IFAC should be responsible for ensuring a proper balance of countries and firms, always considering the “best person” for the role.
- IAPC should open its meetings to the public and make available its meeting materials and minutes to the public. It also should make other changes to its procedures to enhance its efficiency and promote transparency.
- IAPC should prepare annual reports and develop a strategic plan for public commentary, and undertake more proactive public relations and technical activity, thereby enhancing its consultative process and image.
- IAPC should work closely with national auditing standard-setters on matters important to its goals, including undertaking joint and coordinated projects, thus promoting eventual convergence of standards for global acceptance.
- IAPC should take steps to make clear the authority of its standards and other guidance and, if necessary, initiate a project to examine any ambiguity as to such authority.
IAPC should operate with adequate resources to sustain its activities and follow due process and transparency in carrying out such activities. For IAPC to sustain its activities and meet its goals, a substantial increase in its staff resources and funding is needed.

Our terms of reference do not call for our Task Force to address the membership, organisation and processes of the Nominating Committee, the Compliance Committee or the Public Oversight Board. All of our recommendations are founded on the assumption that these bodies will operate effectively in the public interest. We have, however, recommended that the Board re-emphasise the public interest role of the Nominating Committee as it relates to IAPC, to ensure that committee is perceived as functioning with a public interest focus.

We recommend that our report be considered and approved by the Board at its meeting in July 2001, but that it also be exposed for two months for public commentary and viewpoint before the recommendations are fully adopted and implemented.

2. IAPC Objectives

In addition to issuing ISAs and guidance on their application, the objectives of IAPC include:

- “Promoting the adoption of the Committee’s pronouncements as the primary authority for the setting of National Standards and Guidance and for use internationally for cross border offerings”
- “Promoting the endorsement of International Standards on Auditing by legislators and securities exchanges”.

We believe that there is a compelling need for a single set of global auditing standards that will be accepted by regulators and lawmakers across the world. As security markets have become global and the cross-border issuance and trading of securities has expanded, the need has increased for international harmonisation of accounting, auditing and reporting standards. Now that IOSCO has endorsed international accounting standards, we believe that the time is right to fully recognise the importance of globally accepted standards on auditing. Clearly, it serves the interests of investors for there to be only one set of global auditing standards so that readers of financial statements accompanied by an audit report do not have to know the details of every country’s auditing standards before they can understand the full meaning of the assurances they are obtaining.

Accordingly, we believe that the objectives of IAPC need revision and strengthening to make clear what goals it should strive to meet. We recommend that IAPC’s objectives be set out as follows:

“The objectives of the International Auditing Practices Committee are to:
• Establish auditing standards and guidance for financial statement audits of such unquestionable high quality that they are acceptable to governments, securities regulators and other key stakeholders across the world, thereby strengthening public confidence in the global auditing profession.

• Establish assurance standards and guidance on both financial and non-financial matters

• Publish other papers on auditing and matters related to audit, thereby advancing the public understanding of the roles and responsibility of professional auditors.”

In order for ISAs to be used around the world, they will have to be adopted or endorsed in each country by both the national auditing standard-setters and the regulatory authorities that establish the rules for securities offerings. We see encouraging signs of developments in those directions:

• A key stage in obtaining general acceptance would be endorsement by IOSCO of ISAs, particularly in relation to cross-border security offerings. We understand that IOSCO is expected to start a review of ISAs to determine whether, and under what conditions, such endorsement would be possible.

• The European Commission is considering the possibility of using ISAs as a tool for harmonising auditing standards in Europe.

• The US Panel on Audit Effectiveness recently wrote: “The breadth and quality of auditing standards vary from country to country. Regulators’ requirements also vary from one jurisdiction to the next. Consequently, one set of ‘international’ standards that could serve as minimum benchmarks for auditors regardless of domicile would be especially useful when an entity’s financial statements are used by investors outside of the country where the entity is domiciled. Consistency in the quality of assurances provided by audits would enhance the efficiency of cross-border financing and help promote a global marketplace for capital.”

• Trends in IFAC member body usage of ISAs demonstrate that the need for a global set of auditing standards is gaining momentum and support. With the growth of global capital markets, high quality internationally recognised auditing standards are seen to be essential for the effective and efficient functioning of the markets.

IFAC has identified endorsement of ISAs by IOSCO as a major strategic objective. We believe that such endorsement of ISAs is a realistic goal to attain in the medium term, provided that the following conditions are fulfilled:

• IAPC develops standards of such an unquestionable quality that auditors, users, regulators and other key stakeholders all over the world can accept them.

• IAPC operates and is seen to operate in the public interest.

In order to fulfil these conditions it is necessary that:

• IAPC operates using due process, and transparency.
• IAPC operates with adequate resources and can demonstrably sustain its capability to develop high quality standards for the foreseeable future.

These concepts are fundamental to our recommendations.

3. The Public Interest
Throughout our discussions, we have recognised the need for IAPC to meet the public interest. Auditing is a public interest activity; it provides assurance to those who use audited financial statements that an independent professional has performed sufficient work to express an opinion on the fair presentation of those statements. Without a proper audit process, the world’s capital markets could not operate effectively. Serving the public interest requires the confidence of regulators in the process for establishing auditing standards, in their quality and in the way they are applied in practice.

Issues relating to compliance were excluded from the scope of our work, and our proposals assume that compliance is enforced through mechanisms such as the audit firms' own quality control practices and peer reviews, and is overseen by the TAC, the Compliance Committee and, ultimately, by an independent Public Oversight Board comprised of individuals with impeccable credentials.

We have considered whether regulators should be represented on IAPC itself. We have concluded that such an arrangement would be inappropriate. Getting the regulators involved in the detailed process of setting standards would bind the regulators into the output of IAPC and make it more difficult for them to fill their role of considering objectively the quality of the output of IAPC and making objective recommendations. We believe that they, and the Public Oversight Board, should be encouraged to observe and oversee the activities of IAPC, but not to manage them.

Our terms of reference recognise that IAPC may need to consider the adequacy of the processes by which members of IAPC are selected, the degree of openness of IAPC in preparing standards on auditing, the frequency of meetings and the possibility of accelerating the work programme, the adequacy of its resources and the efficiency of its processes. The Task Force recognises the importance of these issues and its recommendations are intended to respond to them.

Our terms of reference also state that IAPC should continue to be part of IFAC. We agree. The present structure means that it is easier for IAPC within IFAC to get the high quality technical resources it needs to fulfil its role. The main argument for making IAPC independent of IFAC is that it would make transparently clear that it was a public interest body. However, we believe that the recommendations in this report, together with the role of the Public Oversight Board, mean that it will be entirely clear that IAPC will operate as a public interest body so that there is no need to change the constitutional arrangements.
Serving the public interest has been paramount in developing the recommendations throughout our report.

4. Selection and composition of the IAPC

4.1 Selection criteria

Historically the IFAC Council appointed countries to IAPC membership and the member bodies in those countries agreed on the member and technical advisors that would represent that country. IFAC’s nomination processes were amended in 2000, so that membership on IAPC would come through nominations submitted by individual member bodies. As audit firms are not members of IFAC per se, they were not eligible to submit candidates directly, but most of the member body candidates were partners of the large firms. In addition, some large member bodies have always been represented on IAPC. IAPC members generally serve two and a half-year terms, though some terms are renewed or extended. In 2000, IFAC introduced a plan for rotation of members on a three-year cycle.

It is important, however, to note that IAPC’s members are expected to act and vote in accordance with their own conscience, regardless of their affiliation, a policy that we believe should be continued.

We believe that there should be three criteria for the selection of members:

- Best person
- Country balance
- Firm balance

We consider that “best person” should be the overriding criterion, because obtaining the “best” people to set the standards ensures their highest quality. The IAPC work demands professional competence demonstrable in either of two important ways, but preferably in combination:

- Profound practical experience in the field of auditing, especially of entities with international operations
- If possible, background in auditing standard-setting and interpretation

These qualities are very difficult to source from other than individual auditors in public practice (or recently retired there from). Also, since the work of IAPC is based on the use of English as the common language, its members must master the technical vocabulary and be able to express themselves clearly in English.

However, in reality, and particularly where cross-border endorsement is concerned, we believe that too much perceived influence from one constituency is undesirable. This is a strong argument for securing a proper balance between countries and firms. In theory a case could even be made for setting a fixed limit
to the participation from one country, but from time to time exceptions likely would become necessary from a standard-setting point of view in order to attain the “best person” goal. Given the new three-year rotation policy, any perceived imbalances should be able to be rectified within a year’s time. We believe, however, that some flexibility that permits extensions of terms or renewals is advisable.

Experience shows that candidates nominated for IFAC work by member bodies and other interested parties invariably tend to be very able and experienced professionals. We have come to the conclusion that the “best person” requirement could be satisfactorily achieved by exposing candidates, nominated on a country and firm basis, to a rigorous top-level screening procedure. Our proposal, therefore, is based mainly on the country and firm-balance criteria, with the Nominating Committee having the power to assess and to confirm or reject any candidate, regardless of the constituency proposing the candidate.

4.2 Number of members
The IAPC currently consists of 14 members, including the Chair. The future size depends to a certain extent on the representational issues, but experience seems to show that the present size works well. We recommend, in order to optimise representation, a slight increase to 15 members. For reasons explained in section 4.3, three members should be other than auditors in public practice. Among the twelve auditors, five should come from major audit firms and be proposed by TAC, and a majority of the other seven should come from countries where member bodies have experience from particularly well-developed national standard-setting procedures. This membership composition would continue to permit, where practicable, some representation by auditors from countries where member bodies do not benefit from well-established national standard-setting procedures, and auditors from smaller audit firms.

4.3 Non-auditor members
Our terms of reference state that the setting of ISAs should remain in the hands of the IAPC, as a committee of IFAC, but they accept the possibility of opening IAPC to non-auditors. We have come to the conclusion that IAPC would benefit from the perspective and experience of a limited number of non-auditors, and that they would increase transparency and credibility in the eyes of third parties.

We suggest the following potential constituencies as sources of non-auditor members of IAPC:

- Academics
- Users of financial reports
- Public sector representatives

These constituencies are, of course, not mutually exclusive.
Academics provide a link to research in the professional area and can contribute to a scientific, systematic approach to the standard-setting work. Users, by definition, are the ultimate beneficiaries of high-quality, uniform standards, including international financing organisations who represent a specific constituency of users. The public sector uses similar standards on auditing, a fact that is already recognised by IAPC through the “Public Sector Perspective” that is attached to ISAs.

We propose that one representative each of the academe, the users (perhaps a Chair of an Audit Committee or a similar governance body in a listed company) and the public sector be included. We do not propose distinct nomination procedures for these members. Searching for non-auditor members and proposing them to the Board should be a task for the Nominating Committee, which is, of course, free to ask appropriate member bodies or others for advice. Considering the degree of commitment and willingness to spend time that is demanded from IAPC members we can see the risk that three non-auditor candidates may not always be available. If so, the rules should allow for one or more additional auditors in public practice from IFAC’s member bodies to take those seats.

4.4 Auditor members

4.4.1 Countries
As an “international” standard-setting body, IAPC needs to have broad international representation in its overall composition. However, given the importance of the objective to obtain endorsement of the ISAs by IOSCO, it would be advantageous to ensure that countries with advanced national auditing standard-setting procedures be represented on IAPC, since promoting strong links between the national standard-setting bodies and IAPC is increasingly important. Within the overall international representation on IAPC, we believe that the majority of seven seats should be assigned to such member bodies.

4.4.2 Firms
ISAs are intended for audits of financial statements of entities ranging from large to small, carried out by audit firms ranging from large to small. However, although some representation of small audit firms on IAPC is undoubtedly essential to the credibility of IAPC in the eyes of some interested parties, it would be sensible to reserve a reasonable number of seats for members from large international firms. There is little doubt that the practical experience necessary for developing ISAs is mainly to be found in the large firms. Consequently, it is both in the interest of IAPC itself and in the public interest to ensure that it can benefit from that expertise and from the pool of technical resources that the large firms can bring to bear.

We do not believe it advisable to tie reserved seats on IAPC to individual firms. Such an arrangement would call for IFAC to identify a small number of firms that would be publicly stamped as qualified for nominating IAPC members. Instead, we recommend that the Transnational Auditors Committee (TAC), as the executive
arm representing the Forum of Firms, be entrusted with nominating candidates for five seats.

4.4.3 Firm/country balance
With five seats reserved for TAC proposals from large firms and a majority of the other seven seats for member bodies of the countries discussed in section 4.4.1 above, we suggest that a key factor in the decisions of the Nominating Committee will be to ensure that there is a reasonably broad representation of both firms and countries in the proposals that they make for the membership of IAPC.

If, in the view of the Nominating Committee, the proper balance is not achieved in the initial submissions by TAC or the country member bodies, we recommend that TAC or country member bodies, as appropriate, be asked to submit additional substitute candidates that might help achieve the desired balance. Proper balance is a judgmental matter, and we would urge the Nominating Committee to (a) take into account the practicalities of getting additional qualified candidates in these circumstances on a timely basis and (b) recognise that with the three year rotation process, perceived imbalances can be adjusted over time, often in the following year.

4.5 Nominating Committee
Our terms of reference do not address all aspects of the role of the Nominating Committee and its work. That work is, of course, crucial to the success of IAPC’s goal of serving the public interest, and the Nominating Committee will be essential to the implementation of our recommendations. We recommend that the Board re-emphasise the public interest role of the Nominating Committee as it relates to IAPC, to ensure that committee is perceived as functioning with a public interest focus.

The final decision on what recommendations are to be submitted to the Board of IFAC on the membership of IAPC should be made by the Nominating Committee. We do not believe that there should be fixed rules as to how the Nominating Committee should perform its role but we do believe that there are some questions it should consider in its deliberations, including:

- Is there a reasonably broad representation of countries on IAPC?
- Is there a reasonable breadth of international knowledge and resources from the firms represented on IAPC?
- Is there an adequate representation of auditors of small entities and smaller firms of auditors?
- Do the non-auditors possess appropriate credentials and interest in the subject of auditing and will they commit sufficient time to fulfil their role?
4.6 The role of the Chair
As IAPC moves towards recognition by regulators and others, we see an increasing need to manage relationships with key stakeholders and to both communicate and publicise IAPC’s strategy, priorities and pronouncements. This need will further elevate the role of the Chair as the public spokesperson for IFAC on IAPC matters. We believe that the Chair should be recommended for appointment to the IFAC Board by the Nominating Committee and should serve in such role for three years, re-appointment being possible once, using the same process.

Currently, chairing the IAPC consumes a considerable part of a professional’s working time. With the increased demands following our proposals, for example increased public relations, we believe that the Chair position is substantially a full-time occupation.

In order to help handle the workload we further propose that a Vice Chair be appointed to support the work of the Chair. The Vice Chair should be selected by the Chair. The Vice Chair should not be regarded as the designated successor of the Chair and would not need to be full time. However, if the Chair and Vice Chair were appointed from different geographic areas, liaison and speaking engagements could be shared to minimise travel and other logistical difficulties.

5. The Consultative Process
The present consultative process of the IAPC for evaluating the direction of its agenda and the direction of its projects includes a Consultative Advisory Group (CAG), the input of IAPC members and technical advisors, and circulation of exposure drafts of new standards to member bodies and other interested parties.

The CAG meets once a year for two days and consists of representatives of such groups as IOSCO, the World Bank, the Basel Committee, the Information Systems Audit and Control Association (ISACA), the European Commission, the International Accounting Standards Committee, the Institute of Internal Auditors and the International Bar Association. We have the impression that the group works well and that most attendees themselves are satisfied with their opportunity to influence the working programme of IAPC. IAPC, in turn, values the input from the CAG, and it believes that it is responsive to such input. The IAPC members and technical advisors, who draw from a vast network of member body contacts and awareness of what audit firms, academicians and national auditing standard setters are doing, also are instrumental in influencing the direction of the IAPC.

Exposure drafts are supplemented by press releases, and the drafts are made freely available on the IFAC website. Although the majority of the exposure draft recipients never respond, some key parties always provide useful comments, observations and recommendations. IAPC considers all of these in detail and believes that it is responsive to them.
Some improvements may be possible in the consultative process, such as expanding the composition of the CAG, providing a strategic plan of IAPC to the CAG, asking other interested parties (including the general public) for input into the strategic plan and work programme of IAPC, arranging theme meetings, and developing further the utilisation of the web to share information. We believe IAPC will be addressing all of these possibilities in the near future.

6. Transparency

6.1 Opening meetings to the public
The meetings of the IAPC currently are open only for members, technical advisors, invited observers and IFAC staff. Agenda, agenda papers and minutes are not publicly available.

Experience from some standard-setting bodies that have made their meetings open to the public shows that in practice the number of public observers who choose to attend is very small. On the other hand, experience also shows that members do not feel restricted by the public presence, and that the discussion remains as candid and free as before.

We believe that opening meetings to the public serves as an important symbol of transparency and thus could help pave the road to general endorsement of the standards. We therefore recommend that IAPC meetings be made open to the public, that agenda papers be published, preferably on the web, at least two weeks before each meeting, and that minutes from such meetings be published as soon as they are completed. However, it must remain possible for IAPC to discuss agenda planning activities, project staffing, meeting logistics and other similar matters at closed sessions, and to exclude the related documents, including the minutes, from publicity.

We also recommend that the IAPC publish all comments on exposure drafts and in principle not accept comments that are submitted with restrictions against publishing. This will help avoiding any suspicions about the undisclosed influence by anyone on the outcome of IAPC’s deliberations. In addition, all of IFAC’s member bodies should be asked to circulate all IAPC exposure drafts in their jurisdictions and solicit input from key stakeholders and provide IAPC with a summary and analysis of comments received.

It is customary for the IAPC to accept invitations from member bodies to meet in different countries. Although we appreciate that this practice may be beneficial to the relations with member bodies, we note that opening meetings to the public is meaningful only if the IAPC normally meets in major centres close to easily accessible airports. We therefore recommend that the IAPC set its own venues and make its own meeting arrangements. Furthermore, as meetings would be held in a smaller number of locations, it would be a burden to the national bodies in those
locations to be expected to be responsible for those arrangements. Thus, relationships with the national member bodies would be limited to normal professional and courtesy arrangements. IAPC should continue to offer the national member bodies the opportunity to provide educational seminars or technical updates as deemed practicable.

We have discussed the possibility of public hearings on specific IAPC issues or on its agenda and priorities. In practice such hearings would be available only to a geographically limited audience, and so may not be suitable as a general means of consultation. If, in a certain situation, the IAPC were to see a need for a public hearing on a particular topic there is, of course, nothing to prevent it from organising one.

6.2 External reporting
We recommend that the IAPC should prepare an annual report, written for an interested audience without profound technical knowledge and endeavouring to present a scorecard of IAPC’s performance. Although a printed report in limited quantities would be the natural outcome of this recommendation, a broad distribution and continuous availability via a web-based report also is envisioned.

7. Role of National Standard Setters
In addition to strengthening the structural link between IAPC and the national standard setting bodies (as discussed in section 4.4.1) we believe that it would be strongly desirable that representatives of countries with particularly well-developed national auditing standard setting procedures are members of the IAPC. It would also be strongly desirable to go one step further, and endeavour to benefit directly from the work done by national standard setters with advanced agendas and important resources.

It is our impression that there are significant opportunities today for convergence with the United States that did not previously exist. The IAPC has already begun to cooperate with the U.S. standard setters on some issues as well as to undertake joint projects, and we are encouraged by these initiatives. We strongly recommend that the IAPC continue this process on an accelerated basis by identifying topics on the current U.S. agenda that IAPC can effectively leverage, and take on an increasingly important role in working with or coordinating its activities with other national standard setters. IAPC should ensure that it leverages all of these resources to accelerate the achievement of its objectives.

In developing processes to work with other standard setters we see significant advantages to being flexible as to how the coordination could take place. For example, the following alternatives should be considered:

- Use of a joint task force, working group or subcommittee to address particular subjects
• Parallel or coordinating activities among IAPC and one or more national standard-setters
• Passing the research and drafting responsibilities of a topic to one or more national standard-setters
• Passing the complete responsibilities of a typical IAPC subcommittee (task force) to one or more national standard-setters, of course subject to deliberation and voting by IAPC

We believe that IAPC should endeavour to the extent possible to integrate the work of national standard setters with its own. This will not be an easy task because of the differing priorities and objectives of both the standard setters and the IAPC. However we believe that, if it can be achieved, it would contribute significantly to the global acceptance of the output of IAPC and help IAPC at a time when it is expanding its work programme.

8. Procedures

8.1 Scope of work
We have noted that the scope of the work of the IAPC is very broad and its current projects are complex and time consuming. We fully support its recent decision to defer certain “assurance standards” projects and concentrate its efforts on financial statement auditing issues, including the review of existing ISAs and the development of new ones. However, we consider that IAPC should continue to be responsible for assurance standards as well as ISAs and that the proposed increase in staff resources should allow IAPC to resume its work on assurance standards in the relatively near future.

8.2 Planning Committee
Historically the Planning Committee of IAPC has played a limited role in IAPC activities. We propose that the role of the Planning Committee be strengthened, having its focus on emerging issues as well as on the long-term plan of IAPC and on its efficiency and process. The Planning Committee should consider meeting, as appropriate, between IAPC meetings and not only in conjunction with IAPC meetings. Telephone conferences or other forms of interactive meetings also could be helpful in limiting the time resources required for the purpose.

The expanded responsibilities could include:

• The ability to approve the addition of topics to the IAPC agenda (eliminating the need for the entire IAPC to deliberate and approve);
• Working directly with the Chair and the Technical Director on the specific agendas of IAPC meetings; and
• Serving as a vehicle for dealing with emerging global audit issues by issuing formal or informal interpretations or guidance for the timely benefit of auditors.
8.3 Long-term plan
We recommend that the long-term work of the IAPC be described in a formal strategic plan. The plan should be prepared by the Planning Committee, submitted to the IAPC and exposed to the CAG, member bodies and other constituencies. This is intended not only to promote IAPC’s public image, but also to enhance its consultative activities.

8.4 Authority and hierarchy of IAPC standards and statements
The authority of IAPC’s standards should be clear and unequivocal, thereby properly serving as benchmarks for compliance by auditors in performing and reporting on their work. Currently, ISAs contain basic principles and essential procedures in bold type black lettering, together with related guidance in the form of explanatory and other material in grey lettering. In order to obtain international endorsement it is essential for IAPC to identify, analyse and eliminate any ambiguities as to the proper interpretation of black and grey lettering that may exist among regulators and other constituencies. Similar issues have been raised regarding international accounting standards, which are presently under review by the International Accounting Standards Board (IASB), and the experiences from that review should be considered by IAPC. It should then take any action necessary to eliminate ambiguities.

8.5 International Auditing Practice Statements
Apart from ISAs, IAPC also issues International Auditing Practice Statements (IAPS) to provide practical assistance to auditors in applying the ISAs. Since by their nature IAPSs do not introduce new auditing standards, we recommend that the review and approval process be streamlined in order to improve efficiency and that any constitutional changes needed to put this recommendation in place be made.

8.6 Planning, frequency and duration of meetings
The IAPC meets three times a year. Including subcommittee work, each meeting lasts for one week, but the full committee time is about two and a half to three days during the week. The Planning Committee generally meets immediately before or during the IAPC meetings.

We recommend that the meeting frequency of IAPC be flexible and determined taking into account the workload during each period. Given the present workload we propose that the meeting frequency be increased to four times a year, and we understand that there is strong support among the present IAPC members for such a change. IAPC has already planned a fourth meeting in calendar 2001. We also recommend that IAPC keep under review the possibility of holding additional meetings as needed.

We have discussed the present format of meetings, using one full week for subcommittee and full committee meetings, in particular considering the expenditures and time consumption for the purpose by members travelling from all over the
world. We have come to the conclusion that the present procedure allows for flexibility and efficiency to an extent that we regard as more important than the disadvantages. Thus, we propose no change. As in the case of the Planning Committee we would encourage sub-committees to continue the use of telephone conferences or other interactive meeting forms between the meetings as appropriate.

8.7 Attendance and privilege of the floor
Currently each of the IAPC members is entitled to bring up to two technical advisors who have the privilege of the floor but no voting right. In addition, as part of the IFAC Strengthening Initiative two observers have been appointed with the privilege of the floor but without voting rights.
We can see the value of technical advisors, and in our view members should have the option to bring one technical advisor to meetings. Also, technical advisors could be included as full members of sub-committees and task forces.

As soon as the new nominating procedures for TAC candidates have been implemented the two observer positions appointed by the large firms should be eliminated.

8.8 Voting procedures
The present terms of reference state that a pronouncement can neither be sent for exposure nor be made a definitive pronouncement unless supported by a three-quarter majority of the Committee, consisting of no less than ten votes. Dissenting opinions are not included in a pronouncement passed by a majority. The reason or basis for such opinions is included, at the request of the member, in the minutes.

Requirements for three-quarter majority decisions obviously tend to slow down the standard setting process, as it is necessary to convince more members before a pronouncement can be passed. Since ISAs are meant to be “generally accepted”, we find it natural to demand broad acceptance within the IAPC, and thus do not recommend a change. However, with 15 members voting we suggest that three quarters be interpreted as 11 members.

We propose that, since issues that are agreed on in principle may not be entirely finalised at a meeting, ISAs should be subject to a subsequent written ballot. We also propose that final editorial adjustments to a standard could be delegated to the technical director and the Chair.

We acknowledge that IAPC should always have under review whether its voting procedures continue to be effective, and make changes to them when deemed advisable.

8.9 Time commitment
The current time demand on members can be estimated at a minimum of 400–500 hours, sometimes substantially more due to additional hours being required for
work in sub-committees and task forces. While we propose an additional meeting, we believe that this increase in meeting time can in part be compensated by better efficiency, such as improving the quality of the agenda material presented to those meetings (through considerably strengthened staff support). Thus, we believe that the estimate above is probably still broadly reasonable.

8.10 Remuneration
With the Chair spending substantially full time on the IAPC we believe appropriate to consider remuneration to him or her. We are not proposing a fixed amount because we believe a certain degree of flexibility is advisable.

We also propose that all reasonable out-of-pocket expenses connected with IAPC should be reimbursed to members (but not to technical advisors). We recommend that the present practice of not remunerating members for time be continued with the possible exception of the non-auditor members who may require special consideration.

9. Staff Support
Currently, staff support is provided by a part-time Technical Director, by permanent staff based in New York and other cities equivalent to four full-time persons, and by loaned staff.

We believe that the IAPC should have a full-time Technical Director with responsibility to assist the Chair in planning, coordinating and managing IAPC’s strategic and operating plans, including standard-setting, liaison and promotional activities. In doing so, the Technical Director would oversee the development of the standard-setting projects (including implementing appropriate processes to ensure the quality of agenda materials and of IAPC’s pronouncements), manage IAPC’s budget, and recruit and manage IAPC’s staff. We estimate the need for permanent staff to be six full-time managers, as well as loaned staff as appropriate.

10. Public Relations
To help IAPC demonstrate its transparency, we recommend that greater attention be given to public relations. We see that one of the roles of the Chair should be to have a high international profile, publish articles and be a speaker at international meetings. Accordingly, we recommend IAPC to establish a public relations policy, and to ensure that the Chair has the appropriate qualities to carry out this role.

We draw attention to Section 8.3 above and suggest that the strategic plan could be a valuable instrument in making the efforts of IAPC known, e.g. by meetings with regulators.
11. Publication and Distribution
IAPC should consider how to make its output easily available to interested parties, not only through its website, but also through publication around the world. We are concerned that the current practice of issuing a Handbook annually as the primary vehicle to disseminate IAPC’s standards and guidance is significantly hindering IAPC from issuing necessary guidance on a timely basis. New standards have effective dates that are a year or more after their issuance, in part due to the fact that some practitioners rely on the Handbook as their primary resource. The current time periods required before a new ISA or IAPS becomes effective is unlikely to be acceptable to regulators. Priority needs to be given to identify ways to disseminate new standards and guidance on a more timely basis.

In addition, as the ISAs become accepted as the standards in legal and disciplinary actions against auditors, it will become increasingly important for IAPC to have appropriate policies and processes to document and archive changes to ISAs and IAPSSs as they are updated over time.

12. Translations
While the actual translation of ISAs will have to be the responsibility of IFAC member bodies or national standard-setters, the quality of translated material is crucial to the consistent application of ISAs and IAPSSs worldwide. Since similar considerations apply to the Code of Ethics, the International Education Guidelines and other IFAC pronouncements, this must be regarded as an IFAC rather than an IAPC issue. We recommend that it be ascertained that the quality of ISA and IAPS translations is explicitly within the scope of work of the Compliance Committee.

What IAPC should do is to assist member bodies and others responsible for translations. Such assistance could include:

- Suggested procedures for control of translation quality; and
- Guidelines for coping with known difficulties.

The experiences of IASB and member bodies with well-developed translation procedures should be explored.

13. Transitional Issues
If our proposals are implemented, some transitional issues that will have to be considered are:

- The potential impact on ongoing projects: It is important that ongoing projects are not unnecessarily interrupted by changes in task forces or sub-committees.
• Organisational changes should be harmonised with the general rotation process.
• The Nominating Committee should make use of the Chair’s experience and knowledge of the current iapc members, and the time members have already served on iapc should be considered.
• A decision regarding staffing should be made as early as possible to let ifac start appropriate recruiting.
• New iapc members appointed in November should begin serving on the committee only after the scheduled December meeting.

14. Financial Implications
Our terms of reference do not require proposals regarding the funding of the IAPC work, but we have estimated the cost increase that we anticipate as a consequence of our proposals. Incremental costs, including travel support for members and remunerations for IAPC Chair and certain members, as well as staff costs and overhead costs, can be estimated to US$ 3,000,000 annually, in addition to the present cost of US$ 1,200,000.

15. Periodic Review of IAPC’s Processes
We recommend that IFAC review the efficiency and effectiveness of IAPC’s processes periodically – perhaps every three or five years.
16. Public Exposure of This Report
This report contains analyses and recommendations on many issues. The report is the result of deliberations where different opinions have been put forward, discussed and resolved with a collective view. We believe that reactions to the report will differ among individuals or constituencies, and some reactions will perhaps be unexpected. We therefore recommend that our report be considered and approved by the Board of IFAC, but that it also should be exposed to public comment for a period of two months. The Board should take its final decisions to adopt and implement any recommendations after that period.

We do, however, recommend that the Board make an immediate decision in principle on the staffing issue, in order to make it possible to start recruiting.

We look forward to responding to any questions from the IFAC Board regarding this report.

Manuel Sanchez y Madrid
Chairman

Philip Ashton Richard Dieter Denise Esdon

Dietz Mertin Edmund R. Noonan Ian Plaistowe

Gérard Trémolière

Björn Markland
Secretary
Background

IAPC is a key IFAC Committee responsible for the development of International Standards on Auditing. IOSCO, representing the International Securities Regulators, has started a review of international standards to determine whether and under what conditions they would be able to endorse those standards. Based upon the conclusions reached by IOSCO in respect of International Accounting Standards and IASC, there are likely to be comments in respect of the content of individual standards, the coverage of international standards, the extent of compliance with standards and the membership, organisation and processes by which IAPC arrives at the standards. The European Commission and other agencies are also likely to be interested in such issues.

The leadership of IFAC, in discussion with the major firms, has agreed that it would be appropriate to institute a comprehensive review of the membership, organisation and processes of IAPC as a matter of urgency.

It has also been agreed that the Task Force should not consider technical issues or issues related to compliance with international standards. Given the central importance of International Audit Standard setting to the public interest objectives of IFAC, it is important that IAPC remains as an integral part of IFAC.

Terms of Reference

The objective of this review is to ensure that the IAPC meets the anticipated requirements of regulators and other external observers in terms of its efficiency, transparency and credibility as the recognised international auditing standard setter, within IFAC.

The Task Force should, accordingly, consider what changes in the selection, composition, processes and working practices of the IAPC are required to achieve this objective and, in so doing, should consider *inter alia*:

- The adequacy of membership selection processes
- The desirability of widening the spectrum of interests within the IAPC and of opening membership to non-members of IFAC member bodies
• The efficacy of the present consultative processes
• The desirability of opening meetings to the public and the holding of public hearings
• The desirability of liaison with national standard setters and of their being members of the IAPC
• Acceleration of the work programme, through outsourcing, increased numbers of sub-committees and groups of experts (whether members of the IAPC, or not) and otherwise
• The frequency and duration of meetings, the time requirements on members and the desirability of one or more members and/or the Chair being full-time and remunerated
• The adequacy of full-time and other technical resources available
• The need for translation of ISAs into key languages

The Task Force should seek to anticipate the requirements of securities and other regulators, by reference to their input in relation to international accounting standard setting, but without consulting them at this stage. It is hoped that the Report of the Task Force will enable IFAC to present a clear, coherent and credible proposal to regulators that will encourage IOSCO to accept that the setting of ISAs should remain in the hands of the IAPC as a committee of IFAC, and to move towards endorsement of ISAs.

The Task Force is invited to make an initial report to the Board of IFAC at its meeting on 8—11 April 2001, with a view to the submission of a final report to the Board at its meeting on 8—11 July 2001.

Tsuguoki (Aki) Fujinuma
President, IFAC