



Auditing and Assurance Standards Council

**PREFACE TO THE INTERNATIONAL
STANDARDS ON QUALITY CONTROL, AUDITING,
REVIEW, OTHER ASSURANCE
AND RELATED SERVICES**

AND

**PREFACE TO THE PHILIPPINE
STANDARDS ON QUALITY CONTROL, AUDITING,
REVIEW, OTHER ASSURANCE
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The Auditing and Assurance Standards Council (AASC), formerly the Auditing Standards and Practices Council (ASPC), has decided to adopt international auditing and assurance standards issued by the International Auditing and Assurance Standards Board (IAASB) which was established by the International Federation of Accountants (IFAC) to develop and issue International Standards on Quality Control, Auditing, Assurance and Related Services, collectively referred to as IAASB's Standards and Practice Statements.

As part of its decision to adopt IAASB's international professional standards, the AASC has adopted the "IAASB's Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" presented in this document. At the same time, for the information of interested parties, the AASC has also adopted a similar Preface called "Preface to Philippine Standards on Quality Control, Auditing, Review, Other Assurance and Related Services" presented starting on page 10.

Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

This Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related services was prepared by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body within the International Federation of Accountants (IFAC). The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

This publication may be downloaded free-of-charge from the IFAC website: <http://www.ifac.org>. The approved text is published in the English language.

The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

**PREFACE TO THE INTERNATIONAL STANDARDS ON QUALITY
CONTROL, AUDITING, REVIEW, OTHER ASSURANCE AND
RELATED SERVICES**

(Approved December 2006)
(Effective as of December 15, 2008)¹
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¹ This effective date is provisional, but it will not be earlier than December 15, 2008.

Introduction

1. This preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services (International Standards or IAASB's Standards) is issued to facilitate understanding of the scope and authority of the pronouncements the International Auditing and Assurance Standards Board (IAASB) issues, as set forth in the IAASB's Terms of Reference.
2. The IAASB is committed to the goal of developing a set of International Standards generally accepted worldwide. IAASB members act in the common interest of the public at large and the worldwide accountancy profession. This could result in their taking a position on a matter that is not in accordance with current practice in their country or firm or not in accordance with the position taken by those who put them forward for membership of the IAASB.

The IAASB's Pronouncements

3. The IAASB's pronouncements govern audit, review, other assurance and related services engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern the audit of historical financial statements or assurance engagements on other information in a particular country required to be followed in accordance with that country's national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards. A professional accountant should not represent compliance with the IAASB's Standards unless the professional accountant has complied fully with all of those relevant to the engagement.

The Authority Attaching to International Standards Issued by the International Auditing and Assurance Standards Board

4. International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information.
5. International Standards on Review Engagements (ISREs) are to be applied in the review of historical financial information.
6. International Standards on Assurance Engagements (ISAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information.
7. International Standards on Related Services (ISRSs) are to be applied to compilation engagements, engagements to apply agreed upon procedures to information and other related services engagements as specified by the IAASB.

8. ISAs, ISREs, ISAEs and ISRSs are collectively referred to as the IAASB's Engagement Standards.
9. International Standards on Quality Control (ISQCs) are to be applied for all services falling under the IAASB's Engagement Standards.

International Standards on Auditing²

10. ISAs are written in the context of an audit of financial statements³ by an independent auditor.⁴ They are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.
11. The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. It is undertaken to enhance the degree of confidence of intended users in the financial statements. ISAs, taken together, provide the standards for the auditor's work in fulfilling this objective.
12. In conducting an audit, the overall objective of the auditor is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to report on the financial statements in accordance with the auditor's findings. In all cases when this overall objective has not been or cannot be achieved, the ISAs require that the auditor modifies the auditor's opinion accordingly or withdraws from the engagement.
13. The auditor applies each ISA relevant to the audit. An ISA is relevant when the ISA is in effect and the circumstances addressed by the ISA exist.
14. The ISAs deal with the general responsibilities of the auditor, as well as the auditor's further considerations relevant to the application of those responsibilities to specific topics. An ISA contains objectives and requirements together with related guidance in the form of application and other explanatory material. It may also contain introductory material that provides context essential to a proper understanding of the ISAs, and definitions. It is, therefore, necessary to consider the entire text of an ISA to understand and apply its requirements.

² The terms and concepts in this Preface are explained further in the ISAs, in particular in ISA 200, "Objective and General Principles Governing an Audit of Financial Statements." (ISA 200 will be revised, inter alia, to incorporate relevant provisions of this Preface that deal with the obligations of the auditor, and the status and authority of objectives, requirements and other material. When ISA 200 is revised and exposed for public comment in 2007, respondents will be invited to comment on the material derived from this Preface in that new context.)

³ Unless otherwise stated, "financial statements" mean financial statements comprising historical financial information.

⁴ Referred to hereafter as "the auditor."

ISA Objectives

15. Each ISA contains an objective or objectives, which provide the context in which the requirements of the ISA are set. The auditor aims to achieve these objectives, having regard to the interrelationships amongst the ISAs. For this purpose, the auditor uses the objectives to judge whether, having complied with the requirements of the ISAs, sufficient appropriate audit evidence has been obtained in the context of the overall objective of the auditor. Where an individual objective has not been or cannot be achieved, the auditor considers whether this prevents the auditor from achieving the auditor's overall objective.

Requirements

16. The requirements of each ISA are contained in a separate section and expressed using the word "shall." The auditor applies the requirements in the context of the other material included in the ISA.
17. The auditor complies with the requirements of an ISA in all cases where they are relevant in the circumstances of the audit. In exceptional circumstances, however, the auditor may judge it necessary to depart from a relevant requirement by performing alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective.
18. A requirement is not relevant only in the cases where: the ISA is not relevant; or the circumstances envisioned do not apply because the requirement is conditional and the condition does not exist. The auditor is not required to comply with a requirement that is not relevant in the circumstances of the audit; this does not constitute a departure from the requirement.

Application and Other Explanatory Material

19. The application and other explanatory material contained in an ISA is an integral part of the ISA as it provides further explanation of, and guidance for carrying out, the requirements of an ISA, along with background information on the matters addressed in the ISA. It may include examples of procedures, some of which the auditor may judge to be appropriate in the circumstances. Such guidance is, however, not intended to impose a requirement.
20. Appendices, which form part of the application and other explanatory material, are an integral part of an ISA. The purpose and intended use of an appendix are explained in the body of the related ISA or within the title and introduction of the appendix itself.

Introductory Material and Definitions

21. Introductory material may include, as needed, such matters as explanation of: the purpose and scope of the ISA, including how the ISA relates to other ISAs; the subject matter of the ISA; specific expectations on the auditor and others; and the context in which the ISA is set.
22. An ISA may include, in a separate section under the heading ‘Definitions’, a description of the meanings attributed to certain terms for purposes of the ISAs. These are provided to assist in the consistent application and interpretation of the ISAs, and are not intended to override definitions that may be established for other purposes, whether in law, regulation or otherwise. Unless otherwise indicated, those terms will carry the same meanings throughout the ISAs. The Glossary of Terms in the Handbook contains a complete listing of terms defined in the ISAs. It also includes descriptions of other terms found in ISAs to assist in common and consistent interpretation and translation.

International Standards on Quality Control

23. ISQCs are written to apply to firms in respect of all their services falling under the IAASB’s Engagement Standards. The authority of ISQCs is set out in the introduction to the ISQCs.

Other International Standards

24. The International Standards identified in paragraphs 5-7 contain basic principles and essential procedures (identified in bold type lettering and by the word “should”) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other material that provides guidance for their application. It is therefore necessary to consider the entire text of a Standard to understand and apply the basic principles and essential procedures.
25. The basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant may judge it necessary to depart from a relevant essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the professional accountant is required to document how alternative procedures performed achieve the purpose of the procedure, and, unless otherwise clear, the reasons for the departure. The need for the professional accountant to depart from a relevant essential procedure is expected to arise only where, in the specific circumstances of the engagement, that procedure would be ineffective.
26. Appendices, which form part of the application material, are an integral part of a Standard. The purpose and intended use of an appendix are explained in the body of the related Standard or within the title and introduction of the appendix itself.

Professional Judgment

27. The nature of the International Standards requires the professional accountant to exercise professional judgment in applying them.

Applicability of the International Standards

28. The scope, effective date and any specific limitation of the applicability of a specific International Standard is made clear in the Standard. Unless otherwise stated in the International Standard, the professional accountant is permitted to apply an International Standard before the effective date specified therein.
29. International Standards are relevant to engagements in the public sector. When appropriate, additional considerations specific to public sector entities are included: (a) Within the body of an International Standard in the case of ISAs and ISQCs, or (b) In a Public Sector Perspective (PSP) appearing at the end of other International Standards.

The Authority Attaching to Practice Statements Issued by the International Auditing and Assurance Standards Board

30. International Auditing Practice Statements (IAPSs) are issued to provide interpretive guidance and practical assistance to professional accountants in implementing ISAs and to promote good practice. International Review Engagement Practice Statements (IREPSs), International Assurance Engagement Practice Statements (IAEPSs) and International Related Services Practice Statements (IRSPSs) are issued to serve the same purpose for implementation of ISREs, ISAEs and ISRSs respectively.
31. Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how:
- (a) The requirements in the ISAs; or
 - (b) The basic principles and essential procedures in the IAASB's other Engagement Standard(s), addressed by the Practice Statement have been complied with.

Other Papers Published by the International Auditing and Assurance Standards Board

32. Other papers, for example Discussion Papers, are published⁵ to promote discussion or debate on auditing, review, other assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, review, other assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, review, other assurance or related services engagements.

Language

33. The sole authoritative text of an exposure draft, International Standard, Practice Statement or other paper is that published by the IAASB in the English language.

⁵ The IAASB Chair will appoint a review group of four IAASB members to consider whether a draft paper has sufficient merit to be added to the IAASB's literature. The draft paper may come from any source and the IAASB need not have specifically commissioned it. If the review group believes that the paper has sufficient merit it recommends to the IAASB that the paper be published and added to its literature.

**PREFACE TO PHILIPPINE STANDARDS ON QUALITY
CONTROL, AUDITING, REVIEW, OTHER ASSURANCE AND
RELATED SERVICES**

(Approved January 2007)
(Effective as of December 15, 2008)*
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* See footnote 1.

INTRODUCTION

1. This Preface to Philippine Standards on Quality Control, Auditing, Other Assurance and Related Services is issued to facilitate understanding of the objectives and operating procedures of the Auditing and Assurance Standards Council (hereinafter referred to as “AASC” or “Council”) and the scope and authority of the documents issued by the Council.
2. The mission of the AASC as set out in its **Rules of Procedures** is “the promulgation of auditing standards, practices and procedures which shall be generally accepted by the accounting profession in the Philippines.”
3. It is the stated policy of the AASC to make the International Standards and Practice Statements issued by the IAASB the applicable standards and practice statements in the Philippines. In this connection, to facilitate their implementation in the Philippines, the International Standards and Practice Statements are made Philippine-specific and are described as “Philippine standards and practice statements” as presented in paragraph 4 below. This process involves making Philippine-specific those paragraphs or sections in International Standards and Practice Statements that are addressed in broad terms to the international community as a whole to make them clearly applicable in the Philippines. It also involves providing additional information in certain paragraphs or sections, whenever necessary, to facilitate and clearly establish the application in the Philippines of the International Standards and Practice Statements. There are currently no fundamental differences between the IAASB International pronouncements and the equivalent AASC Philippine pronouncements and no such differences are expected in the future.
4. The pronouncements of the ASPC shall be in the form of:
 - Philippine Standards on Quality Control (PSQCs)
 - Philippine Standards on Auditing (PSAs)
 - Philippine Standards on Review Engagements (PSREs)
 - Philippine Standards on Assurance Engagements (PSAEs)
 - Philippine Standards on Related Services (PSRSs)
 - Philippine Auditing Practice Statements (PAPs)
 - Philippine Review Engagement Practice Statements (PREPSs)
 - Philippine Assurance Engagement Practice Statements (PAEPSs)
 - Philippine Related Services Practice Statements (PRSPSs)

THE AUDITING AND ASSURANCE STANDARDS COUNCIL

5. The AASC was created by the Professional Regulation Commission upon the recommendation of the Board of Accountancy (BOA) to assist the BOA in the establishment and promulgation of auditing standards in the Philippines. The AASC replaced the Auditing Standards and Practices Council (ASPC) which was established by the Philippine Institute of Certified Public Accountants and the

Association of CPAs in Public Practice and previously set generally accepted auditing standards in the Philippines, also based on International Standards and Practice Statements.

6. The AASC has 15 regular members coming from the following:

	<u>No. of Members</u>
Chairman	1
Board of Accountancy	1
Securities and Exchange Commission	1
Commission on Audit	1
Association of CPAs in Public Practice	1
Philippine Institute of CPAs:	
Public Practice	7
Commerce and Industry	1
Academe/Education	1
Government	<u>1</u>
Total	<u><u>15</u></u>

7. The Chairman and the members of the AASC shall have a term of three years renewable for another term.

THE AUTHORITY ATTACHING TO PHILIPPINE STANDARDS ISSUED BY THE AASC

8. As set forth in the AASC's **Rules of Procedures**, "pronouncements on generally accepted auditing standards, interpretations, and opinions issued by the AASC apply whenever an independent examination of financial statements of any entity, whether profit-oriented or not, and irrespective of size or legal form, when such examination is conducted for the purpose of expressing an opinion thereon. They may also have application, as appropriate, to other related activities of auditors."
9. Philippine Standards on Auditing (PSAs) are to be applied, as appropriate, in the audit of historical financial information.
10. Philippine Standards on Review Engagements (PSREs) are to be applied in the review of historical financial information.
11. Philippine Standards on Assurance Engagements (PSAEs) are to be applied in assurance engagements dealing with subject matters other than historical financial information.
12. Philippine Standards on Related Services (PSRSs) are to be applied to compilation engagements, engagements to apply agreed-upon procedures to information and other related services engagements as specified by the ASPC.
13. PSAs, PSREs, PSAEs and PSRSs are collectively referred to as the ASPC's Engagement Standards.
14. Philippine Standards on Quality Control (PSQCs) are to be applied for all services falling under the AASC's Engagement Standards.
15. The AASC's Standards contain basic principles and essential procedures (identified in bold type lettering) together with related guidance in the form of explanatory and other material, including appendices. The basic principles and essential procedures are to be understood and applied in the context of the explanatory and other materials that provide guidance for their application. It is therefore necessary to consider the whole text of a Standard to understand and apply the basic principles and essential procedures.
16. The nature of the Philippine Standards issued by the AASC requires professional accountants to exercise professional judgment in applying them. In exceptional circumstances, a professional accountant may judge it necessary to depart from a basic principle or essential procedure of an Engagement Standard to achieve more effectively the objective of the engagement. When such a situation arises, the professional accountant should be prepared to justify the departure.
17. Any limitation of the applicability of a specific Philippine Standard is made clear in the standard.

18. With respect to International Standards, in circumstances where specific International Standards or guidance contained in an International Standard are not applicable in a public sector environment, or when additional guidance is appropriate in such an environment, IFAC's Public Sector Committee so states in a Public Sector Perspective (PSP). When no PSP is added, the International Standard is to be applied as written to engagements in the public sector. With respect to Philippine Standards, this guidance is also applicable. Hence, Philippine Standards are to be applied as written to engagements in public sector, unless so stated that they do not apply in a public sector environment or they are not appropriate in such an environment.

THE AUTHORITY ATTACHING TO PRACTICE STATEMENTS ISSUED BY THE AASC

19. Philippine Auditing Practice Statements (PAPSs) are issued to provide interpretive guidance and practical assistance to professional accountants in implementing PSAs and to promote good practice. Philippine Review Engagement Practice Statements (PREPSs), Philippine Assurance Engagement Practice Statements (PAEPSs), and Philippine Related Services Practice Statements (PRSPSs) are issued to serve the same purpose for implementation of PSREs, PSAEs and PSRSs, respectively.
20. Professional accountants should be aware of and consider Practice Statements applicable to the engagement. A professional accountant who does not consider and apply the guidance included in a relevant Practice Statement should be prepared to explain how the basic principles and essential procedures in the Engagement Standard(s) addressed by the Practice Statement have been complied with.

OTHER PAPERS PUBLISHED BY THE AASC

21. Other papers, for example Discussion Papers, are published to promote discussion or debate on auditing, assurance and related services and quality control issues affecting the accounting profession, present findings, or describe matters of interest relating to auditing, assurance, related services and quality control issues affecting the accounting profession. They do not establish any basic principles or essential procedures to be followed in audit, assurance or related services engagements.

ADOPTION OF PHILIPPINE STANDARDS AND PRACTICE STATEMENTS BY THE AASC

Approach

22. To facilitate the implementation in the Philippines of International Standards and Practice Statements, the AASC undertakes a review of the existing International

pronouncements and those that may be issued in the future to make them Philippine-specific as stated in paragraph 3 of this Preface. When changes are made to the original International pronouncements to make them Philippine-specific, these changes are shown clearly in the AASC exposure drafts referred to in paragraph 26 of this Preface, such that deletions are stricken through with one line and additions are italicized and underlined. In addition, any significant changes to the International pronouncements are explained both in the AASC exposure drafts and final Philippine Standards or Practice Statements. The markings for the changes in the exposure drafts are cleaned after the exposure drafts are finally adopted as Philippine Standards or Practice Statements.

23. To keep in step with the pace of the IAASB's issuance of pronouncements, the AASC shall endeavor to review IAASB's exposure drafts once released and will issue the same, after appropriate review in accordance with the AASC's working procedures, as AASC's EDs. However, to ensure that the changes made in the finalization of the IAASB's EDs are reflected in the final AASC pronouncements, finalization of the AASC's EDs shall be made only after the IAASB shall have issued the related final pronouncements.
24. Once adopted, a Philippine Standard or Practice Statement will replace or amend the specified AASC Standards and Practice Statements previously adopted by the Council. An effective date is set for the application of each Philippine Standard and Practice Statement adopted and any amendments to AASC pronouncements, and until such effective date, the pronouncement being replaced or amended continues to be applicable.
25. Other Philippine Standards or Practice Statements may be issued when deemed necessary by the AASC to address any unique requirements imposed by Philippine law or practice. The reason for the issuance of such pronouncements shall be clearly indicated in the Philippine Standards or Practice Statements.

Working Procedures

26. To facilitate the initial work in adopting the existing International Standards and Practice Statements, the AASC members have been assigned to workgroups, each with a designated group leader. Each workgroup is assigned specific International Standards and Practice Statements, or IAASB's exposure drafts, to review and has the initial responsibility for the preparation and drafting of the exposure draft on the proposed Philippine Standard or Practice Statement for consideration by the AASC en banc. If approved by the AASC, the exposure draft is widely distributed to interested organizations and persons for comment. The exposure draft shall also be published in the PICPA Accounting Times and ACPAPP Bulletin to give it further exposure. Adequate time is allowed (generally not shorter than 90 days) for each exposure draft to be considered by the organizations and persons to whom it is sent for comment. Interested parties may send their comments direct to IAASB, with a copy to AASC, on exposure drafts which are still under exposure by the IAASB. Interpretations, if issued by the AASC, need not be exposed for comment, except when it is deemed desirable, in

which case the exposure period will normally be the same as that of a proposed Philippine Standard or Practice Statement.

27. The development of additional auditing standards or statements to address the unique requirements of Philippine law or practice shall likewise undergo the same process and procedures described above.
28. The comments and suggestions received as a result of the exposure of proposed auditing standards or statements are then considered by AASC and the exposure draft is revised as appropriate. If necessary and under applicable circumstances, the comments and suggestions may also be passed on to IAASB for its consideration. When the revised draft is approved by the AASC, it is issued as a final Philippine Standard or Practice Statement.
29. Issuance of exposure drafts requires approval by a majority of the members of the Council; issuance of final Philippine Standards and Practice Statements, as well as interpretations, requires approval of at least ten members.
30. Each final Philippine Standard and Practice Statement, as well as interpretations, if deemed appropriate, shall be submitted to the Professional Regulation Commission through the Board of Accountancy for approval after which the pronouncements shall be published in the Official Gazette. After publication, the AASC pronouncement becomes operative from the effective date stated therein.

NUMBERING OF PHILIPPINE STANDARDS AND PRACTICE STATEMENTS

31. Philippine Standards and Practice Statements adopted from International pronouncements will use the same numbers as their counterpart International pronouncements. Philippine Standards and Practice Statements that are Philippine specific and are not adopted from International pronouncements will be numbered consecutively with suffix “Ph” as follows:
 - a. For Philippine Standards – starting from 100Ph
 - b. For Philippine Practice Statements – starting from 1000Ph

This “Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Preface to Philippine Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” was unanimously approved for adoption on January 29, 2007 by the members of the Auditing and Assurance Standards Council and replaces the “Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services and Preface to Philippine Standards on Quality Control, Auditing, Review, Other Assurance and Related Services” issued by the former ASPC on May 31, 2004.

Benjamin R. Punongbayan, *Chairman*

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**STRUCTURE OF PRONOUNCEMENTS
ISSUED BY THE IAASB AND THE AASC**

