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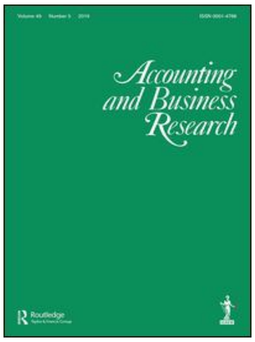


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# The IAPC's International Auditing Guidelines and its controversial IAG 13 on the auditor's report

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This paper is a historical account of the founding, organisation and early operation of the International Auditing Practices Committee (IAPC), which was one of the committees of the International Federation of Accountants (IFAC), from 1978 onwards. It examines the debates and disagreements attending the most controversial of the IAPC's 29 International Auditing Guidelines (IAGs), dealing with the auditor's report on financial statements, issued in 1983. It also reviews IFAC's 1987 survey of compliance with the IAGs by its member countries around the world and the IAPC's decision in 1991 to change Guidelines to Standards.

**Keywords:** IFAC; IAPC; International Auditing Guidelines; standard setting

## 1. Launching of the International Auditing Practices Committee

No history, other than a brief summary,[1] has been written about the work of the International Auditing Practices Committee (IAPC), which was charged with issuing International Auditing Guidelines (IAGs) from 1978 to 1991 and then International Standards on Auditing from 1991 to 2002, when it was reconstituted as the International Auditing and Assurance Standards Board (IAASB). The aim of this paper is to provide the institutional foundations and background to the formation and early operation of the IAPC; to discuss the development of its most controversial Guideline, on 'The Auditor's Report on Financial Statements'; to report on a survey in 1987 on worldwide compliance with the IAGs; and to conclude with coverage of the IAPC's decision in 1991 to change the name of its Guidelines to Standards, in a climate in which regulatory bodies were acquiring respect for the work of the Committee.

The IAPC was established shortly after the founding in October 1977 of the International Federation of Accountants (IFAC), during the 11th International Congress of Accountants, held in

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[1] 'International Auditing and Assurance Standards Board: A Brief History of its Development and Progress', published online in July 2007 by the IAASB (4 pages).

Munich. The IAPC was created as one of seven standing committees of the Council of IFAC, a federation then composed of 63 accountancy bodies from 49 countries. The broad objective of IFAC, according to its constitution, was 'the development and enhancement of a coordinated world-wide accountancy profession with harmonized standards' (*Preface to International Auditing Guidelines* 1979). The establishment of IFAC grew out of the deliberations of a transitional body, the International Coordination Committee for the Accountancy Profession (ICCAP), which had been formed during the 10th International Congress of Accountants, held in October 1972 in Sydney, Australia (Camfferman and Zeff 2007, pp. 195–7, Kirsch 2006, pp. 12, 68–71, Goerdeler 1979, Chetkovich 1979, Olson 1982, pp. 230–42). Among the intentions behind the founding of IFAC was for the accountancy profession '[t]o work towards international technical, ethical, and education guidelines … through committees and subcommittees' (Sempier 1979, p. 22). Issuing Guidelines on auditing which could promote international acceptance was high on IFAC's list.[2]

This was not the first attempt to promote the international harmonisation of auditing practices. In 1967, under the leadership of Sir Henry Benson, the accountancy bodies in the United States, Canada, and the British Isles – five institutes in total[3] – formed the Accountants International Study Group (AISG) in order to prepare and publish studies that would compare and contrast the accounting and auditing approaches in the United States, Canada, and United Kingdom/Ireland. The AISG issued 20 studies between 1968 and 1977 on different topical issues, mostly on accounting (Camfferman and Zeff 2007, pp. 26–36, Kirsch 2006, pp. 14–6). The five studies dealing explicitly with auditing, and their years of publication, were the following:

Accounting and Auditing Approaches to Inventories in Three Nations (1968)
The Independent Auditor's Reporting Standards in Three Nations (1969)
Using the Work and Report of Another Auditor (1969)
Independence of Auditors (1976)
Audit Committees (1977)

Sempier et al. (1991, p. 14.3) have written,

> The fact that over 300,000 copies of these studies were circulated worldwide supports the notion that there was an international demand for well-researched and thoughtful guidance on topics which commonly faced accountants in many diverse countries. The success of AISG showed that it was possible for accountants from different jurisdictions to work together harmoniously and constructively, and to set aside national differences in order to reach mutually acceptable compromises.

At the 1972 International Congress of Accountants in Sydney, leaders of the accountancy profession formed the International Accounting Standards Committee (IASC), a part-time body with three-member delegations from nine countries: Australia, Canada, France, the Federal Republic of Germany, Japan, Mexico, the Netherlands, the United Kingdom/Ireland (as a unit), and the United States. It was supported by a small full-time secretariat based in London. It assigned the initial drafting of its International Accounting Standards (IASs) to steering committees, initially composed mostly or wholly of Committee members but eventually mainly of volunteers from around the world. The IASC required a two-thirds vote to approve exposure drafts and a three-quarters vote to approve IASs. Accountancy bodies around the world were called

[2]See 'New Worldwide Federation Formed', *World Accounting Report*, November 1977, pp. 3–4.
[3]They were the American Institute of Certified Public Accountants, Canadian Institute of Chartered Accountants, and three in the British Isles: Institute of Chartered Accountants in England and Wales, Institute of Chartered Accountants of Scotland, and Institute of Chartered Accountants in Ireland.

upon to use their 'best endeavours' to ensure that published financial statements comply with the IASs (Camfferman and Zeff 2007, chap. 3, Kirsch 2006, pp. 18–27).

In 1973, the American Institute of Certified Public Accountants (AICPA) pressed ICCAP to form a body that would establish international standards of auditing, which received support from a number of countries (Camfferman and Zeff 2007, pp. 50–1). Sir Henry Benson, who was the founder of the IASC and served as its first chairman from 1973 to 1976, advocated the inclusion of auditing subjects in the body's agenda, but this proposal was resisted by other members (Camfferman and Zeff 2007, pp. 104–5, Kirsch 2006, pp. 22, 30, 71–2). European members of the IASC saw auditing as an area of work more suited to the Union Européenne des Experts Comptables, Economiques et Financiers (UEC, European Union of Accounting, Economics and Finance Experts), a regional body established in 1951 by the accountancy bodies in ten central and southern European countries to conduct studies on a wide range of subjects, hold congresses, and publish a quarterly journal. In later years, the UEC's membership expanded. In 1961, it published a European auditing manual which appeared first in German, *Die Prüfung des Jahresabschlusses: Handbuch für Studium und Praxis*, and then four years later in French, *Manuel de Révision Comptable* (Camfferman and Zeff 2009, pp. 234, 256). In 1974, the IASC and the UEC reached an agreement which invited the latter to issue guidance on auditing practices (Camfferman and Zeff 2007, pp. 104–5, Pougin 1975). The UEC issued four auditing statements in 1978.[4] Accountancy bodies located outside of continental Europe may well have winced at this delegation to the UEC of the development and promulgation of guidance on best auditing practices. In 1981, IFAC and the UEC reached an agreement by which the work of the IAPC and the UEC's Auditing Statements Board would be 'coordinated and harmonized' (Cowperthwaite 1982, p. 51).

Once IFAC was launched in October 1977, as noted above, it established its own presence as a source of guidance on auditing. Its Council invited the accountancy bodies in 11 countries to nominate one member each to the newly created International Auditing Practices Committee (IAPC), which held its inaugural meeting in March 1978 in New York City, where IFAC's secretariat was based. The secretariat was housed in a suite of offices across the street from the AICPA's headquarters, at 1270 Avenue the Americas, and its rental cost was paid entirely by the AICPA (*IFAC 1978 Annual Report* 1978, p. 10, Olson 1982, p. 237, Cummings and Chetkovich 1978, p. 58).[5] The normal term for IAPC members was five years, and each member had one vote. Nine of the 11 countries were those represented on the IASC Board, to which IFAC added India and the Philippines, probably so that other than developed countries would be included. The IAPC's first chairman was Robert L. May, a senior partner of Arthur Andersen & Co., who had served as a member of the AICPA's Auditing Standards Executive Committee (renamed the Auditing Standards Board in 1978) from 1974 to 1977. With May as IAPC chairman and Robert N. Sempier, a former longtime AICPA senior staff member, as IFAC's executive director, much of the initial leadership was American. May continued as IAPC chairman until the end of 1982 (following which he served as IFAC president from 1985 to 1987), and Sempier served as

[4]The four auditing statements were entitled as follows: 'Object and Scope of the Audit of Annual Financial Statements', 'The Use of Another Auditor's Work', 'The Auditor's Working Papers', and 'Audit Considerations Regarding the Going Concern Basis'. The author thanks Kees Camfferman for supplying these auditing statements.

[5]The *IFAC 1978 Annual Report*, in the notes to its financial statements on page 10, revealed that the AICPA 'has agreed to provide IFAC with office space, office furniture and equipment, and certain other services at no cost to IFAC'. In addition, the AICPA, together with the Canadian Institute of Chartered Accountants, Institute of Chartered Accountants in England and Wales, Institut der Wirtschaftsprüfer in Deutschland, e.V., Ordre des Experts Comptables et des Comptables Agréés, and Nederlands Instituut van Registeraccountants, all members of ICCAP, collectively paid US$12,000 for pre-incorporation expenses of IFAC.

IFAC executive director until his retirement in 1991. Six of the IAPC's first seven full-time secretaries, from 1978 to 1995, were American, if only because it was less costly.

The IAPC was charged with issuing International Auditing Guidelines (IAGs), rather than standards, statements, or recommendations, on behalf of IFAC's Council. The Committee's broad objective, as set forth in the explanatory foreword to International Auditing Guidelines in the *Preface to International Auditing Guidelines* (1979),[6] was as follows:

> In working toward [IFAC's broad objective], the Council of IFAC has established IAPC to develop and issue, on behalf of the Council, guidelines on generally accepted auditing practices and on the form and content of audit reports. IAPC believes that the issue of such guidelines will help to improve the degree of uniformity of auditing practices throughout the world.
>
> … In order to assist member bodies in the implementation of International Auditing Guidelines, IAPC will, with the support of the Council, seek to promote their voluntary acceptance.

The *Preface to International Auditing Guidelines* (1979) laid out the scope of the Guidelines:

> International Auditing Guidelines apply whenever an independent audit is carried out: that is, in the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size, or legal form, when such an examination is conducted with a view to expressing an opinion thereon. International Auditing Guidelines may also have application as appropriate, to other related activities of auditors.

As the norms of auditing practice had not previously been pronounced upon by any worldwide body and a number of developed countries had already been setting their own national auditing standards, or they were stipulated in statutes or regulations, it was decided to treat the IAPC's authority delicately. Robert Sempier (1979, p. 24) referred to IAPC's circumscribed authority as follows:

> It is important to recognize that the International Auditing Guidelines issued by IAPC do not and cannot override regulations governing the audit of financial information in any member country. To the extent that International Auditing Guidelines conform with local regulations on a particular subject, the audit of financial information in that country in accordance with local regulations will automatically comply with the International Auditing Guideline in respect to that subject. In the event of local regulations differing from, or being in conflict with, International Auditing Guidelines on a particular subject, member bodies, in accordance with the constitution of IFAC, should work towards the implementation of the Guideline issued by IAPC, when and to the extent practicable.[7]

The agreement, mentioned above, between IFAC and the UEC on the coordination and harmonisation of their dual programmes of setting auditing standards led to an unnecessary duplication of effort, both appearing to work 'in the same area and producing auditing guidelines and standards that deal with the same matters' (*IFAC 1981 Annual Report* 1982, p. 3). In November 1981, representatives of IFAC and the UEC met to discuss the matter, and decided that the IAPC would continue its programme of work to produce IAGs, while the UEC's Auditing Statements Board would 'initiate statements that have specific relevance to members of UEC on matters of topical interest to the members as well as adopt or expand upon IAPC Guidelines as necessary for UEC purposes' (*IFAC 1981 Annual Report* 1982, p. 3), that is, occupy a secondary role. In 1987, the UEC went out of existence and was succeeded by the Fédération des Experts Comptables Européens (FEE,

[6]The *Preface to International Auditing Guidelines* was approved by IFAC Council.
[7]This paragraph was taken almost *verbatim* from the *Preface to International Auditing Guidelines* (1979).

Federation of European Accountants), which did not engage in issuing guidance on auditing practice. In 2016, FEE changed its name to Accountancy Europe.

### 1.1. *Operation of the IAPC*

The IAPC created subcommittees whose chairmen were rotated among its members, to prepare exposure drafts after studying the authoritative auditing literature issued by IFAC's member bodies, as well as by regional bodies and other organisations. For other members of the drafting subcommittees, the IAPC tapped auditing specialists from IFAC countries who were not members of the Committee. Once approved by a three-quarters vote by the Committee, an exposure draft would be widely circulated for comments by interested parties. Following receipt and analysis of the comments, the Committee would require a three-quarters majority to approve an IAG (Sempier 1979, pp. 24–5, *Preface to International Auditing Guidelines* 1979). As with the IASC, the high bar of a three-quarters majority was intended to produce IAGs that had secured overwhelming support from the Committee's members; with 11 members, this meant that there could be no more than two dissenting votes. Neither the dissenting views nor the Committee's vote was to be reported for either exposure drafts or the final Guideline. The Committee was to meet in private three times a year. In each of IFAC's annual reports, the IAPC's chairman summarised the Committee's progress on its active projects.

The Committee rotated the venues of its meetings around the world. The first meeting was held in March 1978 in New York City, and its next nine meetings took place in Frankfurt, San Francisco, Amsterdam, Manila, New York City, London, Toronto, Kyoto, and Paris.

The IAPC chose the following initial six Guidelines topics, with issue dates shown in parentheses (Sempier 1979, pp. 25–6, Snell 1979, pp. 80, 82):

(1) 'Objective and Scope of the Audit of Financial Statements', subcommittee chaired by Canada, with members also from Argentina, Mexico, and Switzerland (January 1980)
(2) 'Engagement Letters', subcommittee chaired by the Federal Republic of Germany, with members also from Greece, India, and Sweden (June 1980)
(3) 'Basic Principles Governing an Audit', subcommittee chaired by Australia, with members also from Canada and the Netherlands (September 1980)
(4) 'Standard Inter-Bank Confirmation Letter', subcommittee chaired by UK/Ireland,[8] with members also from the Federal Republic of Germany, the Netherlands, and the United States (February 1984)
(5) 'Reliance on Other Auditors', subcommittee chaired by France, with members also from UK/Ireland and the United States (July 1981)[9]
(6) 'Planning', subcommittee chaired by the Netherlands, with members also from Hong Kong and the Philippines (February 1981)

A project entitled 'Integrity, Objectivity and Independence, Confidentiality' was to be addressed by IFAC's Ethics Committee (Snell 1979, p. 80).

In addition to providing members of the IAPC's subcommittees, a number of IFAC's member bodies also collaborated by publishing the IAPC's exposure drafts and sometimes also its final Guidelines in their magazines sent to members. Among the member bodies that did so were

[8]This topic was selected in response to a request from the IASC chairman and the Governors of the Central Banks (IAASB 2007, p. 1). It was eventually issued as a statement, which was not intended to have the authority of an IAG.
[9]The IAG was retitled as 'Using the Work of an Other Auditor'.

those in Australia, Canada, India, New Zealand, Nigeria, Pakistan, the Philippines, and South Africa.[10]

The IAPC's full-time staff, known as secretaries, was slender. Until 1997, the staff was a single person whose duties were both administrative and technical. During the IAPC's first 14 years, until the end of 1991, six successive secretaries served two-year terms each, the first five being seconded by major US audit firms and, in 1988–1990, the sixth by the Institute of Chartered Accountants in England and Wales (ICAEW). In 1990, the AICPA seconded one of its staff members as the IAPC's secretary, who in 1991 became IFAC's deputy director general, while continuing to serve as secretary until 1995.[11]

From the outset, most of the IAPC members were assisted by a technical adviser, who was usually an auditing specialist from the professional accountancy body in their home country. This practice mirrored, in general terms, that of the IASC, by which one member of each of its three-person country delegations was designated as a non-voting staff observer, who provided technical support. In the early years of the IAPC, the technical adviser, when encouraged by the member and permitted by the chairman, participated in the Committee's debates, but, as the years went on, the chairmen encouraged the technical advisers to join fully in the discussion and debate at meetings. Not all of the technical advisers regularly attended the Committee's meetings, and sometimes the members themselves were absent. The technical adviser often engaged in the drafting of documents, initially at the subcommittee level. Moreover, as virtually all of the IAPC members were partners in audit firms, some could count on technical support from within their own firms. At any one time, IAPC membership could well include two or more partners from the same international audit firm or network of firms, but based in different countries. Of the IAPC members and technical advisers, those from the US, Canada, the UK/Ireland, the Netherlands, and Australia were well-resourced and heavily involved in the discussions and drafting.[12]

## 2. A brief survey of national auditing standards activities up to 1978[13]

By 1978, when the IAPC began its work, several national standard-setting programmes for auditing had already been in full swing, by far the longest-standing being in the United States. As the IAPC's topical subcommittees were to review this pre-existing standards literature when developing their exposure drafts, it will be useful to survey, if only briefly, the national activities of the countries represented on the initial Committee. The countries are listed in the chronological order in which they launched initiatives to give formal guidance on auditing practice. These developments in each country were necessarily influenced by the timing of the emergence of limited liability companies and by the incidence of company legislation.

### 2.1. *Netherlands*

The establishment of a code of conduct, covering important issues relating to the context in which an audit is carried out, such as professional ethics, impartiality, independence, the auditor's report,

[10]This country information was culled from the annual volumes of the *Accountants' Index*.
[11]In March 1991, when John W. Gruner succeeded Robert Sempier as IFAC executive director, his title was changed to director general. See 'IFAC: 30 Years of Progress, Encouraging Quality and Building Trust', IFAC site, December 2007, p. 2.
[12]The Canadian member was usually assisted by two technical advisers, one from the Canadian Institute of Chartered Accountants and the other from the Certified General Accountants Association of Canada, as each of the two IFAC member bodies wanted to be represented on the IAPC by a technical adviser.
[13]For background material, one should consult Stamp and Moonitz (1978).

and accepting engagements, may be traced to the work of the Nederlands Instituut van Accountants (NIVA), which was founded in 1895, in the early decades of the twentieth century. In 1973, the Nederlands Instituut van Registeraccountants (NIVRA), the NIVA's successor, published an updated code of conduct for its members. The NIVRA had been set up in 1967 as a semi-governmental body, with legislative power assigned to its members in assembly. Hence, the 1973 version of the code possessed a higher legal status. Subsequently in the 1970s, the NIVRA 'started issuing *ad hoc* opinions on various topical subjects and interpretations on its Code of Conduct' (Dijksma and Hoogendoorn 1993, p. 52). Owing to the high standard of education to become qualified as a registered auditor, the leaders of the Dutch accountancy profession have believed that it should be left to the auditor's professional judgment to determine how best to carry out the audit process.[14]

### 2.2. *United States*

In the US, the Federal Reserve Board and the Federal Trade Commission jointly sponsored a bulletin in 1917 that dealt mostly with auditing, based on a memorandum prepared by the American Institute of Accountants (Zeff 1972, pp. 113–5). In 1934, a blue-ribbon committee of the Institute issued a recommended form of the auditor's report (Zeff 1972, pp. 119–26), and in 1939 the Institute authorised its Committee on Auditing Procedure to begin issuing Statements on Auditing Procedure (SAPs). By November 1972, the Committee had issued 54 SAPs, some of which superseded earlier versions and two were codifications of previous SAPs. In 1973, a new series of auditing pronouncements was begun, known as Statements on Auditing Standards (SASs). The first SAS was a codification of the first 54 SAPs, and by March 1978 a further 21 SASs were issued.[15] Hence, the US accountancy profession had by 1978 compiled a very large literature on auditing standards. As already noted, Robert May served on the US standard-setting committee for three years before becoming chairman of IAPC.

### 2.3. *Federal Republic of Germany*

Certain strictures on auditing were specified in the Commercial Code (*Handelsgesetzbuch*, *HGB*) as well as in various statutory laws. Moreover, the Institute der Wirtschaftsprüfer had issued expert opinions, position papers, and interpretations on auditing since 1937, and its main technical committee had issued recommendations on auditing since 1952 (Ordelheide and Pfaff 1994, pp. 89–90, 212–3).

### 2.4. *Canada*

In 1946, the Canadian Institute of Chartered Accountants (CICA) created a Committee on Accounting and Auditing Research, which began to issue *Bulletins* on both accounting and auditing (Zeff 1972, pp. 275–85). This series was superseded in 1967, when the *CICA Handbook*, a ring-binder volume with pages that could be inserted or removed as new standards appeared or old ones were revised, became the repository for a steady stream of recommendations on accounting and auditing.

[14]The author is grateful to Gijs Bak and Kees Camfferman for advice on these points.
[15]For lists and the texts of the statements in the two series, see https://en.wikipedia.org/wiki/Statements_on_Auditing_Procedure and https://en.wikipedia.org/wiki/Statements_on_Auditing_Standards_(United_States).

### 2.5. *Philippines*

In 1949, the Philippine Institute of Certified Public Accountants began issuing recommendations on auditing (as well as on accounting) standards (Diga 1997, p. 200).

### 2.6. *Japan*

In 1950, the Business Accounting Standards Deliberation Council (BASDC), attached to the Ministry of Finance, issued its first auditing statement, and the Japanese Institute of Certified Public Accountants had since issued a series of audit releases (Cooke and Kikuya 1992, pp. 116–7). The auditing standards and working rules introduced by the BASDC in 1950 were derived from US auditing standards and were imposed by the allied forces (McKinnon 1986, p. 223, ftn 20).

### 2.7. *Australia*

In 1951, the Institute of Chartered Accountants in Australia published a statement, 'Recommendation on General Principles of Professional Auditing Practice'. It was amended in 1954 and was revised and reissued in 1969. In 1967, revised in 1968, the Institute's technical committee issued an auditing practice statement, and the Institute's Council issued several more in 1973–1974. It was not until 1977 that the Institute, jointly with the Australian Society of Accountants, published a Statement of Auditing Standards (Gibson and Arnold 1981). The Australian Accounting Research Foundation (AARF), a joint venture of the Institute and Society, developed auditing standards beginning in 1974, and its recommendations were formally issued by the two accounting bodies.[16]

### 2.8. *Mexico*

In 1955, the Instituto Mexicano de Contadores Públicos created a Committee on Auditing Procedure, which began to issue a series of *Bulletins*. For the most part, they closely followed US auditing standards (Zeff 1972, pp. 100–1).

### 2.9. *United Kingdom*

In 1960, the Council of the ICAEW began issuing a series of Statements on Auditing (Zeff 1972, pp. 26–7). By 1978, the Council had issued 26 such statements. The Institute of Chartered Accountants of Scotland was reluctant to follow suit. In 1976, the Consultative Committee of Accountancy Bodies established the Auditing Practices Committee, which proceeded to issue auditing standards.[17]

### 2.10. *India*

In 1962, the Institute of Chartered Accountants of India (ICAI) issued the second edition of its 'A Guide to Company Audit', which discussed satisfactory auditing procedures for limited companies in some detail, taking into consideration the 1960 amendments to the Companies Act, 1956 (AICPA Committee on International Relations 1964, India chapter, p. 13). The first edition had been

[16]Communication to the author from Kevin Stevenson, dated 20 June 2020.
[17]See the ICAEW's 'Knowledge Guide to UK Auditing Standards' at https://www.icaew.com/library/subject-gateways/auditing/knowledge-guide-to-uk-auditing-standards.

published in 1960, and a third edition came out in 1972. In 1964, the ICAI issued the first edition of its Statement on Auditing Practices, which was subsequently revised a number of times.[18]

### 2.11. *France*

In 1966, the Ordre des Experts-Comptables et des Comptables Agréés, which includes all qualified independent accountants and was organised under the Ministry of Economics and Finance, began issuing recommendations on auditing (*The Accounting Profession in France* 1992). In 1969, the Compagnie Nationale des Commissaires aux Comptes, the professional body of statutory auditors under the authority of the Ministry of Justice, began issuing audit guidelines, which in 1971 were restyled as recommendations (Scheid and Walton 1992, pp. 105–6).

## 3. Changes in the country composition of IAPC membership 1978–1991

In March 1978, the IAPC began with single members from each of 11 countries: Australia, Canada, France, the Federal Republic of Germany, India, Japan, Mexico, the Netherlands, the Philippines, the United Kingdom/Ireland (as a unit), and the United States. All of these countries retained their membership on the Committee through 1991 with the exception of the Philippines, which left the Committee at the end of 1987.

In 1982, IFAC's Council voted to increase the size of the IAPC from 11 to 13 members, effective in 1983. From 1983 to 1986, Brazil was represented on the Committee, and in 1983 a Nordic seat was created, which included a sequence of representatives from Sweden, Denmark, Norway, and Finland. In 1988, Jordan became a member, succeeding the Philippines, and, following a two-year lapse, Malaysia succeeded Brazil. In 1988, the UK/Ireland member on the Committee was re-designated as the UK member, the same year as the UK/Ireland delegation to the IASC also became the UK delegation (Camfferman and Zeff 2007, p. 69). From 1979 onward, the terms of service of new members on the Committee normally began in July of each year.

The successive chairmen of the IAPC from 1978 to 1991 were as follows:

Robert L. May (1978-82), United States (Arthur Andersen & Co.)
Gijs G.M. Bak (1983-85), Netherlands (Deloitte Haskins & Sells)
Justin T. Fryer (1985-87), Canada (Coopers & Lybrand)
Alan Talbot (1988-91), Australia (Price Waterhouse & Co.)

## 4. The controversial IAG 13: 'The Auditor's Report on Financial Statements'[19]

The Committee issued a total of 29 IAGs from 1980 to 1990[20] (see Table 1), and in 1991 it voted to change the name of its Guidelines to Standards. The most controversial of the Guidelines was

[18]The author is grateful to Bhabatosh Banerjee for advice on these facts, in an e-mail dated 25 July 2019.
[19]Most of the background for this section came from 'A Memory Note' which Gijs Bak, an IAPC member from 1978 and its chairman from 1983 to 1985, wrote in May 2007 in anticipation of the occasion of the 100th meeting in July 2007 of the Committee and its successor body, the International Auditing and Assurance Standards Board (IAASB). Bak sent the author a copy of his note on 28 July 2019. The note was circulated somewhat more widely as an addendum to an undated letter written by James M. Sylph (IAASB's executive director, professional standards) to the 18 IAASB members shortly before their July 2007 meeting. The author has furnished a copy of this communication to the AICPA Library, at the University of Mississippi.
[20]For brief summaries of the first 24 IAGs and a discussion of their apparent conflicts with US auditing standards, see *Internationalization of the Securities Markets* (1987, pp. IV-A-33 to IV-A-47). For brief summaries of all 29 IAGs plus the IAPC's other pronouncements, see Sempier et al. (1991, pp. 14.18 to 14.23).

Table 1. List of International Auditing Guidelines issued by the International Auditing Practices Committee, 1980–1990 (with revisions up to 1990).

| Number and title | Publication date |
|---|---|
| 1. Objective and Scope of the Audit of Financial Statements | January 1980 |
| 2. Audit Engagement Letters | June 1980 |
| 3. Basic Principles Governing an Audit | September 1980<br>revised October 1990 |
| 4. Planning | February 1981 |
| 5. Using the Work of an Other Auditor | July 1981 |
| 6. Study and Evaluation of the Accounting System and Internal Controls in Connection with an Audit | July 1981<br>revised October 1990 |
| 7. Control of the Quality of Audit Work | September 1981 |
| 8. Audit Evidence | January 1982 |
| 9. Documentation | January 1982 |
| 10. Using the Work of an Internal Auditor | July 1982 |
| 11. Fraud and Error | October 1982 |
| 12. Analytical Review | July 1983<br>revised October 1990 |
| 13. The Auditor's Report on Financial Statements | October 1983<br>revised October 1989 |
| 14. Other Information in Documents Containing Audited Financial Statements | February 1984 |
| 15. Auditing in an EDP Environment | February 1984 |
| 16. Computer-Assisted Audit Techniques | October 1984 |
| 17. Related Parties | October 1984 |
| 18. Using the Work of an Expert | February 1985 |
| 19. Audit Sampling | February 1985 |
| 20. The Effects of an EDP Environment on the Study and Evaluation of the Accounting System and Related Internal Controls | June 1985 |
| 21. Date of the Auditor's Report: Events After the Balance Sheet Date; Discovery of Facts After the Financial Statements Have Been Issued | October 1985 |
| 22. Representations by Management | October 1985 |
| 23. Going Concern | June 1986<br>revised June 1989 |
| 24. Special Purpose Auditor's Reports | October 1986 |
| 25. Materiality and Audit Risk | October 1987 |
| 26. Audit of Accounting Estimates | October 1987 |
| 27. The Examination of Prospective Information | February 1989 |
| 28. First Year Audit Engagements – Opening Balances | July 1990 |
| 29. Inherent and Control Risk Assessments and Their Impact on Substantive Procedures | July 1990 |

IAG 13, 'The Auditor's Report on Financial Statements', issued in 1983. Gijs Bak wrote as follows about IAG 13 in his 'Memory Note':

> I believe we never discussed skipping number 13 from the ongoing list of IAGs out of fear for misfortune. On the other hand, from the start of IAPC it had been our policy to postpone launching the Audit Report project until we would have shown our capacity to produce auditing literature on a regular basis. We expected serious conflicting views and opinions to pop up when we would try to harmonize the world on this issue. It was only after 4 years of successful work as an international standard setting body that we dared to take on the Audit Report as a new project and indeed we had to cope with serious conflicting views and opinions as expected.

Bak recalled that Chairman Robert May did not want the Committee to be like so many other international committees that got bogged down at the start of their work programmes, and was keen to show a record of steady progress before taking up the Audit Report. Under his leadership, the Committee dealt in its early years with a number of 'easy' projects, such as the objective and scope of the audit, engagement letters, the basic principles governing an audit, and planning the audit. By September 1981, in just four years of work, the Committee had issued seven IAGs, and four more were to be published in the following year. From point outline to exposure draft and then to final Guideline, they were all completed within a year, and nearly all were unanimous without even voting.[21] Well into the Committee's fourth year, the chairman was ready to place the Audit Report on the agenda. May, the American representative, named himself as chairman of the subcommittee to draft the Guideline.

It quickly became evident that there were at least three highly sensitive issues in the proposed Audit Report Guideline. They were: (1) the wording used to express the auditor's opinion, (2) whether the report should refer explicitly to compliance with auditing standards, and (3) whether a 'subject to' opinion was appropriate (a) in cases of uncertainty in the financial statements, as well as (b) in cases of uncertainty in the conduct of the audit, namely, inadequate internal controls. All of these issues led to tough debates. Some Committee members threatened to cast a dissenting vote on one or more of these issues, and, with 13 members on board by 1983, when the final Guideline was to be voted upon, the maximum number of dissenting votes to enable approval was three. Bak, who succeeded Robert May as chairman part way through the Committee's deliberations on the Guideline, was very much aware that he could not afford to attract more than three dissents.

As to (1), the wording used to express the auditor's opinion, the Committee tried in vain to bridge the cultural divide between the Americans and the British. The Americans have, since the 1930s, used 'present fairly … in accordance with generally accepted accounting principles', while the British, obeying Company Law going back to 1947, must affirm whether the financial statements 'give a true and fair view'.[22] The latter is a free-standing override, while the former is defined by reference to the core of accepted accounting principles.[23] The US accounting and auditing literature does not define what 'present fairly' means when standing alone, and British auditing had a decades-old tradition, dictated by law, of saying whether the accounts 'give a true and fair view', without any link to standard accounting practice. Further, the view was held by some on the Committee that 'present fairly' and 'give a true and fair view' did not have equivalent, let alone identical, meanings in themselves.

The Committee's exposure draft, issued in February 1982, discoursed on the terminology used in the auditor's opinion in an entirely neutral way:

[21]These four sentences are based on a communication to the author from Gijs Bak, dated 7 June 2020.

[22]In 1978, the European Economic Community approved its Fourth Company Law Directive on annual accounts, which made 'give a true and fair view' an overriding requirement for financial reporting (Nobes, 1993).

[23]The US Auditing Standards Board's *Statement on* Auditing *Standards 5* (1975) stated, 'The independent auditor's judgment concerning the "fairness" of the overall presentation of financial statements should be applied within the framework of generally accepted accounting principles' (para. 3). Yet Rule 203 of the AICPA's Code of Professional Conduct obliges the auditor, when giving an unqualified opinion, to allow the company to depart from GAAP if, because of unusual circumstances, adherence to GAAP would render the financial statements misleading. Also, in 1969 a federal court ruled, in *U.S. v. Simon* (the Continental Vending case), that the auditor's judgment of what is required by GAAP does not necessarily assure that the financial statements 'present fairly'. For more about 'present fairly' in the US context, see Zeff (2007). For two dozen articles on 'true and fair view', see Parker et al. (1996).

> 9. There is a variety of terminology used in different countries by auditors in expressing an opinion on financial statements. This Guideline does not state a preference for the wording of an auditor's opinion.
>
> 10. Wording frequently used to express the auditor's opinion are 'present fairly in accordance with generally accepted accounting principles' and 'give a true and fair view'.

At its meeting in October 1982, the Committee approved a re-exposure draft,[24] which was issued under the date of January 1, 1983. In the draft, paragraph 9 was rewritten to link 'true and fair view' with accounting standards, which was the American model and would hardly have been well received by the UK/Ireland representative:

> 9. The words suggested to express the auditor's opinion are 'give a true and fair view of (present fairly) … in accordance with International Accounting Standards (or relevant national standards)'.

At the Committee's meeting of June-July 1983, it reaffirmed this revised wording after debating at some length the recommendation by May's drafting subcommittee, once it had read the letters of comment on the re-exposure draft. Paragraph 9 was revised slightly to say as follows: 'The words suggested to express the auditor's opinion are "give a true and fair view of (or 'present fairly') … in accordance with [indicate relevant national standards or International Accounting Standards]"'.[25] This revised wording clearly offended the British side, and the UK/Ireland representative, David Tweedie (research partner in Thomson, McLintock & Co., in Edinburgh), who was attending his first Committee meeting, cast a dissenting vote. Subcommittee chairman May repeatedly implored Tweedie, as did Chairman Bak and the Indian representative, to agree with the revised wording, but he was adamant. He passionately believed that 'true and fair' stood above accounting standards.[26] It might seem curious that the Australian representative on the Committee did not also dissent, because Australia had inherited the 'true and fair' override from the UK in the Companies Acts of its states from 1955 onwards. But by 1983 the AARF was actively pursuing a mandatory conceptual framework for financial reporting and saw that framework and supporting standards as the basis for reporting and the context for auditing.[27] The 'true and fair' override was a subject of controversy at the time in Australia.[28]

As to (2), Gijs Bak had a further problem, this time on his own home front: the recommendation in the re-exposure draft (which echoed a similar paragraph in the first exposure draft) that a reference be made in the scope paragraph to auditing standards. The passage at issue was the following:

> 7. The reader needs an assurance that the audit has been carried out in accordance with established standards or practices. Therefore, the report should describe the auditing standards or practices followed in conducting the audit; that is, by reference to International Auditing Guidelines or to standards or practices established within a country.

[24] International Federation of Accountants, International Auditing Practices Committee, minutes of meeting, 5–7 October 1982, Sonoma, CA, pp. 4–6.

[25] The eight words in brackets were part of the revised paragraph.

[26] So fervent was Tweedie in this belief that, in 1994, when he was knighted, he chose 'true and fair' as the motto for his individual coat of arms. Communication to the author from Sir David Tweedie, dated 21 June 2020.

[27] Communication to the author from Kevin Stevenson, dated 19 June 2020.

[28] For a discussion of the controversy surrounding 'true and fair view' in Australia, see Parker (1994) and Deegan et al. (1994).

In his 'Memory Note', Bak wrote:

> Similar to UK, also the Dutch audit profession was confronted with a fundamental issue in the international debate. Traditionally it was forbidden under Dutch rules to refer to auditing standards in the audit report. The idea behind this was that such reference is in fact a 'hidden qualification' or an undue limitation to the auditor's responsibility. Only the professional judgment of the auditor should determine the extent of audit procedures in every individual engagement. NIVRA still considered this to be one of the fundamentals of our profession that should not be watered down in an international compromise. In this case my debate was more at home than in IAPC.

Bak argued with the NIVRA's technical staff and Council, hoping to secure the NIVRA's support for the final Guideline, but to no avail. In the end, the NIVRA instructed Bak not to vote in favour. The Dutch auditing profession's position on this matter was not shared by any other country's body represented on the Committee. The wording on this issue in the final Guideline was almost identical to that in the re-exposure draft, as follows:

> 7. The report should indicate the auditing standards or practices followed in conducting the audit by reference to International Auditing Guidelines or to standards or practices established within a country. The reader needs this as an assurance that the audit has been carried out in accordance with established standards or practices.

As to (3)(a), a further issue that could provoke a dissent involved the giving of a 'subject to' opinion because of significant uncertainty in the financial statements. In November 1980, the Canadian Institute of Chartered Accountants' (CICA) *Handbook* had been revised to disallow 'subject to' opinions.[29] Under this view, as Bak wrote, 'uncertainties in the audit were in fact incomplete audits and therefore should be dealt with as either 'non opinion' or 'non audit' (i.e. restating the type of engagement)'. Bak elaborated on the Canadian position in his 'Memory Note':

> The audit opinion, the Canadians argued, is on reporting, not on the reporting entity. So, when the entity has to cope with an uncertainty the auditor should test the adequacy of their reporting thereon. If an uncertainty is properly reported, the financial statements deserve a clean opinion. If not, the audit opinion should express disagreement through a 'disclaimer' or 'except for' opinion. The impact of this new trend would be on the audit opinion in business continuity problems in particular. Instead of issuing a 'subject to' opinion, as was common practice in this situation, the auditor should investigate the reporting by the entity regarding the uncertainties around the continuity problems and issue a 'clean', 'adverse' or 'except for' opinion.

When the CICA revised its *Handbook* section to reflect this change, the Filing Instruction sent to its members read as follows:[30]

> A reservation of opinion is no longer considered appropriate for a contingency or a going concern problem as long as the accounting treatment, disclosure and presentation are in accordance with

[29]See the CICA's Filing Instruction No. 32 (August 1980) for the *CICA Handbook* as well as sections 5510.49 and 5510.50 in the *Handbook*. In the United States, the Cohen Commission's report (Commission on Auditors' Responsibilities 1978, pp. 25–8) earlier recommended the elimination of the 'subject to' opinion, arguing that an unqualified opinion should be given if there was full disclosure of the significant uncertainties in the financial statements. The AICPA's Auditing Standards Board, acting on the recommendation, decided instead to retain use of the 'subject to' opinion by auditors ('Accountant Group Shelves Eliminating Warning Signal on Firms' Uncertainties' 1978).
[30]CICA's Filing Instruction No. 32 (August 1980).

> generally accepted accounting principles. The result is elimination of the 'subject to' qualification and restriction of the denial of opinion to very significant scope limitation problems.

Several members of the Committee were in favour of the Canadian position, but it was less than a majority. 'So, after long debates', Bak wrote, 'we decided on the next best solution: to create an option that would accommodate Canada without forcing the rest of the world to follow'.

The two relevant paragraphs in the first exposure draft were as follows:

> 27. A significant uncertainty affecting the financial statements, the resolution of which is dependent upon future events, may cause the auditor to qualify his opinion as being subject to the effect of the resolution of the matter or may cause him to disclaim an opinion. In these circumstances, the auditor's report should describe the uncertainty and make reference, where applicable, to the note to the financial statements that adequately discloses the uncertainty.
>
> 28. The auditing standards of a country may permit an auditor to issue an unqualified opinion when significant uncertainties, if any, are adequately disclosed in the financial statements in conformity with the framework of recognized accounting principles in that country.

Paragraph 27 permitted 'subject to' opinions in such circumstances, which had become a worldwide practice. In the re-exposure draft, the Committee proceeded to retain paragraph 27 (renumbered 26) and to delete paragraph 28. In the final Guideline, however, the Committee revised paragraph 26 by removing the reference to a 'subject to' opinion, to become the following:

> 28. If a significant uncertainty affecting the financial statements, the resolution of which is dependent upon future events, causes the auditor to qualify his opinion or to disclaim an opinion, his report should describe the uncertainty and make reference, when applicable, to the note to the financial statements that more extensively discusses the uncertainty.

The last clause in the paragraph, beginning with 'his report', would have accommodated the Canadian concern without accommodating the Canadian position.

Elsewhere in the final Guideline, the Committee inserted a reference to a 'subject to' qualification without saying what it could be used for. Yet the Committee retained from both of the exposure drafts the illustrative example of a 'subject to' qualified report for a significant uncertainty, included in an appendix.[31] As there was no provision in the Guideline that would have prevented the auditor from giving an unqualified opinion when there were significant uncertainties that were properly reported, the Canadian representative was able to avoid filing a dissent from the final Guideline.

As to (3)(b), Chairman Bak learned that yet another problem surfaced early in 1983. In Brazil and many other countries, it was common practice for the auditors of small and medium-sized entities to give a 'subject to' opinion when there was a lack of adequate internal controls.[32] Yet paragraph 17 in the re-exposure draft (which was retained as paragraph 18 in the final Guideline) did not provide for a qualified opinion in such a circumstance:

> A *qualified opinion* is issued when the auditor concludes that he cannot issue an unqualified opinion but that the effect of any disagreement, uncertainty or limitation on scope is not so material as to require an adverse opinion or a disclaimer of opinion. (Italics in original)

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[31]In the wake of the US Auditing Standards Board's *Statement on Auditing Standards 59*, issued in April 1988, which removed all references to the 'subject to' opinion, the IAPC issued a revision of IAG 13 in October 1989 likewise to remove the 'subject to' opinion altogether.

[32]Communication to the author from Gijs Bak, dated 9 June 2020.

The key term in the paragraph was 'uncertainty', which had been defined in the preceding paragraph as being 'a significant uncertainty affecting the financial statements, the resolution of which is dependent upon future events'. To the Brazilian representative, a lack of adequate internal controls was an uncertainty arising in *the conduct of the audit*.

The Brazilian representative began attending at the IAPC's March 1983 meeting. During the meeting, he questioned the wording in paragraph 17, because the practice in Brazil of giving 'subject to' opinions to small and medium-sized entities with inadequate internal controls was widely accepted. It looked to some as if a third dissent could be in the offing. At the June-July meeting, when the decision to approve IAG 13 was to be made, the secretary reported that the Brazilian representative had resigned his membership for personal reasons, and that the Instituto dos Auditores Independentes do Brasil was seeking a replacement. The new member from Brazil did not appear until the November meeting. Hence, the Committee met in June-July 1983 with only 12 countries represented, and no Brazilian was in attendance to discuss the issue and cast a vote. A possible third dissent was thus averted. The minutes of the meeting reported that ten members approved the final Guideline, the dissenters being the representatives of UK/Ireland and the Netherlands.[33]

A still further issue was debated during the development of IAG 13: whether the auditor's report should cover information of a financial nature that is reported together with, but outside of, the financial statements, for example, the management report or Management's Discussion & Analysis. In several countries at that time, including France, the auditor was required to express a limited assurance on the fairness of such information and on its consistency with that in the financial statements. There was a considerable difference of views within the Committee over whether the audit report should have a narrow or broad scope in this regard, including how such limited assurance might best be phrased. In the end, it was decided that this question required further research and discussion, and no mention of it appeared in the Guideline.[34] The issue was, however, addressed in IAG 14, 'Other Information in Documents Containing Audited Financial Statements', issued in February 1984. In that Guideline, the IAPC recommended steps to be taken by the auditor upon discovering material inconsistencies or material misstatements in the other information.

## 5. The voting mandate for IAPC members

At the October 1985 meeting, Justin Fryer, who had just succeeded Gijs Bak as chairman, was minuted as making the following remarks about his philosophy concerning the Committee's deliberations and voting:

> He stated that in his opinion, Committee members should be comfortable at all times in expressing their views. The first duty of the Committee should be the interest of the public, and that duty should come before sectional interests. Mr. Fryer stated that the role of the Committee should be to resolve differences in auditing standards where differences exist in given countries of the world, and set a single international standard. Mr. Fryer said that, in his view, representatives of the Committee should not attend meetings only to champion standards of their nation. (He cited IAG 13 as an illustration of where IAPC has failed to give a single standard that can be used for international purposes.)[35]

[33]International Federation of Accountants, International Auditing Practices Committee, minutes of meeting, 28 June–1 July 1983, New York, point 5.

[34]This paragraph is based on a communication to the author from Philippe Danjou, dated 20 July 2020. Danjou was the French technical adviser in 1984–1985.

[35]International Federation of Accountants, International Auditing Practices Committee, minutes of meeting, 28–31 October 1985, Rome, point 4.

Evidently, he gave this counsel in reaction to some members voting on IAGs so as not to disturb the *status quo* back home or casting their vote on direct instruction from their IFAC member body (as Bak had felt obliged to do in the ballot on IAG 13). Fryer thus reminded his colleagues of a passage in IFAC's *Preface to International Auditing Guidelines*, that the issue of IAGs 'will help to improve the degree of uniformity of auditing practices throughout the world'. His appeal to the public interest in such voting became established as part of the mandate for members, but it was not easy to enforce. Alan Talbot, who succeeded Fryer as chairman in 1988, recalled as follows:[36]

> Part of [IFAC's] mandate was that the Committee and members were required to produce standards that were in the best interests of the international community, not their own country. This meant if an individual member had a conflict he/she must vote against his country in favour of the international community. One member was sacked by his country for following this rule. I, as chairman, was reprimanded in forceful writing by the president of the accounting body of that country .... It caused difficulties and, on several occasions, I had to bully members into dropping their country's position.

In its brief review of the first 30 years of the IAPC and the IAASB, the IAASB ranked Fryer's appeal to members to act in the public interest as a 'milestone' in the history of the IAPC.[37]

Philippe Danjou, the French representative from 1986 to 1992, recalled,

> It must be acknowledged that, in its harmonisation work, the IAPC often aligned itself with the recent best practices available internationally and faced some inertia or resistance from some of its IFAC constituents, for fear of change (and negative reactions from business organizations) rather than on the ground of rationality.[38]

## 6. IFAC's 1987 survey on compliance with its pronouncements

In 1987, ten years into its life, IFAC conducted a questionnaire survey of its member bodies 'to determine the extent of their acceptance of and compliance' with its committees' pronouncements, including the IAGs.[39] IFAC received responses from 63 member bodies representing a combined total membership of 833,000, of the estimated total of 1 million members of IFAC's member bodies. Forty member bodies, representing a combined total membership of 783,000, indicated that:

- they have adopted the IAGs in substance;
- the national standards/local requirements conform in substance to the IAGs; or
- the IAGs are used as a primary reference or form a basis for national standards.

Eleven member bodies, with 33,000 combined members, responded that the IAGs are distributed to members and are considered when preparing national standards. Seven member bodies, with 7,000 combined members, responded that no action has been taken towards implementation of the IAGs. Five member bodies responding to the survey apparently did not comment at all on the IAGs.

The survey provided evidence that the IAGs were having some effect in being translated into national standards or local requirements. Sempier et al. (1991, p. 14.7) subsequently observed, 'The early acceptance of international auditing guidelines may be a result of the standards

[36]Communications to the author from Alan Talbot, dated 14 June and 3 July 2020.
[37]'International Auditing and Assurance Standards Board: A Brief History of its Development and Progress', p. 2, published online in July 2007 by the IAASB.
[38]Communications to the author from Philippe Danjou, both dated 20 July 2020.
[39]'Survey on Compliance with IFAC Pronouncements', in IFAC's *Annual Report 1988*, p. 15.

being written at a general level, suggestive in nature, rather than mandating auditing practices and procedures'.

Four years later, a UK study showed that 'in the vast majority of cases the existing UK auditing guidance complies with the principles contained in the IAGs' (Chandler 1991, 13).

## 7. The IAPC's decision in 1991 to change Guidelines to Standards

At the Committee's July 1991 meeting in Budapest, the members, led by Chairman Alan Talbot, voted by a margin of nine to two to replace the softer label, Guidelines, with one that connoted more authority, Standards. The following extract from the minutes of the meeting conveys a sense of the underlying motivation for the change:

> Mr. [Bertil] Edlund, IFAC's President stated that the Council was supportive of the redesignation. The term 'Standards' more appropriately describes their authority, and should also improve the perception of users as to the status of the documents and encourage wider use of them. Mr. [Robert] Roussey [US representative and later the chairman] also stated his preference for the change to 'Standards' since the Committee's output would be comparable to the classification used by the IASC; thus, enabling better promotion of the documents to organizations such as the International Organization of Securities Commissions (IOSCO).[40]

In fact, since 1987 IOSCO, a federation of securities market regulators, had been studying the feasibility of endorsing the IAGs for multinational filings.[41] Prompted by some modifications suggested by IOSCO representatives, the IAPC undertook to revise five IAGs in 1989–1990 (see Table 1).

That the US Securities and Exchange Commission (SEC), a powerful force within IOSCO, was paying close attention to the IAGs was clearly indicated by its staff's analysis of the first 24 Guidelines in *Internationalization of the Securities Markets* (1987, part IV-A). At its October 1986 meeting, the IAPC was reliably informed that SEC Chief Accountant Clarence Sampson 'is considering recommending to the SEC that auditors of foreign registrants be required to comply with, and make reference to, IAG's in their reports on financial information filed with the SEC'.[42] In March 1988, the IAPC convened in Washington, DC and held an informal discussion with six SEC officials. During the meeting, the deputy to SEC Chief Accountant Edmund Coulson said that the IAPC should 'lead, rather than codify, audit practice', and that there was a concern over the number of allowed options, the lack of compulsion, and the incompleteness of the IAGs.[43] These were apparently issues also raised by IOSCO representatives.

Another apparent motivation for the change from Guidelines was a belief that their greater status as Standards might promote adoption by more IFAC member countries, as there was a concern by IFAC that not all that many countries had been adopting the Guidelines.[44]

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[40]International Federation of Accountants, International Auditing Practices Committee, minutes of meeting, 9–11 July 1991, Budapest, point 7.

[41]International Federation of Accountants, *1987 Annual Report*, 7. For a progress report, see IOSCO Technical Committee Working Party No. 2 (1990, pp. 6–7).

[42]International Federation of Accountants, International Auditing Practices Committee, minutes of meeting, 27–29 October 1986, Lausanne, point 6.

[43]International Federation of Accountants, International Auditing Practices Committee, minutes of meeting, 15–17 March 1988, Washington, DC, point 9.

[44]Communication to the author from Greg Pound, dated 14 June 2020. It was stated on page 5 in IFAC's *Annual Report 1991* that the change from Guidelines to Standards 'more appropriately describes IFAC's authority as an international standard-setting body and should also improve the perception of users as to the status of the documents and encourage their wider use'.

The new name chosen by the Committee was International Standards on Auditing (ISAs),[45] and IFAC promptly relabelled all of the previously issued IAGs accordingly.

## 8. Concluding remarks

One of several committees of IFAC, the IAPC was the first worldwide professional body to provide guidance on auditing standards and practices. It began operations in 1978, and in 2002 it was succeeded by the much better resourced International Auditing and Assurance Standards Board. In 1990, the IAPC completed an ambitious programme, with full due process, of issuing 29 IAGs, which were then succeeded by International Standards on Auditing. The aim of this paper has been to provide the background to the IAPC's founding and to explain its organisation and operation. Particular attention is given to the debates within the IAPC in the development of its most controversial Guideline, IAG 13 on the auditor's report, issued in 1983. Discussion is also provided about the results of IFAC's 1987 survey of its member bodies on how the IAGs were being implemented or relied upon around the world. A final section is devoted to the IAPC's decision in 1991 to change Guidelines to Standards, and the apparent reasons behind this decision. In the late 1980s, both IOSCO and the SEC were warming to a possible future recommendation that the IAGs be used in connection with cross-border filings. The IAPC had thus matured into a fully fledged standard setter.

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[45]In 1987, the IAPC began issuing an unnumbered series of International Statements on Auditing. The fifth such statement, issued in October 1989, 'Particular Considerations in the Audit of Small Businesses', carried the following advice: 'This Statement is published to provide practical assistance to auditors in the audits of small businesses. This Statement is not intended to have the authority of an International Auditing Guideline'. Also, beginning in 1988 the IAPC issued four Related Services Guidelines.

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