

INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD: A BRIEF HISTORY OF ITS DEVELOPMENT AND PROGRESS

Celebrating Its 100th Meeting

The International Auditing and Assurance Standards Board (IAASB) marks a milestone in Warsaw, Poland in July 2007, when it meets for the 100th time in its 29-year history.

Since March 1978, the group, originally named the International Auditing Practices Committee (IAPC), has gained increasing recognition for the quality of its standards and the credibility of its standard-setting process. This has resulted in greater use of its standards worldwide – an important step in strengthening financial reporting globally and enhancing public confidence in the work of auditors.

Points of Progress

- The IAASB has published 32 International Standards on Auditing (ISAs) and approximately 20 International Auditing Practice Statements (IAPs) and other pronouncements on topics such as quality control. The ISAs have been developed over the IAASB's 29-year history with increasing input from the public to ensure that auditors have the necessary guidance to address those issues of greatest concern to the public as well as the markets.
- Over 100 countries are now using or in the process of adopting or incorporating ISAs into their national auditing standards.
- More and more national regulatory bodies are accepting financial statements audited using ISAs.
- The Financial Stability Forum includes ISAs as one of its *12 Key Standards for Sound Financial Systems*.

An Evolution of Leaders and Guidelines

At its first meeting held in New York City, the IAPC, chaired by Robert May, agreed to issue its publications as guidelines, rather than standards, statements or recommendations. The

THE IAASB – The IAASB is an independent standard-setting board within the International Federation of Accountants that works to enhance the quality and uniformity of practice throughout the world and to strengthen public confidence in the global auditing and assurance profession.

IAASB Chairs

Robert L. May	United States	1978-1982
Gijs Bak	Netherlands	1983-1985
Justin Fryer	Canada	1985-1987
Alan Talbot	Australia	1988-1992
Matthew Patient	United Kingdom	1993-1995
Robert S. Roussey	United States	1995-2000
Dietz Mertin	Germany	2000-2003
John Kellas	United Kingdom	2004-present

IAPC's initial work focused on three areas: object and scope of audits of financial statements, engagement letters, and general auditing guidelines. Canada, Germany and Australia, respectively, led the subcommittees in these areas.

During this initial meeting, the IAPC also agreed to respond to a request from the International Accounting Standards Committee (IASC) chairman and Governors of the Central Banks to develop guidance on inter-bank confirmations. Richard Wilkes of the United Kingdom was asked to lead the project. In November 1984, the IAPC issued IAPS 1000, *Inter-Bank Confirmation Procedures*.

Another area of focus was emerging technology and how it could be used in an audit environment. In July 1981, a task force was created to address auditing in an Electronic Data Processing environment. Ruben Rosen of Canada led the task force, which also addressed computer-assisted audit techniques.

The IAPC also debated attendance and voting procedures. In formulating a requirement for continuity of individuals and regular attendance, the IAPC set a standard echoed by IAASB in its recent restructuring. While recognizing the importance of allowing designates to represent a member who could not attend a particular meeting, Gijs Bak, second IAPC chairman, stressed the importance of continuity in membership.

David Tweedie, the current chairman of the International Accounting Standards Board (formerly the IASC) joined the IAPC in July 1983 and served as the United Kingdom representative until 1988. He was assisted by Martyn Jones, and

IAASB MILESTONES

- 1978** First meeting held as the International Auditing Practices Committee (IAPC) in New York
- 1979** The IAPC issued its first International Auditing Guideline, *Objective and Scope of the Audit of Financial Statements*
- 1985** IAPC members asked to act in the public interest
- 1987** Guideline issued on review engagements; International Organization of Securities Commissions adopted international auditing guidelines
- 1991** IAPC's guidelines re-codified as International Standards on Auditing (ISAs)
- 1993** ISA comment letters placed in public record
- 1994** IAPC Consultative Advisory Group (CAG) held first meeting
- 1998** IFAC survey found more than 70 countries worldwide had adopted IAPC standards or use them as a basis for national standards
- 2001** Comprehensive review of the IAPC undertaken
First year in which the IAPC met four times
- 2002** The IAPC was reconstituted as the International Auditing and Assurance Standards Board (IAASB); IAASB membership increased from 14 to 18 members and included,

later, by Robert Charlesworth. This same year, the IAPC approved release of *The Auditor's Report on Financial Statements* guideline after deliberating 19 comment letters from member bodies and other parties. In the late 1980s, the IAASB also approved exposure drafts on the assurance framework and going concern.

Guided by Gijs Bak of the Netherlands, the IAPC developed final guidelines on three key subjects: related parties, going concern, and management representations. In late 2006 and early 2007, the IAASB issued exposure drafts on these topics, proposing updates and clarification.

Putting the Public Interest First

At his first meeting as chairman in October 1985, Justin Fryer of Canada called on IAPC members to act in the interests of the public and said that duty should come before sectional interests. He also planted the seeds for today's convergence activities. He called on the IAPC

PUBLIC INTEREST OVERSIGHT BOARD (PIOB)
 – The PIOB oversees the work of the IAASB, as well as IFAC's other Public Interest Activity Committees. It seeks to increase the confidence of investors and others that IAASB standard setting is properly responsive to the public interest.

to resolve differences in auditing standards where differences exist in different countries and to set a single international standard. The IAPC recognized that a fundamental way to protect the public interest was to require the application of a core set of internationally recognized auditing and assurance standards.

In his comments at the 1987 World Congress, Justin Fryer noted that in its first ten years, the IAPC had issued 26 auditing guidelines.

Around the same time, the IAPC began encouraging the International Organiza-

IAASB Members

Representation on the IAASB has been both broad and diverse over the years. The board has grown from 11 members to 18 members. Since the inception of the IAPC, more than 112 professionals from 28 countries have participated as IAPC/IAASB members.

Country	Participants	Country	Participants
Australia	8	Jordan	2
Brazil	4	Lebanon	1
Canada	11	Malaysia	1
China	2	Mexico	7
Denmark	3	Netherlands	6
Egypt	1	Norway	1
Finland	1	Pakistan	1
France	6	Philippines	2
Germany	9	South Africa	2
Hong Kong	1	Spain	1
India	6	Sweden	4
Israel	1	Taiwan	1
Italy	2	United Kingdom	11
Japan	7	United States	10

IAASB MILESTONES

continued

- for the first time, public members; and the IAASB published its agenda papers on the web and opened its meetings to public observers
- Audit Risk Standards resulted from first joint project between the IAASB and a national standard setter (American Institute of Certified Public Accountants)
- 2003** IAASB began to meet five times per year
- 2004** Chairman of the IAASB became a full-time position
- First independent Chairman named for the IAASB CAG
- 2005** IAASB came under the oversight of the Public Interest Oversight Board
- 2007** 100th meeting held in Warsaw with 13 documents scheduled for approval
- IAASB issued third version of *Objectives and Scope of the Audit of Financial Statements*
- IFAC Member Body Compliance Program survey identified more than 100 countries that have adopted IAASB standards or use them as a basis for national standards
- 2008** Clarity Project slated for completion

tion of Securities Commission (IOSCO) to adopt international auditing guidelines as appropriate standards for use in multinational filings.

IFAC was among the first organizations to refer to international auditing guidelines in its own financial statements. The auditor's report on IFAC's 1987 financial statement reads, "Our examination was made in accordance with generally accepted auditing standards in the United States of America, conforming in all respects with International Auditing Guidelines."

The Birth of ISAs

In 1991 the IAPC's fourth chairman, Alan Talbot of Australia, led the IAPC in proposing to IFAC member bodies that the term "guidelines" be replaced with "standards." The United States member at the time, Robert Roussey, who later became IAPC chairman, supported this change in designation, saying the IAPC output would be comparable to IASC classification. With that, International Standards on Auditing, or ISAs, were born.

The move from guidelines to standards also brought a call for codification and editing of existing literature, to be accomplished by January 1993. During this same period, the IAPC agreed to adopt a "black letter" type whenever the basic procedures and essential procedures appeared throughout the ISAs. After considerable discussion, members agreed that black letter wording would not appear at the beginning of the ISA, since they did not want the standards to be read alone. Instead, they preferred to continue interspersing basic principals and essential procedures throughout the text. Current Board members will be heartened to recognize that the vociferous debates at the IAASB over the last two years around the implications for the clarity of standards of using/

eliminating bold letters and grouping all requirements together or interspersing them throughout a standard are not new! A different Board in a different decade has come to different decisions.

'90s See Establishment of CAG

The 1990s was a period of change, marked by initiatives designed to increase the transparency of the IAPC's work and to expand public interest input. In 1992, Matthew Patient, the IAPC's fifth chairman, proposed that comment letters on exposure drafts of ISAs be placed in a public record after approval of an ISA. He also proposed creating the Consultative Advisory Group (CAG), to include business representatives, investors and those with an interest in the development of high quality international standards designed to serve the public interest. The CAG's first meeting was held June 1994 in Paris, France. The group continues to meet twice yearly.

In 1994 at its 50th meeting in Stockholm, Sweden, Chairman Patient explained to the IAPC that IOSCO would not endorse the ISAs unless the black-letter type was eliminated. IOSCO also called for ISA

THE CLARITY PROJECT – To encourage greater use of its standards and facilitate translation, in 2004 the IAASB launched a project designed to improve the clarity of its pronouncements, and after obtaining public input, it revised its drafting conventions to make the ISAs more readily understood. In December 2006, the IAASB issued the first four final ISAs redrafted in the new style, and as of May 2007 it had issued 15 exposure drafts of proposed redrafted ISAs. The IAASB plans to issue the remaining redrafted ISAs as exposure drafts by the end of 2007 with approval of all final redrafted standards by the end of 2008.

language edits, including changing many “woulds” to “shoulds.” However, with a majority vote, the IAPC agreed to proceed with issuing ISAs in black-letter type.

The New Millennium: IAPC Takes A New Name and Structure

At the beginning of 2001, IFAC led a comprehensive review of IAPC membership and processes and issued a report on its findings, which included:

- A name change from the then IAPC to the current International Auditing and Assurance Standards Board;
- Membership to include five representatives from international audit firms, proposed by the Transnational Auditors Committee of the Forum of Firms; ten from IFAC member bodies, with a majority of those from countries with strong national standard setters; and three public interest members; and
- IAASB operations to receive adequate resources to sustain its activities and follow due process and transparency in carrying out such activities.

Dietz Mertin of Germany, IAASB’s seventh chairman, presided over the first meeting of the reformed IAASB. Under his leadership the IAASB embarked on its first joint project with a national standard setter – the American Institute of Certified Public Accountants – which resulted in the development of the suite of audit risk standards.

In 2003, IFAC approved a series of reforms designed, among other things, to further strengthen its standard-setting processes, including those of the IAASB, so that they are properly responsive to the public interest. IFAC reforms relevant to IAASB included:

- Establishment of the Public Interest Oversight Board;
- Appointment of a full-time chairman;
- Establishment of the Steering Committee;
- Implementation of a public interest declaration confirming that IAASB members will act with integrity and in the public interest;
- Meetings being opened to observers;

- Strengthening due process; and
- Establishing liaisons with national auditing standard setters.

John Kellas became IAASB chairman in January 2004 and in October of that year became its first ever full-time chairman. Beginning in 1999, IFAC increased resources to provide for a full-time dedicated staff of experienced staff to support the work of the IAASB. From a staff of one, the support group has grown to a dedicated group of seven professionals. The addition of the full-time chair and expansion of staff enabled the IAASB to expand its spokespersonship and visibility.

Operating Transparently

The IAASB is dedicated to operating as transparently as possible. By 2007, it had become arguably the most transparent standard setter in the world. IAASB meetings are open to the public and agenda papers, background documents and meeting summaries are posted on the IFAC website. Visitors can view project histories and may download audio recordings of the IAASB meeting proceedings. Visitors can also download IAASB exposure drafts and view all comments made to those drafts by regulators, firms, standard setters and others.

The Public Interest Oversight Board, CAG and regulators have expressed increasing confidence in standards developed by the IAASB.

Looking Forward

The IAASB has a full agenda through 2008 as it meets its deadline for the Clarity Project, while continuing to revise important standards. At the same time, it has begun a broad and transparent process to develop its strategy and work program for 2009 through 2011. A key part of the process is consultation on the strategy with various stakeholders, followed by an exposure draft of the proposed plan, which will be made available for public comment later in 2007. We remain committed to supporting quality performance by auditors worldwide and to acting in the public interest. As we look at our future, we plan to build on past successes, continue to listen to our stakeholders, promote convergence, and maintain confidence in the international auditing standard-setting process.



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